



**STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**THE KENT COUNTY WATER AUTHORITY APPLICATION FOR  
BORROWING AUTHORITY**

**DOCKET \_\_\_\_\_**

**February 24, 2022**



February 24, 2022

Ms. Luly Massaro,  
Clerk of the Division of Public Utilities and Carriers  
89 Jefferson Boulevard  
Warwick RI 02888

RE: Application for Kent County Water Authority to Borrow \$20,000,000 from the  
Rhode Island Infrastructure Bank (RIIB) Docket D-22-\_\_\_\_\_

Dear Ms. Massaro:

Enclosed for filing are an original and four copies of Kent County Water Authority's request authority to borrow \$20,000,000 from the Rhode Island Infrastructure Bank. An electronic copy has been forwarded to you as well.

If you have any questions, contact me at (401) 821-9300, or our Attorney Mary Shekarchi, Esq., at (401) 864-3020.

Very truly yours,  
Kent County Water Authority

A handwritten signature in black ink, appearing to be "D. Simmons", is written over a horizontal line.

David L. Simmons, P.E.  
Executive Director/Chief Engineer

cc: M. Lanfredi  
M. Shekarchi, Esq.  
M. Gurghigian  
K. Grande, Esq.  
T. Parenteau, Esq.  
C. Hetherington, Esq.

**STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**IN RE: KENT COUNTY WATER AUTHORITY**               :  
**APPLICATION FOR BORROWING AUTHORITY**               :  
**Docket No. D-22-**

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    - iii [Volume 3](#) [https://kentcountywater.org/config/brd-packet/90/19105a\\_KCWA\\_FinalReport\\_vol3.pdf](https://kentcountywater.org/config/brd-packet/90/19105a_KCWA_FinalReport_vol3.pdf)

***TAB 1***

**STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**IN RE: KENT COUNTY WATER AUTHORITY                    :**  
**APPLICATION FOR BORROWING AUTHORITY            :**           **Docket No. D-22-**

**APPLICATION FOR BORROWING AUTHORITY**

The Kent County Water Authority, ("KCWA") hereby applies to the State of Rhode Island Division of Public Utilities and Carriers ("Division") for authority to obtain financing for the construction of office and maintenance facilities pursuant to R.I.G.L. § 39-3-15, et. seq. In support of this application, KCWA, by its authorized agent, represents that:

1.     KCWA, a regulated utility in the State of Rhode Island, seeks to issue evidence of indebtedness, payable more than twelve (12) months from the date of issue to finance distribution system improvements.
  
2.     KCWA seeks to obtain financing in an aggregate principal amount not to exceed twenty million dollars (\$20,000,000) from the Rhode Island Infrastructure Bank consisting of an principal amount not to exceed eighteen million dollars (\$18,000,000) from the Rhode Island Infrastructure Bank Safe Drinking Water State Revolving Fund and two million dollars (\$2,000,000) from the Rhode Island Infrastructure Bank Efficient Buildings Fund to finance the construction of a new office and maintenance facility.
  
3.     The borrowing and bonds issued in connection therewith will be secured by a pledge of KCWA's revenues.
  
4.     In accordance with Section 1.14 of the Division's Rules of Practice and Procedure, the written testimonies of David L. Simmons, P.E., Maureen E. Gurghigian and David Bebyn, and supporting exhibits, are attached hereto.
  
5.     In accordance with Section 1.14 of the Division's Rules of Practice and Procedure, KCWA filed a copy of this application with the Rhode Island Office of Attorney General.

Wherefore, the Kent County Water Authority respectfully requests that the State of Rhode Island Division of Public Utilities and Carriers authorize and consent to the borrowing of a principal amount not to exceed twenty million dollars (\$20,000,000).

KENT COUNTY  
WATER AUTHORITY,

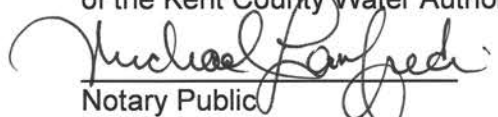


---

David L. Simmons P.E.  
Executive Director/  
Chief Engineer  
1072 Main Street  
West Warwick, RI 02893

STATE OF RHODE ISLAND  
COUNTY OF KENT

In West Warwick, RI on the 24<sup>TH</sup> day of February, 2022, before me personally appeared David L. Simmons to me known and known by me to be the party executing the foregoing instrument, and he acknowledged said Instrument, by him executed, to be his free act and deed and the free act and deed of the Kent County Water Authority.



Notary Public  
My Commission Expires:



I undersigned, hereby certify that I mailed a true copy of the within to the Office of Attorney General on the 24<sup>th</sup> day of February, 2022

***TAB 2***

**STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**IN RE: KENT COUNTY WATER AUTHORITY                    :**  
**APPLICATION FOR BORROWING AUTHORITY            :**           **Docket No. D-22-**

NOTICE OF FILING AND PUBLIC HEARING

APPLICATION FOR BORROWING AUTHORITY

Notice is hereby given that on \_\_\_\_\_, 2022, pursuant to Rhode Island General Laws §39-3-15, §39-3-17, §39-3-18 and Section 1.14 of the State of Rhode Island Division of Public Utilities and Carriers' Rules of Practice and Procedure, The Kent County Water Authority ("KCWA"), filed with the State of Rhode Island Division of Public Utilities and Carriers ("Division") an Application For Borrowing Authority to obtain financing, payable more than twelve (12) months from the date of issue, in an amount not to exceed a principal amount of twenty million dollars (\$20,000,000) to finance the construction of a new office and maintenance facility.

KCWA is seeking two loans from the Rhode Island Infrastructure Bank ("RIIB") consisting of principal amounts not to exceed eighteen million (\$18,000,000) from the RIIB Safe Drinking Water State Revolving Fund (SDWRF) and two million (\$2,000,000) from the RIIB Efficient Buildings Fund (EBF), respectively. The proceeds will be used to finance the construction of an office and maintenance facility. The borrowing will be secured by a pledge of KCWA's revenues.

A hearing on the proposal will be held at the Division of Public Utilities and Carriers, 89 Jefferson Boulevard, Warwick, Rhode Island on \_\_\_\_\_, 2022 at \_\_\_\_\_ a.m. The hearing may continue thereafter from day to day and time to time as required. At this hearing, the Division will consider the propriety of KCWA's Application For Borrowing Authority. Please note that the Division is accessible to the handicapped, and that individuals requesting interpreter services for the hearing impaired must contact the Clerk seventy-two hours in advance of the hearing.

A copy of the application is on file for examination at the Kent County Water Authority main office, 1072 Main Street, West Warwick Rhode Island, and at the offices of the Division of Public Utilities and Carriers, 89 Jefferson Boulevard, Warwick, Rhode Island. A copy of the filing was also provided to the Rhode Island Office of Attorney General.

Reference is made to Chapters 39-1, 39-3 and 42-35 of the Rhode Island General Laws; specifically, Sections 39-1-7, 39-1-8, 39-1-11, 39-1-12, 39-1-16, 39-1-18, 39-1-20, 39-3-15, 39-3-16, 39-3-17, 39-3-18, 42-35-8, and 42-35-10.

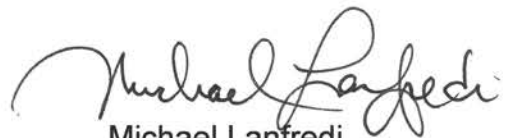
Linda George, Administrator



*TAB 3*

## Certificate of Service

I hereby certify that a true copy of the Application of the Kent County Water Authority for Authority to borrow from the RI Infrastructure Bank in a principal amount of \$20,000,000.00, with all supporting documentation, was mailed by first class mail, postage prepaid, to the Attorney General, State of Rhode Island, 150 South Main Street, Providence, RI 02903, Attention: Tiffany Parenteau, Esq., Chief of the Regulatory Unit, on February 22, 2022.



Michael Lanfredi  
Director, Finance and Human  
Resources  
Kent County Water Authority  
1072 Main Street  
West Warwick , RI 02893  
401-821-9300  
mlanfredi@kentcountywater.org

***TAB 4***

**PREFILED**

**TESTIMONY OF**

**DAVID L. SIMMONS P.E.**

**EXECUTIVE DIRECTOR/CHIEF  
ENGINEER**

**IN SUPPORT OF**

**THE KENT COUNTY WATER AUTHORITY APPLICATION FOR  
BORROWING AUTHORITY**

**BEFORE THE**

**RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS  
DOCKET \_\_\_\_\_**

**FEBRUARY 24 , 2022**



Kent County Water Authority

1 PRE-FILED TESTIMONY

2 DAVID L.SIMMONS, P.E.

3  
4 **I. Introduction**

5 **Q. Please state your name and business address.**

6 A. My name is David L. Simmons, P.E. My current business address is 1072 Main Street,  
7 West Warwick, Rhode Island 02893.

8  
9 **Q. By whom are you employed and in what capacity?**

10 A. I am the Executive Director/Chief Engineer for the Kent County Water Authority ("KCWA" or  
11 the "Authority").

12  
13 **Q. Please describe your qualifications and experience.**

14 A. I am a Registered Professional Engineer in the State of Rhode Island. I have a Bachelor of  
15 Science degree in Environmental Toxicology and Chemistry from the University of  
16 Massachusetts at Amherst and a Master of Science Degree in Environmental Engineering  
17 from Worcester Polytechnic Institute. I am certified by the R. I. Department of Health as a  
18 Class 4 Drinking Water Distribution Operator and a Class 4 Water Treatment Operator, and  
19 a Level 2 Assessor. I am the main licensed operator for the Kent County Water Authority. I  
20 am also a certified Grade 2 Wastewater Operator with the Rhode Island Department of  
21 Environmental Management and a licensed membrane operator. I have 25 years of  
22 multidisciplinary experience working in the water and wastewater fields including extensive  
23 field operations, design, and management.

24  
25 **Q. How long have you been employed at Kent County Water Authority?**

26 A. I have been employed at the Authority for the last nine years where I have been interfacing  
27 with all aspects of the Authority's business, regulatory, and daily operations. I became the  
28 Executive Director/Chief Engineer for the Authority in May of 2019. Prior to coming to the  
29 Authority, I was the Water Superintendent for the Town of New Shoreham.

30  
31 **Q. Do you belong to any professional organizations or committees?**

32 A. I am member of American Water Works Association, New England Water Works

33 Association, RI Water Works Association (Chair of the Legislative Committee), RI Backflow  
34 Preventors Association, and I am a member of the American Society of Civil Engineers. I  
35 am a committee member of the New England Water Works Association Operator  
36 Certification Committee.

37

38 **Q. What are your duties and responsibilities?**

39 A. I am responsible for the administrative, financial, and supervisory oversight for the  
40 organization including treatment plant operations, transmission, distribution, pumping, and  
41 storage facilities within the KCWA service area servicing approximately 100,000 people  
42 within eight cities and towns. I am the overall RIDOH certified licensed Distribution and  
43 Treatment drinking water operator for the Authority.

44

45 **Q. Have you previously testified before State Regulatory Commissions concerning the  
46 operations matters of Kent County Water Authority?**

47 A. Yes, I provided both written and oral testimony in filings PUC Dockets 5012 and 5133. I  
48 attended all meeting and hearings regarding PUC Docket 4611 and 4994 and was directly  
49 involved in the acquisition of information for many of the data requests under those dockets  
50 but did not provide oral and/or written testimony in those proceedings.

51

52 **Q. Please describe your role in this proceeding?**

53 A. I am testifying in support of the Application For Borrowing Authority submitted by the Kent  
54 County Water Authority. In this application, KCWA seeks approval to obtain financing not to  
55 exceed twenty million dollars (\$20,000,000) through revenue bonds from the Rhode Island  
56 Infrastructure Bank Safe Drinking Water State Revolving and Rhode Island Infrastructure  
57 Bank Efficient Building Funds to finance the construction of a new operations and  
58 maintenance facility.

59

60 **Q. Please describe the current operation and maintenance facility located in West  
61 Warwick?**

62 The Kent County Water Authority (KCWA) currently performs administrative and operational  
63 activities at 1072 Main Street in West Warwick, Rhode Island. The existing facility was

64 constructed in the early 1900's as a textile manufacturing facility and was used as a skating  
65 rink prior to transfer of ownership to KCWA more than 60 years ago. Major renovations and  
66 modifications were performed in the 1970's; however, due to the facility's status as a  
67 structure of nonconforming dimensions per the Town of West Warwick's Zoning Ordinance,  
68 more recent work has been limited to maintenance and upkeep of existing features, and the  
69 only other allowable modifications to the structure are limited to demolition. As a result of  
70 these limitations, the continued expansion of water supply system management  
71 responsibilities has far exceeded the spatial capability of the facility's land and existing  
72 structures.

73 The KCWA facility rests on five (5) lots (Assessor's Plat 17, Lots 64, 65, 128, 154, and 157)  
74 in West Warwick that comprise a combined total of 0.86-acres. KCWA Administration and  
75 Operations are located within a 7,440 square foot building that encompasses the entirety of  
76 Lot 65 (0.17-acres). A 4,778 square foot garage outbuilding, constructed circa 1950, spans  
77 across Lots 64, 128, and 157 to the east of the main building, which KCWA uses for  
78 additional storage and garage space. The garage outbuilding contains parking space  
79 sufficient for ten (10) fleet vehicles, and roughly 40% of the main facility building is taken up  
80 by a four (4) car garage in the rear of the building used for fleet vehicle storage and  
81 maintenance. KCWA currently employs 37 staff members, but employee parking is only  
82 available for up to 12 personal vehicles. Street parking is available for members of the  
83 public/ratepayers, though the road width is insufficient to allow parked vehicles to be fully  
84 removed from the travel lanes.

85 Due to spatial limitations at the existing facility, the break/lunchroom is also used for storage  
86 of oil and/or hazardous materials used for equipment repair and maintenance. The total  
87 number of employees operating out of the KCWA facility has also exceeded the limit with  
88 respect to the number of toilet facilities required to be provided to employees under the  
89 Occupational Safety and Health Administration (OSHA) general industry standards.  
90 Insufficient restroom access for employees could severely inhibit the agency's functions and  
91 restrict the hiring of additional staff that may be required as part of continued water supply  
92 system management.

93 More than 60-years' worth of physical records of KCWA operations are maintained at the  
94 facility, located in an attic storage area. The attic is wood-framed and insufficient for

95 protection of these documents in the event of a fire. The existing facility does not conform  
96 to the State Building Code, and though it is exempt from certain regulations as a pre-existing  
97 structure, these regulations were historically developed and implemented due to the hazards  
98 and inconsistencies identified in past construction practices. Despite past modifications to  
99 the facility, hazards to human health and the environment may remain (e.g., asbestos-  
100 containing building materials, fire-susceptible building construction materials, lead-based  
101 paint, insufficient vapor and/or radon gas intrusion mitigation).

102 As recently as summer of 2020, the existing building was struck by lightning, resulting in  
103 damage to the fire alarm system that required the installation of a \$13,000 replacement  
104 system. The damage may have been caused by inadequate grounding of existing building  
105 electrical systems.

106  
107 **Q. Has KCWA completed feasibility studies for a new office and maintenance facility and**  
108 **has the project incorporated into your approved Capital Improvement Project plan?**

109  
110 A. Yes. Two studies have been performed, one in 1999, and another more recently in 2020-  
111 21. In 1999, Camp Dresser & McKee conducted a feasibility study for a new KCWA Facility.  
112 In 2016, C&E Engineering Partners prepared a Water Supply System Five-Year Capital  
113 Improvement Program Update 2017- 2022 for KCWA and the Public Utilities Commission  
114 (PUC). A copy of this study can be found at our website [www.kentcountywater.org/technical-](http://www.kentcountywater.org/technical-reports.aspx)  
115 [reports.aspx](http://www.kentcountywater.org/technical-reports.aspx). The updated Capital Improvement Project (CIP) plan recommended a new  
116 facility supporting the 1999 findings, deeming the project as essential to provide the  
117 expected level of service to our customers.

118  
119 **Q. Why was an updated study needed for this project?**

120  
121 A. The original study is over 20 years old, outdated, and potential viable site locations have  
122 changed. A new updated feasibility study was necessary to support and supplement future  
123 Capital Plan implementations, Commission rate filings, and potential bond issues. To this  
124 end, the Authority requested proposals from qualified professional architects and engineers  
125 to conduct the update to the facilities analysis and evaluation study. Please note that this  
126 study is described as the “2020 Study” herein. The Authority publicly engaged the



127 professional services of Vision 3 Architects (V3A) partnered with Pare Engineering to  
128 complete the study. The 2020 study was completed in August of 2021 attached herein as  
129 Appendix G, i-iii (Volumes 1-3).

130

131 **Q. What were the findings of the updated study?**

132 A. The 2020 study re-evaluated the potential modification and retrofit of the existing facility and  
133 concluded that the buildings have far exceeded their useful lives and are no longer adequate  
134 to support the future increase in capital equipment acquisitions, warehousing, and  
135 administrative responsibilities of the KCWA. The study also calculated that a minimum net  
136 five acres would be required to meet the minimum needs of the Authority. As stated earlier,  
137 the Authority's current complex occupies in its entirety which is approximately one acre on  
138 1072 Main Street. Exploring the viability of remaining at its current location by means of  
139 renovating the existing facility and/or constructing additional buildings would involve  
140 acquiring multiple separate sites, either adjacent to or in very close proximity to 1072 Main  
141 Street. Thus, it was reaffirmed that KCWA's current location was not an option. The efforts  
142 were then focused on spatial programming needs, potential site locations, and schematics.

143

144 Through a highly collaborative and iterative process, the final 2020 study submitted to the  
145 Authority detailed a comprehensive spatial programming analysis, conceptual building  
146 schematic options, and eleven available site locations. Based on the detailed spatial and  
147 programming needs analysis, the study further recommended three specific sites that could  
148 best fit the Authority's facilities' requirements. Included in the study were pricing valuations,  
149 construction/site cost estimates, and energy efficient design components such as, rooftop  
150 solar and electric vehicle charging stations.

151

152 In addition to the initial 2020 study submission, the Board decided to perform additional due  
153 diligence in searching for potential property locations by issuing a public RFP, which was  
154 added to the study. The additional RFP resulted in three property submissions satisfying the  
155 RFP requirements. Of the three properties, two new properties were added for consideration  
156 because the third property submitted under the RFP was already identified in the original  
157 updated study from Vision 3/Pare Engineering. After reviewing the thirteen properties again  
158 in detail, and based on the findings of the study, the Board settled on one location that was

159 the best fit for the next phase. A subcommittee was formed to order a formal appraisal and  
160 negotiate while simultaneously compiling the detailed information regarding the site and its  
161 ability to satisfy the Authority's future facility needs to the full Board. The Authority entered  
162 into a purchase and sales agreement contingent upon the satisfactory full site due diligence  
163 evaluation inclusive of geotechnical, Phase 1 environmental, wetlands delineation and  
164 verification, pre-application planning review, and a full ALTA survey.

165

166 **Q. Does KCWA feel that the completed study and subsequent land acquisition will**  
167 **adequately address the future needs and growth for the Authority?**

168 A. Yes, it does. The programming details are shown in Appendix G. sub section iii. We strongly  
169 feel that the final design will accommodate more than sufficient internal growth for the  
170 Authority and provide better service for our customers for the foreseeable future.

171

172 **Q. Where is the site located?**

173 A. The site acquired is a 14.19-acre parcel located at the southeast corner of the intersection  
174 of Technology Way with Hopkins Hill Road in West Greenwich conveniently located off  
175 Interstate 95 (Exit 6A) and is within close proximity to major Routes 2 and 3. The land is  
176 within an established and Master Plan approved industrial park identified by the Town of  
177 West Greenwich as Parcel B on Assessor's Plat (AP) 3, Lot 1-11 and addressed as 35  
178 Technology Way, West Greenwich, Rhode Island.

179

180 **Q. Did KCWA close on the property?**

181 A. After satisfactory completion of all due diligence procedures and negotiation, the site was  
182 purchased using restricted CIP funds on September 30<sup>th</sup>, 2021, at a purchase price of  
183 \$900,000.

184

185 **Q. Does KCWA intend to seek reimbursement to the CIP restricted account for the**  
186 **purchase of the land?**

187 A. Yes, it does. The Authority's Bond Counsel has provided guidance that pursuant to IRS  
188 regulations, the Authority can reimburse itself with tax-exempt bond proceeds for qualified  
189 project expenditures paid by the Authority during the period commencing 60 days prior to  
190 the adoption of the reimbursement resolution through the date of issuance of the bonds.

191 The Authority adopted its initial reimbursement resolution on October 21, 2021, and  
192 consequently, the Authority can reimburse itself for any expenditures paid on and after  
193 August 22, 2021, including the land cost paid on September 30, 2021.

194

195 **Q. How much has been expended to date on this project?**

196 A. Approximately \$1,145,000 inclusive of the land purchase. The remaining balance of  
197 approximately \$245,000 was for professional architectural, engineering, surveying,  
198 appraising, soil testing, wetland delineation, legal and other similar attributable services  
199 associated with the feasibility study and due diligence.

200

201 **Q. Will KCWA seek for reimbursement for these items?**

202 A. Bond counsel has advised KCWA that with respect to payments made prior to August  
203 22, 2021, the regulations make an exception and permit reimbursement of  
204 certain "Preliminary Expenditures." Payments that fall within the Preliminary  
205 Expenditures exception are architectural, engineering, surveying, soil testing, and  
206 similar costs that are incurred prior to commencement of construction, rehabilitation, or  
207 acquisition of the project. Most of the expenditures appear to fall within the  
208 Preliminary Expenditures category, however, to be sure, Counsel will be putting  
209 together a tax diligence request list for the upcoming bond issue help verify that the  
210 expenditures are eligible for reimbursement from tax-exempt bond proceeds under the  
211 IRS regulations.

212 **Q. Briefly describe the building and layout being proposed at this location?**

213 A. The project consists of subsequent construction of an approximately 45,000 square foot  
214 office building and associated garage for administrative and operational use by KCWA. The  
215 total area anticipated to be disturbed as part of project construction and final use is roughly  
216 7± acres out of the existing 14.19 buildable acres at the proposed project location. The  
217 design proposes a 15,000 square foot administration office and attached 30,000 square foot  
218 garage building along the southeast portion of the Technology Way parcel, roughly parallel  
219 to an intermittent stream traversing the central portion of the Site. Three (3) asphalt-paved  
220 entrances to the building are proposed along Technology Way to the north; a 20-foot-wide  
221 gated fire and maintenance access entrance that extends along the rear (west side) of the  
222 proposed building and two 25 foot wide entrances on the northeast side of the building that

223 lead to either visitor parking or employee parking and a service yard.

224

225 Proposed parking for the facility includes 12 visitor parking spaces in a separate lot, 64  
226 employee parking spaces, and 15 covered fleet vehicle parking spaces accessible through  
227 a gate beyond the employee parking lot. Two (2) employee parking spaces and four (4) fleet  
228 vehicle parking spaces will be equipped with electric vehicle charging stations.

229

230 Security fencing with an automated gate is proposed beyond the employee parking lot to  
231 secure the service yard. Proposed service yard features include a loading dock for  
232 deliveries, a covered wash bay, a covered materials storage area, and a vehicle fueling  
233 area, which will all be within the fenced area.

234

235 Available utilities include domestic water & fire water (owned by KCWA), gas and  
236 underground electric (owned by National Grid), and telecommunications, which are shown  
237 routed from Technology Way to the southeast side of the building. A generator and  
238 transformer are proposed at the southwest side of the garage within the service yard.  
239 Sanitary sewer service is proposed exiting the facility along the southwest side of the  
240 building. Sewerage eventually flows to the West Warwick Treatment Plant. It is expected  
241 that a lift station will be required to discharge sewerage to the existing sewer infrastructure  
242 in Technology Way. Vehicle wash water generated at the covered wash bay is anticipated  
243 to be routed through an oil-water separator and connected into the sanitary sewer service.

244

245 **Q. What does KCWA plan on doing with the existing facilities in West Warwick?**

246 A. Upon project completion, the existing KCWA facility at 1072 Main Street will be retained by  
247 KCWA for use as a satellite operational equipment and material storage space. We plan on  
248 maintaining the SCADA, security, and communications systems to maintain redundancy and  
249 resiliency of those systems.

250

251 **Q. Did KCWA evaluate different debt financing options?**

252 A. Yes, the Authority evaluated bonding options on a \$20,000,000 debt obligation between the  
253 Rhode Island Infrastructure Bank (RIIB) through the Safe Drinking Water State Revolving  
254 Fund (SDWSRF) and as compared to a publicly offered bond in the open market. The

255 evaluation favored RIIB by approximately \$500,000 over the 20-year term of the bond. In  
256 addition to the SDWSRF, RIIB also said there could be additional savings realized by  
257 funding a portion of the project through the Efficient Buildings Fund (EBF) to finance the and  
258 energy efficient design components including, but not limited to, rooftop solar and electric  
259 vehicle charging stations already developed into the preliminary design. It was decided to  
260 split the obligation into two pieces at \$18,000,000 under SDWSRF, and \$2,000,000 under  
261 the EBF, respectively. Furthermore, any additional savings from the excess solar power  
262 generated could offset a portion of the debt service allocated to the EBF loan from the CIP  
263 restricted account.

264

265 **Q. What is KCWA's bond rating?**

266 A. The Authority's Moody's water revenue rating is Aa2. Standard & Poor was not reviewed in  
267 FY 2021 and is still holding at Aa2.

268

269 **Q Has KCWA received commitment letters from RIIB for the SDWSRF and EBF loans?**

270 A. Yes, it has. See Appendix C.

271

272 **Q. What is the anticipated schedule on closing this loan?**

273 A. With interest rates potentially rising in March, it is the Authority's goal to lock in the rate in  
274 March with a closing in April, but no sooner than the required 30-day appeal period  
275 from the date of the DPUC Order.

276

277 **Q. Has the Rhode Island PUC approved rates to service this loan ?**

278 The anticipated debt service will be fully funded using the existing CIP restricted account  
279 without the need to increase rates. These activities are in alignment with the approved  
280 settlement agreement between the Authority and DPUC in Docket # 5012.

281

282 **Q. What are the current funding levels of KCWA's restricted accounts?**

283 A. Please see Appendix F.

284

285 **Q. Does KCWA have any existing long term debt obligations currently drawing debt  
286 service from the restricted accounts?**

287 A. No, it does not. During FY2021, the Authority paid approximately \$8.9 million in principal  
288 and \$303,000 of interest on outstanding issuances. The Authority completed payment on  
289 both outstanding debt issuances. The 2012 Series A bonds payoff of \$4.5 million  
290 dollars was deposited in a defeasance escrow which pays principal and interest on the  
291 bonds as they come due in FY 2022. Therefore, 2012 Series A Bonds are no  
292 longer legally outstanding. The restricted IFR account is now fully funded at \$6 million  
293 annually now that the 2017 Series A bond has been paid in full. The restricted CIP account  
294 is now fully funded at \$3.6 million annually.

295

296 **Q. What is the anticipated timeline on this project ?**

297 A. The Authority put the final design out to RFP in January 2022 and awarded the contract to  
298 Vision 3 Architects in February 2022. It is KCWA's goal to have bid ready construction  
299 documents in mid-2022 for solicitation to break ground sometime this fall. Preliminary site  
300 and building designs with renderings are all complete and available for viewing.

301

302 **Q. Does this conclude your testimony?**

303 A. Yes.

***TAB 5***

1 **PRE-FILED TESTIMONY OF**  
2 **MAUREEN E. GURGHIGIAN**

3  
4 **Q: Please state your name and business affiliation.**

5 A: My name is Maureen E. Gurghigian. I am a Managing Director at Hilltop Securities  
6 Inc. ("Hilltop Securities") in Lincoln, Rhode Island.

7  
8 **Q: Please state your duties at Hilltop Securities.**

9 A: I am a member of the firm's public finance department and the lead financial  
10 advisor in Rhode Island providing municipal advisory services to state, local and  
11 regional government agencies for infrastructure projects in the water, wastewater,  
12 education and transportation sectors among others primarily in Rhode Island,  
13 Connecticut and Maine. I have supervisory responsibility for Hilltop Securities'  
14 involvement with borrowings by numerous public agencies and more than 25  
15 Rhode Island agencies and municipalities. Our office assists clients with the  
16 origination of more than \$800 million in public financing issues annually.

17  
18 **Q: Please describe your qualifications and experience.**

19 A: I have approximately 36 years' experience in the public finance field. I have a  
20 Masters' Degree in Business Administration from the University of Rhode Island. I  
21 am a registered Municipal Principal with the Municipal Securities Rulemaking  
22 Board, holding the following licenses: Series 50, Series 52, Series 53 and Series 63.  
23 Prior to joining First Southwest, the predecessor firm to Hilltop Securities, in 2001,  
24 I worked in public finance for Fleet Bank and/or Fleet Securities for sixteen years.  
25 Before joining Fleet, I spent eight years in Rhode Island State Government,  
26 including four years as Director of the Governor's Policy Office under then  
27 Governor J. Joseph Garrahy.



1 **Q. Can you describe Hilltop Securities and the types of services that it provides?**

2 A. Since 1946, Hilltop Securities, headquartered in Dallas, Texas, has served as  
3 financial advisor to many municipal issuers such as schools, cities, airports,  
4 hospitals, sports complexes, water and wastewater authorities and districts and  
5 toll roads. Currently the firm serves more than 2,000 municipalities and agencies,  
6 including more than 400 in New England.

7  
8 **Q: Have you previously testified before the Public Utilities Commission and Division  
9 of Public utilities on rate related matters?**

10 A: Yes, I have provided testimony before the Public Utilities Commission and the  
11 Division of Public Utilities and Carriers (“Division”) on behalf of Kent County Water  
12 Authority (“KCWA” or “Kent County”), Providence Water, Pawtucket Water Supply  
13 Board, the City of Newport Water Division and other regulated utilities.

14  
15 **Q: Please describe your role in this proceeding.**

16 A: I am providing assistance to KCWA for the proposed debt issuance. KCWA asked  
17 me to provide information on the debt service requirements for the proposed  
18 borrowing, and to respond to questions related to Kent County’s Application for  
19 Borrowing Approval.

20  
21 **Q: Please discuss the KCWA’s financing plans.**

22 A: KCWA seeks to obtain a loan in an aggregate principal amount of up to \$20 million  
23 dollars for an office and maintenance facility. Mr. Simmons described the project in  
24 his testimony, and I will provide the details of the financing. As Mr. Simmons notes  
25 in his testimony, Kent County will obtain financing from Rhode Island Infrastructure  
26 Bank (“RIIB”). RIIB will provide two loans, one from the Drinking Water State  
27 Revolving Fund (“DWSRF”) and one from the Efficient Buildings Fund (“EBF”).

28  
29 **Q: Can you explain how the financing will work for the \$20,000,000 borrowing?**

1 A. This loan will be similar to those previously approved by the Division for Rhode  
2 Island water suppliers. RIIB makes loans from the DWSRF at approximately 25%  
3 below market-rates to water suppliers for qualifying projects listed on the Project  
4 Priority List maintained by the Department of Health. This project has been  
5 identified in Kent County's capital program and is listed on the Department of  
6 Health's Project Priority List. Therefore, this project qualifies for a subsidized  
7 DWSRF loan from RIIB. In addition, RIIB makes loans for energy projects from their  
8 Efficient Buildings Fund ("EBF") which is a revolving fund created by the State.  
9 Loans from the EBF are made at interest rates that are approximately 33.3% below  
10 market. Kent County has requested that \$2,000,000 of the \$20,000,000 principal  
11 amount be made from the EBF which will result in a lower interest rate on that  
12 portion.

13

14 **Q: What is the term of this borrowing and the applicable interest rate?**

15 A. The term is approximately 20 years from the projected completion of construction.  
16 The expected interest cost will reflect a below market rate 25% lower than current  
17 market rates for \$18,000,000 and 33.3% lower than current market rates for  
18 \$2,000,000. Based upon market conditions as of February 8, 2022, it is anticipated  
19 that the interest rate on the loan will not exceed a market rate of 3.05%, which  
20 would result in a projected subsidized rate of approximately 2.15%. For purposes  
21 of Division approval, we would recommend a not to exceed market rate of 3.25%  
22 and a subsidized rate of 2.50% to allow for market movement.

23

24 **Q: How will the funds from this borrowing be disbursed?**

25 A: Approximately \$18,590,225 will be available for Project expenditures,  
26 approximately \$1,139,775 will be set aside in the debt service reserve fund, and  
27 approximately \$270,000 is allocated for costs of issuance, including the origination  
28 fee, rating agency fees, bond counsel, financial advisor and trustee fees.

29

1 **Q: What are the applicable schedules and deadlines for this financing?**

2 A: RIIB is willing to set the terms and lock the rate as soon as KCWA has approval  
3 from the Division. With interest rates expected to increase KCWA would like to  
4 lock the rate as soon as possible.

5

6 **Q: What is the projected schedule of debt service for the contemplated new  
7 borrowings?**

8 A. The projected debt service for the new borrowings is displayed in Schedule MG-1.  
9 For the \$20,000,000 loans, annual debt service is expected to be approximately  
10 \$1,305,000 per year at the projected interest rates for the first 15 years, including  
11 the RIIB annual fee. This amount is subject to change based upon the actual  
12 project costs, draw schedule and prevailing interest rates at the time of borrowing.

13

14 **Q: Please describe the rate impact of the financing.**

15 A: As set forth in the testimony of Mr. Bebyn, current rates are sufficient to provide  
16 for payment and coverage on this borrowing.

17

18 **Q: Does this complete your testimony?**

19 A: Yes it does.

**MG-1**

**Rhode Island Infrastructure Bank  
Drinking Water and Efficient Buildings Fund Program - Series 2022  
Preliminary, Subject to Change (Rates as of 2/8/2022 + 50bps)**

**Loan Debt Service**

**KCWA- \$20.0M Loan (AA Rated, Revenue Pledge)**

Date	Principal	(1) Interest	Net Fees @ 0.300%	Total Fees & Interest	Total Net Debt Service	Annual Net Debt Service & Fees
03/23/22						
09/01/22	809,000.00	51,118.85	8,792.73	59,911.58	868,911.58	868,911.58
03/01/23	-	106,669.50	17,744.66	124,414.16	124,414.16	-
09/01/23	888,000.00	144,532.32	23,818.91	168,351.23	1,056,351.23	1,180,765.39
03/01/24	-	174,624.15	27,454.50	202,078.65	202,078.65	-
09/01/24	900,000.00	174,624.15	27,454.50	202,078.65	1,102,078.65	1,304,157.30
03/01/25	-	169,384.55	26,104.50	195,489.05	195,489.05	-
09/01/25	912,000.00	169,384.55	26,104.50	195,489.05	1,107,489.05	1,302,978.10
03/01/26	-	163,605.35	24,736.50	188,341.85	188,341.85	-
09/01/26	927,000.00	163,605.35	24,736.50	188,341.85	1,115,341.85	1,303,683.70
03/01/27	-	157,247.20	23,346.00	180,593.20	180,593.20	-
09/01/27	942,000.00	157,247.20	23,346.00	180,593.20	1,122,593.20	1,303,186.40
03/01/28	-	150,435.70	21,933.00	172,368.70	172,368.70	-
09/01/28	960,000.00	150,435.70	21,933.00	172,368.70	1,132,368.70	1,304,737.40
03/01/29	-	142,925.20	20,493.00	163,418.20	163,418.20	-
09/01/29	977,000.00	142,925.20	20,493.00	163,418.20	1,140,418.20	1,303,836.40
03/01/30	-	134,946.25	19,027.50	153,973.75	153,973.75	-
09/01/30	996,000.00	134,946.25	19,027.50	153,973.75	1,149,973.75	1,303,947.50
03/01/31	-	126,641.25	17,533.50	144,174.75	144,174.75	-
09/01/31	1,016,000.00	126,641.25	17,533.50	144,174.75	1,160,174.75	1,304,349.50
03/01/32	-	118,111.75	16,009.50	134,121.25	134,121.25	-
09/01/32	1,035,000.00	118,111.75	16,009.50	134,121.25	1,169,121.25	1,303,242.50
03/01/33	-	109,361.95	14,457.00	123,818.95	123,818.95	-
09/01/33	1,056,000.00	109,361.95	14,457.00	123,818.95	1,179,818.95	1,303,637.90
03/01/34	-	99,513.70	12,873.00	112,386.70	112,386.70	-
09/01/34	1,079,000.00	99,513.70	12,873.00	112,386.70	1,191,386.70	1,303,773.40
03/01/35	-	88,771.85	11,254.50	100,026.35	100,026.35	-
09/01/35	1,104,000.00	88,771.85	11,254.50	100,026.35	1,204,026.35	1,304,052.70
03/01/36	-	77,203.85	9,598.50	86,802.35	86,802.35	-
09/01/36	1,130,000.00	77,203.85	9,598.50	86,802.35	1,216,802.35	1,303,604.70
03/01/37	-	64,955.35	7,903.50	72,858.85	72,858.85	-
09/01/37	999,000.00	64,955.35	7,903.50	72,858.85	1,071,858.85	1,144,717.70
03/01/38	-	53,366.95	6,405.00	59,771.95	59,771.95	-
09/01/38	1,025,000.00	53,366.95	6,405.00	59,771.95	1,084,771.95	1,144,543.90
03/01/39	-	41,066.95	4,867.50	45,934.45	45,934.45	-
09/01/39	1,052,000.00	41,066.95	4,867.50	45,934.45	1,097,934.45	1,143,868.90
03/01/40	-	28,074.75	3,289.50	31,364.25	31,364.25	-
09/01/40	1,082,000.00	28,074.75	3,289.50	31,364.25	1,113,364.25	1,144,728.50
03/01/41	-	14,387.45	1,666.50	16,053.95	16,053.95	-
09/01/41	1,111,000.00	14,387.45	1,666.50	16,053.95	1,127,053.95	1,143,107.90
<b>20,000,000.00</b>	<b>4,131,569.07</b>	<b>588,262.31</b>	<b>4,719,831.38</b>	<b>24,719,831.38</b>	<b>24,719,831.38</b>	<b>24,719,831.38</b>

***TAB 6***

**KENT COUNTY WATER AUTHORITY**

**PRE-FILED DIRECT TESTIMONY**

**OF**

**DAVID G BEBYN, CPA**

**FOR**

**RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**DOCKET NO. D-22 - \_\_\_\_\_**

**\_\_\_\_\_, 2022**

1 **Q. Please state your name and business address for the record.**

2 A. My name is David G. Bebyn CPA and my business address is 21 Dryden Lane,  
3 Providence, Rhode Island 02904.

4  
5 **Q. By whom are you employed and in what capacity?**

6 A. I am the President of B&E Consulting LLC (B&E). B&E is a CPA firm that  
7 specializes in utility regulation, expert rate and accounting testimony, tax and accounting  
8 services.

9  
10 **Q. Mr. Bebyn, have you testified as an expert accounting witness prior to this  
11 docket?**

12 A. Yes. I have provided testimony on rate related matters before utility commissions in  
13 Rhode Island and Connecticut. Regarding the Rhode Island Public Utilities Commission  
14 (Commission), I have prepared testimony and testified in by Kent County Water  
15 Authority's (KCWA or Kent County) last rate filings in Docket #5012 in support of an  
16 abbreviated filing which KCWA was required to submit a compliance filing to address  
17 either the terminating funding of the meter program. In addition to KCWA's abbreviated  
18 filing, I provided testimony and testified in Dockets #4994 regarding revenue requirement  
19 and rate design on behalf of the KCWA in their intervention of Providence Water Supply  
20 Board rate case. In addition to rate filings, I provided testimony in support of financing  
21 requests of the Division in Docket #D-22-01 for the Block Island Utility District and  
22 Docket #D-20-11 for the Pascoag Utility District.

23  
24 **Q. What is your educational background?**

25 A. I received my Bachelors of Science Degree in Accounting (BSA) from Rhode Island  
26 College. I became a Certified Public Accountant in 2000 after passing the CPA exam.

27  
28 **Q. What is the purpose of your testimony?**

29 A. I will provide background information on new debt for Kent County in the principal  
30 amount of up to \$20,000,000. The borrowing is for the design and construction of a new  
31 office and maintenance facility, as described in more detail by the testimony of David Simmons.  
32 I will address the financial impact of these proposed financing. I will also provide the

1 reasoning behind Kent County's selection of the financing terms for each of the loans. I  
2 will also present the information required by the Rules of the Division so that the Division  
3 can review and evaluate this proposed \$20,000,000 financing package. The loan  
4 documentation is attached to the Pre-filed Testimony of Maureen E. Gurghigian.

5  
6 **Q. How will the proceeds of this borrowing be used?**

7 A. As explained in the Pre-Filed Testimony of Maureen E. Gurghigian, the proceeds of  
8 the \$20,000,000 loan relating to the new office and maintenance facility will be used as  
9 follows (approximation, based on current interest rates):

10

Deposit in Construction Fund	\$18,590,225.10
Debt Service Reserve Fund	1,139,774.90
Loan Origination Fee	200,000.00
Cost of Issuance – Local Level	<u>70,000.00</u>
Total	<u>\$20,000,000.00</u>

11  
12 **Q. Mr. Bebyn, what terms are included in the Rhode Island infrastructure Bank  
13 commitment document for the \$20,000,000 office and maintenance facility loan?**

14 A. Rhode Island infrastructure Bank ("RIIB") provided an analysis of the loan terms is  
15 attached to Ms. Gurghigian Testimony as MG-1. MG-1 provides the combined loan  
16 amortization of the \$18,000,000 financed from the RIIB Drinking Water State Revolving  
17 Fund (DWSRF) and the \$2,000,000 financed from the RIIB Efficient Building Fund  
18 (EBF). The interest rates used in the MG-1 document are rates as of 02/08/2022 (used as a  
19 guide to estimate the eventual rates at closing) and shows that the loans' interest rates will  
20 be calculated using the revenue market rate not to exceed 3.05%, which would result in a  
21 projected subsidized rate of approximately 2.15%. This is the cheapest rate available to  
22 Kent County.

23  
24 The drawdown period for the up to \$20,000,000 loan will be eighteen months. The  
25 repayment period will be over 20 years with 20-year amortization of the \$18,000,000  
26 financed from RIIB DWSRF and 15 years with a 15-year amortization of the \$2,000,000  
27 financed from RIIB EBF. No balloon payment will be due at the end of the 20 years. The  
28 combined debt service on the loan package will be designed to include level annual



1 payments for the first fifteen years of less than \$1,305,000 and less than \$1,145,000  
2 afterward.

3  
4 **Q. Mr. Bebyn, does Kent County have sufficient rates in place to pay the debt  
5 service for the \$20,000,000 borrowing?**

6 A. Yes. KCWA has sufficient funds to pay for this borrowing being deposited annually in  
7 its Capital Improvement Program (CIP) Account. During the filing of Docket #5012, KCWA  
8 reached a settlement agreement with the Division to transfer debt service funding for its retired  
9 2012 Series A bond to the restricted CIP Account. The 2012 Series A bond had a monthly  
10 funding of \$181,937/month (\$2,183,244 annually) and was paid off during the Docket  
11 #5012 proceedings. The Docket #5012 Settlement Agreement (item 20) allowed for: "The CIP  
12 Account may be used for pay-as-you-go capital projects or debt service payments related to  
13 funds borrowed for capital projects." The \$2,183,244 is more than sufficient to cover the debt  
14 service and coverage on this \$20,000,000 borrowing.

15  
16 **Q. What interest rates will be used for the loan?**

17 A. The interest rates used in the MG-1 document are rates as of 02/08/2022 (used as a  
18 guide to estimate the eventual rates at closing) and shows that the loan's interest rates will  
19 be calculated using the revenue market rate not to exceed 3.05%, which would result in a  
20 projected subsidized rate of approximately 2.15% Ms. Gurghigian's recommends in her  
21 testimony that for the purpose of Division approval that the market rate not-to-exceed  
22 3.25% to allow for market fluctuation.

23  
24 **Q. What, if any, financial covenants are required per the commitment letter?**

25 A. Kent County is to maintain a Debt Service Coverage (DSC) of 1.25X for open market  
26 bonds and 1.35X for RIIB bonds based on debt service net of any interest rate subsidy.  
27 Kent County will be able to make this coverage allowance using the current rates, including  
28 the CIP Account funding as mentioned above.

29 **Q. Will this financing impact the ratepayers?**

30 A. No. There will be no rate impact on the ratepayers because current rates will cover the  
31 debt service cost. The \$1,305,000 annual debt service will be able to be covered by  
32 KCWA's annual \$3,637,063 CIP reserve funding. As previously stated, \$2,183,244 of the

1 \$3,637,063 CIP reserve funding resulted from the retirement of KCWA's 2012 Series A  
2 Bond, which is available for debt service payments related to funds borrowed for capital  
3 projects in accordance with the Settlement agreement in Docket #5012.

4

5 **Q. Are the terms of the borrowing in the best interest of the ratepayers?**

6 A. Absolutely. KCWA has worked hard to secure this below-market-rate financing,  
7 which provides a low-interest rate and maximum flexibility in terms of repayment.

8

9 **Q. Is there an impact of this borrowing on the debt/equity ratio or any of the other**  
10 **information required by the Division's rules?**

11 A. No. This debt will be covered by the current rates in place.

12

13 **Q. Does that conclude your testimony?**

14 A. Yes.

***APPENDIX A***

KENT COUNTY WATER AUTHORITY

Adopted: November 18, 2021

AMENDED AND RESTATED RESOLUTION AUTHORIZING THE KENT COUNTY WATER AUTHORITY TO FINANCE A NEW CENTRAL OPERATIONS FACILITY, INCLUDING, BUT NOT LIMITED TO, ACQUISITION OF REAL PROPERTY, DEMOLITION, DESIGN, ENGINEERING, PAVING, LANDSCAPING, AND ALL ATTENDANT EXPENSES, CAPITALIZED INTEREST, THE FUNDING OF A DEBT SERVICE RESERVE FUND AND COSTS OF ISSUANCE AND APPROVING THE FINANCING THEREOF BY THE ISSUANCE OF WATER REVENUE BONDS IN AN AMOUNT NOT TO EXCEED \$20,000,000 AND APPROVING THE EXECUTION AND DELIVERY OF A MASTER TRUST INDENTURE AND SUPPLEMENTAL INDENTURES AND OTHER MATTERS IN CONNECTION WITH THE FINANCING

WHEREAS, the Kent County Water Authority (the “Authority”) was created and exists as a body corporate and politic constituting a public benefit corporation of the State of Rhode Island (the “State”) under Chapter 16 of Title 39 of the General Laws of Rhode Island, as amended (the “Act”);

WHEREAS, the Authority intends to issue bonds (defined below) in an amount not to exceed Twenty Million Dollars (\$20,000,000) for the purpose of financing a new central operations facility, including, but not limited to, acquisition of real property, demolition, design, engineering, paving, landscaping, and all attendant expenses (the “Project”), and, in connection with the Project, there shall be financed certain costs of issuance, administrative expenses, capitalized interest, the funding of a debt service reserve fund with respect thereto, if necessary, and other necessary or incidental expenses and undertake any other acts necessary or incidental thereto all pursuant to a Master Trust Indenture (the “Master Indenture”) between the Authority and The Bank of New York Mellon Trust Company, N.A. (the “Master Trustee”), and one or more Supplemental Indentures of Trust (the “Supplemental Indentures”) between the Authority and a trustee to be named therein (the “Trustee”) to be dated the date or dates of issuance of the Bonds;

WHEREAS, the financing of the Project is authorized under the Act;

WHEREAS, in order to finance the cost of such Project, the Authority intends to issue its Revenue Bonds, in one or more series, in a public offering or private placement or combination of methods of sale in the principal amount not to exceed \$20,000,000 (the “Bonds”) pursuant to the Master Indenture and the Supplemental Indentures;

WHEREAS, the Authority is now desirous of proceeding with the financing of the Project;

WHEREAS, The Authority may wish to issue its Bonds to the Rhode Island Infrastructure Bank (the “Bank”) in accordance with the Federal Safe Drinking Water Act of 1974, including the Safe Drinking Water Act Amendments of 1996, Title 46-12.2 of the Rhode

Island General Laws and Title 46-12.8 of the Rhode Island General Laws to evidence one or more loans from the efficient buildings revolving fund and/or the safe drinking water revolving loan fund administered by the Bank to finance the Project;

WHEREAS, there has been and/or will be prepared and utilized with respect to the Project the following documents (collectively, the “Financing Documents”):

- (a) Master Indenture;
- (b) One or more Supplemental Indentures;
- (c) One or more Loan Agreements (if a private placement);
- (d) Preliminary Official Statement (if a public offering);
- (e) Official Statement (if a public offering);
- (f) Continuing Disclosure Certificate;
- (g) Bond Purchase Agreement;
- (h) Private Placement Agreement (if a private placement).

NOW, THEREFORE, BE IT RESOLVED BY THE KENT COUNTY WATER AUTHORITY AS FOLLOWS:

SECTION 1. In accordance with the Act, it is appropriate that certain matters be determined by a member or officer of the Authority or a combination thereof subsequent to the adoption of this Resolution and, for such reason, the Chairperson or Vice Chairperson of the Board and the Secretary or Assistant Secretary of the Authority are hereby designated as Authorized Officers for the purposes described in this Resolution.

SECTION 2. To accomplish the purposes of the Act and to provide for the financing of the cost of the Project, the issuance of the Bonds is hereby authorized, subject to the provisions of this Resolution, the Master Indenture and the Supplemental Indentures. The Bonds shall be dated as provided in the Supplemental Indentures, shall be in an aggregate principal amount not to exceed \$20,000,000, plus any original issue premium, and shall be issued as fully registered bonds. The Bonds shall mature, bear interest (not to exceed 8%), be subject to redemption prior to maturity and bear such other terms as set forth in the Master Indenture and the Supplemental Indentures. The Bonds may be sold by means of a public offering or a private placement, or a combination of both methods of sale to the Bank or to such other purchaser as shall be designated by the Authorized Officers. The forms of the Bonds and the provisions for method of sale, signatures, authentication, payment, prepayment and number shall be as set forth in the Master Indenture and the Supplemental Indentures. The Bonds may be issued in one or more series and the interest on the Bonds of any series may be exempt from federal income taxation or included in federal income taxes.

SECTION 3. The Bonds shall be special obligations of the Authority payable solely from the revenues or other receipts, funds or moneys of the Authority pledged therefor under the Master Indenture and the Supplemental Indentures and the Authority’s faith and credit is pledged only to such extent. Neither the State, nor any political subdivision of the State, nor the Authority shall be obligated to pay the principal of, premium, if any, or interest on the Bonds except from the Trust Estate pledged under the Master Indenture. Neither the faith and credit nor the taxing power of the State, or any political subdivision of the State shall be pledged to the

payment of the principal of, premium, if any, or interest on the Bonds.

SECTION 4. The execution and delivery of the Financing Documents and all related and ancillary documents deemed necessary and appropriate and in the best interest of the Authority by the Authorized Officers are hereby authorized. The Authorized Officers of the Authority are each, acting singly, hereby authorized to execute, acknowledge and deliver the Master Indenture substantially in the form presented at this meeting, with such changes, insertions, additions, alterations and omissions as may be approved by said Authorized Officers and the other Financing Documents in such form as shall be approved by the Authorized Officers, and the Secretary or Assistant Secretary of the Authority is hereby authorized to affix the seal of the Authority on the Financing Documents and to attest the same. The execution of the Financing Documents by said Authorized Officers shall be conclusive evidence that such actions are in the best interest of the Authority and of such approval.

SECTION 5. The Authorized Officers are each, acting singly, hereby authorized to reduce the principal amount of the Bonds to be sold and to alter the maturity dates and prepayment provisions and to alter terms of the Bonds to make the Bonds conform to the Master Indenture and the Supplemental Indentures as the same may be amended by the parties thereto and to alter amounts of the Bonds for individual maturities of serial Bonds or term Bonds without exceeding the \$20,000,000 principal amount in the aggregate, plus original issue premium.

SECTION 6. The Bonds shall be executed in the manner provided in the Master Indenture as supplemented by the Supplemental Indentures and the same shall be delivered to the Trustee for proper authentication and delivery to the purchaser upon instructions to that effect.

SECTION 7. All covenants, stipulations, obligations and agreements of the Authority contained in this Resolution and the Financing Documents shall be deemed to be the covenants, stipulations, obligations and agreements of the Authority to the full extent authorized or permitted by law, and such covenants, stipulations, obligations and agreements shall be binding upon any board or body to which any powers or duties affecting such covenants, stipulations, obligations and agreements shall be transferred by and in accordance with the law. Except as otherwise provided in this Resolution, all rights, powers and privileges conferred and duties and liabilities imposed upon the Authority or the members thereof by the provisions of this Resolution and the Financing Documents shall be exercised or performed by the Authority or by such members, officers, board or body as may be required by law to exercise such powers and to perform such duties.

SECTION 8. The proper officers of the Authority are hereby further directed to proceed to cause the proceeds of the sale of the Bonds to be disbursed as provided in the Financing Documents for the Project.

SECTION 9. In the case of a public offering, the Authority hereby consents to the use and distribution of a Preliminary Official Statement in standard form and the use and distribution of the final Official Statement in substantially the form of the Preliminary Official Statement with such changes, insertions and omissions as may be necessary for use by the Underwriter for sale of the Bonds to be publicly offered. The Authorized Officers are hereby authorized to deem

the Preliminary Official Statement “final” for purposes of Securities and Exchange Commission Rule 15c2-12.

SECTION 10. This Resolution is an affirmative action of the Authority toward the issuance of the Obligations in accordance with the purposes of the laws of the State. This Resolution constitutes the Authority’s declaration of official intent pursuant to the Treasury Regulation Section 1.150-2 to reimburse the Authority’s Operation and Maintenance Fund or other funds and accounts for certain capital expenditures for the Project paid on or after the date which is sixty (60) days prior to October 21, 2021, but prior to the issuance of the Bonds. Such amounts to be reimbursed shall not exceed \$20,000,000 and shall be reimbursed not later than eighteen (18) months after the later of (a) the date on which the expenditure is paid, or (b) the date the Project is placed in service or abandoned but in no event later than three (3) years after the date the expenditure is paid.

SECTION 11. The Authority hereby consents to the execution and delivery of such other documents and instruments necessary or desirable for the implementation of the purposes of this Resolution and the Authorized Officers and other proper officers, directors, agents and employees of the Authority are hereby authorized, empowered and directed to do all acts and things to carry out, comply with and implement this Resolution and the Financing Documents. The Authority hereby consents to revisions to such additional documents to the extent such do not substantially alter the intent of this Resolution and would not be adverse to the interests of the Authority and provided further that the Authorized Officers, acting singly, be and each hereby is authorized and empowered to execute and deliver such documents or instruments in accordance with this Section.

SECTION 12. This Resolution amends and restates the Authority’s resolution adopted on October 21, 2021 and shall take effect immediately.

***APPENDIX B***



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TRUST INDENTURE

Between

KENT COUNTY WATER AUTHORITY

and

THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A., as Trustee

securing

REVENUE BONDS

Dated \_\_\_\_\_, 2021

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## TRUST INDENTURE

THIS TRUST INDENTURE (the “Indenture”) dated \_\_\_\_\_, 2021 is made by and between the KENT COUNTY WATER AUTHORITY (the “Authority”), a body politic and corporate and a public benefit corporation and political subdivision organized and existing under the laws of the State of Rhode Island, and THE BANK OF NEW YORK MELLON TRUST COMPANY, N.A. (the “Trustee”), a national banking association duly organized and validly existing under the laws of the United States of America authorized to exercise corporate trust powers:

### W I T N E S S E T H:

WHEREAS, pursuant to the Act (defined below), the Authority is authorized to issue its revenue bonds, for any of its corporate purposes, including the creation and maintenance of working capital and the financing the Cost of Projects within the meaning of the Act and as defined below; and

WHEREAS, the Authority intends to issue its revenue bonds, potentially in several series (each a “Series of Bonds”), to provide funds to the Authority to finance, among other things, the Cost of Projects; and

WHEREAS, the Authority has determined that, in the issuance and sale of the Bonds, it will be acting to further the public purposes of the Act; and

WHEREAS, each Series of Bonds will be issued pursuant to a Supplemental Indenture (defined below) which will provide for the terms of such Series of Bonds; and

WHEREAS, all things necessary to make the Bonds (defined below), when issued, executed and delivered by the Authority and authenticated by the Trustee, to the extent required pursuant to this Indenture, the valid, binding and legal general obligations of the Authority, and to constitute this Indenture as a valid assignment and pledge of the Revenues herein pledged to the payment of the Principal Amount (defined below) and Redemption Price (defined below) of, if any, and interest on the Bonds and a valid assignment and pledge of certain rights of the Authority has been done and performed, and the creation, execution and delivery of this Indenture, and the execution, issuance and delivery of the Bonds, subject to the terms hereof, have in all respects been duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that to secure the payment of Principal Amount and Redemption Price of, if any, and interest on the Bonds according to their true intent and meaning, and all other amounts due from time to time under this Indenture, including those due to the Trustee and the Credit or Liquidity Facility Provider, if any, to secure the performance and observance of all of the covenants, agreements, obligations and conditions contained in the Bonds and in this Indenture, and to declare the terms and conditions upon and subject to which the Bonds are and are intended to be issued, held, secured and enforced and in consideration of the premises and the acceptance by the Trustee of the trusts created herein and of the purchase and acceptance of the Bonds by the Bondholders and for other good and valuable

consideration, the receipt of which is acknowledged, the Authority has executed and delivered this Indenture and absolutely and irrevocably pledges and assigns to the Trustee and to its successors in trust, on the basis set forth herein, and its and their assigns, all right, title and interest of the Authority in and to the Trust Estate as defined in Article I;

TO HAVE AND TO HOLD unto the Trustee and its successors in trust and its and their assigns forever;

BUT IN TRUST, NEVERTHELESS, and subject to the provisions hereof,

- (a) for the equal and proportionate benefit, security and protection of all Bonds,
- (b) for the enforcement of the payment of the Principal Amount and Redemption Price of, if any, and interest on the Bonds, and all other amounts due from time to time under this Indenture, including those due to the Trustee, when payable, according to the true intent and meaning thereof and of this Indenture, and
- (c) to secure the performance and observance of and compliance with the covenants, agreements, obligations, terms and conditions of this Indenture,

in each case, without preference, priority or distinction, as to lien or otherwise except as provided herein, of any one Bond over any other by reason of designation, number, date of the Bonds or of authorization, issuance, sale, execution, authentication, delivery or maturity thereof, or otherwise, so that each Bond and all Bonds shall have the same right, lien and privilege under this Indenture and shall be secured equally and proportionately by this Indenture, it being intended that the lien and security of this Indenture shall take effect from the date hereof, without regard to the date of the actual issue, sale or disposition of the Bonds, as though upon that date all of the Bonds were actually issued, sold and delivered to purchasers for value; provided, however, that, upon satisfaction of and in accordance with the provisions of Article XI, the rights assigned hereby shall cease, determine and be void to the extent described therein; otherwise, such rights shall be and remain in full force and effect;

PROVIDED, FURTHER, that the pledge of the right, title and interest of the Authority in and to the Trust Estate is given subject to the right of the Authority to issue Additional Bonds secured on a parity basis with the Bonds by the Trust Estate; and

IT IS DECLARED that all Bonds issued under and secured by this Indenture are to be issued, authenticated and delivered, and that all Revenues (defined herein) assigned or pledged hereby are to be dealt with and disposed of under, upon and subject to, the terms, conditions, stipulations, covenants, agreements, obligations, trusts, uses and purposes provided in this Indenture; and the Authority has agreed and covenanted, and agrees and covenants with the Trustee, the Credit or Liquidity Facility Provider, if any, and with each and all Bondholders, as follows:

## ARTICLE I

## DEFINITIONS

Section 101. Definitions. In this Indenture, unless a different meaning clearly appears from the context:

“Act” shall mean the applicable provisions of Chapter 16 of Title 39 of the General Laws of Rhode Island (1956) as amended from time to time and any other statute now or hereafter enacted, which by its general or specific terms authorizes the Authority to issue debt to finance the System or otherwise affects the terms of such debt;

“Advance-Refunded Municipal Bonds” shall mean obligations the interest on which is excluded from gross income for purposes of federal income taxation that have been advance-refunded prior to their maturity and that are fully and irrevocably secured as to principal and interest by obligations described in clause (i) of the definition of Permitted Investments and that are rated in the highest rating category by each rating agency rating such obligations;

“Annual Budget” shall have the meaning given such term in Section 608 hereof;

“Assumed Variable Rate” means in the case of:

(a) Outstanding Bonds in the form of Variable Rate Bonds, the greater of (1) the average interest rate on such Bonds for the most recently completed sixty (60) month period or the period such Variable Rate Bonds has been outstanding if it is less than sixty (60) months, or (2) the rate to be determined pursuant to clause (b) below assuming the Outstanding Variable Rate Bonds were being issued on the date of calculation; and

(b) proposed Bonds in the form of Variable Rate Bonds either

(1) to be issued on the basis that, in the opinion of bond counsel to be delivered at the time of the issuance thereof, interest on such Variable Rate Bonds would be excluded from gross income for federal income tax purposes, the greater of the (i) the average of the Bond Market Association Swap Index (“BMA Index”) for the twelve (12) month period ending seven (7) days preceding the date of calculation plus 100 basis points, or (ii) the average of the Bond Market Association Swap Index (“BMA Index”) for the sixty (60) month period ending seven (7) days preceding the date of calculation plus 100 basis points, or

(2) to be issued as Variable Rate Bonds not described in clause (1), the greater of the (i) average of the London Interbank Offered Rate (“LIBOR”) for the time period most closely resembling the reset period for the Variable Rate Bonds for the twelve (12) month period ending seven (7) days preceding the date of calculation plus 100 basis points, or (ii) average of LIBOR for the time period most closely resembling the reset period for the Variable Rate Bonds for the sixty (60) month period ending seven (7) days preceding the date of calculation plus 100 basis points; and provided that if the BMA Index or LIBOR shall cease to be published, the index to be used in its place shall be that index which the Authority in consultation with the Financial Advisor determines most closely replicates such index, as set forth in a certificate of an Authorized Officer of the

Authority filed with the Trustee. Notwithstanding the foregoing, in no event shall the Assumed Variable Rate be in excess of the maximum interest rate allowed by law on obligations of the Authority.

“Authenticating Agent” shall mean, for the Bonds of a Series or any portion thereof, the Trustee and, where authorized by the applicable Supplemental Indenture, the Paying Agent or Paying Agents for the Bonds of such Series;

“Authority” shall mean the Kent County Water Authority, a body corporate and politic constituting a public benefit corporation and political subdivision of the State, created pursuant to and existing under the Act, and any successor to its powers and functions;

“Authorized Officer” shall mean the Chairperson, the Vice Chairperson, the Executive Director, the Treasurer, the Assistant Treasurer, if any, the Secretary or the Assistant Secretary, if any, when used in reference to an act or document, shall also mean any other person authorized by resolution of the Authority to perform such act or sign such document;

“Bond” or “Bonds” shall mean any of the Revenue Bonds of the Authority authenticated and delivered under the Indenture (and, unless expressly stated to the contrary, shall not include Subordinated Bonds; provided that the provisions of Article III, Article IV, Article VIII, Article IX, Article XI and Article XII shall be applicable to Subordinated Bonds). The term shall also include Bonds Securing RIIB Obligations and obligations of the Authority under any Qualified Swap Agreement (but only to the extent of Qualified Swap Payments);

“Bond Anticipation Notes” shall mean notes of the Authority issued pursuant to Section 39-16-22 of the Act and Section 207 and 607 of this Indenture with a final maturity of not longer than five (5) years (or such longer period as may be permitted by the Act) in anticipation of the receipt of proceeds of a Series of Bonds;

“Bondholder” or “Holder” or any similar term, when used with reference to a Bond or a Subordinated Bond, shall mean the registered owner of the Bond or the Subordinated Bond, respectively but shall not include any Counterparty under a Qualified Swap Agreement or any other party contracting with the Authority in connection with a Qualified Swap Agreement;

“Bonds Securing RIIB Obligations” shall mean and any Series of Bonds issued pursuant to Section 203(1)(v) of this Indenture;

“Business Day” shall mean, except as provided in any Supplemental Indenture, any day other than a Saturday, a Sunday or any other day on which any Fiduciary is authorized or required by law to be closed for business;

“Capital Improvements” shall mean extensions, improvements, enlargements, betterments, alterations, renewals and replacements of the System (including land, equipment and other real or personal properties), which (i) are used or useful in connection with the System or any part thereof



and (ii) are properly chargeable (whether or not so charged by the Authority), under generally accepted accounting principles, as additions to capital accounts;

“Capital Improvements Budget” shall mean a capital budget for each Fiscal Year which identifies the Capital Improvements to the System to be undertaken by the Authority during such Fiscal Year, the nature of the work, the estimated completion date of each Capital Improvement, the estimated Costs expected to be expended therefor in such Fiscal Year, and estimated disbursements from any Project Account or Operating Capital Account in the Project Fund and, to the extent provided by the Authority, any other fund or account under or outside the Indenture, as well as the sources of moneys projected to be available to pay such estimated Costs in such Fiscal Year;

“Capitalized Interest Account” shall mean the account, if any, in the Debt Service Fund so designated and created pursuant to Section 506;

“Compound Interest Bonds” shall have the meaning given such term in Section 203(5) hereof;

“Consulting Engineer” shall mean an independent consultant or engineer or firm of consultants or engineers having a national reputation for expertise in such matters with respect to properties similar to those of the System selected by the Authority; provided that for the purposes of Section 503(3) the Consulting Engineer may be an engineer regularly in the employ of the Authority;

“Cost”, as applied to any Capital Improvement to be constructed or acquired by or on behalf of the Authority shall mean all or any part of the cost, paid by or on behalf of or reimbursable by or to the Authority of construction, acquisition, alteration, reconstruction and remodeling of such Capital Improvement, all lands, real and personal property, rights-of-way, water rights, air rights, franchises, easements and interests necessary or convenient therefor, the cost of any demolitions or relocations necessary in connection therewith, the cost of all machinery and equipment, financing charges, including Costs of Issuance not funded from the proceeds of Bonds, interest on Bonds and Notes issued in whole or in part to finance such construction prior to, during and for such period as the Authority shall determine after the period of construction of such Capital Improvement, architectural, engineering, financial and legal services, plans, specifications, appraisals, surveys, inspections, estimates of costs and revenues, and other expenses necessary or incident to determining the feasibility or practicality of such work, organizational, administrative, Operating Expenses and other expenses prior to the commencement of and during such work, advance training of operating personnel and other expense, including initial working capital, of completing such work and placing the same in operation, and any other item of “Cost” attributable to the construction, acquisition, alteration, reconstruction and remodeling of such Capital Improvement and placing the same in operation; the word “Cost” as applied to any Capital Improvement which the Authority may be authorized to acquire shall also mean the amount of the purchase price or the amount of a condemnation award in connection with the acquisition of such Capital Improvement, and shall include the cost of acquiring all of the capital stock and of discharging any liabilities of a corporation owning such Capital Improvement, if such be the case, in order to vest title to such Capital Improvement in the Authority;

“Cost of Issuance” shall mean all items of expense directly or indirectly payable by or reimbursable to the Authority and related to the authorization, sale and issuance of Bonds, Subordinated Bonds and Notes, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Fiduciaries, legal fees and charges, fees and disbursements of consultants and professionals, costs and expenses of refunding, accrued interest and other costs payable upon or with respect to the initial investment of the proceeds of Bonds, Subordinated Bonds or Notes, premiums for the insurance of the payment of Bonds, Subordinated Bonds or Notes, fees and expenses payable in connection with any Credit or Liquidity Facility or Reserve Deposits, unless designated as an Operating Expense, fees and expenses payable in connection with any remarketing agreements or interest rate indexing agreements and any other cost, charge or fee in connection with the original issuance of Bonds, Subordinated Bonds or Notes;

“Counsel’s Opinion” shall mean an opinion signed by an attorney or firm of attorneys selected by the Authority and not unsatisfactory to the Trustee;

“Counterparty” means an entity who is a counterparty to a Qualified Swap Agreement. Such entity shall be a member of the International Swap Dealers Association and meet the requirements of applicable laws of the State and the applicable policies and procedures established by the Authority from time to time, provided that the senior unsecured debt of such counterparty shall be in one (1) of the three (3) highest rating categories without regard to gradations within such categories by each of the Rating Agencies at the time of execution of a Qualified Swap Agreement.

“Credit or Liquidity Facility” shall mean, with respect to a Series of Bonds, the irrevocable letter of credit, line of credit, municipal bond insurance, or other form of credit enhancement or liquidity support, if any, for such Series of Bonds, provided for in Section 208 hereof and in the applicable Supplemental Indenture, including any alternate Credit or Liquidity Facility with respect to such Series of Bonds delivered in accordance with provisions of the Supplemental Indenture providing for the issuance of such Series of Bonds and including any Credit or Liquidity Facility in connection with a Qualified Swap Agreement.

“Credit or Liquidity Facility Provider” shall have the meaning ascribed in each Supplemental Indenture authorizing an issue of Bonds;

“Cross-over Date” means with respect to Cross-over Refunding Bonds, the date on which the principal portion of the related Cross-over Refunded Bonds is to be paid or redeemed from the proceeds of such Cross-over Refunding Bonds.

“Cross-over Refunded Bonds” means Bonds or other obligations refunded by Cross-over Refunding Bonds.

“Cross-over Refunding Bonds” means Bonds issued for the purpose of refunding Bonds or other obligations upon the irrevocable deposit of the proceeds of such Cross-over Refunding Bonds in escrow in satisfaction of the requirements of this Indenture or any Supplemental Indenture, as applicable to the Cross-Over Refunded Bonds, to secure the payment on an applicable redemption date or maturity date of the Cross-over Refunded Bonds (subject to possible use to pay principal of

the Cross-over Refunding Bonds under certain circumstances) and the earnings on such escrow deposit are required to be applied to pay interest on the Cross-over Refunding Bonds until the Cross-over Date.

“Debt Service Assistance” shall mean any money received by or on behalf of the Authority under or pursuant to any agreement or on account of a grant or contribution, heretofore or hereafter made, in aid of, with respect to, or on account of debt service on debt incurred with respect to the System excluding any interest subsidies received from the RIIB on account of any of its leveraged loan programs;

“Debt Service Assistance Account” shall mean the account in the Debt Service Fund so designated and created pursuant to Section 502;

“Debt Service Fund” shall mean the fund so designated and created by Section 502;

“Debt Service Fund Requirement” shall mean, as of any particular date of computation, the amount of money obtained by (i) aggregating the several sums, computed with respect to the Bonds of each Series Outstanding, of (A) any unpaid interest due on such Bonds at or before said date and all interest on such Bonds accrued but not due at said date, plus interest expected to accrue during the next ensuing month, calculated, in the case of a Bond bearing interest at a variable rate, for the remainder of the current interest rate period, at the current interest rate, and for subsequent interest rate periods if any, at the maximum rate applicable to the Bonds, (B) the Principal Amount of any such Bonds matured and unpaid at or before said date, and (C) with respect to any Principal Installment of any Bonds not included in (B) above, but payable on the next succeeding Principal Installment payment date other than by reason of acceleration or redemption at the option of the Authority or the Holder of any Bonds, that portion of such Principal Installment determined by multiplying such Principal Installment by a fraction, the numerator of which shall be the number of days elapsed from and including the immediately preceding Principal Installment payment date, or if there be no such date with respect to such Bonds, the date of issuance thereof, to the date of such calculation and the denominator of which shall be the number of days from and including the immediately preceding Principal Installment payment date, or if there be no such date with respect to such Bonds, the date of issuance thereof, to such next succeeding Principal Installment payment date and (ii) deducting amounts on deposit in the Debt Service Fund and Debt Service Assistance Account available to make such payments on such Bonds; provided, that for purposes of any such computation, the Principal Installments of and interest on the Bonds in any period shall, in the case of any Series of Bonds Securing RIIB Obligations, be limited to the Required Debt Service Fund Deposits set forth for such period in the applicable Supplemental Indenture.

For the purpose of calculating the Debt Service Fund Requirement for any period, the Trustee, at the direction of the Authority, may direct the use of any one or more of the following special rules:

- (i) when calculating the amount of such required deposits during such Fiscal Year for any Series of Variable Rate Bonds with respect to which a Qualified Swap Agreement is in effect pursuant to which the Authority has agreed to

pay a Counterparty an amount based on a fixed interest rate, the Debt Service Fund Requirement for such series of Variable Rate Bonds shall include the interest payable on such Series of Bonds, calculated assuming the Assumed Variable Rate, less amounts to be received by the Authority under such Qualified Swap Agreement plus the amount of the payments to be made by the Authority under the Qualified Swap Agreement; provided that such effective fixed rate may be utilized only if such Qualified Swap Agreement does not result in a reduction or withdrawal of any rating then in effect with respect to the Bonds and so long as such Qualified Swap Agreement is contracted to remain in full force and effect through the stated maturity date of the Variable Rate Bonds;

- (ii) when calculating the amount of such required deposits during such Fiscal Year for any Series of Bonds with respect to which a Qualified Swap Agreement is in effect pursuant to which the Authority has agreed to pay to a Counterparty an amount based on a variable or floating interest rate, the Debt Service Fund Requirement shall include the interest payable on such Series of Bonds, less fixed amounts to be received by the Authority under such Qualified Swap Agreement plus the amount of the floating payments (estimated applying the Assumed Variable Rate, unless another method of estimation is more appropriate, in the opinion of the Authority's financial advisor, underwriter or similar agent, for such floating payments) to be made by the Authority under the Qualified Swap Agreement; provided that the above described calculation of the Debt Service Fund Requirement may be utilized only if such Qualified Swap Agreement does not result in a reduction or withdrawal of any rating then in effect with respect to the Bonds and so long as such Qualified Swap Agreement is contracted to remain in full force and effect through the stated maturity date of the such Series of Bonds;
- (iii) when calculating the amount of such required deposits during such Fiscal Year with respect to any Capital Appreciation Bonds, all amounts payable on a Capital Appreciation Bond shall be considered a principal payment in the year it becomes due;

provided further, however, that there shall be excluded from the calculation of the amount of such required deposits (x) interest on Bonds (including Cross-over Refunding Bonds or Cross-over Refunded Bonds) to the extent that Escrowed Interest or capitalized interest is available to pay such interest and (y) principal on Cross-over Refunded Bonds to the extent that the proceeds of Cross-over Refunding Bonds are irrevocably deposited in escrow in satisfaction of the requirements of this Indenture, and such proceeds or the earnings thereon are required to be applied to pay such principal (subject to the possible use to pay the principal of the Cross-over Refunding Bonds under certain circumstances) and such amounts so required to be applied are sufficient to pay such principal.-

“Debt Service Requirement” shall mean, for any period of calculation, (i) all interest payable on all Bonds Outstanding during such period, plus (ii) the Principal Installment or Installments payable on such Bonds during such period, less (iii) amounts available to pay Principal Installments and interest becoming due in such Fiscal Year on Bonds Outstanding as of the first day of such Fiscal Year, including but not limited to (A) amounts on deposit in the Debt Service Assistance Account or Debt Service Assistance certified by an Authorized Officer of the Authority as reasonably expected to be received and deposited to the Debt Service Assistance Account on or before the last day of the Fiscal Year during which the applicable Debt Service Requirement calculation is to be made if such Debt Service Assistance has been appropriated by the applicable governmental entity, if any, or is payable pursuant to an agreement constituting a valid general obligation of the grantor and (B) the amount, if any, of Bond proceeds available or projected to be available to pay Principal Installments and interest becoming due in such Fiscal Year on Bonds Outstanding; provided that the interest and Principal Installments payable on any Series of Bonds Securing RIIB Obligations during such period shall be limited to the Required Debt Service Fund Deposits for such period set forth in the applicable Supplemental Indenture; and provided, further, for purposes of demonstrating compliance with Section 603(2) (as contemplated by Section 603(4) hereof), that the amount of Debt Service Assistance deducted from such calculation pursuant to clause (iii) above shall include only Debt Service Assistance actually received by the Authority during or on account of such period and deposited in the Debt Service Assistance Account or amounts in anticipation thereof transferred from the Revenue Fund or from general funds of the Authority and deposited in such account. The Debt Service Requirement in respect of a Series of Bonds that constitute Variable Rate Bonds, shall be computed by applying the Assumed Variable Rate.

The Debt Service Requirement for any Series of Bonds with respect to which a Qualified Swap Agreement is in effect or for Capital Appreciation Bonds may, at the direction of the Authority, with the consent of the Credit or Liquidity Facility Provider, if any, insuring such Series of Bonds, be computed using any of the special rules set forth under the definition of Debt Service Fund Requirement.

“Debt Service Reserve Fund” shall mean the fund so designated and created by Section 502;

“Debt Service Reserve Fund Requirement” shall mean, as of any date of calculation, an amount equal to the lesser of (A) 10% of the original principal amount of such Series of Bonds, (B) one hundred twenty-five percent (125%) of the average annual Debt Service Requirement on a Series of Bonds in any current or future Fiscal Year or other appropriate twelve month period on such Series of Bonds, (C) the maximum aggregate Debt Service Requirement on a Series of Bonds in any current or future Fiscal Year or other appropriate twelve month period on such Series of Bonds, or (D) the maximum amount permitted by federal tax law to be funded from Bond proceeds without requiring yield restriction. The Debt Service Reserve Fund Requirement, in respect of a Series of Bonds that constitute Variable Rate Bonds, shall be computed by applying the Assumed Variable Rate. In computing the Debt Service Reserve Fund Requirement in respect of a Series of Variable Rate Bonds with respect to which a Qualified Swap Agreement is in effect pursuant to which the Authority has agreed to pay a Counterparty an amount based on a fixed interest rate, such Series of Variable Rate Bonds shall be deemed to bear interest at an effective rate equal to the fixed

interest rate payable by the Authority under such Qualified Swap Agreement; provided that such effective fixed rate may be utilized only if such Qualified Swap Agreement does not result in a reduction or withdrawal of any rating then in effect (without regard to any credit enhancement) with respect to the Bonds and so long as such Qualified Swap Agreement is contracted to remain in full force and effect through the stated maturity date of the Variable Rate Bonds. The Authority may, by Supplemental Indenture, establish a different Debt Service Reserve Fund Requirement for a subaccount of a Debt Service Reserve Account that is established to secure one or more, but less than all Series of Bonds issued under this Indenture. There shall be no Debt Service Reserve Fund Requirement for any Series of Bonds Securing RIIB Obligations Outstanding on the date of this Indenture.

“Depository” shall mean any bank or trust company selected in accordance with Section 803 hereof as a depository of moneys to be held under the provisions of this Indenture, and may include the Trustee;

“Discount Bonds” shall have the meaning given such term in Section 203(5) hereof;

“Electronic Means” shall mean the following communications methods: e-mail, facsimile transmission, secure electronic transmission containing applicable authorization codes, passwords and/or authentication keys, or another method or system specified by the Trustee as available for use in connection with its services hereunder.

“Fiduciary” shall mean the Trustee, any Paying Agent, any Depository or any Authenticating Agent;

“Financial Advisor” shall mean an attorney or firm or firms of national recognition experienced in matters relating to the planning and marketing of obligations similar in nature to the Bonds.

“Fiscal Year” shall mean the period beginning on July 1 of any calendar year and ending on June 30 of the next succeeding calendar year or such other period of twelve calendar months as may be authorized as the fiscal year of the Authority;

“Fixed Rate Bonds” shall have the meaning given such term in Section 203(2) hereof;

“General Fund” shall mean the fund so designated and created by Section 502.

“Government Obligations”, except as provided in any Supplemental Indenture in connection with the issuance of a Series of Bonds, shall mean (i) direct general obligations of the United States of America and bonds, notes or other obligations which as to both principal and interest are unconditionally guaranteed by the United States of America and (ii) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest

and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (i) hereof which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (i) hereof which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of and redemption premium, if any, on the Bonds or other obligations described in this clause (ii) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (ii), as appropriate;

The terms “herein”, and “hereunder”, “hereby”, “hereof“, and any similar terms, refer to the Indenture as a whole; the term “heretofore” shall mean before the effective date of the Indenture, and the term “thereafter” shall mean after the effective date of the Indenture;

“Indenture” shall mean this Trust Indenture as the same may be amended or supplemented in accordance herewith;

“Insurance Reserve Fund” shall mean the fund so designated and created pursuant to Section 502;

“Insurance Reserve Fund Requirement” shall have the meaning given to such term in Section 606;

“Net Revenues” shall mean, for any period of computation, all Revenues (excluding Debt Service Assistance deposited in the Debt Service Assistance Account and any proceeds of insurance, condemnation or the sale or other disposition of any part of the System deposited in the Revenue Fund during such period, but including unrestricted fund balance on the books of the System) received by the Authority during such period and deposited in the Revenue Fund plus (i) the amount of any Reserved Revenues directed by the Authority to be withdrawn from the Stabilization Account and transferred from the Stabilization Account in accordance with Section 506, less (ii) all amounts withdrawn from the Revenue Fund during such period and (iii) deposited in the Operation and Maintenance Fund, the Rebate Fund and the Stabilization Account or (iv) required to be deposited in the Debt Service Reserve Fund during such period;

“Notes” shall mean any obligations (other than Bonds or Subordinated Bonds) issued or incurred by the Authority to finance the Costs of Capital Improvements or Operating Expenses;

“Operating Capital Account” shall mean the accounts so designated in the Project Fund and created in accordance with Section 503;

“Operation and Maintenance Fund” shall mean the fund so designated and created by Section 502;

“Operating Expenses” shall mean any expenses incurred by or for the account of the Authority or reimbursable by or to the Authority for operation, maintenance, renewal and repair of the System including, without limiting the generality of the foregoing, administrative expenses, financial, legal and auditing expenses, insurance premiums, payments on claims against the Authority to the extent monies are unavailable therefor in the Insurance Reserve Fund or to the extent such claims shall fall within such reasonable deductible limits as may be determined by the Authority, if any, payments in lieu of taxes, taxes, if any, payments of rates, assessments or other charges to the Authority with respect to the System, legal and engineering expenses relating to operation and maintenance, payments and reserves for pension, retirement, health, hospitalization and sick leave benefits for Authority employees allocable to the System and any other similar expenses required to be paid by the Authority, all to the extent properly and directly attributable to the System, and the expenses, liabilities and compensation of the Fiduciaries required to be paid under the Indenture, but does not include the Cost of any Capital Improvement or any provision for interest, depreciation, amortization or similar charges on any indebtedness except for (i) interest paid on notes, and renewals thereof, issued in accordance with Section 607(2) (to the extent not included in the Cost of any Project), and (ii) payments made with respect to any indebtedness represented by leases, mortgages, security interests and other encumbrances permitted by Section 604(3);

“Operation and Maintenance Reserve Fund” shall mean the fund so designated and created by Section 502;

“Operation and Maintenance Reserve Fund Requirement” shall have the meaning given to such term in Section 608;

“Outstanding”, when used with reference to Bonds or Subordinated Bonds, shall mean as of any particular date, all Bonds or Subordinated Bonds theretofore and thereupon being authenticated and delivered except (1) any Bond or Subordinated Bond canceled by the Trustee, or proven to the satisfaction of the Trustee to have been canceled by the Authority or by any other Fiduciary, at or before said date, (2) any Bond or Subordinated Bond for the payment or redemption of which moneys equal to the Principal Amount or Redemption Price thereof, as the case may be, with interest to the maturity or redemption date, shall have theretofore been deposited with the Trustee in trust (whether upon or prior to maturity or the redemption date of such Bond or Subordinated Bond) and, except in the case of a Bond or Subordinated Bond to be paid at maturity, of which notice of redemption shall have been given or provided for in accordance with Article IV, (3) any Bond or Subordinated Bond in lieu of or in substitution for which another Bond shall have been delivered pursuant to Article III, Section 406 or Section 1006, and (4) any Bond or Subordinated Bond deemed to have been paid as provided in Section 1101;

“Paying Agent” shall mean any paying agent or co-paying agent for Bonds or Subordinated Bonds of any Series appointed pursuant to the Indenture or an applicable Supplemental Indenture and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Indenture;

“Permitted Investments” shall mean and include any of the following securities, if and to the extent the same are at the time legal for investment of the funds held pursuant to this Indenture:



- (i) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, including obligations of any Federal agency or corporation which has been or may hereafter be created pursuant to an act of Congress as an agency or instrumentality of the United States of America to the extent unconditionally guaranteed by the United States of America, and any certificates or receipts representing direct ownership of future interest or principal payments in such bonds or other obligations;
- (ii) public housing bonds issued by public agencies or municipalities and fully guaranteed as to the payment of both principal and interest by the United States of America; temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case fully secured as to the timely payment of both principal and interest by a requisition or payment agreement with the United States of America, or obligations issued by any state or any public agencies or municipalities which at the time of purchase are rated in either of the two highest rating categories by each Rating Agency then maintaining a rating on such obligations;
- (iii) direct and general obligations of any state of the United States to the payment of the principal of and interest on which the full faith and credit of such state is pledged, and direct and general obligations of any political subdivision of any such state to the payment of which the full faith and credit and unlimited ad valorem taxing power of such political subdivision is pledged, provided that at the time of their purchase under the Indenture such obligations are rated in either of the two highest rating categories by a nationally recognized bond rating agency;
- (iv) commercial paper rated in the highest category by each Rating Agency then maintaining a rating on such commercial paper;
- (v) investments in a money market fund or other fund the investments of which consist exclusively of obligations described in clause (i) above;
- (vi) bank time deposits evidenced by certificates of deposit issued by banks or savings and loan institutions (which may include any Fiduciary) having at the time of purchase a combined capital and surplus of not less than \$50,000,000 which are members of the Federal Deposit Insurance Corporation; provided that any such time deposits in excess of applicable federally insured limits are fully secured by obligations described in clause (i) above, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to such bank time deposits so secured, including interest;

- (vii) repurchase agreements relating to securities of the type specified in clause (i) above with banks or trust companies having a combined capital and surplus of not less than \$50,000,000 or with government bond dealers reporting to, trading with, and recognized as a primary dealer by, the Federal Reserve Bank of New York; provided that the market value of such securities is at the time of entering into such agreement at least one hundred three percent (103%) of the repurchase price specified in the agreement; and provided further that such securities are delivered to or held by the Trustee or a depository satisfactory to the Trustee in such manner as may be required to provide a perfected security interest in such securities;
- (viii) investment contracts with, or guaranteed by, banks or other financial institutions whose long-term unsecured debt or claims-paying ability at the time of purchase is rated in one of the three highest rating categories for such debt or claims-paying ability by each Rating Agency then maintaining a rating on such banks or other financial institutions;
- (ix) bonds, notes or other evidences of indebtedness issued or guaranteed by the Federal Banks for Cooperatives, Federal Intermediate Credit Bank, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank System, Federal Land Banks, Export-Import Bank of the United States, Federal National Mortgage Association, Government National Mortgage Association or any agency or Instrumentality of or corporation wholly owned by the United States of America;
- (x) Advance-Refunded Municipal Bonds; and
- (xi) Ocean State Investment Pool created pursuant to Sections 35-10.2-1 through 35-10.2-11 of the Rhode Island General Laws.

“Principal Amount,” with respect to any Bond or Subordinated Bond, shall mean the stated principal thereon or such other amount payable on any Compound Interest Bond or Discount Bond designated as the Principal Amount thereof pursuant to the applicable Supplemental Indenture;

“Principal Installment” shall mean, as of any particular date of computation and with respect to Bonds or Subordinated Bonds of a particular Series, an amount of money equal to the aggregate of (i) the Principal Amount of Outstanding Bonds or Subordinated Bonds of said Series which mature on such date, reduced by the aggregate Principal Amount of such Outstanding Bonds or Subordinated Bonds which would at or before said date be retired by reason of the payment when due and application in accordance with the Indenture of Sinking Fund Payments payable at or before said date for the retirement of such Outstanding Bonds or Subordinated Bonds, plus (ii) the amount of any Sinking Fund Payment payable on said date for the retirement of any Outstanding Bonds or Subordinated Bonds of said Series;

“Principal Office,” when used with respect to a Fiduciary, shall mean the office where such Fiduciary maintains its principal office or, where different, its principal corporate trust office;

“Project” shall mean a Capital Improvement, all or a portion of the Cost of which is financed by Bonds;

“Project Account” shall mean one of the accounts so designated in the Project Fund created by Section 503;

“Project Fund” shall mean the fund so created by Section 502;

“PUC” shall mean the Public Utilities Commission of the State of Rhode Island created pursuant to Chapter 39-1 of the General Laws of Rhode Island, as amended from time to time;

“Purchase Fund” shall mean the fund so designated by Section 502 and created by any Supplemental Indenture;

“Purchase Price” shall mean, except as provided in any Supplemental Indenture, the price at which a Series of Bonds is purchased;

“Qualified Swap Agreement” shall mean (a) an agreement between the Authority or the Trustee (at the written direction of the Authority) and Counterparty which is an Interest Rate Swap, forward rate agreement, commodity swap, interest rate option, forward foreign exchange agreement, rate cap agreement, rate floor agreement, rate collar agreement, currency swap agreement, embedded cap, cross-currency rate swap agreement, currency option, any other similar agreement (including any option to enter into any of the foregoing), (b) any combination of the foregoing, or (c) a master agreement for any of the foregoing together with all supplements. If at the time the Authority enters into a Qualified Swap Agreement payable from the Trust Estate a Rating Agency rates any Series of Bonds (without regard to credit enhancement) below “A-”, then the approval of the Credit or Liquidity Facility Provider must be obtained prior to the entry into such Qualified Swap Agreement.

“Qualified Swap Payments” means as of each payment date specified in a Qualified Swap Agreement, the amount, if any, payable to the Counterparty by the Authority or the Trustee on behalf of the Authority, but excluding any payments due from the Authority or the Trustee on behalf of the Authority, as a cost, expense or fee under the Qualified Swap Agreement, including, but not limited to, any swap termination payment or indemnification of the Counterparty.

“Qualified Swap Receipts” means as of each payment date specified in a Qualified Swap Agreement, the amount, if any, payable to the Authority or the Trustee for the account of the Authority by the Counterparty.

“Rates and Charges” shall mean, except as otherwise expressly provided herein, all fees, rates, rents, assessments and other charges established by or on behalf of the Authority for the services, facilities and commodities furnished or supplied by it from the operation of the System;

“Rating Agency” shall mean Fitch, Moody’s Investors Service or Standard & Poor’s and their respective successors and assigns and shall also include any other rating agency nationally recognized for skill and expertise in rating the credit of obligations such as the Bonds or Subordinated Bonds;

“Rebate Fund” shall mean the fund so designated by any Supplemental Indenture;

“Redemption Fund” shall mean the fund so designated and created by Section 502;

“Redemption Price” shall mean, with respect to any Bond or Subordinated Bond or portion thereof, the Principal Amount thereof or of such portion, or such other amount as may be provided in the applicable Supplemental Indenture, plus the premium, if any, payable upon redemption thereof;

“Refunding Bonds” shall mean any of the Bonds authorized by Section 206;

“Reimbursement Obligation” shall have the meaning given such term in Section 208;

“Remarketing Agent” shall mean any agent appointed pursuant to the applicable Supplemental Indenture to remarket Tender Bonds as defined in Section 203(4);

“Renewal and Replacement Reserve Fund” shall mean the fund so designated and created by Section 502;

“Renewal and Replacement Reserve Fund Requirement” shall have the meaning given such term by Section 609;

“Required Debt Service Fund Deposits” shall mean, with respect to each Series of Bonds Securing RIIB Obligations, the amounts so designated pursuant to Section 205(1)(ix) of this Indenture and the applicable Supplemental Indenture;

“Reserve Deposits,” except as set forth in any Supplemental Indenture, shall mean one or more of the following:

- (i) irrevocable, unexpired letters of credit issued by banking institutions the senior long-term debt obligations of which (or of the holding company of such banking institution) have (at the time of issue of such letter of credit) a rating within the two highest rating categories generally available to banking institutions by each Rating Agency rating such debt without regard to any gradations within such categories; or
- (ii) irrevocable and unconditional policies of insurance in full force and effect issued by municipal bond insurers the obligations insured by which are eligible for a rating at the time of issuance of such policies within the two highest rating categories available to insurers generally issuing such

insurance by each Rating Agency rating such insurance without regard to any gradations within such categories.

in each case providing for the payment of sums for the payment of Principal Installments and interest on Bonds in the manner provided under Section 508;

“Reserved Revenues” shall mean, as of any date of calculation, the amount then on deposit in the Stabilization Account of the Debt Service Fund;

“Revenue Anticipation Notes” shall mean Notes issued in accordance with Section 607 hereof in anticipation of user fees or the receipt of state or federal funds;

“Revenue Fund” shall mean the fund so designated and created in accordance with Section 502;

“Revenues” shall mean and include (except as otherwise expressly provided herein) (i) all income, revenues, receipts, and other moneys, including any unrestricted fund balance attributable to the operation of the System, (a) derived by the Authority from its ownership and operation of the System (including collections by or on behalf of the Authority on account of services and commodities furnished or supplied by the System prior to the effective date of the Indenture) or (b) derived from any other source, to the extent such moneys are deposited or required to be deposited to the Revenue Fund by the Authority from time to time pursuant to a Supplemental Indenture (provided that any such moneys shall not be considered Revenues for purposes of Section 603(2) of this Indenture unless at the time of the deposit thereof to the Revenue Fund an Authorized Officer shall have submitted to the Trustee a certificate designating such moneys as Revenues for such purpose) and (ii) all accounts, general intangibles and contract or other rights to receive the Revenues described in clause (i), whether existing at the effective date of the Indenture or thereafter coming into existence and whether held by the Authority at the effective date of the Indenture or thereafter acquired, and the proceeds thereof, including, without limiting the generality of the foregoing, receipts from Rates and Charges and from the earnings on the investment of any moneys held under the Indenture by the Trustee, a Depository or the Authority or remitted to the Authority by the RIIB (other than moneys held in the Rebate Fund, the Purchase Fund, if any, and the General Fund), receipts from fees, rates, assessments and other charges to any political subdivision of the State for services or commodities furnished or supplied by the System, proceeds of any grant or appropriation for or on account of Operating Expenses received by the Authority from the United States or the State or from any agency, instrumentality or political subdivision of either thereof, Debt Service Assistance and except to the extent otherwise provided herein, proceeds of the sale or other disposition of all or any part of the System and of insurance and condemnation awards received with respect to the System or any part thereof and Qualified Swap Receipts, but not including (i) any amounts not deemed “Revenues” pursuant to Section 515 hereof, and (ii) proceeds received by the Authority pursuant to any RIIB Loan Agreement;

“RIIB” means the Rhode Island Infrastructure Bank established pursuant to Chapter 12.2 of Title 46 of the General Laws of Rhode Island (1956) as amended;

“RIIB Loan Agreement” shall mean any loan agreement between the RIIB and the Authority pertaining to a loan made to the Authority pursuant to Chapter 12.2 of the General Laws of Rhode Island (1956), as amended, and any bond purchase agreement between the RIIB and the Authority relating to the purchase of Bonds issued pursuant hereto by the RIIB in accordance with said Chapter 12.2 of Title 46;

“Series” when used with respect to less than all of the Bonds or Subordinated Bonds, shall mean or refer to all of the Bonds or Subordinated Bonds authenticated and delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate or other provisions and may also mean, if appropriate, a lot or subseries of any Series if, for any reason, the Authority should determine to divide any Series into two or more lots or subseries;

“Series Debt Service Reserve Fund Requirement” shall mean, as of any date of calculation, the aggregate amount required to be deposited to the Debt Service Reserve Fund pursuant to the Supplemental Indenture applicable to a particular Series of Bonds;

“Sinking Fund Payment” shall mean, as of any particular date of computation and with respect to Bonds or Subordinated Bonds of a particular Series, the amount of money required by any Supplemental Indenture to be paid by the Authority on such date for the retirement of any Outstanding Bonds or Subordinated Bonds of said Series which mature after said date, but does not include any amount payable by the Authority by reason of the redemption of Bonds or Subordinated Bonds at the election of the Authority or the Holders of such Bonds;

“Stabilization Account” shall mean the account in the Debt Service Fund so designated and created in accordance with Section 502;

“State” shall mean the State of Rhode Island;

“Subordinated Bonds” shall have the meaning given such term in Section 209 hereof;

“Supplemental Indenture” shall mean any indenture of the Authority amending or supplementing the Indenture adopted and becoming effective in accordance with the terms of Article IX;

“System” shall mean the system of water supply, treatment and distribution facilities of the Authority, together with any Capital Improvements or other additions thereto and substitutions for any part thereof heretofore or hereafter acquired or made by or on behalf of the Authority, and all other water supply facilities (as such terms are defined in the Act) of the Authority used in, or necessary or desirable for, the operation of such system, including, but not limited to, artesian wells, reservoirs, dams, pipelines, treatment plants and related equipment;

“Trust Estate” means all right, title and interest of the Authority in and to (i) all Revenues, and (ii) all monies, securities and Reserve Deposits in all funds and accounts established by or pursuant to the Indenture, except the Operation and Maintenance Fund, the Rebate Fund, the Purchase Fund, if any, and the General Fund, if established;

“Trustee” means the trustee appointed in accordance with Section 801, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Indenture; and

## ARTICLE II

### AUTHORIZATION AND ISSUANCE OF BONDS

Section 201. Authority for the Indenture. The Indenture is adopted pursuant to the Act and the resolution of the Authority adopted on October [21], 2021.

Section 202. Indenture to Constitute Contract. In consideration of the purchase and acceptance of the Bonds and Subordinated Bonds by those who shall own the same from time to time, the Indenture shall constitute a contract between the Authority, the State, and the Holders from time to time of the Bonds and Subordinated Bonds, and the pledges made in the Indentures and the covenants and agreements therein set forth to be performed by or on behalf of the Authority shall be, subject to the provisions of Section 209, for the equal benefit, protection and security of the Holders of any and all of the Bonds and Subordinated Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof, of any of the Bonds over any other thereof, or of any of the Subordinated Bonds over any other thereof, except as expressly provided in or permitted by the Indenture.

Pursuant to the Act, the State has pledged to and agreed with the Holders of any Bonds or Notes issued pursuant to the Act and this Indenture, that the State will not limit or alter the rights of the Authority to fulfill the terms of this Indenture until such Bonds and Notes and the interest thereon are fully paid.

Section 203. Authorization of Bonds. (1) There is hereby authorized one or more Series of Bonds of the Authority to be designated as “Revenue Bonds,” which Bonds may be issued as hereinafter provided from time to time, without limitation as to amount except as provided in the Indenture or as limited by law. Bonds may be issued in accordance with this Section for the purpose of (i) paying all or a portion of the Cost of any Project, (ii) the making of deposits in all funds and accounts, excluding the General Fund, established hereunder, (iii) the payment of Costs of Issuance and the discount, if any, payable upon issuance of such Series of Bonds, (iv) the payment of the principal of and interest and premium, if any, on Notes issued in anticipation of such Bonds, (v) the securing of the Authority’s repayment obligations with respect to, or sale to the RIIB pursuant to, one or more RIIB Loan Agreements or (vi) any combination of the foregoing. The Bonds may, if and when authorized by the Authority pursuant to one or more Supplemental Indentures, be issued in one or more Series, and within a Series, in one or more subseries or lots, and the designation thereof, in addition to the name “Revenue Bonds,” may include such further appropriate designations added to or incorporated in such title for the Bonds of any particular Series, subseries or lots as the Authority may determine. The Bonds may be issued as Fixed Rate Bonds, Variable Rate Bonds, Tender Bonds, Compound Interest Bonds, Deferred Interest Bonds, Discount Bonds, Refunding Bonds, Cross-over

Refunding Bonds, or any combination thereof in accordance with applicable provisions set forth below and the applicable Supplemental Indenture.

(2) The Authority may issue Bonds hereunder which bear a fixed rate or rates of interest during the term thereof (“Fixed Rate Bonds”). The applicable Supplemental Indenture shall specify the rate or rates of interest borne by such Bonds and the interest payment dates thereof.

(3) The Authority may issue Bonds (“Variable Rate Bonds”) hereunder which provide for a variable, adjustable, convertible or other similar rates of interest, not fixed as to percentage at the date of issue thereof. Any Variable Rate Bond issued hereunder may be issued with provisions allowing conversion of such Bond, at the option of the Authority or the Holder thereof, into a Fixed Rate Bond or a Bond bearing a different Variable Rate. If any Variable Rate Bonds are issued hereunder, the applicable Supplemental Indenture shall specify:

- (i) a maximum interest rate (the “Variable Rate Ceiling”) payable on such Bonds during the period while such Bonds shall be Variable Rate Bonds;
- (ii) the method or methods for determining the interest rate borne by such Bonds and the frequency of change thereof; and
- (iii) if deemed desirable by the Authority, provisions with respect to the conversion of such Bonds to Fixed Rate Bonds or Bonds in a different Variable Rate mode and the further conversion of such Fixed Rate Bonds to Variable Rate Bonds.

The method or methods for determining the interest rate on Variable Rate Bonds pursuant to (ii) above may include the selection of such rate by a Remarketing Agent as provided in an agreement between the Authority and such Remarketing Agent, the utilization of an index or indices as described in the applicable Supplemental Indenture, or such other standard or standards set forth by the Authority in the applicable Supplemental Indenture or any combination of the foregoing.

(4) The Authority may provide that Bonds issued as Variable Rate Bonds or Fixed Rate Bonds may include an option exercisable by the Holders thereof to have such Bonds (“Tender Bonds”) either repurchased or redeemed prior to the maturity thereof. If any Tender Bonds are issued hereunder, the applicable Supplemental Indenture shall specify:

- (i) the period or periods during which and the circumstances under which such option may be exercised, including provisions for the variation of such periods;
- (ii) provisions as the Authority shall deem desirable, with respect to the repurchase of such Bonds and the remarketing thereof, including provisions with respect to the appointment of a Remarketing Agent therefor;



- (iii) provisions, as the Authority shall deem desirable, for the adjustment of the interest rate or maturity of such Bonds upon the exercise of any such option; and
- (iv) the Purchase Price.

Unless otherwise provided in the applicable Supplemental Indenture, any Tender Bonds which shall have been repurchased pursuant to any remarketing agreement or with the proceeds of a Reserve Deposit and not otherwise redeemed by the Authority shall continue to be Outstanding Bonds hereunder.

Any Variable Rate Bonds which contain an option to convert such Bonds to Fixed Rate Bonds shall be deemed Variable Rate Bonds hereunder until the date of such conversion and, unless such Bonds may be subsequently reconverted to Variable Rate Bonds, on and after such date such Bonds shall be deemed Fixed Rate Bonds.

(5) The Authority may issue Bonds which provide for the addition of all or any part of accrued and unpaid interest thereon to the principal due thereon upon such terms with respect thereto determined by an applicable Supplemental Indenture (“Compound Interest Bonds”). The Authority may issue Bonds which either bear a zero stated rate of interest or bear a stated rate of interest such that such Bonds are sold to the public on original issuance at a price less than the aggregate Principal Amount thereof in order to provide such yield thereon as deemed appropriate and desirable thereon by the Authority (“Discount Bonds”). In the applicable Supplemental Indenture for any Compound Interest Bonds or Discount Bonds, the Authority shall provide for the method of determination of the Principal Amount and “interest” payable on such Bonds as of any date of calculation and for the purposes hereof such terms with respect to such Bonds shall have the meanings given in such applicable Supplemental Indenture.

(6) The Authority may issue Deferred Interest Bonds. In the applicable Supplemental Indenture for any Deferred Interest Bonds, the Authority shall provide for the rate at which interest accrues on such Deferred Interest Bonds, the time period during which the Deferred Interest Bonds do not pay interest on a current basis, the amount by which the Principal Amount of such Deferred Interest Bond will increase when interest is not paid on a current basis, and the amount of interest payable annually, if any.

(7) For purposes of this Section, Bonds shall include Subordinated Bonds.

(8) The Authority may issue Refunding Bonds and Cross-over Refunding Bonds, as provided herein.

Section 204. [RESERVED].

Section 205. General Provisions for Issuance of Bonds: (1) Bonds of any Series shall be authorized by a Supplemental Indenture which shall specify:

- (i) the authorized Principal Amount, designation, manner of numbering and lettering and Series of such Bonds;
- (ii) the date of such Bonds and the date or dates of maturity thereof;
- (iii) the Redemption Price or Prices and the time or times and other terms of redemption, if any, of any of such Bonds;
- (iv) the amount and date of each Sinking Fund Payment, if any, required to be paid for the retirement of any of such Bonds of like maturity;
- (v) the manner in which the proceeds, if any, of such Bonds are to be applied;
- (vi) the Project or Projects, if any, to be financed by such Bonds and the designation of a Project Account, if any, for the Bonds of such Series;
- (vii) the form or forms of the Bonds of such Series;
- (viii) the Series Debt Service Reserve Fund Requirement, if any, applicable to the Bonds of such Series;
- (ix) if the Bonds are Bonds Securing RIIB Obligations, the Required Debt Service Fund Deposits to be made to the Debt Service Fund in compliance with the applicable RIIB Loan Agreement, taking into account any principal or interest subsidies available to the Authority in connection with such RIIB Loan Agreement;
- (x) the minimum denomination, if any, applicable to the Bonds of such Series; and
- (xi) any other provisions deemed advisable by the Authority not in conflict with the Indenture.

(2) The Bonds of each Series shall be executed by the Authority and delivered to the Authenticating Agent for such Series of Bonds and by it authenticated and delivered to or upon the order of the Authority, but only upon receipt by the Trustee of:

- (i) written order signed by an Authorized Officer of the Authority as to the authentication and delivery of such Bonds;
- (ii) a copy of the applicable Supplemental Indenture executed by an Authorized Officer;
- (iii) an amount of moneys or Reserve Deposits in a stated amount such that following the issuance of such Bonds and application of their proceeds, the

amounts on deposit in and the aggregate stated and unpaid amount of all Reserve Deposits held as part of the Debt Service Reserve Fund shall equal the Debt Service Reserve Fund Requirement, if any; provided, however, that the applicable Supplemental Indenture may provide that the Series Debt Service Reserve Fund Requirement, if any, attributable to any Series of Bonds Securing RIIB Obligations may be funded in substantially equal monthly installments over a period of time after issuance as specified in the applicable Supplemental Indenture (which period shall not exceed 24 months);

- (iv) a certificate of a Consulting Engineer or Certified Public Accountant (a) setting forth the estimated annual Net Revenues for each of the three full Fiscal Years following the issuance of such Bonds (including the Fiscal Year in which such Bonds are issued), after giving effect to any increases or decreases in Rates and Charges projected to be in effect for such period, and to the Series Debt Service Reserve Fund Requirement attributable to such Bonds and to any additional Revenues projected to be available during such period, and (b) showing for each of such Fiscal Years that the estimated annual Net Revenues for such Fiscal Year together with the amounts of Reserved Revenues, if any, available in such Fiscal Year (as calculated by an Authorized Officer at the time of the issuance of such Bonds) will be, except with respect to Bonds Securing RIIB Obligations, at least equal to one hundred twenty-five percent (125%) and with respect to Bonds Securing RIIB Obligations, at least equal to one hundred thirty-five percent (135%) of the Required Debt Service Fund Deposits for Bonds Securing RIIB Obligations (based on debt service net of any interest rate subsidy) for such Fiscal Year (or such higher amount as may be set forth in the Supplemental Indenture authorizing the issuance of such Series of Bonds) of (A) the Debt Service Requirement for such Fiscal Year less (B) the amount, if any, of Bond proceeds available or projected to be available to pay Principal Installments and interest becoming due in such Fiscal Year on Bonds Outstanding or projected to be Outstanding as of the first day of such Fiscal Year; provided that the Consulting Engineer's or Certified Public Accountant's certificate shall not project any increase in Rates and Charges during the first full Fiscal Year of the projection period which has not been adopted by the Authority for such Fiscal Year on or before the date of such certificate;
- (v) if on the date of issuance of such Series of Bonds the Authority has any outstanding obligation to replenish the Debt Service Reserve Fund under Section 508(4), evidence that the Authority has made at least one monthly payment with respect to such obligation on or before the date required thereunder;

- (vi) a certificate of an Authorized Officer stating that, as of the date of delivery of such Bonds, no Event of Default, as described in Section 701, has occurred and is continuing; and
- (vii) to the extent required by law, an order of the Division of Public Utilities approving the issuance of the Bonds.

Section 206. Special Conditions Precedent to the Delivery of Refunding Bonds. (1) One or more Series of Refunding Bonds or Cross-over Refunding Bonds may be issued in accordance with this Section for the purpose of refunding all or any part of the Bonds of one or more Series Outstanding.

(2) A Series of Refunding Bonds or Cross-over Refunding Bonds shall be executed by the Authority and delivered to the Authenticating Agent for such Series of Bonds and by it authenticated and delivered to or upon the written order of the Authority, but only upon receipt by the Trustee of the documents required for the issuance of Bonds set forth in the Indenture, provided that in lieu of the certificate satisfying the conditions of Section 205(2)(iv) the Authority may deliver to the Trustee a certificate of an Authorized Officer setting forth the Debt Service Fund Requirement for each Fiscal Year in which Bonds are or will be Outstanding (a) computed immediately prior to the delivery of such Refunding Bonds and (b) computed immediately after the delivery of such Refunding Bonds, and stating that the Debt Service Fund Requirement in each Fiscal Year in which Bonds will be Outstanding as computed in clause (b) of this sentence will not be greater than the Debt Service Fund Requirement in each such Fiscal Year as computed in clause (a) of this sentence.

Section 207. Bond Anticipation Notes. Whenever the Authority shall authorize the issuance of a Series of Bonds, the Authority may by resolution pursuant to Rhode Island General laws § 39-16-22 and Section 607(b) hereof authorize the issuance of Bond Anticipation Notes (and renewals thereof) in anticipation of such Series. Except as otherwise provided in the Supplemental Indenture authorizing the same, the proceeds of such Bond Anticipation Notes shall be deposited in a Project Account established pursuant to Section 503(2) hereof. The principal of and interest on such Bond Anticipation Notes and renewals thereof shall be payable from any moneys of the Authority pledged therefor, from the proceeds of such Bond Anticipation Notes or from the proceeds of the sale of the Series of Bonds in anticipation of which such Bond Anticipation Notes are issued. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such Bond Anticipation Notes and any such pledge shall have a priority over any other pledge of such proceeds created by the Indenture. Subject to Section 607, the Authority may also pledge the Revenues to the payment of such Bond Anticipation Notes. A copy of the resolution of the Authority authorizing such Bond Anticipation Notes shall be delivered to the Trustee immediately following adoption, together with such other information concerning such Bond Anticipation Notes as the Trustee may reasonably request. The terms, conditions and details of the Bond Anticipation Notes shall be governed by the Act.

Section 208. Credit or Liquidity Facilities. In addition to the security provided for the Bonds hereunder, in connection with any Series of Bonds hereunder, the Authority may obtain or cause to be obtained letters of credit, lines of credit, insurance or similar obligations, agreements or

instruments (“Credit or Liquidity Facilities”) securing or providing for the payment of all or a portion of the Principal Installments or Redemption Price of, or interest due or to become due on, such Bonds or providing for the purchase of such Bonds or a portion thereof by any such Credit or Liquidity Facility Provider. In connection therewith the Authority may enter into such agreements with a Credit or Liquidity Facility Provider providing for, among other things, the payment of fees and expenses to such Credit or Liquidity Facility Provider for the issuance of such Credit or Liquidity Facility, which fees and expenses may be Costs of Issuance or Operating Expenses as appropriate, the terms and conditions of such Credit or Liquidity Facility and the Series of Bonds affected thereby, and the security, if any, to be provided for the issuance of such Credit or Liquidity Facility and the payments of such fees and expenses or the obligations of the Authority with respect thereto.

In addition to any security permitted hereunder, the Authority may secure its obligations with respect to any Credit or Liquidity Facility by an agreement providing for the purchase of the Series of Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions as specified by the Authority in the applicable Supplemental Indenture. The Authority may also in an agreement with the Credit or Liquidity Facility Provider agree to directly reimburse (“Reimbursement Obligations”) such issuer or obligor for amounts paid under the terms of such Credit or Liquidity Facility, together with interest thereon. Such Reimbursement Obligations may be secured by a lien on Revenues which, upon payment of amounts payable under the terms of such Credit or Liquidity Facility and application of such amounts as provided in the agreements providing therefor, may be on a parity with the lien created by Section 501 hereof. So long as no amounts shall be paid under such Credit or Liquidity Facility and such Reimbursement Obligations shall remain contingent, such Reimbursement Obligations shall not be taken in account hereof under the provisions of Section 603, provided the Credit or Liquidity Facility Provider may be deemed a Holder hereunder, including the Holder of all Bonds secured thereby, for the purposes of voting, giving consents, receiving notices and otherwise as may be specified in the applicable Supplemental Indenture. Upon the payment of amounts under the Credit or Liquidity Facility which results in a Reimbursement Obligation becoming due and payable, such Reimbursement Obligation shall be deemed a Bond Outstanding hereunder for the purposes of Section 603 and for such other purposes hereunder as may be specified in the applicable Supplemental Indenture.

#### Section 209. Subordinated Bonds.

(1) The Authority may, subject to the conditions set forth in this Section 209, from time to time issue bonds which shall be secured by a pledge of the Trust Estate that is subordinate to the pledge effected by Section 501 hereof for the benefit of Bonds. Such Subordinated Bonds shall contain an express statement to the effect that payment of the principal of and interest on such Subordinated Bonds is subordinate in all respects to the payment of the principal of and interest on Bonds and that the lien and security interest on the Trust Estate established for the benefit of such Subordinated Bonds is subordinate in all respects to the lien and security interest on the Trust Estate created for the benefit of Bonds. Funds on deposit in the Debt Service Reserve Fund shall be excluded from the Trust Estate pledged for the benefit of such Subordinated Bonds and shall not be applied to the payment of principal of or interest on such Subordinated Bonds. The Supplemental

Indenture with respect to any Subordinated Bonds may establish separate reserves for the benefit of such Subordinated Bonds (which may be excluded from the Trust Estate pledged for the benefit of Bonds), shall specify the terms and conditions applicable to such Subordinated Bonds, and shall make such amendments to this Indenture as are certified by an Authorized Officer of the Authority to be necessary to provide for the issuance of Subordinated Bonds, the payment thereof and the default and remedies provisions applicable thereto and to effect the subordination of payments with respect to such Subordinated Bonds to payments due on the Bonds.

(2) In the event that one or more Series of Outstanding Bonds has been assigned a rating by any Rating Agency, no Subordinated Bonds shall be issued pursuant to this Section 209 unless the Authority has provided (i) evidence to the Trustee that either (a) each such Rating Agency has confirmed in writing that such issuance of Subordinated Bonds will not adversely affect the ratings on each such Series of Outstanding Bonds provided by such Rating Agency or (b) each such Rating Agency has issued a rating on such Subordinated Bonds which is no lower than the rating assigned by such Rating Agency to any Series of Outstanding Bonds (which rating in each case is not based on a Credit or Liquidity Facility, if any, provided for such Series of Subordinated Bonds or Series of Outstanding Bonds, as applicable) prior to such issuance or (ii) any other evidence satisfactory to the Trustee that such adjustment will not adversely affect the then current ratings, if any, assigned to any Outstanding Bonds by any Rating Agency.

### ARTICLE III

#### GENERAL TERMS AND PROVISIONS OF BONDS

##### Section 301. Place and Medium of Payment, Form and Date.

(1) The Bonds of each Series shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for public and private debts at the office of such Paying Agents as is specified in the applicable Supplemental Indenture. The interest on any Bonds may be paid by check, draft, wire transfer or other means as specified in the applicable Supplemental Indenture. The Authority may make provisions in the applicable Supplemental Indenture with respect to record dates for purposes of determining registered Holders for purposes of paying interest on any Bond.

(2) Unless otherwise provided in the applicable Supplemental Indentures the Bonds of each Series shall be issued in the form of fully registered bonds without coupons payable to a named person or registered assigns. All Bonds shall each be in the denomination of \$5,000 or any whole multiple thereof and shall be in the form provided in the applicable Supplemental Indenture. The Authority may provide in the applicable Supplemental Indenture for the issuance of the Bonds so authorized in book-entry form or in denominations less or more than \$5,000 upon the terms and conditions set forth therein together with such modifications to this Indenture as are necessary to the issuance of such Series of Bonds in such form.

(3) Bonds of each Series shall be dated as of the date or dates provided in the applicable Supplemental Indenture. Unless otherwise provided in the Supplemental Indenture, all Bonds of each Series shall bear interest from their date.

Section 302. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of the Indenture as may be necessary or desirable to comply with custom, the rules of any securities exchange, Authority or board or brokerage board, or otherwise, as may be determined by the Authority prior to the authentication and delivery thereof.

Section 303. Execution and Authentication. (1) The Bonds shall be executed in the name of the Authority by the manual or facsimile signature of the Chairperson or Vice Chairperson of the Authority and countersigned by the Secretary or Assistant Secretary or any other Authorized Officer of the Authority and its seal (or a facsimile thereof) shall be thereunto affixed, imprinted, engraved or otherwise reproduced. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer before the Bonds so signed and sealed shall have been actually authenticated and delivered by the Authenticating Agent for such Bonds, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices. Any Bond of a Series may be signed and sealed on behalf of the Authority by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in the Authority, although at the date of the execution of the Bonds of such Series such persons may not have been so authorized or have held such office.

(2) The Bonds of each Series shall bear thereon a certificate of authentication, in substantially the following form, executed manually by the Authenticating Agent for such Series as specified in the applicable Supplemental Indenture. Only such Bonds as bear such certificate of authentication shall be entitled to any right or benefit under the Indenture and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee or such Authenticating Agent. Such certificate of the Authenticating Agent upon any Bond shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Indenture and the registered owner thereof is entitled to the benefits of the Indenture:

Certificate of Authentication

This bond is one of the Bonds described in the within-mentioned Indentures.

(Corporate name of Authenticating Agent)

By \_\_\_\_\_  
Authorized Signatory

Section 304. Interchangeability of Bonds. Bonds, upon surrender thereof at the office of the Trustee, or, when authorized by the applicable Supplemental Indenture, any Paying Agent, with a written instrument of transfer satisfactory to the Trustee or such Paying Agent, duly executed by the Holder or his duly authorized attorney, may, at the option of the Holder thereof, be exchanged for an

equal aggregate Principal Amount of Bonds of the same Series and maturity of any other authorized denomination.

Section 305. Negotiability, Transfer, and Registry. (1) All the Bonds issued under the Indenture shall be negotiable, subject to the provisions for registration and transfer contained in the Indenture and in the Bonds. So long as any of the Bonds shall remain Outstanding, the Authority shall maintain and keep, at the Principal Office of the Trustee, who shall be registrar for the Bonds, books for the registration and transfer of each Series of Bonds; and upon presentation thereof for such purpose at said office, or at the Principal Office of such other Paying Agent, if any, as may be specified in the applicable Supplemental Indenture, the Authority shall register or cause to be registered therein, and permit to be transferred thereon, under such reasonable regulations as it or the Trustee or Paying Agent may prescribe, any Bond entitled to registration or transfer.

(2) Unless otherwise specified in the applicable Supplemental Indenture, each Bond shall be transferable only upon the books of the Authority in the manner provided in the form of such Bonds. As to any Bond, the Authority and each Fiduciary may deem and treat the person in whose name the Bond shall be registered upon the books of the Authority 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 Amount or Redemption Price of and interest on such Bond and for all other purposes, and neither the Authority nor any Fiduciary shall be affected by any notice to the contrary. The Authority, to the extent permitted by law, agrees to indemnify and save each Fiduciary harmless from any and all loss, expense, judgment of liability incurred by it, acting in good faith and without gross negligence hereunder, in so treating such registered owner.

(3) All Bonds surrendered in any exchange or transfer of Bonds shall forthwith be canceled by the Authenticating Agent. For every such exchange or transfer of Bonds, whether temporary or definitive, the Authority, the Trustee or the Authenticating Agent for the Bonds of such Series 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. The Authority shall not be obligated to make any such exchange or transfer of Bonds of any Series during the 10 days next preceding an interest or Principal Installment payment date of the Bonds of such Series or, in the case of any proposed redemption of Bonds of such Series, next preceding the date of the mailing of notice of such redemption, and shall not be obligated to make any exchange or transfer of Bonds called for redemption except as provided in Section 406.

Section 306. Bonds Mutilated, Destroyed, Stolen or Lost. In case any Bond shall become mutilated or be destroyed, stolen or lost, the Authority shall execute, and thereupon the Authenticating Agent for the Bonds of such Series shall authenticate and deliver, a new Bond of like Series, maturity and Principal Amount as the Bond so mutilated, destroyed, stolen or lost, in cancellation and substitution for such mutilated Bond, (upon surrender and cancellation of such mutilated Bond) or in lieu of and substitution for the Bond destroyed, stolen or lost, (upon filing with the Authenticating Agent evidence satisfactory to the Authority and the Authenticating Agent that such Bond has been destroyed, stolen or lost and proof of ownership thereof) and upon furnishing the Authority, the Trustee and the Authenticating Agent with indemnity satisfactory to them and complying with such other reasonable regulations as the Authority, the Trustee or such



Authenticating Agent may prescribe and paying such fees and expenses as the Authority, the Trustee or such Authenticating Agent may incur including the expenses, if any, of printing and delivering such new Bond. All Bonds so surrendered shall be canceled by the Authenticating Agent. The Authenticating Agent shall advise the applicable Paying Agents of the issuance of substitute Bonds.

Section 307. Preparation of Definitive Bonds, Interim Receipts and Temporary Bonds. Subject to the applicable Supplemental Indenture, until the definitive Bonds of any Series are prepared, the Authority may execute and, upon the written request of the Authority, the Authenticating Agent for such Series shall authenticate and deliver, in lieu of definitive Bonds, one or more interim receipts, or one or more temporary Bonds, substantially of the tenor of such definitive Bonds, (but with such registration provisions as the Authority may provide) and with such omissions, insertions and variations as may be appropriate for temporary Bonds. The Authority at its own expense shall prepare and execute and, upon the surrender at the Principal Office of the Authenticating Agent of such interim receipts and of such temporary Bonds, for exchange and cancellation, the Authenticating Agent shall authenticate and, without charge to the registered owner thereof, deliver in exchange therefor, definitive Bonds, of the same aggregate Principal Amount and Series and maturity as the interim receipt or temporary Bonds surrendered. Until so exchanged, the interim receipt and temporary Bonds shall in all respects be entitled to the same benefits and security as definitive Bonds authenticated and issued pursuant to the Indenture. All interim receipts and all temporary Bonds surrendered in exchange for a definitive Bond or Bonds shall be forthwith canceled by the Authenticating Agent.

Section 308. Cancellation of Bonds. All Bonds redeemed or paid by the Authority or any Fiduciary, or received by any Fiduciary on any transfer or exchange of Bonds, interim receipts or temporary Bonds, shall be canceled by it and delivered to the Trustee. Except as may be provided in the applicable Supplemental Indentures all Bonds purchased, redeemed or paid by any Fiduciary shall be canceled by it and delivered to the Trustee. No such Bonds shall be deemed Outstanding under the Indenture and no Bonds shall be issued in lieu thereof. All such canceled Bonds and all other Bonds canceled by any Fiduciary pursuant to the Indenture shall upon order of the Authority be destroyed by the Trustee and a certificate thereof delivered to the Authority.

## ARTICLE IV

### REDEMPTION OF BONDS

Section 401. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to a Supplemental Indenture shall be redeemable, upon mailed notice as provided in this Article IV, at such times, at such Redemption Prices and upon such terms (in addition to and consistent with the terms contained in this Article IV) as may be specified in the applicable Supplemental Indenture.

Section 402. Redemption at the Election of the Authority. In the case of any redemption of Bonds otherwise than as provided in Section 403, the Authority shall give written notice to the Trustee of its election so to redeem, of the redemption date, of the Series and of the Principal Amount of the Bonds of each maturity of such Series to be redeemed (which Series, maturities and

Principal Amount shall be determined by the Authority in its sole discretion, subject to any limitations with respect thereto contained herein and in any Supplemental Indenture), provided that in the case of any redemption of the Bonds in whole, the Authority shall also give written notice to the Rating Agencies (if any) then rating the Bonds. Such notice shall be given at least forty-five (45) days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as provided in Section 405, the Trustee shall, on or before the redemption date, pay out of the moneys available therefor to the appropriate Paying Agent or Paying Agents an amount which, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, all of the Bonds to be redeemed.

In the case of an optional redemption, the notice may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Trustee no later than the redemption date or (2) that the Authority retains the right to rescind such notice on or prior to the scheduled redemption date (in either case, a “Conditional Redemption”), and such notice and optional redemption shall be of no effect if such moneys are not so deposited or if the notice is rescinded as described in Section 405.

Section 403. Redemption Otherwise Than at Authority’s Election. Whenever by the terms of the Indenture and the applicable Supplemental Indenture Bonds of a Series are required to be redeemed otherwise than at the election of the Authority, the Trustee shall select the Bonds to be redeemed, give the notice of redemption and pay out of the moneys available therefor the Redemption Price to the appropriate Paying Agents in accordance with the terms of this Article IV and, to the extent applicable, Section 506.

Section 404. Selection of Bonds to be Redeemed by Lot. Except as otherwise provided in a Supplemental Indenture with respect to a particular Series of Bonds, in the event of redemption of less than all the Outstanding Bonds of like Series and maturity, the Trustee shall select by lot, in such manner in its discretion as it shall deem appropriate and fair, the numbers of the Bonds to be redeemed and the portions of any thereof to be redeemed in part. Bonds of denominations of more than the applicable minimum denomination, if any, may be redeemed either as a whole or in part (which part must be in the amount of the applicable minimum denomination, if any, or an integral multiple thereof). For the purposes of this Section 404, Bonds, or portions thereof, which have theretofore been selected for redemption shall not be deemed Outstanding.

Section 405. Notice of Redemption. When the Trustee shall receive notice from the Authority of its election to redeem Bonds pursuant to Section 402, and when redemption of Bonds is required by the Indenture and the applicable Supplemental Indenture pursuant to Section 403, the Trustee shall give notice, in the name of the Authority, of the redemption of such Bonds, which notice shall specify the Series and maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series and maturity are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, the respective portions of the Principal Amount thereof to be redeemed. The notice shall further state that on such date there shall become due and payable upon each Bond to be redeemed

the redemption price thereof, together with interest accrued to the redemption date, and that moneys therefor having been deposited with the Trustee, from and after such date, interest thereon shall cease to accrue and that the Bonds or portions thereof called for redemption shall cease to be entitled to any benefit under the applicable Supplemental Indenture except the right to receive payment of the redemption price. The Trustee shall mail a copy of such notice, postage prepaid, not less than 25 days before the redemption date (provided that, if the Authority notifies the Trustee in writing in connection with the redemption of Bonds issued to secure the Authority's repayment obligations with respect to one or more RIIB Loan Agreements that notice of redemption must be mailed at a reasonable date, the Trustee shall mail such notice no later than the date specified by the Authority) to the Holders of any Bonds or portions of Bonds which are to be redeemed at their last address, if any, appearing upon the registration books for such Series of Bonds. Failure to so mail any such notice to any one Holder or any defect in such notice shall not affect the validity of the proceedings for the redemption of Bonds owned by any other Holder to whom the required notice has been given, nor shall the Trustee bear any liability therefor or in connection therewith.

Any Conditional Redemption may be rescinded in whole or in part at any time prior to the redemption date if the Authority delivers an Authorized Officer's certificate to the Trustee instructing the Trustee to rescind the redemption notice. The Trustee shall give prompt notice of such rescission to the affected Bondholders. Any Bonds subject to Conditional Redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default. Further, in the case of a Conditional Redemption, the failure of the Authority to make funds available in part or in whole on or before the redemption date shall not constitute an Event of Default, and the Trustee shall give immediate notice to the securities depository or the affected Bondholders that the redemption did not occur and that the Bonds called for redemption and not so paid remain Outstanding.

Section 406. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 405, the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date so designated at the Redemption Price, plus interest, if any, accrued and unpaid to the redemption date, and, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price plus interest, if any, accrued and unpaid to the redemption date. If there shall be called for redemption less than all of a Bond, the Authority shall execute and the Authenticating Agent for such Bonds shall authenticate and deliver, upon the surrender of such Bond, without charge to the Holder thereof, for the unredeemed balance of the Principal Amount of the Bond so surrendered, Bonds of like Series and maturity in any of the authorized denominations. If, on the redemption date, sufficient moneys for the redemption of all the Bonds or portions thereof to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof so called for redemption shall cease to accrue and become payable. If said moneys shall not be available on the redemption date, such Bonds or portions thereof shall continue to accrue interest until paid at the same rate or yield, as applicable, and in the same manner as they would have borne had they not been called for redemption.

## ARTICLE V

### ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

Section 501. The Pledge Effected by the Indenture. There are pledged pursuant to the Indenture for the payment of the Principal Amount and Redemption Price of and interest on the the Bonds and, to the extent provided in any Qualified Swap Agreement for the payment of Qualified Swap Payments pursuant to Qualified Swap Agreements and all other amounts due from time to time under this Indenture and, subject to the provisions of Section 209, Subordinated Bonds, in each case, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, (i) subject to Section 207, the proceeds of sale of the Bonds, (ii) all Revenues, and (iii) all moneys, securities and Reserve Deposits in all funds and accounts established by or pursuant to the Indenture except the Operation and Maintenance Fund, the Rebate Fund, the Purchase Fund, if any, and the General Fund. The Bonds and Subordinated Bonds shall be general obligations of the Authority and the full faith and credit of the Authority are hereby pledged for the payment of the Principal Amount and Redemption Price and interest on the Bonds and Subordinated Bonds. Neither the State nor any political subdivision thereof or city or town therein, other than the Authority, shall be obligated to pay the Bonds or Subordinated Bonds and neither the faith and credit nor the taxing power of the State or any political subdivision thereof or city or town therein is pledged to the payment of the Bonds or Subordinated Bonds.

Section 502. Establishment of Funds and Accounts. The following funds and accounts shall be established to be held by the Trustee, except the Operation and Maintenance Fund, the Insurance Reserve Fund, and the General Fund, which shall be held by the Authority in the custody of one or more banks selected by the Authority (including but not limited to the Trustee or any Depository) and the Revenue Fund, which, prior to the occurrence of any Event of Default hereunder, shall be under the exclusive control of the Authority, and which shall be held by the Trustee upon the occurrence of any Event of Default hereunder:

- (i) Project Fund
  - (a) Project Accounts
  - (b) [Operating Capital Accounts]
  - (c) [Grants and Project Reimbursements Account]
  - (d) Cost of Issuance Accounts
- (ii) Revenue Fund
- (iii) Operation and Maintenance Fund
- (iv) Debt Service Fund
  - (a) Debt Service Payment Account
  - (b) Debt Service Assistance Account
  - (c) Stabilization Account
- (v) Redemption Fund
- (vi) Debt Service Reserve Fund
- (vii) Operation and Maintenance Reserve Fund
- (viii) Insurance Reserve Fund
- (ix) Renewal and Replacement Reserve Fund

- (x) Rebate Fund
- (xi) General Fund

There shall be established within the Debt Service Fund a separate account to be known as the Debt Service Assistance Account. The Authority may establish a special account to be held by the Trustee or its agent and to be called the Purchase Fund. Such Purchase Fund and the amounts therein shall only be applied to the purposes thereof as set forth in a Supplemental Indenture. The Authority may establish, in connection with the issuance of one or more Series of Bonds or Subordinated Bonds or pursuant to an order of the PUC, additional funds or accounts hereunder to be held for the benefit of one or more Series of Bonds or Subordinated Bonds and subaccounts within the funds and accounts established hereunder, as set forth in Supplemental Indentures. Any fund or account established pursuant to an order of the PUC may be closed with approval of the PUC.

Section 503. Project Fund. (1) The Supplemental Indenture for any Series of Bonds or Subordinated Bonds issued in whole or in part to pay the Cost of any Project may establish within the Project Fund one or more separate accounts (herein called "Project Accounts") for such Series of Bonds or Subordinated Bonds.

(2) There shall be deposited in each Project Account (i) the amount, if any, provided in the applicable Supplemental Indenture to be deposited therein to pay the Costs of the Projects financed by such Series, (ii) the proceeds of any Bond Anticipation Notes (or renewals thereof which were issued to pay the cost of any Project financed in whole or in part by such Bonds, (iii) the proceeds of insurance on any such Project received by the Authority during the period of construction pursuant to Section 606(2), and (iv) any other amounts (not required by the Indenture to be otherwise deposited), as determined by the Authority, including without limitation the proceeds of any loan made or bonds sold under any RIIB Loan Agreement which the Authority elects to deposit in the Project Account pending disbursement thereof to the extent permitted by the RIIB.

(3) Amounts in any Project Account shall be disbursed to or upon the order of the Authority to be applied to the Cost of the Projects financed in whole or in part by such Series upon receipt by the Trustee of one or more requisitions, in form annexed to and incorporated into the Supplemental Indenture, subject to any additional requirements imposed by the applicable Supplemental Indenture, signed by an Authorized Officer. Upon completion of any Project the Costs of which are payable from a Project Account, the Authority shall file with the Trustee a certificate of an Authorized Officer, approved by a Consulting Engineer, setting forth the final Cost of such Project and stating (i) that such Project has been completed to the satisfaction of the Authority and (ii) that all amounts withdrawn from the applicable Project Account with respect to such Project have been applied to the Cost of such Project. Such certificate shall further set forth the balance, if any, remaining in the applicable Project Account not required for the payment of Costs of such Project. Any such balance shall be applied by the Trustee, at the written direction of an Authorized Officer of the Authority and subject to the requirements of any Supplemental Indenture (i) to the Cost of other Projects payable from such Project Account, (ii) to the Cost of other Capital Improvements, including Projects, by deposit of such amount in another and separate Project Account or (iii) to the redemption of the Bonds or Subordinated Bonds of the Series for which such Project Account was established by deposit of such amount in the Redemption Fund; provided that,

in the case of proceeds of any Series of Bonds Securing RIIB Obligations, such amount shall be applied as provided in Section 503(3)(iii) unless the Authority shall have received the written approval of the RIIB of another use permitted under this subsection. Notwithstanding the foregoing, if at any time the amount on deposit and available therefor in the Debt Service Fund, including the Debt Service Assistance Account, Redemption Fund and Debt Service Reserve Fund Accounts is insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall transfer from any unencumbered moneys on deposit in the Project Accounts (in such order of priority as the Authority by certificate of an Authorized Officer shall direct) to the Debt Service Fund the amount necessary to meet the deficiency.

(4) Upon the determination by the Authority that a Project undertaken or to be undertaken has been or should be delayed and that no further amounts or significantly reduced amounts are required therefor from the applicable Project Account, the Authority may, subject to the requirements of any Supplemental Indenture and to the delivery to the Trustee of an opinion of bond counsel to the effect that such transfer or application will not have an adverse effect on the excludability of interest on Bonds of the Series for purposes of computing the federal income taxes of the Holder thereof for which such Project Account was established, direct the Trustee in writing to transfer or apply amounts then on deposit in the applicable Project Account (i) to the payment of Costs of other Projects payable from such Project Account, (ii) to another and separate Project Account or Operating Capital Account, (iii) to the Renewal and Replacement Reserve Fund, or (iv) to the Redemption Fund for application to the redemption of Bonds or Subordinated Bonds of the Series for which such Project Account was established; provided that, in the case of proceeds of any Series of Bonds Securing RIIB Obligations, such amount shall be applied as provided in Section 503(4)(iv) unless the Authority shall have received the written approval of the RIIB of another use permitted under this subsection.

(5) At any time that the Authority determines to undertake Capital Improvements to be financed by Revenues, the Authority may direct the Trustee in writing to establish within the Project Fund one or more separate accounts (herein called "Operating Capital Accounts") for such Capital Improvements. There shall be deposited in any such Operating Capital Account (i) any amounts withdrawn from the Revenue Fund for deposit therein pursuant to Section 504 and (ii) any amounts withdrawn from the Renewal and Replacement Reserve Fund for deposit therein pursuant to Section 512; (iii) any amounts transferred from the Stabilization Account pursuant to Section 506(6)(v) and (iv) any other amounts (not required by the Indenture to be otherwise deposited) as determined by the Authority and certified in writing to the Trustee. Amounts in a Operating Capital Account shall be disbursed to or upon the order of the Authority to be applied to the Cost of the Capital Improvements for which such account was established upon receipt by the Trustee of one or more requisitions, in form as attached or annexed to the Supplemental Indenture and incorporated therein by reference, signed by an Authorized Officer. Upon completion of such Capital Improvements, or upon a determination by the Authority that a Capital Improvement undertaken or to be undertaken has been or should be abandoned or delayed and that no further amounts or significantly reduced amounts are required therefore from the applicable Operating Capital Account, the Authority may direct the Trustee in writing to transfer amounts then on deposit in the applicable Operating Capital Account (i) to another and separate Operating Capital Account or (ii) to the Revenue Fund. Notwithstanding the foregoing, if at any time the amount on deposit and available therefore in the

Debt Service Fund, including the Debt Service Assistance Account, Redemption Fund and Debt Service Reserve Fund, is insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall transfer from any unencumbered moneys on deposit in the Operating Capital Accounts (in such order of priority as the Authority by certificate of an Authorized Officer shall direct) to the Debt Service Fund, the amount necessary to meet the deficiency.

(6) There shall be deposited in the Grants and Project Reimbursements Account (i) any amounts received as grants or reimbursement from the federal or State government or any agency or department of the federal or State governments, and (ii) any amounts withdrawn from the Renewal and Replacement Reserve Fund for deposit therein pursuant to Section 512 and (iii) any other amounts (not required by the Indenture to be otherwise deposited) as determined by the Authority and certified in writing to the Trustee. Amounts in the Grants and Project Reimbursements Account shall be disbursed to or upon the order of the Authority to be applied to the Cost of the Capital Improvements or Operating Expenses upon receipt by the Trustee of one or more requisitions, in form as attached or annexed to the Supplemental Indenture and incorporated therein by reference, signed by an Authorized Officer. The Authority may direct the Trustee in writing to transfer amounts on deposit in the Revenue Fund. Notwithstanding the foregoing, if at any time the amount on deposit and available therefore in the Debt Service Fund, including the Debt Service Assistance Account, Redemption Fund and Debt Service Reserve Fund, is insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall transfer from any unencumbered moneys on deposit in the Grants and Project Reimbursements Account to the Debt Service Fund, the amount necessary to meet the deficiency.

(7) The Authority may establish in the Supplemental Indenture for any Series of Bonds or Subordinated Bonds a separate account (herein called "Cost of Issuance Account") within the Project Fund and shall deposit in the Cost of Issuance Account for such Series any proceeds of such Series as directed by such Supplemental Indenture and any other moneys not otherwise directed to be applied by the Indenture. Amounts in a Cost of Issuance Account shall be disbursed to or upon the written order of the Authority without requisition to be applied to Costs of Issuance of the applicable Series of Bonds or Subordinated Bonds. Any balance remaining in a Cost of Issuance Account upon payment of or provision for all Costs of Issuance to be paid therefrom shall be transferred by the Trustee, upon the written direction of an Authorized Officer of the Authority, to (i) one or more Project Accounts established for the applicable Series of Bonds or Subordinated Bonds or (ii) the Revenue Fund.

Section 504. Revenue Fund. (1) All Revenues, except (i) proceeds of insurance and condemnation to the extent provided in Section 606, (ii) proceeds of any sale or other disposition of any part of the System to the extent provided in Section 604, (iii) earnings on investment of the funds and accounts hereunder to the extent provided in Section 514 hereof and (iv) Debt Service Assistance deposited in the Debt Service Assistance Account as provided in Section 506, shall be collected by or for the account of the Authority and deposited by or on behalf of the Authority as promptly as practicable in the Revenue Fund. There shall also be deposited in the Revenue Fund any other moneys so directed by the Indenture and any other moneys of the Authority which the

Authority may in its discretion determine to so apply unless required to be otherwise applied by the Indenture.

(2) On the third day prior to the last Business Day of each calendar month, the Authority (or during such times as the Trustee shall hold the Revenue Fund, the Trustee) shall apply amounts available in the Revenue Fund to the following purposes and in the following order:

- (i) To the Authority for deposit in the Operation and Maintenance Account of the Operation and Maintenance Fund, the amount specified by an Authorized Officer in accordance with Section 608; provided that if no amount has been specified by such Authorized Officer, the Operating Expenses for such month shall be deemed to be 125% of the Operating Expenses expended in the same calendar month in the preceding year or such lesser amount as an Authorized Officer shall certify in writing to the Trustee, but in no event less than 100% of such amount;
- (ii) To the Debt Service Fund, an amount, which together with other amounts on deposit in such Fund, will equal the Debt Service Fund Requirement as of the first day of the next ensuing month and;
- (iii) To the Rebate Fund, the amount which together with the amounts on deposit therein, will equal the Rebate Requirement as of such day;
- (iv) Subject to Section 508, to the Debt Service Reserve Fund, an amount which, together with the amounts on deposit therein, will equal the Debt Service Reserve Fund Requirement as of the first day of the next ensuing month;
- (v) To the Debt Service Assistance Account in the Debt Service Fund an amount specified by an Authorized Officer in a certificate delivered to the Trustee, as amended from time to time;
- (vi) To the Stabilization Account of the Debt Service Fund the amount, if any, designated by the Authority as further provided in Section 504(4);
- (vii) To make deposits and payments with respect to obligations secured by the Revenues junior and subordinate to the Bonds as required pursuant to this Indenture, including but not limited to, swap termination payments provided that following any swap termination payment the Authority shall have funds as necessary to make the next succeeding Debt Service Payment for each Series of Bonds, or any indenture or instrument pursuant to which such obligations are issued;
- (viii) Subject to Section 608, to the Operation and Maintenance Reserve Fund, an amount necessary for such Fund to equal the Operation and Maintenance Reserve Fund Requirement as of such day;



- (ix) To the Authority for deposit in the Insurance Reserve Fund, the amount, if any, determined by the Authority pursuant to Section 606(3) as necessary to maintain such Fund at the Insurance Reserve Fund Requirement;
- (x) Subject to Section 609, to the Renewal and Replacement Reserve Fund, an amount, which together with the amounts on deposit therein, will equal the Renewal and Replacement Reserve Fund Requirement as of such day;
- (xi) [To the one or more Operating Capital Accounts of the Project Fund, such amount as requested by the Authority but only upon receipt by the Trustee of (a) a copy of the resolution of the Authority approving the Capital Improvements to be funded in whole or in part from such Accounts, certified by an Authorizing Officer and (b) a certificate of an Authorized Officer stating that such deposit will not impair the ability of the Authority to either (A) meet the requirements of the Revenue Fund in the succeeding months of such Fiscal Year based on the then current Annual Budget prepared in accordance with Section 608 or (B) satisfy the requirements of Section 603 in the current or next succeeding Fiscal Year;]
- (xii) To such other funds or accounts as shall be required by any Supplemental Indenture; and
- (xiii) To such other funds or accounts established by the Authority in compliance with applicable law or as required by any order of the PUC, including, but not limited to, transfers to an Operating Capital Account in accordance with Section 503(5) hereof.

(3) On the last Business Day of each Fiscal Year, the Authority shall, after making the deposits required by Sections 504(2), apply amounts available in the Revenue Fund to the General Fund, the amount, if any, directed to be deposited therein in writing by an Authorized Officer.

Any balance remaining in the Revenue Fund following the above payments shall be retained in the Revenue Fund to be available for payments therefrom in the succeeding months, provided that if the Authority shall have issued Notes in accordance with Section 607(2)(i) or (iii), amounts in the Revenue Fund remaining after the above payments have been made may be used by the Authority to pay the principal of such notes at maturity or upon earlier redemption.

(4) Notwithstanding the foregoing, in the event that any order of the PUC requires that Revenues be held in a restricted account, the Authority shall request the Trustee to make such transfers as may be required to comply with any rate order. In the event that Revenues must be restricted in an account for debt service, such monies shall be deposited by the Trustee into the Stabilization Account of the Debt Service Fund.

(5) If, on the last Business Day of any month, the amounts deposited pursuant to Section 504(2)(ii) are, as of such date of calculation, less than the amounts required to be deposited therein, the Trustee shall promptly notify the RIIB of any such deficit.

Section 505. Operation and Maintenance Fund. Amounts in the Operation and Maintenance Fund shall be applied by the Authority from time to time to pay Operating Expenses. Amounts in the Operation and Maintenance Fund which the Authority at any time determines in writing to be in excess of the requirements of such Fund shall be withdrawn and deposited in the Revenue Fund.

Section 506. Debt Service Fund. (1) The Trustee shall pay out of the Debt Service Fund, including the the Debt Service Payment Account and the Debt Service Assistance Account in accordance with a certificate of an Authorized Officer, to the respective Paying Agents (i) on each interest payment date the amount required for the interest and Principal Installments payable on such date and (ii) on each redemption date for any Bonds, other than a redemption date on account of Sinking Fund Payments, the amount required for the payment of interest on the Bonds then to be redeemed; provided that in each case the Authority may direct the Trustee in writing to make such payments to the Paying Agents on such date prior to the due date as the Authority determines. The Paying Agents shall apply such amounts to the payment of interest and Principal Installments on and after the due dates thereof. If on any interest payment date the amount accumulated in the Debt Service Fund, including the Debt Service Assistance Account, for either of the purposes specified above exceeds the amount required therefor, the Authority may direct the Trustee in writing to deposit such excess in the Redemption Fund or, in its discretion, in the Revenue Fund. The Trustee shall also pay out of the Debt Service Fund, including the Debt Service Assistance Account in accordance with a certificate of an Authorized Officer, accrued interest included in the purchase price of Bonds purchased for retirement under any provision of the Indenture.

(2) Amounts accumulated in the Debt Service Fund, including the Debt Service Assistance Account in accordance with a certificate of an Authorized Officer, with respect to any Sinking Fund Payment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Payment was established), if so directed in writing by the Authority, shall be applied by the Trustee prior to the 45th day preceding the due date of such Sinking Fund Payment, to (i) the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices not exceeding the applicable sinking fund Redemption Price plus interest on such Bonds to the first date on which such Bonds could be redeemed (or in the case of a Sinking Fund Payment due on the maturity date, the Principal Amount thereof plus interest to such date), such purchases to be made as directed in writing by the Authority or otherwise in such manner as the Trustee shall determine, or (ii) the redemption, pursuant to Section 402, of such Bonds then redeemable by their terms. The applicable Redemption Price or Principal Amount (in the case of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Fund until such Sinking Fund Payment date for the purpose of calculating the amount of such Fund. As soon as practicable after the 45th day preceding the due date of any such Sinking Fund Payment, the Trustee shall proceed (by giving notice as provided in Section 405) to call for redemption on such due date Bonds of the Series and maturity for which such Sinking Fund Payment was established (except in the case of Bonds maturing on a

Sinking Fund Payment date) in such amount as shall be necessary to complete the retirement of the Principal Amount of the Bonds of such Series and maturity as specified for such Sinking Fund Payment in the applicable Supplemental Indenture, and whether or not the balance in the Debt Service Fund is sufficient to pay all such Bonds. The Trustee shall pay out of the Debt Service Fund, including the Debt Service Assistance Account in accordance with a certificate of an Authorized Officer, to the appropriate Paying Agents, on or before such redemption date or maturity date, the amount required for the redemption of the Bonds so called for redemption or for the payment of such Bonds then maturing, and such amount shall be applied by such Paying Agents to such redemption or payment.

(3) In satisfaction, in whole or in part, of any amount required to be paid into the Debt Service Fund pursuant to Section 504(2)(iv) which is attributable to a Sinking Fund Payment, there may be delivered on behalf of the Authority to the Trustee, Bonds of the Series and maturity entitled to such payment. All Bonds so delivered to the Trustee in satisfaction of a Sinking Fund Payment shall reduce the amount thereof by the amount of the aggregate of the sinking fund Redemption Prices of such Bonds.

(4) Notwithstanding anything to the contrary contained in this Section, the Trustee shall not purchase or accept Bonds in lieu of any Sinking Fund Payment during the period of 45 days prior to the due date of any Sinking Fund Payment.

(5) The Authority may establish in any Supplemental Indenture a separate account (herein called "Capitalized Interest Account") within the Debt Service Fund and may deposit in the Capitalized Interest Account any proceeds of Bonds as directed by such Supplemental Indenture and any other moneys not otherwise directed to be applied by the Indenture. Amounts in the Capitalized Interest Account shall be applied to the payment of interest on the Bonds and as otherwise provided in the applicable Supplemental Indenture.

(6) Amounts in the Stabilization Account shall be invested in Permitted Investments at a yield not in excess of the yield permitted by nationally recognized bond counsel or in Permitted Investments described in paragraph (iv) of the definition thereof the interest on which is excluded from income for purposes of federal income taxation and not subject to the alternative minimum tax.

The Trustee shall apply monies on deposit in the Stabilization Account as follows:

- (i) to any shortfall in the Debt Service Account of the Debt Service Fund after deposit of monies from the Revenue Fund but before transfers from the Debt Service Reserve Fund, on the Business Day prior to the date on which any payment of principal or interest on any Bonds is due and payable;
- (ii) to any shortfall in the Debt Service Reserve Fund;
- (iii) to fund capitalized interest and to fund the Debt Service Reserve Fund Requirement on any future Series of Bonds, as requested by the Authority;

- (iv) to the Redemption Fund, as requested by the Authority; and
- (v) to such other purposes as the Authority may direct, not inconsistent with any order of the PUC.

(7) The Authority shall deposit Debt Service Assistance to the Debt Service Assistance Account in the Debt Service Fund to be applied by the Trustee in accordance with a certificate of an Authorized Officer, as amended from time to time. Notwithstanding anything herein to the contrary, amounts received by the Authority on account of Debt Service Assistance shall be spent in accordance with any appropriation or agreement governing such assistance. To the extent that the Authority has transferred monies to the Debt Service Assistance Account from the Revenue Fund in anticipation of the receipt of Debt Service Assistance pursuant to Section 504(2)(v), once the Debt Service Assistance is received, an amount equal to such Debt Service Assistance received, but not in excess of the amount which has been so transferred to the Debt Service Assistance Account pursuant to Section 504(2)(v), shall be redeposited to the Revenue Fund.

(8) The Authority also may, from time to time, deposit general funds of the Authority to the Debt Service Assistance Account in the Debt Service Fund in anticipation of Debt Service Assistance to be received to be applied by the Trustee in accordance with a certificate of an Authorized Officer, as amended from time to time; provided that such certificate also shall state that the amount of such deposit, together with other amounts deposited therein in anticipation of Debt Service Assistance not yet received, does not exceed the amount reasonably expected to be received as Debt Service Assistance. Once the anticipated Debt Service Assistance is received, an amount equal to such Debt Service Assistance received, but not in excess of the amount which has been transferred to the Debt Service Assistance Account pursuant to this Section 506(7), shall be transferred back to the Authority.

Section 507. Redemption Fund. (1) The Authority may deposit in the Redemption Fund any moneys, including Revenues, not otherwise required by the Indenture to be deposited or applied elsewhere.

(2) If at any time the amount on deposit and available therefor in the Debt Service Fund, including the Debt Service Assistance Account, is insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall withdraw from the Redemption Fund and deposit in the Debt Service Fund the amount necessary to meet the deficiency (other than amounts held therein for the redemption of Bonds for which a notice of redemption shall have already been given by the Trustee). Subject to the foregoing, if at any time the amount on deposit and available therefor in the Operation and Maintenance Fund is insufficient to pay Operating Expenses when due, the Trustee shall withdraw from the Redemption Fund and deposit in the Fund the amount necessary to meet the deficiency (other than amounts held therein for the redemption of Bonds for which a notice of redemption shall already have been given by the Trustee). Subject to the foregoing, amounts in the Redemption Fund may be applied by the Authority to the redemption of Bonds in accordance with Section 402 and the applicable Supplemental Indenture or, in lieu thereof, to the purchase of Bonds at prices not exceeding the applicable Redemption Prices (plus accrued interest) had such Bonds been redeemed (or, if not then subject to redemption, at the

applicable Redemption Prices when next subject to redemption), such purchases to be made by the Trustee at such times and in such manner as directed in writing by the Authority.

Section 508. Debt Service Reserve Fund. (1) Except as provided in any Supplemental Indenture amounts in each Account in the Debt Service Reserve Fund shall be used to pay debt service on the related Series of Bonds on the date such debt service is due when insufficient moneys for that purpose are available in the Debt Service Fund; provided, however that all amounts in an Account in the Debt Service Reserve Fund shall be used, together with other amounts available for such purpose hereunder, to provide for payment of the related Series of Bonds when the aggregate of such amounts is sufficient for such purpose. Amounts in each Account of the Debt Service Reserve Fund shall be pledged only to Holders of Bonds of the related Series; provided, however, if so provided in a Supplemental Indenture, upon the issuance of a Series of Refunding Bonds to advance refund a portion of a Series of Outstanding Bonds, amounts in the related Account of the Debt Service Reserve Fund securing the Outstanding Bonds may be pledged to the unrefunded Series of Outstanding Bonds and the Holders of the Series of Refunding Bonds on a pro rata basis. If at any time the amounts on deposit and available therefor in the Debt Service Fund, including the Debt Service Assistance Account, after transfers from the Redemption Fund are insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall withdraw from the Debt Service Reserve Fund and deposit in the Debt Service Fund the amount necessary to meet any such deficiency. Amounts so withdrawn shall be derived, first, from cash or Permitted Investments on deposit therein and, second, from draws or demands on Reserve Deposits held as a part thereof upon the terms and conditions set forth in the agreements applicable to any such Reserve Deposits or as otherwise set forth in the Supplemental Indenture providing for such Reserve Deposits.

(2) The Authority may from time to time provide Reserve Deposits to satisfy the Debt Service Reserve Fund Requirement. If on the last business day of any month or on any day when a new Reserve Deposit is deposited in the Debt Service Reserve Fund, the amount on deposit in the Debt Service Reserve Fund is in excess of the Debt Service Reserve Fund Requirement (calculated as of the first day of the next succeeding month) the Trustee, shall promptly notify the Authority and, acting in accordance with a certificate of an Authorized Officer, to the extent of such excess, either (i) transfer cash and Permitted Investments to any Fund or Account established hereunder or (ii) consent to the reduction of the stated amount of any Reserve Deposit or (iii) do any combination of the foregoing.

(3) The Trustee shall determine the amount of cash and Permitted Investments on deposit in the Debt Service Reserve Fund on the last day of the Fiscal Year of the Authority. Whenever the Trustee shall determine that the cash and Permitted Investments on deposit in the Debt Service Reserve Fund together with all other funds available for the purpose is equal to or in excess of the Redemption Price of all Bonds Outstanding, the Trustee, at the written direction of the Authority, shall transfer the balance of such cash and Permitted Investments from the Debt Service Reserve Fund to the Redemption Fund in connection with the redemption of all Bonds Outstanding.

(4) Notwithstanding anything to the contrary in this Indenture or any Supplemental Indenture, if a cash withdrawal is made from the Debt Service Reserve Fund pursuant to Section

508(1) or in the event that the Authority shall not be in compliance with the Debt Service Reserve Fund Requirement, monthly deposits shall be made to the Debt Service Reserve Fund pursuant to Section 504(2)(iv) on the last Business Day of the calendar month in which the withdrawal is made and on the last Business Day of each of the five succeeding calendar months in an amount equal to one-sixth (1/6) of the amount of such withdrawal. In the event that the Debt Service Reserve Fund Requirement is satisfied in whole or in part by a Reserve Deposit and there shall have been a draw on such Reserve Deposit, the Authority shall (i) restore the Reserve Deposit within six months of such draw or (ii) deposit cash in the Debt Service Reserve Fund to replenish the Debt Service Reserve Requirement in accordance with the schedule set forth in the prior sentence. Unless and until the requirements of the preceding two sentences are not met, the difference between the amount of such withdrawals or draws and the amount redeposited or restored to the Debt Service Reserve Fund on account of such withdrawal or draws pursuant to the preceding sentences shall be deemed to be on deposit in the Debt Service Reserve Fund for purposes of calculating compliance with the Debt Service Reserve Fund Requirement. Monthly deposits pursuant to 504(2)(iv) shall be used first to restore the Reserve Deposit, thereby reinstating the Reserve Deposit, and second to replenish the cash in the Debt Service Reserve Fund.

Section 509. Rebate Fund. If any Series of Bonds or Subordinated Bonds is issued, or becomes, subject to the rebate requirement of Section 148(f) of the Internal Revenue Code of 1986, as amended, the Authority may, by Supplemental Indenture, activate the Rebate Fund established hereunder, and the Trustee shall then establish a separate Rebate Account within the Rebate Fund for such Series of Bonds or Subordinated Bonds. Funds on deposit in any Rebate Account shall be applied as set forth in the applicable Supplemental Indenture.

Section 510. RESERVED.

Section 511. Operation and Maintenance Reserve Fund.

(a) If at any time the amount on deposit and available therefor in the Debt Service Fund, Redemption Fund, Debt Service Reserve Fund, Renewal and Replacement Reserve Fund and Operating Capital Accounts is insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall transfer from the Operation and Maintenance Reserve Fund to the Debt Service Fund the amount necessary to meet the deficiency.

(b) Subject to subsection (a) of this Section, if at any time the amount on deposit in the Operation and Maintenance Fund is insufficient to pay all Operation and Maintenance Expenses then payable, the Trustee, upon receipt of a certificate of an Authorized Officer to that effect, shall withdraw from the Operation and Maintenance Reserve Fund and pay to the Authority for deposit in the Operation and Maintenance Fund the amount specified in such certificate.

Section 512. Renewal and Replacement Reserve Fund.

(a) If at any time the amounts on deposit and available therefor in the Debt Service Fund, Redemption Fund and Debt Service Reserve Fund are insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Trustee shall withdraw from the

Renewal and Replacement Reserve Fund and deposit in the Debt Service Fund the amount necessary to meet the deficiency.

(b) Subject to subsection (a) of this Section 512, the Authority may apply amounts in the Renewal and Replacement Reserve Fund solely to the Cost of any Capital Improvements moneys for the payment of which are not available in any Project Account or any Operating Capital Account. The Trustee shall withdraw from such Fund and deposit in a Operating Capital Account established pursuant to Section 503(5), any amount requested by the Authority but only upon receipt of a certificate of an Authorized Officer (i) specifying the Capital Improvement to which such amount will be applied, its estimated Cost and estimated completion date and (ii) certifying (a) that such Capital Improvement is reasonably required for the continued operation of the System or the maintenance of Revenues, (b) that all or a portion of the Cost of such Capital Improvements was not financed in whole or in part from a Operating Capital Account theretofore established or from any Project Account, and (c) that only the Cost of such Capital Improvement that is in excess of the amounts available therefor in any Project Account or Operating Capital Account is being or has previously been requisitioned from the Renewal and Replacement Reserve Fund. Amounts deposited in any Operating Capital Account pursuant to this Section shall be applied by the Authority to the Cost of the Capital Improvement for which received. Upon completion of such Capital Improvement, any amount so deposited and not necessary to pay the Cost of such Capital Improvement shall be redeposited in the Renewal and Replacement Reserve Fund. Notwithstanding anything herein or in Section 503 to the contrary, if the Authority shall direct the Trustee to transfer from the Renewal and Replacement Reserve Fund to any Operating Capital Account amounts to be applied to the Cost of a Capital Improvement to be funded from the proceeds of Bonds or Notes not then issued, upon issuance of such Bonds or Notes an amount of proceeds thereof or other moneys of the Authority equal to the amount so transferred shall, unless otherwise provided in the applicable Supplemental Indenture, be redeposited in the Renewal and Replacement Reserve Fund.

(c) If at any time, the amounts on deposit in the Renewal and Replacement Reserve Fund is in excess of the Renewal and Replacement Reserve Fund Requirement, the Trustee, at the direction of the Authority expressed in a certificate of an Authorized Officer, shall withdraw such excess and deposit it in the Revenue Fund.

Section 513. General Fund. The Authority may make transfers to the Unrestricted Fund in accordance with Section 504(3), provided that (1) all funds and accounts established under this Indenture are funded in the amounts required as of the transfer date pursuant to the applicable provision of this Indenture, (2) the Authority is in compliance with the terms of Section 603 herein for the Fiscal Year then ended and (3) upon certification of an Authorized Officer of the Authority, such deposit will not adversely affect the ability of the Authority to comply with the terms of Section 603 hereof in the next ensuing Fiscal Year. Amounts on deposit in the General Fund may be used for any lawful purpose of the Authority.

Section 514. Investments. (1) Except as otherwise provided in Section 1101 or subsection 2 of this Section, money held for the credit of any fund or account held by the Trustee under the Indenture shall, to the fullest extent practicable, be invested, either alone or jointly with moneys in any other fund or account, by the Trustee at the written direction of an Authorized Officer of the

Authority in Permitted Investments which shall mature or be redeemable at the option of the holder thereof, on such dates and in such amounts as may be necessary to provide moneys to meet the payments from such funds and accounts; provided that if moneys in two or more funds or accounts are commingled for purposes of investments, the Trustee shall maintain appropriate records of the Permitted Investments or portions thereof held for the credit of such fund or account. Except with respect to Reserve Deposits in the Debt Service Reserve Fund, and except as provided in any Supplemental Indenture, at least one-half of the moneys in the Debt Service Reserve Fund shall be invested in Permitted Investments (a) maturing no later than ten (10) years from the date such Permitted Investment is acquired by the Trustee or (b) subject to liquidation at par or at the amortized cost thereof, as applicable, at any time application of the moneys so invested is required under the terms of the Indenture. Unless otherwise directed by any Supplemental Indenture, Permitted Investments purchased as an investment of moneys in any fund or account shall be deemed at all times to be a part of such fund or account and all income thereon shall accrue to and be deposited in such fund or account and all losses from investment shall be charged against such fund or account. Notwithstanding any provision herein or in a Supplemental Indenture to the contrary, the Trustee shall not be liable for any losses from investment in accordance with this Section 514. The Authority may by Supplemental Indenture direct that all or any portion of income earned on investment of moneys allocable to any Series of Bonds in any fund or account established hereunder shall be transferred to the Rebate Account established for such Series of Bonds in the Rebate Fund created under Section 509.

(2) In computing the amount in any fund or account hereunder for any purpose, Permitted Investments shall be valued at amortized cost. As used herein the term “amortized cost”, when used with respect to an obligation purchased at a premium above or a discount below par, means the value as of any given time obtained by dividing the total premium or discount at which such obligation was purchased by the number of days remaining to maturity on such obligation at the date of such purchase and by multiplying the amount thus calculated by the number of days having passed since such purchase; and (i) in the case of an obligation purchased at a premium by deducting the product thus obtained from the purchase price, and (ii) in the case of an obligation purchased at a discount by adding the product thus obtained to the purchase price. Unless otherwise provided in the Indenture, Permitted Investments in any fund or account hereunder shall be valued at least once in each Fiscal Year on the last day thereof. Notwithstanding the foregoing, Permitted Investments in the Debt Service Reserve Fund shall be valued at amortized cost for all purposes of the Indenture unless and until a withdrawal from such Fund shall be required in accordance with Section 508(l) in which event such investments shall thereafter be valued at amortized cost or market, whichever is lower, until the balance in such Fund, on the basis of such valuation, shall equal the Debt Service Reserve Fund Requirement.

Section 515. Holding of Special Deposits. Except as otherwise provided in any Supplemental Indenture, moneys held by or for the account of the Authority in connection with the System which are required to be applied under the terms of an agreement with respect to the acquisition, construction or alteration of a facility which is the subject of such agreement (including, any such moneys received by the Authority for such purpose under any grant or loan agreement with the United States of America or the State or any agency, political subdivision or instrumentality of either) or which are subject to refund by the Authority or held for the account of others or subject to



refund to others, including, without limitation, any amounts which, under any agreement by the Authority providing for adequate separation of such amounts from Revenues, are collected by the Authority on behalf of others for services rendered or commodities provided to customers of the System, any amounts deducted by the Authority from wage and salary payments to the employees of the System, any amounts contributed by the Authority to any pension or retirement fund or system which amounts are held in trust for the benefit of the employees of the Authority and any amounts held as deposits, including customer service deposits, guaranteed revenue contract deposits, unexpended developer's deposits under construction loan contracts, minimum revenue deposits and unexpended jobbing deposits, together with any investments of such moneys and interest and profits thereon to the extent such interest and profits are also held for the account of others or subject to refund to others, may be held by the Authority outside of the various funds and accounts established by the Indenture and, notwithstanding anything herein to the contrary, shall not be subject to the pledge created by the Indenture or be considered Revenues hereunder while so held.

## ARTICLE VI

### PARTICULAR COVENANTS OF THE AUTHORITY

The Authority covenants and agrees as follows:

Section 601. Powers as to Bonds and Pledge. The Authority is duly authorized under the Act and all applicable laws to create and issue the Bonds and to adopt the Indenture and to pledge the Revenues and other moneys, securities, Reserve Deposits and funds purported to be pledged by the Indenture in the manner and to the extent provided in the Indenture. The Revenues and other moneys, securities, Reserve Deposits and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon with respect thereto prior to, or of equal rank with, the pledge created by the Indenture except to the extent expressly permitted hereby. The Authority shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenue and other moneys, securities, Reserve Deposits and funds pledged under the Indenture and all the rights of the Bondholders under the Indenture against all claims and demands of all persons whomsoever.

Section 602. [RESERVED]

Section 603. Covenant as to Rates and Charges. (1) To the extent not otherwise provided by a Supplemental Indenture, so long as any Bonds are Outstanding, the Authority shall take all actions within its power to establish and maintain Rates and Charges adequate at all times, with other available funds, to provide Revenues and other moneys, including Reserved Revenues from the Stabilization Account of the Debt Service Fund at least sufficient to pay or provide for, as the same become due or are payable (i) all Operating Expenses, (ii) all payments of Principal Installments and Redemption Price of and interest on the Bonds and all other bonds, notes or other evidences of indebtedness of or assumed by the Authority which are payable from Revenues of the System, (iii) all amounts, if any, payable to the Operation and Maintenance Reserve Fund, Debt Service Reserve Fund, the Renewal and Replacement Reserve Fund and, if any, the Insurance Reserve Fund, (iv) all repairs, replacements, and renewals of the System deemed necessary by the Authority which are

payable from Revenues of the System and (v) all other amounts which the Authority may by law or contract be obligated to pay from Revenues of the System including amounts payable under Qualified Swap Agreements. Provided the Authority complies with Section 504(4) and has complied or is diligently proceeding to comply with the requirements of subsection (3) and (4) of this Section 603, the Trustee shall take no action pursuant to Section 701 or Section 703 on account of any failure by the Authority to comply with the requirements of this subsection; provided that the setting of the Rates and Charges shall, to the extent required by law, be subject to the approval of the PUC.

(2) Without limiting the generality of the foregoing, the Authority shall take all actions within its power to establish and maintain Rates and Charges at levels sufficient so that total Net Revenues in each Fiscal Year during which Bonds are Outstanding, shall equal at least one hundred twenty-five percent (125%) of the Debt Service Requirement during such Fiscal Year with respect to all Bonds Outstanding, other than Bonds Securing RIIB Obligations, as of the first day of such Fiscal Year and one hundred thirty-five percent (135%) of the Required Debt Service Fund Deposits for Bonds Securing RIIB Obligations (based on debt service net of any interest rate subsidy) for such Fiscal Year. Failure by the Authority to comply with the requirements of this subsection (2) shall not be considered an Event of Default under the Indenture so long as the Authority has complied or is diligently proceeding to comply with the requirements of subsection (3) and (4) of this Section 603.

(3) On or before the day which is six months prior to the last Business Day of each Fiscal Year the Authority shall review the adequacy of its Rates and Charges to satisfy the requirements of this Section for the next succeeding Fiscal Year. If such review indicates that the Rates and Charges are, or are likely to be, insufficient to meet the requirements of this Section for the next succeeding Fiscal Year, or if it otherwise appears at any time during such Fiscal Year that Rates and Charges are or are likely to be insufficient to meet such requirements, the Authority shall promptly take such steps as are permitted by law and as are necessary to cure or avoid the deficiency, including but not limited to, making an emergency request to the Public Utilities Commission to raise its Rates and Charges.

(4) Within one hundred and eighty days of the close of each Fiscal Year while Bonds are Outstanding, the Authority shall deliver to the Trustee a certificate of an Authorized Officer (which may be based on unaudited financial statements) stating, if such was the case, that the Authority satisfied the requirements of subsections (1) and (2) of this Section 603 in such Fiscal Year or, if such was not the case, specifying in reasonable detail the corrective steps taken by the Authority so that it will comply with such requirements in the then current Fiscal Year. If such certificate is based on unaudited financial statements, then within 270 days of the close of each Fiscal Year while the Bonds are Outstanding, the Authority shall deliver to the Trustee an additional certificate based on audited financial statements. Any certificate based on audited financial statements shall be accompanied by a certificate of the independent public accountant or firm of accountants regularly auditing the books of the Authority in accordance with Section 610 setting forth the Net Revenues for the preceding Fiscal Year.

Section 604. Sale, Lease or Encumbrance of System. (1) Except as provided in this Section and Section 607(3), no part of the System shall be sold, leased (with the Authority as lessor) or otherwise disposed of or encumbered.

(2) To the extent permitted by law, the Authority may sell or exchange or otherwise dispose of at any time or from time to time any property or facilities constituting part of the System which either (i) are worn out or obsolete or (ii) in the written opinion of the Authority are no longer useful in the operation of the System and, if the market value of such property or facilities as determined by the Authority is in excess of \$500,000, the Authority delivers to the Trustee a certificate of an Authorized Officer stating, in the opinion of the signer, that the sale, exchange or other disposition of such property or facilities will not impair the ability of the Authority to satisfy the requirements of Section 603 in the then current or any future Fiscal Year. To the extent permitted by law, any proceeds of such sale, exchange or other disposition not used to replace the property so sold, exchanged or disposed of shall be deposited in the Revenue Fund or upon direction of an Authorized Officer, to an account in the Project Fund, provided, however, that the Authority and the Trustee shall have received an opinion of nationally recognized bond counsel to the effect that such disposition will not have an adverse effect on the exemption of interest on any Bonds or Notes issued by the Authority which are issued as federally tax-exempt Bonds.

(3) To the extent permitted by law, the Authority may sell, mortgage, grant security interests in, or otherwise encumber any real or personal property included in the System, or may lease as lessee any real or personal property to be used in the operation of the System; provided that the Authority shall deliver to the Trustee a written report (A) stating that such action shall not impede the Authority's ability to comply with all the covenants set forth in Article VI of this Indenture for so long as any Bonds or Subordinated Bonds shall remain Outstanding and (B) including a certificate of a Consulting Engineer (a) setting forth the estimated annual Net Revenues for each of the five full Fiscal Years following the action (including the Fiscal Year in which such action is taken), after giving effect to any increases or decreases in Rates and Charges projected to be in effect for such period and to any additional Revenues projected to be available during such period, and (b) showing for each of such Fiscal Years that the estimated annual Net Revenues for such Fiscal Year will be at least equal to one hundred twenty-five percent (125%) of the Debt Service Requirement for such Fiscal Years (provided that the Consulting Engineer's certificate shall not project any increase in Rates and Charges during the first full Fiscal Year of the projection period which has not been adopted by the Authority for such Fiscal Year on or before the date of such certificate). The proceeds of sale, if any, of any such property mortgaged or otherwise encumbered, after satisfying the mortgage, security interest or other encumbrance secured by the same, to the extent permitted by law, shall be deposited in the Revenue Fund or upon direction of an Authorized Officer, to an account in the Project Fund, provided, however, that the Authority and the Trustee shall have received an opinion of nationally recognized bond counsel to the effect that such disposition will not have an adverse effect on the exemption of interest on any Bonds or Notes issued by the Authority which are issued as federally tax-exempt Bonds.

(4) The Authority may lease as lessor or make contracts or grant licenses for the operation of, or grant easements or other rights with respect to, any part of the System if such lease, contract, license, easement or right does not, in its written opinion, impede the operation by the

Authority of the System. Except as provided in Section 607(3), any payments to the Authority under or in connection with any such lease, contract, license, easement or right (except any such payments specifically excluded from the definition of Revenues) shall constitute Revenues and be deemed Rates and Charges.

(5) Nothing in this Indenture shall prevent the Authority from conveying and assigning to a municipal authority created pursuant to any applicable statute or to another entity (the “Authority”) all or substantially all of its right, title and interest in the System and thereupon becoming released from all of its obligations hereunder, under any Supplemental Indenture and under the Bonds if the Authority (A) assumes in writing the Authority’s obligations under the Indenture or (B) otherwise assumes in writing the Authority’s obligations to pay the principal, redemption premium, if any, and interest on all Bonds issued pursuant to this Indenture and then outstanding according to the terms thereof and the instrument of assumption provides the Bondholders or the Trustee or entity serving in a similar capacity and acting on behalf of the Bondholders with substantially all of the rights and remedies provided in this Indenture; provided, however, that before the Authority may consummate such a conveyance and assignment and obtain a release of its obligations hereunder, under any Supplemental Indenture and under the Bonds, the following conditions shall have been satisfied:

(a) the Authority and the Trustee shall have received a Counsel’s Opinion substantially to the effect that the conveyance to the Authority of all or substantially all of the Authority’s right, title and interest in the System, the assignment to the Authority of the obligations of the Authority under this Indenture, any Supplemental Indenture and the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds, and the release of the Authority from all of its obligations hereunder, under any Supplemental Indenture and under the Bonds, have been duly authorized by the Authority, do not violate any applicable law, ordinance, resolution or regulation of the Authority or any applicable court decision and do not adversely impact the System’s eligibility for federal or state grants or other financial assistance or the qualification of any RIIB Loan Agreement under the Clean Water Act;

(b) the Authority and the Trustee shall have received a Counsel’s Opinion substantially to the effect that (i) the acquisition by the Authority of all or substantially all of the Authority’s right, title and interest in the System and the assumption by the Authority of the Authority’s obligations hereunder, under any Supplemental Indenture and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds have been duly authorized by the Authority and do not violate any law, ordinance, resolution or regulation applicable to the Authority or any applicable court decision; (ii) the instrument under which the Authority assumes the obligations of the Authority hereunder, under any Supplemental Indenture and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms except as enforcement may be limited by bankruptcy, insolvency or other similar laws or equitable principles affecting the enforcement of creditors’ rights; (iii) the security interest granted by the Authority pursuant to subparagraph (d) creates a valid and effective first priority lien and security interest in the revenues to be generated by the System; and (iv) the rates and charges established by the Authority and referred to below in subparagraph (e) have been duly authorized and enacted in accordance with applicable law;

(c) the Authority and the Trustee shall have received a Counsel's Opinion substantially to the effect that the conveyance of all or substantially all of the Authority's right, title and interest in the System to the Authority; the release of the Authority from its obligations hereunder, under any Supplemental Indenture and under the Bonds; and the assumption by the Authority of the Authority's obligations hereunder, under any Supplemental Indenture and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds will not have an adverse effect on the exemption of interest on any Series of Bonds issued as federally tax-exempt Bonds;

(d) the Authority shall, concurrently with the conveyance, assignment, assumption and release described above, grant to the Trustee or entity serving in a similar capacity and acting on behalf of Bondholders a security interest in the revenues to be generated by the System following the conveyance, assignment, assumption and release equal to the security interest granted in Revenues hereby;

(e) the Authority and the Trustee shall have received a certificate of a Consulting Engineer indicating that the Authority could issue at least one dollar (\$1) of Additional Bonds in compliance with the requirements of Section 205(2)(iv) following the conveyance, assignment, assumption and release described above or, in lieu of compliance with Section 205(2)(iv), that the coverage ratio calculated under Section 205(2)(iv) would not be worse immediately after such conveyance, assignment, assumption and release than it was immediately preceding such conveyance, assignment, assumption and release, in each case treating any other debt of the Authority to be secured by the Revenues on a parity with the Bonds as Bonds for purposes of such calculation;

(f) the Authority shall have provided (1) evidence to the Trustee that the details of such conveyance of all or substantially all of the Authority's right, title and interest in the System to the Authority; the release of the Authority from its obligations hereunder, under any Supplemental Indenture and under the Bonds; and the assumption by the Authority of the Authority's obligations hereunder, under any Supplemental Indenture and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds have been provided in writing to each Rating Agency then assigning a rating on Outstanding Bonds and that each such Rating Agency has either (a) confirmed in writing that such conveyance will not, in and of itself, adversely affect such ratings, if any, or (b) issued a rating on a Series of Bonds to be issued by the Authority which is not lower than the rating assigned by such Rating Agency to any Series of Outstanding Bonds (which rating in each case is not based on a Credit or Liquidity Facility, if any, provided for such Series of Outstanding Bonds) or (2) any other evidence satisfactory to the Trustee that such conveyance will not, in and of itself, adversely affect the then current ratings, if any, assigned to any Outstanding Bonds by any Rating Agency;

(g) the Authority and the Trustee shall have received an opinion of bond counsel substantially to the effect that the conveyance of all or substantially all of the Authority's right, title and interest in the System to the Authority; the release of the Authority from its obligations hereunder, under any Supplemental Indenture and under the Bonds; and the assumption by the

Authority of the Authority's obligations hereunder, under any Supplemental Indenture and under the Bonds to make payments of principal, redemption premium, if any, and interest on the Bonds will not have an adverse effect on the exemption of interest on any bonds issued by the RIIB which are secured in whole or in part by Bonds Securing RIIB Obligations and are issued as federally tax-exempt bonds; and

(h) the Credit or Liquidity Facility Provider shall have consented in writing.

In connection with the conveyance to the Authority of all or substantially all of the Authority's right, title and interest in the System, the Authority shall convey and assign to the Authority all amounts on deposit in the funds and accounts established hereunder.

Anything in this Indenture to the contrary notwithstanding, upon a conveyance of all or substantially all of the assets of the System to the Authority pursuant to this subsection, the provisions of this Indenture shall no longer be enforceable against the Authority.

Section 605. Operation, Maintenance and Reconstruction. The Authority shall operate, or cause to be operated, the System properly and in a sound, efficient and economical manner and shall maintain, preserve, and keep the same or cause the same to be maintained, preserved, and kept in good repair, working order and condition, and shall from time to time make, or cause to be made, all necessary and proper repairs, replacements and renewals so that the operation of the System may be properly and advantageously conducted, and, if any useful part of the System is damaged or destroyed or taken through the exercise of eminent domain, the Authority shall, as expeditiously as practicable, commence and diligently prosecute the replacement or reconstruction of such damaged or destroyed part so as to restore the same to use and the replacement of such part so taken; provided, however, that nothing in the Indenture shall require the Authority to operate, maintain, preserve, repair, replace, renew or reconstruct any part of the System if there shall have been filed with the Trustee a certificate of an Authorized Officer; which certificate may be conclusively relied upon by the Trustee, stating that, in the opinion of the signer, (i) abandonment of operation of such part is economically justified and is not prejudicial to the interests of the Holders of the Bonds, and (ii) failure to operate, maintain, preserve, repair, replace, renew or reconstruct such part will not impair the ability of the Authority to satisfy the requirements of Section 603 in the current or any future Fiscal Year.

Section 606. Insurance and Condemnation. (1) The Authority shall at all times keep all property which is a part of the System and which is of an insurable nature and of the character usually insured by operating systems similar to the System insured against loss or damage by fire and from other causes customarily insured against and in such relative amounts as are customary or shall self-insure against such risks as provided in subsection (3). The Authority will also at all times maintain insurance against loss or damage from such hazards and risks to the persons and property of others as are usually insured against by those operating systems similar to the Authority, or shall self-insure against such risks as provided in subsection (3). In determining the amounts and types of insurance to be maintained under this Section, the Authority may rely upon the advice of a Consulting Engineer or an insurance consultant of recognized standing selected by the Authority.

Any policies of insurance shall be carried with insurers of good standing authorized to do business in the State and shall provide that the proceeds of such insurance shall be payable to the Authority.

(2) All proceeds of insurance, if any, insuring the properties and facilities of the System against loss or damage shall be applied to the restoration, replacement or reconstruction of the property or facility lost or damaged, unless the Authority determines in accordance with Section 605 not to restore, replace or reconstruct such property or facilities. Any proceeds of such insurance not applied to restoration, replacement or reconstruction or remaining after such work is completed shall be deposited in the Revenue Fund, provided that any proceeds of insurance received by the Authority with respect to loss or damage to a Project prior to the completion of construction thereof shall be deposited in the applicable Project Account and applied in accordance with Section 503. Proceeds of insurance against loss or damage to the person or property of others shall be applied by the Authority in satisfaction of the applicable claim.

(3) If at any time the Authority determines that any of the policies of insurance required to be maintained by this Section are not reasonably obtainable or may not be obtained at a reasonable cost either with respect to coverage, amounts or deductibles, the Authority shall deposit in the Insurance Reserve Fund an amount equal to the Insurance Reserve Fund Requirement. For the purpose of this Section and Section 504(2)(viii), the Insurance Reserve Fund Requirement shall be that amount (or such greater amount provided in any Supplemental Indenture) for any Fiscal Year or portion thereof certified to the Authority by a Consulting Engineer or an insurance consultant retained by the Authority (who may be the insurance consultant or agent regularly furnishing insurance to the Authority) as adequate to reserve against the risks to be covered by the Insurance Reserve Fund. A certificate of an Authorized Officer, approved by such Consulting Engineer or insurance consultant, setting forth the Insurance Reserve Fund Requirement shall be promptly delivered to the Trustee. The Authority shall annually review the requirements of the Insurance Reserve Fund and no later than one hundred and twenty (120) days after the end of each Fiscal Year shall deliver to the Trustee a certificate of an Authorized Officer setting forth the Insurance Reserve Fund Requirement for the next ensuing Fiscal Year or any portion thereof. For purposes of Section 504(2)(viii), if at any time the Insurance Reserve Fund Requirement shall be increased pursuant to this Section or if as of the last business day of a Fiscal Year the balance in the Insurance Reserve Fund shall be less than the Insurance Reserve Fund Requirement calculated as of such date, the certificate of an Authorized Officer required by the foregoing sentence shall also specify the dates and amounts of deposits to such Fund during the next succeeding Fiscal Year pursuant to Section 504(2)(viii) so that no later than the last day of such Fiscal Year the balance in such Fund shall equal the Insurance Reserve Fund Requirement calculated as of such date.

(4) If at any time the amounts on deposit and available therefor in the Debt Service Fund, Redemption Fund, Debt Service Reserve Fund, Renewal and Replacement Reserve Fund, Operating Capital Accounts and Operation and Maintenance Reserve Fund, are insufficient to pay the Principal Installments and Redemption Price of and interest on the Bonds then due, the Authority shall withdraw from the Insurance Reserve Fund and pay to the Trustee for deposit in the Debt Service Fund the amount necessary to meet the deficiency. Subject to the foregoing, amounts in the Insurance Reserve Fund shall be applied by the Authority to the payment of liability claims and the cost of defending such claims or to the restoration, replacement or reconstruction of portions

of the System lost or damaged and for which neither insurance proceeds or amounts specifically designated therefor in the Operation and Maintenance Fund are available. Any amounts withdrawn from the Insurance Reserve Fund shall be applied in the same manner as provided in this Section for the proceeds of insurance, provided that any such amount not required for the restoration, replacement or reconstruction of property lost or damaged or remaining after such work has been completed shall be redeposited in the Insurance Reserve Fund. If at any time the amount on deposit in the Insurance Reserve Fund is in excess of the Insurance Reserve Fund Requirement or if the Authority at any time should determine that such Fund is no longer required hereunder, such excess, or the balance of such Fund as the case may be, shall be paid to the Trustee for deposit in the Revenue Fund or, if all or a portion of the amounts on deposit in such Fund were derived from proceeds of a Series of Bonds, to the Redemption Fund to the extent of such portion to be applied to the redemption of Bonds of such Series.

(5) Not later than the last day of each third full Fiscal Year following the delivery of any Bonds, the Authority shall cause a Consulting Engineer or an insurance consultant retained pursuant to this Section to review the adequacy of the Insurance Reserve Fund and the Insurance Reserve Fund Requirement and the policies of insurance then maintained by the Authority and to deliver a report thereon (which may be included in the report required by Section 609(c)) to the Authority and the Trustee.

(6) If any property or facilities comprising part of the System shall be taken through the exercise of the power of eminent domain, the Authority shall apply the proceeds of any award received on account of such taking to the replacement of the property or facilities so taken, unless the Authority determines in accordance with Section 605 not to replace such property or facilities. Any proceeds of such award not applied to replacement or remaining after such work has been completed shall be deposited in the Revenue Fund.

Section 607. Creation of Liens, Other Indebtedness. (1) The Authority shall not issue any bonds, notes or other evidences of indebtedness, other than the Bonds and Subordinated Bonds, secured by a pledge of or other lien on the Revenues of the System and other moneys, securities, Reserve Deposits, if any, and funds held or set aside by the Authority or by the Fiduciaries under the Indenture, and shall not otherwise create or cause to be created any lien or charge on the Revenues of the System, moneys, securities, Reserve Deposits, if any, and funds, except to the extent provided in this Section 607.

(2) Notwithstanding anything herein to the contrary the Authority may at any time or from to time issue notes or other evidences of indebtedness (and renewals thereof);

(i) in anticipation of Bonds to the extent and in the manner provided in Section 207, which Bond Anticipation Notes, if so determined by the Authority, may be secured by a pledge of Revenues, provided that such pledge shall in all respects be subordinate to the provisions of the Indenture and the pledge created by the Indenture;



- (ii) in anticipation of the receipt by the Authority of any grant-in-aid from the United States of America or the State or any agency, instrumentality or political subdivision of either of them, for or on account of Capital Improvements and payable solely out of, or secured by a pledge of, the amounts to be received (which amounts shall not be deemed Revenues hereunder while any such notes are outstanding); provided that no such notes shall be issued unless (a) the Authority shall have received and accepted an agreement, whether conditional or unconditional, providing for the grant-in-aid anticipated by such notes executed by authorized officers of the grantor, (b) the aggregate principal amount of such notes (excluding renewals thereof issued by the Authority) shall not exceed the aggregate amount of the grant-in-aid provided for in such agreement and not yet received by the Authority and (c) all such notes or renewals thereof shall be issued to mature not later than four (4) years after the date of issuance and (d) the Authority shall have received the approval of the Governor of the State as required by the Act; or
- (iii) in anticipation of the Revenues to be received in any Fiscal Year, which notes may be payable out of, or secured by a pledge of, Revenues; provided that (a) any such pledge shall in all respects be subordinate to the provisions of the Indenture and the pledge created by the Indenture, (b) any such notes shall be payable no later than one year from date of issue (or, in the case of notes issued to renew such notes, no later than one year from the date of issue of the original issue of notes), (c) the aggregate amount of such notes outstanding at any one time in a Fiscal Year shall not exceed eighty percent (80%) of the Revenues for the immediately preceding Fiscal Year and (d) the proceeds of such notes (other than the proceeds of renewal notes require to pay notes) shall be deposited in the Revenue Fund.

(3) Notwithstanding anything herein to the contrary, the Authority may issue bonds, notes or other evidences of indebtedness secured solely by the revenues, receipts or other moneys derived by the Authority from the lease, license, operation, sale or other disposition of any facility or equipment constituting part of the System hereafter constructed or acquired by or on behalf of the Authority with the proceeds of such bonds, notes or evidences of indebtedness. Such revenues, receipts and other moneys shall not be considered Revenues or Rates and Charges hereunder provided that (i) neither the debt service on such bonds, notes, or other evidences of indebtedness nor any cost of the acquisition, construction, operation, maintenance or repair of any such facility or equipment nor provision for reserves for any of the foregoing shall be paid from the proceeds of Bonds or from Revenues (other than Revenues deposited in the General Fund pursuant to Section 504) or shall be included in Operating Expenses, and (ii) any such receipts and moneys in excess of such debt service cost of acquisition, construction operation, maintenance, repair and reserves shall be deposited in the Revenue Fund (and upon such deposit shall be deemed Revenues); and (iii) prior to the issue of any such bonds, notes or other evidences of indebtedness, the Authority shall deliver to the Trustee a certificate of a Consulting Engineer or Certified Public Accountant stating that the lease, license, operation, sale or other disposition of such facility or equipment and the application of the revenues, receipts and other moneys derived therefrom to the operation,

maintenance and repair thereof and the payment of the debt service on the bonds, notes or other evidences of indebtedness issued therefor and the provision of reserves for the foregoing, will not result in any decrease in the Net Revenues projected by such Consulting Engineer or Certified Public Accountant to be received by the Authority during the succeeding five Fiscal Years (including the Fiscal Year in which such bonds, notes or other evidences of indebtedness are issued).

(4) The Authority hereby reserves the right, and nothing herein shall be construed to impair such right, to finance improvements to the System by the State's issuance of its general obligation bonds for the benefit of the Authority, provided that nothing herein shall be construed as requiring the issuance of any such bonds and that no such bonds shall be deemed to be Bonds for any purpose hereunder.

(5) Nothing in this Section or in this Indenture shall prevent the Authority from issuing Notes or otherwise incurring contractual obligations which are payable solely out of, or solely secured by a pledge of amounts which may be deposited in the General Fund pursuant to Section 504, provided that the pledge of such amounts shall in all respects be subordinate to the provisions of this Indenture.

(6) Notwithstanding anything herein to the contrary, the Authority may provide for the payment of swap termination payments from Revenues, provided that such payment obligations are junior and subordinate to the Bonds and any payments due to the Credit or Liquidity Facility Provider as required by this Indenture and provided that following any swap termination payment, the Authority shall have funds as necessary to make the necessary Debt Service Fund Requirement for each Series of Bonds.

Section 608. Annual Operating Budget. (1) Not less than one day prior to the beginning of each Fiscal Year, the Authority shall adopt and file with the Trustee an annual operating budget for the System (herein called "Annual Budget") for such Fiscal Year. The Authority may at any time, but not more often than once a month, adopt and file with the Trustee (or annually delegate to an Authorized Officer the authority to prepare and file with the Trustee) an amended or supplemental Annual Budget for the Fiscal Year then in progress, provided that an amendment for the purpose of making changes in one or more line items within the Annual Budget, but which does not increase the aggregate amount of expenses shown in the Annual Budget for such Fiscal Year may be filed by an Authorized Officer without action by the Authority and provided further that any amendment that increases the aggregate amount of expenses shown in the Annual Budget for such Fiscal Year shall be accompanied by a certificate of an Authorized Officer to the effect that such increase will not preclude compliance by the Authority with the covenants set forth in Section 603. An Authorized Officer shall prepare and may amend from time to time, a monthly breakdown of the Annual Budget which breakdown or amendment thereto shall be filed with the Trustee and shall show for each month projected Operating Expenses to be paid from the Operation and Maintenance Fund in such month, as well as the Revenues or other moneys held hereunder projected to be available to meet the same. The Authority shall not incur aggregate Operating Expenses in any Fiscal Year in excess of the aggregate amount of Operating Expenses shown in the Annual Budget as amended and supplemented for such Fiscal Year except in case of emergency or as required by law and shall

promptly file a written report of any such excess expenditure with the Trustee signed by an Authorized Officer.

(2) For purposes of Section 504(2), the Operation and Maintenance Reserve Fund Requirement shall mean, unless a greater amount is required by any Supplemental Indenture, (i) from the date of delivery of the initial Series of Bonds hereunder until the last day of the second full Fiscal Year after such Bonds are delivered, the amount provided in the Supplemental Indenture for the initial Bonds, and (ii) as of the last business day of each calendar month thereafter an amount equal to at least the sum of (a) the balance on deposit in the Operation and Maintenance Reserve Fund on the last day of the prior Fiscal Year and (b) one-twelfth (1/12) of the amount, if any, by which the balance of the Operation and Maintenance Reserve Fund on the last day of the prior Fiscal Year was less than the Operation and Maintenance Reserve Fund Requirement calculated as of such day multiplied by the number of months of the current Fiscal Year that have passed since the beginning of such Fiscal Year, and either plus (c) one-twelfth (1/12) of one-sixth (1/6) of the amount, if any, by which the projected aggregate Operating Expenses of the current Fiscal Year (as shown in the Annual Budget as then amended and supplemented for such Fiscal Year) exceeds the aggregate Operating Expenses for the prior Fiscal Year multiplied by the number of months of the current Fiscal Year that have passed since the beginning of such Fiscal Year or minus (d) one-sixth (1/6) of the amount, if any, by which such projected aggregate Operating Expenses are less than the aggregate Operating Expenses for the prior Fiscal Year.

For purposes of such computation, the Authority and the Trustee shall consider the amount of Operating Expenses paid in a prior Fiscal Year to be such amount as estimated by an Authorized Officer in a certificate filed with the Trustee on or before the last day of such Fiscal Year subject to adjustment with respect to the actual amount as set forth in a certificate of an Authorized Officer filed with the Trustee on or before one hundred twenty (120) days after the end of such Fiscal Year.

#### Section 609. Capital Improvements Budget.

(1) On or prior to the date of delivery of the initial Series of Bonds hereunder and not less than one (1) day prior to the beginning of each Fiscal Year thereafter, the Authority shall prepare and file with the Trustee a proposed program of Capital Improvements to be undertaken by the Authority during such Fiscal Year and the next two ensuing Fiscal Years, identifying the Capital Improvements to be carried out, the estimated Cost thereof and the period of construction thereof, together with a budget (herein called "Capital Improvements Budget") for the Capital Improvements or parts thereof to be undertaken by the Authority in such Fiscal Year. The Capital Improvements Budget shall include a schedule showing all projected disbursements from any Project Account or Operating Capital Account in the Project Fund and, to the extent provided by the Authority, any other fund or account under this Master Indenture, as well as the sources of moneys projected to be available to meet the same. The Capital Improvements Budget shall further identify the Capital Improvements to be undertaken, the nature of the work, the estimated Cost thereof and the estimated completion date of each Capital Improvement.

(2) The Authority may from time to time amend or supplement the Capital Improvements Budget for the Fiscal Year then in progress by filing with the Trustee a certificate of an Authorized Officer setting forth the amendment or supplement.

(3) Not later than the last day of each third full Fiscal Year following the Fiscal Year ending June 30, 2022, the Authority shall cause an examination of and report on the properties and operations of the System to be made by a Consulting Engineer and shall cause a copy of such examination and report, certified by an Authorized Officer, to be filed with the Trustee. Such examination and report shall include a review of the Authority's then current three year Capital Improvement program prepared in accordance with paragraph (1) of this Section, the current and any proposed Capital Improvements Budget and Annual Budget, the adequacy of the Renewal and Replacement Reserve Fund Requirement and such other reports, surveys and examinations as the Authority or the Consulting Engineer shall deem necessary. Any report prepared by the Consulting Engineer in connection with the issuance of Bonds within the last Fiscal Year in such three year period shall satisfy the requirements of this subsection for such three year period.

(4) For purposes of Section 504(2) and subject to the approval of the PUC, the Renewal and Replacement Reserve Fund Requirement shall mean, unless a greater amount is required by any Supplemental Indenture, (i) from the date of delivery of the initial Series of Bonds hereunder until the last day of the second full Fiscal Year following the Fiscal Year in which such Bonds are delivered, the amount provided in the Supplemental Indenture for the initial Bonds, and (ii) as of the last day of each calendar month thereafter an amount at least equal to the sum of (a) one-twelfth (1/12) of the amount, if any, by which the balance in the Renewal and Replacement Reserve Fund on the last day of the prior Fiscal Year was less than the Renewal and Replacement Reserve Fund Requirement calculated as of such day, multiplied by the number of months of the current Fiscal Year that have passed since the beginning of such Fiscal Year, and either plus (c) one-twelfth (1/12) of the amount, if any, by which a Consulting Engineer shall have certified to the Authority in accordance with paragraph (3) of this Section 609 that the Renewal and Replacement Reserve Fund Requirement should be increased for the current Fiscal Year, multiplied by the number of months of the current Fiscal Year that have passed since the beginning of such Fiscal Year, or minus (d) the amount, if any, by which such Consulting Engineer shall have certified that the Renewal and Replacement Reserve Fund Requirement can be decreased for the current Fiscal Year.

#### Section 610. Accounts and Reports.

The Authority shall annually, within 9 months after the close of each Fiscal Year or as soon thereafter as is practicable, file with the Trustee a copy of financial statements, audited by and containing the report of an independent public accountant or firm of accountants acceptable to the Trustee, relating to or including schedules relating to the operations and properties of the System for such Fiscal Year and setting forth in reasonable detail its financial condition as of the end of such year and income and expenses for such year, and including a summary of the receipt in and disbursements from the funds and accounts maintained under the Indenture during such Fiscal Year and the amounts held therein at the end of such Fiscal Year. In the event that such financial statements are not available within 9 months after the close of each Fiscal Year, the Authority shall so notify the Trustee in writing within 9 months. Each annual report shall be accompanied by a

certificate of the accountant or firm of accountants auditing the same to the effect that in the course of and within the scope of their examination of such financial statements nothing came to their attention that would lead them to believe that an Event of Default had occurred under the Indenture or, if such is not the case, specifying the nature of the Event of Default.

## ARTICLE VII

### DEFAULTS AND REMEDIES

Section 701. Events of Default. The occurrence of one or more of the following events shall constitute an “Event of Default”:

- (i) if default shall be made by the Authority in the payment of the Principal Installments or Redemption Price of any Bond when due, whether at maturity or by call for mandatory redemption or redemption at the option of the Authority or any Holder, or otherwise, or in the payment of any sinking fund payment when due,
- (ii) if default shall be made by the Authority in the payment of any installment of interest on any Bond when due,
- (iii) if default shall be made by the Authority in the payment of any installment of interest on or any Principal Installment or Redemption Price of any Subordinated Bonds when due,
- (iv) if default shall be made by the Authority in the performance or observance of any other of the covenants, agreements or conditions on its part provided in the Indenture or in the Bonds and such default shall continue for a period of 30 days after written notice thereof shall be given to the Authority by the Trustee or to the Authority and the Trustee by the Holders of a majority in Principal Amount of the Bonds Outstanding; provided that if such default cannot be remedied within such 30 day period, it shall not constitute an Event of Default hereunder if corrective action is instituted by the Authority within such period and diligently pursued until the default is remedied,
- (v) if an order, judgment or decree is entered by a court of competent jurisdiction (a) appointing a receiver, trustee, or liquidator for the Authority or the whole or any substantial part of the System, (b) granting relief in involuntary proceedings with respect to the Authority under the federal bankruptcy act, or (c) assuming custody or control of the Authority or of the whole or any substantial part of the System under the provision of any law for the relief of debtors, and the order, judgment or decree is not set aside or stayed within sixty (60) days from the date of entry of the order, judgment or decree, or

- (vi) if the Authority (a) admits in writing its inability to pay its debts generally as they become due, (b) commences voluntary proceedings in bankruptcy or seeking a composition of indebtedness, (c) makes an assignment for the benefit of its creditors, (d) consents to the appointment of a receiver of the whole or any substantial part of the System, or (e) consents to the assumption by any court of competent jurisdiction under any law for the relief of debtors of custody or control of the Authority or of the whole or any substantial part of the System.

Upon the occurrence of an Event of Default described in clauses (i), (ii), (v) or (vi), so long as such Event of Default shall not have been cured, either the Trustee (by notice in writing to the Authority), or the Holders of twenty-five percent (25%) in Principal of the Bonds Outstanding (by notice in writing to the Authority and the Trustee) may, with the consent of RIIB (so long as there are Bonds Securing RIIB Obligations Outstanding hereunder), declare the Principal Amount of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Indenture or in any of the Bonds contained to the contrary notwithstanding. The right to make such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, all outstanding Events of Default (other than the payment of the Principal Amount and interest due and payable solely by reason of such declaration) shall have been cured or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case, unless a final judgment has been obtained for any Principal Amount or interest coming due and payable solely by reason of such declaration, the Holders of a majority in Principal Amount of the Bonds Outstanding, by written notice to the Authority and to the Trustee, may annul such declaration, or, if the Trustee shall have acted without a direction from Bondholders and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of a majority in Principal Amount of the Bonds then Outstanding, then any such declaration shall be deemed to be annulled.

Section 702. Application of Revenues and Other Moneys after Default.

(1) The Authority covenants that if an Event of Default shall happen and shall not have been remedied, the Authority, upon demand of the Trustee, shall pay over and assign to the Trustee (i) forthwith, all moneys, securities, Reserve Deposits, Credit or Liquidity Facilities, if any, and funds then held by the Authority in any fund or account pledged under the Indenture including, without limitation, funds then held by it in the Revenue Fund, and (ii) as promptly as practicable after receipt thereof the Revenues.

(2) During the continuance of an Event of Default, the Trustee shall apply the moneys, Reserve Deposits, Credit or Liquidity Facilities, if any, and funds held by the Trustee and such Revenues and the income therefrom as follows and in the following order:

- (i) to the payment of the reasonable and proper charges and expenses of the Fiduciaries and of its agents, representatives, advisors and legal counsel, and of any engineer or firm of engineers selected by the Trustee pursuant to this

Article and to the payment of any fees and expenses required to keep any Reserve Deposits or Credit or Liquidity Facility in full force and effect;

- (ii) to the payment of the amounts required for reasonable and necessary Operating Expenses, including reasonable and necessary reserves and working capital therefor, and for the reasonable repair and replacement of the System necessary to prevent loss of Revenues or to provide for the continued operation of the System, as certified to the Trustee by an independent engineer or firm of engineers of recognized standing (who may be an engineer or firm of engineers retained by the Authority for other purposes) selected by the Trustee;
- (iii) to the payment of the interest and Principal Amount or Redemption Price then due on the Bonds, as follows:
  - (a) unless the Principal Amount of all of the Bonds shall have become or have been declared due and payable,

First: To the payment to the persons entitled thereto of all installments of interest or Qualified Swap Payments then due in the order of the maturity of such installments maturing (or payments due), and, if the amount available shall not be sufficient to pay in full all installments maturing (or payments due) on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid Principal Amount or Redemption Price of any Bonds which shall become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of Principal Amount or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference; and

- (b) if the Principal Amount of all of the Bonds shall have become or have been declared due and payable, to the payment of the Principal Amount and interest or Qualified Swap Payments then due and unpaid upon the Bonds without preference or priority of Principal Amount over interest or Qualified Swap Payments or of interest over Principal Amount or Qualified Swap Payments, or of any installment of interest (or payment due) over any other installment of interest (or payment due), or of any Bond over any other Bond, ratably, according to the amounts due respectively for Principal Amount and interest and Qualified Swap Payments, to the persons entitled thereto without any discrimination or preference;

(3) If and whenever all overdue installments of interest on all Bonds together with the reasonable and proper charges and expenses of the Fiduciaries including without limitation the fees and disbursements of its legal counsel, and all other sums payable by the Authority under the Indenture, including the Principal Installments and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, shall either be paid by or for the account of the Authority, or provision satisfactory to the Trustee shall be made for such payment and all defaults under the Indenture or the Bonds shall have been cured, the Trustee shall pay over to the Authority all moneys, securities and funds remaining unexpended in all funds and accounts provided by the Indenture to be held by the Authority, and thereupon the Authority and the Trustee shall be restored, respectively, to their former positions and rights under the Indenture and all Revenues shall thereafter be applied as provided in Article V. No such payment over to the Authority by the Trustee or resumption of the application of Revenues as provided in Article V shall extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

(4) The proceeds of any Reserve Deposits and Credit or Liquidity Facilities shall be applied by the Trustee in the manner provided in the applicable Supplemental Indenture authorizing such Reserve Deposits and Credit or Liquidity Facilities.

Section 703. Proceedings Brought by Trustee. (1) Whether or not a declaration shall be made by the Trustee or Bondholders pursuant to Section 701, if an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee may proceed to protect and enforce its rights and the rights of the Holders of the Bonds under the Indenture by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the Authority as if the Authority were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Indenture.

(2) All rights of action under the Indenture may be enforced by the Trustee without the possession of any of the Bonds or the production thereof on the trial or other proceedings.

(3) The Holders of a majority in Principal Amount of the Bonds Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

(4) Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Holders of a majority in Principal Amount of the Bonds then Outstanding and furnished with satisfactory security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may deem necessary or expedient to prevent any impairment of the security under the Indenture by any acts which may be unlawful or in



violation of the Indenture, or necessary or expedient to preserve or protect its interests and the interests of the Bondholders.

Section 704. Restriction on Bondholders' Action. (1) No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Indenture or for any remedy under the Indenture, unless such Holder shall have previously given to the Trustee written notice of the happening of any Event of Default and shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity to exercise the powers granted in this Article in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred thereby or in connection therewith, and the Trustee shall have refused to comply with such request within a reasonable time.

(2) Nothing in the Indenture shall affect or impair the obligation of the Authority to pay on the respective dates of maturity thereof the Principal Amount of and interest on the Bonds, or affect or impair the right of action of any Holder to enforce the payment of his Bond.

Section 705. Remedies not Exclusive. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Bondholders 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 the Indenture or provided at law or in equity or by statute.

Section 706. Effect of Waiver and Other Circumstances. No delay or omission of the Trustee or of any Bondholder to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or to be an acquiescence therein.

(2) Prior to the declaration of maturity of the Bonds as provided in Section 701, the Holders of a majority in Principal Amount of the Bonds at the time Outstanding may on behalf of the Holders of all of the Bonds waive any past default under the Indenture and its consequences, except a default in the payment of interest on or Principal Installments or Redemption Price of any of the Bonds. No such waiver shall extend to any subsequent or other default.

## ARTICLE VIII

### THE FIDUCIARIES

Section 801. Trustee. The Bank of New York Mellon Trust Company, N.A. is hereby appointed Trustee under the Indenture. The Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Indenture by executing the Indenture and by executing such Indenture, the Trustee shall be deemed to have accepted such duties and obligations not only with respect to the initial Bonds but with respect to all the Bonds thereafter to be issued, but only, however, upon the terms and conditions set forth in the Indenture.

Section 802. Paying Agents. (1) Unless otherwise provided in the applicable Supplemental Indenture, the Trustee shall act as a Paying Agent for all Series of Bonds. The Authority may appoint

one or more additional Paying Agents for the Bonds of any Series in the applicable Supplemental Indenture. Each Paying Agent shall be a bank or trust company or national banking association having a capital and surplus aggregating at least twenty-five million dollars (\$25,000,000), if there is such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Indenture. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by the Indenture by executing and delivering to the Authority and to the Trustee a written acceptance thereof.

(2) If at any time a Paying Agent is unable or unwilling to act as Paying Agent, the Paying Agent may resign upon 30 days' prior written notice to the Authority and the Trustee. Such resignation shall become effective upon the date specified in such notice, unless a successor Paying Agent has not been appointed, in which case such resignation shall become effective upon the appointment of such successor. The Paying Agent may be removed at any time by the Authority by written notice signed by the Authority delivered to the Trustee, each Bondholder and the Paying Agent. Upon resignation or removal of the Paying Agent, the Authority shall appoint a successor Paying Agent which shall be a bank or trust company which meets the requirements of subsection (1) of this Section 802. The Authority shall notify each Bondholder of the related Series of Bonds of the appointment of such successor. Upon the resignation or removal of the Paying Agent, the Paying Agent shall pay over, assign and deliver any moneys and Bonds held by it in trust pursuant to this Section 802 to its successor.

Section 803. Depositories. The Authority may appoint one or more Depositories to hold, as an agent for the Trustee, moneys to be held under the provisions of this Indenture. Each Depository shall be a bank or trust company or national banking association having capital and surplus aggregating at least twenty-five million dollars (\$25,000,000), if there is such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed on it by the Indenture. As a condition to the appointment of any Depository such Depository shall agree to provide monthly reports to the Trustee as to the balances on deposit in the fund or funds held by such Depository and shall acknowledge in writing that the moneys held by it are being held by it as agent for the Trustee and subject to the provisions of Section 501.

Section 804. Responsibility of Fiduciaries. (1) The recitals of fact herein and in the Bonds contained shall be taken as the statements of the Authority and no Fiduciary assumes any responsibility for the correctness of the same. The duties and obligations of the Fiduciaries shall be determined by the express provisions of the Indenture and the Fiduciaries shall not be liable except for their performance of such duties and obligations as are specifically set forth herein. No Fiduciary makes any representations as to the validity or sufficiency of the Indenture or of any Bonds issued thereunder or in respect of the security afforded by the Indenture, and no Fiduciary shall incur any responsibility in respect thereof. The Authenticating Agent for any Bonds shall, however, be responsible for its representation contained in its certificate of authentication on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to the Authority or any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof,

or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own gross negligence or willful default nor shall any Fiduciary be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture.

(2) All moneys held by any Fiduciary, as such, at any time pursuant to the terms of the Indenture shall be and hereby are assigned, transferred and set over unto such Fiduciary in trust for the purposes and under the terms and conditions of the Indenture.

Section 805. Evidence on Which Fiduciary May Act. Each Fiduciary shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document believed by it to be genuine, and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be of counsel to the Authority, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate executed in the name of the Authority by an Authorized Officer, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the Indenture upon the faith thereof, but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may deem reasonable.

Section 806. Compensation. Unless otherwise provided by contract with such Fiduciary, the Authority shall pay to each Fiduciary from time to time reasonable compensation for all services rendered hereunder, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, consultants and employees incurred in and about the performance of their powers and duties hereunder. The Authority, to the extent permitted by law, shall indemnify and save each Fiduciary harmless against any liabilities, costs and expenses which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its own gross negligence or willful default.

Section 807. Permitted Acts. Any Fiduciary may become the owner of any Bonds and may otherwise deal with the Authority, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depositary for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Indenture, whether or not any such committee shall represent the Holders of a majority in Principal Amount of the Bonds Outstanding.

Section 808. Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Indenture by giving not less than sixty (60) days' written notice to the Authority and giving not less than thirty (30) days' written notice to each Bondholder and Paying Agent specifying the date when such resignation shall take effect, and such resignation

shall take effect upon the day specified in such notice provided a successor shall have been appointed, unless previously a successor shall have been appointed by the Authority or the Bondholder as hereinafter provided, in which event such resignation shall take effect immediately on the appointment of such successor.

Section 809. Removal of Trustee. The Trustee may be removed (i) at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the Holders of a majority in Principal Amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Authority, and (ii) so long as no Event of Default shall have occurred and be continuing, at any time by an Authorized Officer of the Authority by an instrument in writing filed with the Trustee.

Section 810. Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the Authority, so long as no Event of Default shall have occurred and be continuing hereunder, or by the Holders of a majority in Principal Amount of the Bonds then Outstanding, excluding any Bonds held by or for the account of the Authority, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondholders or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being given to the Authority and the predecessor Trustee. Pending such appointment, the Authority by a written instrument signed by an Authorized Officer and delivered to the predecessor Trustee shall forthwith appoint a Trustee to fill such vacancy until a successor Trustee shall be appointed by the Bondholders as herein authorized. The Authority shall give written notice of any such appointment made by it to each Bondholder and Paying Agent at least thirty (30) days after the date of such appointment. Any successor Trustee appointed by the Authority shall, immediately and without further act, be superseded by a Trustee appointed by the Bondholders. If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within forty-five (45) days after the Trustee shall have given to the Authority written notice as provided in Section 808 or after the occurrence of any other event requiring or authorizing such appointment, the Trustee or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee. The Trustee shall continue to serve until a successor Trustee shall be appointed under the provisions of this Section. Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a bank or trust company organized under the laws of the State, or a national banking association doing business in the State, having a capital and surplus aggregating at least fifty-million dollars (\$50,000,000), if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all duties imposed upon it by the Indenture.

Section 811. Transfer of Rights and Property to Successor Trustee. Any successor Trustee appointed hereunder shall execute, acknowledge and deliver to the predecessor Trustee, and also to the Authority, an instrument accepting such appointment hereunder, and thereupon such successor Trustee, 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 Trustee herein, but the Trustee ceasing to act shall nevertheless, on the written request of the Authority, or of the Successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurances and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it hereunder, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth.

Section 812. Merger or Consolidation. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business provided such company shall be a bank or trust company or national banking association which is qualified to be a successor to such Fiduciary under Section 810 or Section 802(1) and shall be authorized by law to perform all the duties imposed upon it by the Indenture, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act, anything herein to the contrary notwithstanding.

## ARTICLE IX

### SUPPLEMENTAL INDENTURES

Section 901. Supplemental Indentures Effective upon Execution and Delivery. The Authority and the Trustee may at any time and from time to time and without the consent of or notice to any of the Bondholders execute and deliver a Supplemental Indenture supplementing the Indenture for any one or more of the following purposes:

- (1) to close the Indenture against, or provide limitations and restrictions not contained in the Indenture on, the original issuance of Bonds;
- (2) to add to the covenants and agreements of the Authority contained in the Indenture other covenants and agreements thereafter to be observed for the purpose of further securing the Bonds;
- (3) to surrender any right, power or privilege reserved to or conferred upon the Authority by the Indenture;
- (4) to preserve the excludability of Interest on any Bonds from gross income for the purpose of federal income taxes, or to change the tax covenants set forth in Section 503, 509 or 604 pursuant to an opinion of bond counsel that such action will not affect adversely such excludability;
- (5) to authorize Bonds of a Series and, in connection therewith, specify and determine any matters and things relative to such Bonds not contrary to or inconsistent with the Indenture;
- (6) [Reserved];

(7) to exercise any provision herein or to make such determinations hereunder as expressly provided herein to be exercised or determined in a Supplemental Indenture;

(8) to confirm, as further assurance, any pledge under and the subjection to any lien or pledge created or to be created by the Indenture of the Revenues;

(9) to reflect a change in the Fiscal Year of the Authority, and to make changes to the dates set forth in this Indenture to the extent necessary to conform such dates to the amended Fiscal Year;

(10) to provide for the issuance of Subordinated Bonds and amendments to the Indenture in accordance with Section 208; and

(11) to make any other change which, in the conclusive determination of the Trustee, is not adverse to the Bondholders;

Section 902. Supplemental Indenture Regarding Ambiguities. At any time or from time to time and without the consent of or notice to any of the Bondholders but subject to the conditions or restrictions in the Indenture contained, the Authority and the Trustee may enter into an indenture amending or supplementing the Indenture curing any ambiguity or curing correcting or supplementing any defect or inconsistent provisions contained in the Indenture or making such provisions in regard to matters or questions arising under the Indenture as may be necessary or desirable and not contrary to or inconsistent with the Indenture.

Section 903. Supplemental Indentures Amending Indenture or Bonds. At any time or from time to time but subject to the conditions or restrictions in the Indenture contained, the Authority and the Trustee may enter into an indenture amending or supplementing the Indenture, modifying any of the provisions of the Indenture or Bonds or releasing the Authority from any of the obligations, covenants, agreements, limitations, conditions or restrictions therein contained, but, except as provided in Section 901 and Section 902, no such indenture shall be effective unless (a) no Bonds authorized by a Supplemental Indenture adopted prior to the adoption of such indenture remain Outstanding at the time it becomes effective, or (b) such indenture is consented to by or on behalf of Bondholders, in accordance with and subject to the provisions of Article X.

Section 904. Execution and Delivery of Supplemental Indentures. Any Supplemental Indenture referred to and permitted or authorized by this Article IX shall become effective only on the conditions, to the extent and at the time provided in this Article. Every such indenture becoming effective shall thereupon form a part of the Indenture. The Trustee in executing or accepting the additional trusts permitted by this Article or the modifications thereby of the trusts created by this Indenture shall be fully protected in relying on a Counsel's Opinion to the effect that such indenture has been duly and lawfully adopted by the Authority in accordance with the provisions of the Indenture, is authorized or permitted by the Indenture, and constitutes the lawful and binding obligation of the Authority in accordance with its terms.

Section 905. Provider of Credit or Liquidity Facility or Reserve Deposits as Holder of the Bonds. Subject to anything contrary set forth in a Supplemental Indenture, as long as any Credit or Liquidity Facility or Reserve Deposits with respect to the Bonds securing all or a portion of the Bonds Outstanding is in effect, the Credit or Liquidity Facility Provider or provider of a Reserve Deposit to the extent so authorized in the applicable Supplemental Indenture, shall be deemed to be the Holder of the Bonds secured by the Credit or Liquidity Facility or Reserve Deposits: (i) at all times for the purpose of the execution and delivery of the Supplemental Indenture or of any amendment, change or modification of this Indenture or the initiation by Bondholders of any action to be undertaken by the Trustee at the Bondholders' request, which under this Indenture requires the written approval or consent of or can be initiated by the Holders of at least a majority in aggregate principal amount of the Bonds at the time Outstanding, (ii) at all times for the purpose of the mailing of any notice to Bondholders under this Indenture, and (iii) following an Event of Default for all other purposes. Notwithstanding the foregoing, a provider of Credit or Liquidity Facility or a Reserve Deposit shall not be deemed to be a Holder of the Bonds with respect to any such Supplemental Indenture or of any amendment, change or modification of this Indenture which would have the effect of permitting (i) a change in the terms of redemption or maturity of any Outstanding Bonds or of any installment of interest thereon or (ii) a reduction in the Principal Amount or the Redemption Price thereof or in rate of Interest thereon or (iii) reducing the percentage or otherwise affecting the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment.

## ARTICLE X

### AMENDMENTS

Section 1001. Mailing. Any provision in this Article X for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid only (i) to each Holder of Bonds then Outstanding at his address, if any, appearing upon the register and (ii) to the Trustee.

Section 1002. Powers of Amendment. Any modification or amendment of the Bonds or of the Indenture may be made by a Supplemental Indenture, with the written consent given as provided in Section 1003, (i) of the Holders of at least a majority in aggregate Principal Amount of all Bonds Outstanding at the time such consent is given or (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the Holders of at least a majority in aggregate Principal Amount of the Bonds of each Series so affected and Outstanding at the time such consent is given; provided, however, that, if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified Series or maturity remain Outstanding, the vote or consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section; and provided, further, that no such modification or amendment shall permit a change in the terms of redemption or maturity of the Principal Amount of any Outstanding Bond, or of any installment of interest thereon or a reduction in the Principal Amount or the Redemption Price thereof or the rate of interest thereon or the method for determining such rate without the consent of the Holder of such Bond, or shall change or modify any of the rights or obligations of any Fiduciary

without its written assent thereto, or shall reduce the percentages of the Principal Amount of Bonds the consent of which is required to effect any such modification or amendment.

Section 1003. Consent of Bondholders. The Authority may at any time adopt a Supplemental Indenture making a modification or amendment permitted by the provisions of Section 1002, to take effect when and as provided in this Section. Upon the adoption of such Supplemental Indenture, a copy thereof, certified by an Authorized Officer, shall be filed with the Trustee for the inspection of the Bondholders. A copy of such Supplemental Indenture (or summary thereof or reference thereto in form approved in writing by the Trustee) together with a request to Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed by the Authority to each affected Bondholder. Such Supplemental Indenture shall not become effective until there shall have been filed with the Trustee the written consents of the percentages of the Holders of Outstanding Bonds specified in Section 1002 and a notice shall have been given as hereinafter in this Section provided. Any such consent shall be binding upon the Holder of the Bonds giving such consent and on any subsequent Holder of such Bonds (whether or not such subsequent Holder has notice thereof). At any time after the Holders of the required percentages of Bonds shall have filed their consent to the Supplemental Indenture, notice, stating in substance that the Supplemental Indenture has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this Section, may be given to the Bondholders by mailing such notice to Bondholders. The Authority shall file with the Trustee proof of giving such notice. Such Supplemental Indenture shall be deemed conclusively binding upon the Authority, the Fiduciaries and the Holders of all Bonds at the expiration of sixty (60) days after the filing with the Trustee of the proof of the mailing of such notice, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding commenced for such purpose within such sixty day period; provided, however, that any Fiduciary and the Authority during such sixty day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Indenture as they may deem expedient.

Section 1004. Modification by Unanimous Action. Notwithstanding anything contained in Article IX or in the foregoing provisions of this Article, the rights and obligations of the Authority and of the Holders of the Bonds and the terms and provisions of the Bonds or of the Indenture may be modified or amended in any respect upon the adoption of a Supplemental Indenture by the Authority and the consent of the Holders of all of the Bonds then Outstanding, such consent to be given as provided in Section 1003 except that no notice to Bondholders shall be required; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

Section 1005. Exclusion of Bonds. Bonds owned or held by or for the account of the Authority shall not be deemed Outstanding for the purpose of any consent or other action or any calculation of Outstanding Bonds provided for in this Article, and shall not be entitled to consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, the Authority shall furnish the Trustee a certificate of an Authorized Officer, upon which the Trustee may rely, describing all Bonds so to be excluded.



Section 1006. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as hereinabove in this Article X provided may, and, if the Trustee so determines, shall, bear a notation by endorsement or otherwise in form approved by the Authority and the Trustee as to such action, and in that case upon demand of the Holder of any Bond Outstanding at or after such effective date and presentation of his Bond for the purpose to the Trustee, suitable notation shall be made on such Bond by the Trustee as to any such action. If the Authority or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the Authority to conform to such action shall be prepared, authenticated and delivered, and upon demand of the Holder of any Bond then outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same Series and maturity then Outstanding, upon surrender of such Bonds.

## ARTICLE XI

### DEFEASANCE

Section 1101. Defeasance. (1) If the Authority shall (i) pay or cause to be paid, or there shall otherwise be paid to the Holders of the Bonds then Outstanding, the Principal Amount and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Indenture and (ii) discharge and satisfy its obligations under any Qualified Swap Agreement, then the pledge of any Revenues or other moneys, securities, Reserve Deposits and Credit or Liquidity Facility, if any, pledged by the Indenture and all other rights granted by the Indenture shall be discharged and satisfied. In such event, the Trustee shall, upon request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such release and discharge and the Fiduciaries shall pay over or deliver to the Authority all moneys or securities held by them pursuant to the Indenture which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment for redemption.

(2) Bonds or interest installments for the payment or redemption of which moneys shall be held by the Fiduciaries (through deposit by the Authority of funds for such payment or redemption or otherwise), whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning and with the effect expressed in paragraph (1) of this Section 1101. All Outstanding Bonds of any Series or any part of a Series shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph (1) of this Section 1101 if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Authority shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to provide as provided in Article IV, notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Permitted Investments of the type described in clause (1) of the definition thereof or Advance Refunded Municipal Bonds not subject to redemption at the option of the issuer thereof prior to the due date thereof, the principal of and interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the time of deposit of such Permitted Investments, shall be sufficient to pay when due the Principal Amount or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority shall have given the Trustee in form satisfactory to it irrevocable instructions to provide, as soon as

practicable, at least thirty (30) days written notice to the Holders of such Bonds that the deposit required by clause (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with paragraph (1) of this Section 1101 and stating the maturity or redemption date upon which moneys are to be available for the payment of the Principal Amount or Redemption Price, if applicable, on said Bonds. Neither Permitted Investments nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Permitted Investments shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the Principal Amount or Redemption Price, if applicable, and interest on said Bonds, provided that any cash received from the principal or interest payments on such Permitted Investments deposited with the Trustee, if not then needed for such purpose, may, to the extent practicable, be reinvested in Permitted Investments maturing at times and in principal amounts sufficient to pay when due the Principal Amount or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be. After the making of the payments for which such Permitted Investments or moneys were held, any surplus shall be promptly paid over to the Authority, as received by the Trustee, free and clear of any trust, lien or pledge or assignment securing the Bonds or otherwise existing under this Indenture.

(3) For purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Government Obligations and moneys, if any, in accordance with subsection (2)(ii) hereof, the interest to come due on such Variable Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Variable Rate Ceiling; provided, however, that if on any date, as a result of such Variable Rate Bonds having borne interest at less than such Variable Rate Ceiling for any period, the total amount of moneys and Government Obligations on deposit with the Trustee for the payment of interest on such Variable Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Rate Bonds in order to satisfy the provisions of subsection (2)(ii) above, the Trustee shall, if requested by the Authority, pay promptly the amount of such excess to the Authority free and clear of any trust, lien, pledge or assignment securing the Bonds or otherwise existing under this Indenture.

(4) Tender Bonds shall be deemed to have been paid in accordance with subsection (2)(ii) hereof only if, in addition to satisfying the requirements thereof, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum Principal Amount and Redemption Price of and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the provisions of subsection (2)(ii) above, the options originally exercisable by the Holders of Tender Bonds are no longer exercisable, such Bonds shall not be considered Tender Bonds for purposes of this subsection (4). If any portion of the moneys deposited with the Trustee for the payment of the Principal Amount or Redemption Price of and interest on Tender Bonds is not required for such purpose the Trustee shall, if requested by the Authority, pay promptly the amount of such excess to the Authority free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under this Indenture.

(5) Anything in the Indenture to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any Bonds which remain unclaimed for three (3) years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for three (3) years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the written request of the Authority, be repaid promptly by the Fiduciary to the Authority, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the Authority for the payment of such Bonds; provided, however, that before being required to make any such payment to the Authority, the Fiduciary shall, at the expense of the Authority, cause to be mailed to the Holders of all Bonds Outstanding a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall not be less than thirty (30) days after the date of mailing of such notice, the balance of such moneys then unclaimed will be returned promptly to the Authority.

## ARTICLE XII

### MISCELLANEOUS

Section 1201. Evidence of Signatures of Bondholders and Ownership of Bonds. (1) Any request, consent or other instrument which the Indenture may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing.

(2) The ownership of Bonds and the amount, numbers and other identification, and date of owning the same, shall be proved solely by the registry books.

(3) Any request, consent or vote of the Holder of any Bond shall bind all future Holders of such Bond in respect of anything done or suffered to be done by the Authority or any Fiduciary in accordance therewith.

Section 1202. Preservation and Inspection of Documents. All documents received by a Fiduciary under the provisions of the Indenture shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Authority, any other Fiduciary and any Bondholder and their agents and their representatives, any of whom may make copies thereof at their own expense.

Section 1203. No Recourse on the Bonds. No recourse shall be had for the payment of the Principal Amount or Redemption Price of or the interest on the Bonds or for any claim based thereon or on the Indenture against any member, officer, agent, representative or employee of the Authority or any person executing the Bonds. No member, officer, agent, representative or employee of the Authority shall be held personally liable to any purchaser or Holder of any Bond under or upon such Bond, or under or upon the Indenture or any Supplemental Indenture relating to Bonds, or, to the extent permitted by law, because of the sale or issuance or attempted sale or issuance of Bonds, or because of any act or omission in connection with the construction, acquisition, operation or maintenance of the System, or because of any act or omission in connection with the investment or

management of the Revenues, funds or moneys of the Authority, or otherwise in connection with the management of its affairs, excepting solely for things wilfully done or omitted to be done with an intent to defraud.

Section 1204. Partial Invalidity. If any provision of the Indenture or any Supplemental Indenture is held invalid in any circumstance, such invalidity shall not affect any other provisions or circumstances.

Section 1205. Law and Place of Enforcement of the Indenture. The Indenture shall be construed and governed in accordance with the laws of the State and all suits and actions arising out of the Indenture shall be instituted in a court of competent jurisdiction in the State.

Section 1206. Business Days. Except as otherwise required herein, if this Indenture requires any parties to act on a specific day and such day is not a Business Day, such parties need not perform such act until the next succeeding Business Day, and such act shall be deemed to have been performed on the day required.

Section 1207. Effective Date. The Indenture shall be effective upon its execution by the Authority and the Trustee.

Section 1208. Electronic Communications and Signatures. Each of the Trustee, the Authenticating Agent, the Paying Agent and the Registrar (collectively, the “Agents”) agree to accept and act upon instructions or directions pursuant to this Indenture sent by the Authority by Electronic Means, provided, however, that the Authority shall provide to the Agents an incumbency certificate listing designated persons with the authority to provide such instructions, which incumbency certificate shall be amended whenever a person is to be added or deleted from the listing. If the Authority elects to give the Agents directions or instructions using Electronic Means and the Agents in their discretion elect to act upon such instructions, the respective Agent’s understanding of such instructions shall be deemed controlling. The Agents shall not be liable for any losses, costs or expenses arising directly or indirectly from their reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Authority agrees to assume all risks arising out of the use of Electronic Means to submit instructions and directions to the Agents, including without limitation the risk of the respective Agent acting on unauthorized instructions, and the risk of interception and misuse by third parties.

The words “execution,” “signed,” “signature,” and words of like import in this Indenture or in any other certificate, agreement or document related to this Indenture or the Bonds shall include images of manually executed signatures transmitted by facsimile or other electronic format (including, without limitation, “pdf”, “tif” or “jpg”) and other electronic signatures (including, without limitation, DocuSign and AdobeSign). The use of electronic signatures and electronic records (including, without limitation, any contract or other record created, generated, sent, communicated, received, or stored by electronic means) shall be of the same legal effect, validity and enforceability as a manually executed signature or use of a paper-based recordkeeping system to the fullest extent permitted by applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act and any

other applicable law, including, without limitation, any State law based on the Uniform Electronic Transactions Act or the Uniform Commercial Code. The Authority agrees to assume all risks arising out of the use of using digital signatures and electronic methods to submit communications to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

**\*Signatures on Next Page\***

IN WITNESS WHEREOF, the Authority has caused this Indenture to be signed in its name by its Chairperson and Secretary, and the Trustee, in acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by its officer thereunder duly authorized all as of the day and year first above written.

KENT COUNTY WATER AUTHORITY

By: \_\_\_\_\_  
Chairperson

By: \_\_\_\_\_  
Secretary

THE BANK OF NEW YORK MELLON  
TRUST COMPANY, N.A., as Trustee

By: \_\_\_\_\_  
Authorized Officer

***APPENDIX C***

December 21, 2021

David Simmons,  
General Manager and Chief Engineer  
Kent County Water Authority  
1072 Main Street  
West Warwick, RI 02893

RE: Kent County Water Authority - up to \$18,000,000 for Drinking Water State Revolving Fund Loan for new office and maintenance facility

Dear Mr. Simmons,

I am pleased to inform you that the Board of Directors of Rhode Island Infrastructure Bank (the "Bank"), pursuant to policies and procedures adopted in accordance with the Safe Drinking Water Act Amendments of 1996 and Chapter 46-12.8 of the Rhode Island General Laws, has approved the September 20, 2021 application of the Kent County Water Authority (the "Borrower") at the Bank's December 20, 2021 Board Meeting. The Bank shall provide financial aid in the form of loans on the terms stated below, in an amount not to exceed \$18,000,000 for a term not to exceed 20 years after project completion.

This approval is subject to the Borrower meeting the following terms, that:

- 1) all projects to be funded appear on the Rhode Island Department of Health's (RIDOH's) Project Priority List and have Certificates of Approval (COA) issued;
- 2) the loan complies with all Federal, State, RIDOH and Bank laws, rules and regulations;
- 3) the loan and debt service requirements be approved by any applicable regulatory Agency;
- 4) a satisfactory loan agreement be signed by all parties to the transaction;
- 5) the loan will be made subject to availability of funds as related to the Bank's capacity; and, that the loan will be made subject to ranking on RIDOH's Project Priority List.

## **TERMS AND CONDITIONS**

### 1) **Division of Public Utilities and Carriers**

Prior to entering into a loan agreement, the Borrower must receive approval from the Division of Public Utilities and Carriers for entering into long-term financing with the Bank, if such approval is required by law, rule, or regulation.

### 2) **Certificate of Approval**

Prior to disbursement of funds by the Bank, the Bank must be in receipt of COA by RIDOH of the Borrower's proposed project(s), pursuant to Title 46-12.8 of the Rhode Island General Laws, and rules and regulations promulgated thereunder.

### 3) **Loan Agreement**



There will be a loan agreement (the Agreement) with the Borrower outlining the specific terms and conditions of the Bank's loan program, as more generally set forth below and in the Agreement, including the loan (the Loan) to the Borrower. The Borrower's repayment obligation to the Bank under the Agreement will be evidenced by a Bond(s) of the Borrower outlining the Loan's specific terms and conditions (the Bonds). The Bonds shall be in fully marketable form, accompanied by documentation, in form and substance satisfactory to the Bank, and an opinion, in form and substance satisfactory to the Bank, of nationally recognized bond counsel satisfactory to the Bank as to its valid authorization, execution, delivery and enforceability. The general provisions of the Agreement, which will be more fully set forth prior to the time of the pricing of the loan by the Bank will include (without limitation) the following provisions:

(a) **Borrowing Rate**

The stated interest rate on the Borrower Bond, which is the Borrower's market rate (the Market Rate), is the prevailing market tax-exempt interest rate for issuers of comparable creditworthiness to the Borrower, as determined by the Bank on the advice of the Financial Advisor after consultation with the Borrower. The subsidized interest rate for the Loan is 25% off of the Market Rate (the Subsidized Interest Rate). The borrower will be obligated by the Borrower Bond to pay the Market Rate, but will be billed only for the Subsidized Interest Rate. If the Borrower or other borrowers of the Bank should default in timely payment of debt service on the Loan or on the loans to such other borrowers of the Bank, the Bank may require the Borrower to pay up to the Market Rate on the Borrower Bond.

Interest is to be calculated based on a 360-day year and twelve thirty-day months, and may be capitalized during construction. Interest payments are semi-annually on March 1 and September 1.

(b) **Amortization**

Amortization will begin at a mutually agreed upon date, but in no case later than September 1 after completion of the construction of the projects. Principal payments will be made annually on September 1 and the schedule of payments will be structured to meet the debt service and financial assistance needs of the Borrower.

(c) **Final Maturity**

Loans shall mature up to twenty years after the completion of the funded projects.

(d) **Prepayments**

A Loan may be prepaid by the Borrower at any time but may be subject to a prepayment penalty based on the cost of reinvesting the prepayment, the cost of repaying outstanding bonds of the Bank or any other negative financial impact to the



Bank.

(e) **Security**

The loan will have a pledge of (a) general revenues; (b) water system user fee revenues; and (c) may be secured by any assets and upon such other terms and conditions the Bank and Borrower deem appropriate to protect the interest of the other participants in the loan programs of the Bank; bondholders; other creditors of the Bank; or the finances of the Bank.

4) **Construction Progress Payments**

Progress payments for each construction project will be made through the Construction Proceeds Fund (CPF). Loan proceeds will be transferred to the CPF for the benefit of the Borrower based upon approved Requisition Forms submitted to the Bank. Upon receipt of the Requisition Form, the Bank will verify: a) that a COA has been issued by DOH; b) that the vendor is identified in the contract; and c) that there is sufficient availability in the CPF to make the payment. Payments will be made directly to the vendor and/or the Borrower for reimbursements by the Bank, and a “paid” stamped copy of the Requisition Form will be sent to the Borrower and DOH. DOH will perform periodic project inspections to a) monitor construction progress; b) verify eligibility of construction costs under the program; and c) ensure that construction is in conformity with Plans and Specifications. DOH will perform periodic inspections to a) monitor construction progress; b) verify eligibility of construction costs under the program and c) ensure that construction is in conformity with Plans and Specifications. DOH will provide a copy of the inspection report to the Bank. Any adverse conditions will be reported to the Bank who will suspend further payments until the adverse conditions have been rectified. DOH will perform a final project inspection before the final payment is made by the Bank.

5) **Reporting Requirements**

The Borrower will be required to provide information to the Bank during the life of the Loan. These are:

- (a) a copy of the annual audited financial statements of the Borrower’s water system in accordance with Generally Accepted Government Accounting Standards, annually within 9 months of end of fiscal year.
- (b) unless included as a part of the annual budget furnished pursuant to item (c) or the audited financial statements furnished pursuant to item (a), an analysis of operating revenues and expenses, including without limitation, a description of the status of all revenues securing the Revenue Bond and of any operating expenses in excess of budget, annually within 9 months of the end of fiscal year.
- (c) a copy of the annual budget of the Borrower’s water system, within fifteen days of its adoption.

(d) copies of reports submitted to DOH, the federal Environmental Protection Agency (“EPA”) and any other regulatory agency relating to any project financed by the Bank or the operation thereof, simultaneously with such submission.

(e) such other information or reports as and when the Bank may reasonably require.

6) **Compliance with State and Federal Law**

The Borrower must comply with all applicable state laws and regulations. Recipients of loans must also comply with all requirements of the Federal Safe Drinking Water Act, as amended and regulations issued thereunder, in addition to any other applicable Federal laws and regulations (see attached: Davis-Bacon prevailing wage requirements and EPA Guidance on Use of American Iron and Steel, as applicable).

7) **Fees**

An origination fee of the greater of \$1,000 or one percent (1%) of the principal amount of the Loan will be payable to the Bank by the Borrower at the time of the Loan’s closing. All other costs incidental to the Borrower’s role in the transaction (i.e., legal fees, financial advisory fees, bond insurance premiums and the like, will be paid by the Borrower). The Bank will charge an annual service fee of three-tenths of one percent (0.3%) of the Loan’s outstanding principal, payable semi-annually at each interest payment date. A late payment fee will be charged for every 15 days that a payment is late of five percent (5%) of the amount of the late payment.

8) **Modifications**

Where deemed appropriate by the Bank and the Borrower, waiver or variation of any provisions herein may be made or additional requirements may be added.

9) **Merger**

Once the Agreement, the Bond and all other closing documents, in form and substance satisfactory to the Bank, associated with the making of the Loan (collectively, the “Closing Documents”) are executed, the terms of this letter shall be merged with those of the Closing Documents. The terms of the Closing Documents will govern the extension of the Loan to the Borrower. To the extent that any provisions contained in this letter are inconsistent with the definitive provisions contained in the Closing Documents, the terms of the Closing Documents shall control.

10) **Beneficiaries**

This letter shall constitute a binding commitment between the Bank and the Borrower but no third party shall have any rights arising hereunder and the Borrower shall indemnify

and hold the Bank harmless from all claims arising from or in connection with this letter, the Loan or the project financed thereby. In any case, the Bank's liability under this letter shall be limited to the amount held in the Borrower's CPF from time to time.

Please sign and return one original copy of this letter to the Bank at 235 Promenade Street, Suite 119, Providence, RI 02908 or via email.

I would like to take this opportunity to thank you for your participation with the Bank. Please be assured that every effort will be made to get the lowest total cost for your long-term capital needs. If you have any questions, please do not hesitate to call me.

Very truly yours,

RHODE ISLAND INFRASTRUCTURE BANK

By: 

Jeffrey R. Diehl  
Executive Director and CEO

Accepted this 22<sup>nd</sup> day of DECEMBER, 2021

By: 

Title: Chairman

Authorized Official

Name and Address of Legal Counsel and/or Bond Counsel to the Borrower

General Counsel for Kent County Water Authority  
Patrick J. Sullivan, Esq.  
Sullivan & Sullivan  
300 Centerville Rd. Ste. 300W  
Warwick, RI 02886

Bond Counsel for Kent County Water Authority  
Karen S.D. Grande, Partner  
Locke Lord LLP  
2800 Financial Plaza  
Providence, Rhode Island 02903

December 21, 2021

David Simmons,  
General Manager and Chief Engineer  
Kent County Water Authority  
1072 Main Street  
West Warwick, RI 02893

RE: Kent County Water Authority - up to \$2,000,000 for Efficient Buildings Fund Loan for new office and maintenance facility energy projects

Dear Mr. Simmons,

I am pleased to inform you that the Board of Directors of Rhode Island Infrastructure Bank (the "Bank"), pursuant to policies and procedures adopted in accordance with the Safe Drinking Water Act Amendments of 1996 and Chapter 46-12.8 of the Rhode Island General Laws, has approved the December 13, 2021 application of the Kent County Water Authority (the "Borrower") at the Bank's December 20, 2021 Board Meeting. The Bank shall provide financial aid in the form of loans on the terms stated below, in an amount not to exceed \$2,000,000 for a term not to exceed 20 years after project completion.

This approval is subject to the Borrower meeting the following terms:

- 1) that all projects to be funded appear on the Office of Energy Resource's (OER's) Project Priority List;
- 2) that the loan complies with all Federal, State, OER and Bank laws, rules and regulations;
- 3) that a satisfactory loan agreement be signed by all parties to the transaction;
- 4) that loan will be made subject to availability of funds as related to the Bank's capacity; and
- 5) that the loan will be made subject to ranking on OER's Project Priority List.

## **TERMS AND CONDITIONS**

### 1) **Project Priority List**

Each project approved for financing by the Bank must be listed on the Office of Energy Resources Project Priority List, which may be revised from time to time by OER.

### 2) **Loan Agreement**

There will be a loan agreement (the "Agreement") with the Borrower outlining the specific terms and conditions of the Bank's EBF loan program, as more generally set forth below and in the agreement, including the loan (the "Loan") to the Borrower. The Borrower's repayment obligation to the Bank under the agreement will be evidenced by a Bond(s) of the Borrower outlining the Loan's specific terms and conditions (the "Bonds"). The Bonds shall be in fully marketable form, accompanied by documentation, in form and substance satisfactory to the Bank, and an opinion, in form and substance satisfactory to the Bank, of nationally recognized bond counsel satisfactory to the Bank as to its valid authorization,

execution, delivery and enforceability. The general provisions of the agreement, which will be more fully set forth prior to the time of the pricing of the loan by the Bank will include (without limitation) the following provisions:

(a) **Borrowing Rate**

The stated interest rate on the Borrower Bond, which is the Borrower's market rate (the "Market Rate"), is the prevailing market tax-exempt interest rate for issuers of comparable creditworthiness to the Borrower, as determined by the Bank on the advice of the Financial Advisor after consultation with the Borrower. The subsidized interest rate for the Loan shall be 33 1/3% off of the Market Rate (the "Subsidized Interest Rate"). The Borrower will be obligated by the Borrower Bond to pay the Market Rate but will be billed only for the Subsidized Interest Rate. If the Borrower or other EBF program borrowers of the Bank should default in timely payment of debt service on the Loan or on the loans made to such other borrowers of the Bank, the Bank may require the Borrower to pay up to the Market Rate on the Borrower Bond.

Interest is to be calculated based on a 360-day year and twelve thirty-day months, and may be capitalized during construction. Interest payments are semi-annually on March 1 and September 1.

(b) **Amortization**

Amortization will begin at a mutually agreed upon date, but in no case later than September 1 after completion of the construction of the projects. Principal payments will be made annually on September 1 and the schedule of payments will be structured to meet the debt service and financial assistance needs of the Borrower.

(c) **Final Maturity**

Loans shall mature no later than 15 years after loan closing.

(d) **Prepayments**

A Loan may be prepaid by the Borrower at any time but may be subject to a prepayment penalty based on the cost of reinvesting the prepayment, the cost of prepaying outstanding bonds of the Bank or any other negative financial impact to the Bank.

(e) **Security**

Loans will have a pledge of (a) general revenues; (b) appropriation backed obligation; or (c) may be secured by any other assets and upon such other terms and conditions as the Bank deems appropriate to protect the interests of the other participants in the loan programs of the Bank; bondholders; other creditors of the

Bank; or the finances of the Bank.

### 3) **Construction Progress Payments**

Progress payments and reimbursements for each construction project will be made through an account established by the Bank (the "Project Account"). Loan proceeds will be transferred to the Project Account for the benefit of the Borrower based upon approved Requisition Forms submitted to the Bank. Upon receipt of the Requisition Form, the Bank will verify: a) that the funds requested are in connection with a project on the OER project priority list b) that the vendor is identified in the contract; and c) that there is sufficient availability in the Project Account to make the payment. Payments will be made directly to the vendor and/or the Borrower for reimbursements by the Bank, and a "paid" stamped copy of the Requisition Form will be sent to the Borrower and OER. OER, or its designated representative, will perform periodic project inspections to a) monitor construction progress; b) verify eligibility of construction costs under the program; and c) ensure that construction is in conformity with Plans and Specifications. OER will provide a copy of the inspection report to the Bank. Any adverse conditions will be reported to the Bank who will suspend further payments until the adverse conditions have been rectified. OER will perform a final project inspection to ensure that the project has been completed as described in the project application, and upon satisfactory inspection, shall provide the Bank with a written approval for the final disbursement. The amount of the final disbursement shall not be less than ten percent (10%) of the principal amount of the Loan.

No more frequently than monthly, the Borrower may submit to the Bank a requisition in the form provided by the Bank, for payment from the Borrower Project Account. Such requisition shall be accompanied by vendor, contractor or supplier invoices, or such other documentation as the Bank shall require, showing that the payee, the purpose and the aggregate amount of payments is within the project definition, all applicable OER approvals and the total amount of the Loan. In the case of a requisition for the reimbursement of project costs paid in the first instance by the Borrower, the requisition shall additionally state that such costs have not been the subject of any prior requisitions and are within all applicable guidelines for reimbursement financing.

Except as provided below, when the Bank and OER have reviewed any requisition and found it to be complete and proper, or have, in their reasonable discretion, waived any non-compliance, the Bank shall transfer the amount of such requisition to the Bank for the Borrower's account therewith. The Bank and OER review of any requisition shall be completed within five (5) business days of its receipt. Upon receipt of such transfer, and in any case within five (5) business days thereof, the Bank shall issue its check to or on the order of the Borrower, in each case, for payment as specified in the requisition. If at the time of any requisition any of the following shall be true:

- (i) there shall then be a continuing Event of Default hereunder;
- (ii) the Bank shall have been notified by OER that disbursement of the Loan should be suspended as a result of conditions found during an OER review or inspection of the project, or any components thereof; or
- (iii) if the representations and warranties contained in the Loan Agreement shall not be true

and correct in all material respects as of the date of the requisition;

then the Bank shall have sole discretion as to whether to cause such transfer and to issue such check, as aforesaid.

#### 4) **Compliance and Reporting Requirements**

OER, or its designated representative, may inspect the project at any time during the construction process and following completion of the Project.

**For Energy Efficiency Projects** – Within thirty (30) days of construction completion, the Borrower shall have an independent, 3<sup>rd</sup> party commissioning of all energy efficiency measures. A copy of the commissioning report (hard copy and electronic copy) shall be forwarded to the Bank and OER within thirty (30) days following the commissioning.

**For Solar PV Projects** – Within thirty (30) days of interconnection, the Borrower shall have an independent third-party inspection of the renewable energy system. Third party independent inspections completed pursuant to existing State programs are acceptable. A copy of the inspection report (hard copy and electronic copy) shall be forwarded to the Bank and OER within sixty (60) days following the inspection.

The Borrower is required to comply with all OER data and reporting requests for a minimum period of five (5) years following completion of the project, including but not limited to:

- (a) Actual number of full time equivalent jobs associated with the project;
- (b) Job types;
- (c) Borrower wide energy consumption compared to baseline consumption that was submitted to OER in the Borrower EBF Project Priority List application;
- (d) For any portion of the projects consisting of energy efficiency projects, comparison of actual units of energy (e.g. kWh, therms, gallons) saved versus estimated units of energy saved based on the Borrower EBF Project Priority List application submitted to OER; and
- (e) For any portion of the project consisting of renewable energy projects, accessibility to the project production dash boards (e.g. Locus, Solectria).

Any inspection or review by the OER or its designated representative is for the limited purpose of confirming completion of the project as described in the project application and is not intended to relieve the borrower or its contractors of any responsibility with respect to the design and construction.

The design and construction shall comply with all State required regulations, including applicable Americans with Disabilities (ADA) regulations, historic preservation regulations, environmental regulations, and any other pertinent regulations or applicable portions thereof.

Upon completion of the project, the Borrower shall be responsible for maintaining all





aspects of the project in accordance with the design plans and specifications developed for the project, and its own cost and expense.

Nothing in this Commitment Letter shall in any way alter or negate the terms of any contracts or agreements necessary for the use of Federal funds or utility incentives for any portion of the project.

The Borrower agrees to comply with all State requirements with respect to carrying out the project, including those requirements contained in:

- (i) Chapter 46-12.2 of the Rhode Island General Laws;
- (ii) Chapter 37-13 of the Rhode Island General Laws;
- (iii) Chapter 37-14.1 of the Rhode Island General Laws; and
- (iv) Other State laws or administrative rules applying to activities supported with State funds.

The Borrower shall for as long as is required by the Loan Agreement and any applicable law, submit to the Bank on a timely basis, such reports and other information as the Bank may reasonably require to show that the Borrower is in compliance with all such requirements.

The Borrower will be required to provide information to the Bank during the life of the Loan. These are:

- (a) A copy of its annual audited financial statements in accordance with Generally Accepted Government Accounting Standards, annually within 9 months of end of fiscal year.
- (b) Unless included as part of the audited financial statements furnished pursuant to item (a) or the annual budget furnished pursuant to item (c), an analysis of municipal operating revenues and expenses and a comparison of such revenues and expenses to the budget adopted for the respective period, annually within 9 months of the end of the fiscal year.
- (c) A copy of the annual budget of the Borrower, within fifteen days of its adoption.
- (d) Unless included as a part of the annual budget or audited financial statements and furnished pursuant to item (c), a schedule of current and projected short-term and long-term debt service, annually with the aforesaid budget.
- (e) Copies of reports submitted to OER, U.S Department of Energy and any other regulatory agency relating to any project financed by the Bank or the operation thereof, simultaneously with such submission.
- (f) Other information or reports that the Bank deems appropriate.



5) **Compliance with State and Federal Law**

The Borrower must comply with all applicable state laws and regulations.

6) **Fees**

An origination fee of the greater of \$1,000 or one percent (1%) of the principal amount of the Loan will be payable to the Bank by the Borrower at the time of the Loan's closing. All other costs incidental to the Borrower's role in the transaction, i.e. legal fees, financial advisory fees, bond insurance premiums and the like, will be paid by the Borrower. The Bank will charge an annual service fee of three-tenths of one percent (0.3%) of the Loan's outstanding principal, payable semi-annually at each interest payment date. A late payment fee will be charged for every 15 days that a payment is late of five percent (5%) of the amount of the late payment.

7) **Modifications**

Where deemed appropriate by the Bank, waiver or variation of any provisions herein may be made or additional requirements may be added.

8) **Merger**

Once the Agreement, the Bonds and all other closing documents, in form and substance satisfactory to the Bank, associated with the making of the Loan (collectively, the "Closing Documents") are executed, the terms of this letter shall be merged with those of the Closing Documents. The terms of the Closing Documents will govern the extension of the Loan to the Borrower. To the extent that any provisions contained in this letter are inconsistent with the definitive provisions contained in the Closing Documents, the terms of the Closing Documents shall control.

9) **Beneficiaries**

This letter shall constitute a binding commitment between the Bank and the Borrower but no third party shall have any rights arising hereunder and the Borrower shall indemnify and hold the Bank harmless from any and all claims arising from or in connection with this letter, the Loan or the project financed thereby. In any case, the Bank's liability under this letter shall be limited to the amount held in the Borrower's CPF from time to time.

Please sign and return one original copy of this letter to the Rhode Island Infrastructure Bank at 235 Promenade Street, Suite 119, Providence, RI 02908 or via email.

I would like to take this opportunity to thank you for your participation with the Bank. Please be assured that every effort will be made to get the lowest total cost for your long-term capital needs. If you have any questions, please do not hesitate to call me.

Very truly yours,

RHODE ISLAND INFRASTRUCTURE BANK

By:   
Jeffrey R. Diehl  
Executive Director & CEO

Accepted this 22<sup>ND</sup> day of December, 2021

By: 

Title: Chairman  
Authorized Official

Name and Address of Legal Counsel and/or Bond Counsel to the Borrower

General Counsel for Kent County Water Authority  
Patrick J. Sullivan, Esq.  
Sullivan & Sullivan  
300 Centerville Rd. Ste. 300W  
Warwick, RI 02886

Bond Counsel for Kent County Water Authority  
Karen S.D. Grande, Partner  
Locke Lord LLP  
2800 Financial Plaza  
Providence, Rhode Island 02903

***APPENDIX D***

RHODE ISLAND INFRASTRUCTURE BANK

LOAN AGREEMENT

DRINKING WATER STATE REVOLVING FUND

This AGREEMENT is entered into as of the \_\_\_th day of March, 2022, between the Rhode Island Infrastructure Bank (the "Bank") and the Kent County Water Authority, (the "Borrower") in accordance with the Safe Drinking Water Act Amendments of 1996, an act or acts of the Borrower (the "Local Bond Act"), more fully described in Exhibit A hereto, and Chapters 46-12.2 and 46-12.8 of the Rhode Island General Laws (the "Act") in order to finance, to the extent of the aggregate amount of the loans made hereunder, an approved project (the "Project") now being undertaken by the Borrower, acting on behalf of its Providence Water Supply Board. The Project is described in Exhibit B.

ARTICLE I  
THE LOAN

1.1. In accordance with Chapters 46-12.2 and 46-12.8 of the Rhode Island General Laws, the Bank agrees to and does hereby loan to the Borrower, and the Borrower agrees to and does hereby borrow from the Bank, in accordance with the terms of this Agreement, the principal sum of Eighteen Million One Hundred Seventy Three Thousand Eighty Seven Dollars (\$18,173,087), (the "Loan" which term shall include such lesser amount as shall equal the aggregate principal amount of all sums disbursed or deemed disbursed by the Bank to the Borrower hereunder from time to time), and the Borrower shall repay the Loan, with interest thereon, in annual installments as provided in this Agreement and in the form of the Revenue Bond, described below. The proceeds of the Loan shall be disbursed hereunder by the Bank to the Borrower, or on its order, on a periodic basis, as requested by the Borrower, but not more frequently than monthly, subject to the approval of the amount of each disbursement by the Bank and based on the Rhode Island Department of Health's ("DOH") periodic inspection and approval of completed construction.

1.2. The Loan shall be represented by a bond or bonds of the Borrower (in either case, referred to herein as the "Revenue Bonds") issued under and in accordance with the applicable provisions of the Rhode Island General Laws, the applicable Local Bond Act, and the Act and each disbursement shall be noted thereon or otherwise recorded in the records of the Bank. The Revenue Bonds shall be issued in accordance with the Trust Indenture between the Kent County Water Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee (the "Borrower Trustee"), dated March \_\_, 2022, and a First Supplemental Indenture thereto, dated March \_\_, 2022 (collectively, the "KCWA Trust Indenture"), which is incorporated herein and attached as Exhibit C hereto. The Revenue Bonds shall be substantially in the form of Exhibit D hereto.

1.3. To fund other loans made to other borrowers, the Bank has issued its State Revolving Fund Revenue Bonds, (the "Bank Bonds") under and pursuant to an Indenture of Trust (the "Indenture of Trust"), dated as of May 1, 2021, between the Bank and US Bank National Association, as Trustee as supplemented by a Series 2021A Bond Indenture dated as of September 1, 2021 (the Indenture of Trust as supplemented is hereinafter referred to as the "Indenture"). The

Revenue Bonds and this Agreement may be pledged and assigned to the Trustee as security for the Bank Bonds.

1.4. Funds of the Bank equal to the principal amount of the Loan, less, in each case, a loan closing fee (the "Loan Closing Fee") equal to (i) the Borrower's cost of issuance with respect to the issuance of the Revenue Bonds plus (ii) one percent of the Loan, will be deposited in an account or accounts for the benefit of the Borrower in the Borrower's Construction Proceeds Account (the "Borrower Construction Proceeds Account") held by U.S. Bank National Association, as Depository (the "Depository"), under the terms of the Depository and Administrative Payment Agreement dated July 8, 2014 between the Bank and US Bank National Association (the "Depository Agreement"). Such deposit or deposits, together with the Loan Closing Fee, shall constitute the Loan. Such deposit or deposits, together with the Loan Closing Fee, shall constitute the Loan. The Bank, in its sole discretion, shall determine which funds available to the Bank shall be allocated to the Loan.

## ARTICLE II THE REVENUE BONDS

2.1. Payment of principal and interest shall be made by the Borrower as stated in Exhibit I attached hereto. The stated interest rate on the Revenue Bonds, which is the Borrower's Market Rate (the "Market Rate"), is the prevailing market interest rate for issuers of comparable creditworthiness to the Borrower. The Subsidized Interest Rate is calculated based on a 25% interest subsidy from the Borrower's Market Rate. The Borrower will be obligated by the Revenue Bonds to pay the Market Rate stated thereon but will be billed only for the Subsidized Interest Rate. The Borrower shall also pay to the Bank a loan servicing fee (the "Loan Servicing Fee") in the amount of three-tenths of one percent (0.003%) of the aggregate amounts disbursed prior to such date less aggregate prior principal payments by the Borrower (the "Outstanding Disbursements") as stated in Exhibit I.

2.2 Interest is to be calculated on the basis of a 360-day year of twelve thirty-day months. The Loan proceeds will be deemed drawn in accordance with the draw schedule set forth in Exhibit I. The Bank shall furnish to the Borrower a monthly statement of Loan activity showing all amounts which have been actually disbursed pursuant to the terms of this Agreement.

2.3. Annual payments by the Borrower of the principal of the Loan will be made in accordance with the terms of the Revenue Bonds. Principal payments will begin prior to or within one year after the estimated date of completion of construction of the Project as identified in the Project description in Exhibit B or in the case of a project completed prior to the issuance of the Revenue Bonds, within one year after the Revenue Bonds are issued. Principal payments will be made annually on September 1 and the schedule of payments will be as shown in the form of the Revenue Bonds. The initial scheduled completion date for the Project is stated in Exhibit B. In no event shall such annual payments commence later than five (5) years from the time that a disbursement to the Borrower is first made.

2.4. Interest shall be paid by the Borrower semi-annually each March 1 and September 1 commencing not later than September 1, 2022.

2.5. The annual installments of principal and interest on the Loan shall be arranged so that the last payment of principal and interest is no later than twenty (20) years from the scheduled completion date of the Project as estimated at the time the Loan is made. If any portion of the Project which is separately identified on Exhibit B is not commenced or if, having been commenced, is abandoned or completed without the full amount of the Loan applicable thereto having been disbursed, as of the scheduled completion date set forth in Exhibit B hereto, the balance of the undisbursed proceeds applicable to such portion shall be deemed disbursed as of such date and the Borrower shall be responsible for the payment of interest thereon. Notwithstanding that such balance is deemed disbursed, it shall be retained by the Bank in a separate account for the benefit of the Borrower and the balance and all earnings thereon shall be applied in accordance with the terms of the Indenture. The Borrower shall be responsible for any shortfall in the earnings on the investment of such funds as compared to the interest due on the respective Bank Bonds and the Borrower shall receive credit against principal or interest requirements on the Revenue Bonds for payments of principal or interest on the Bank Bonds from the principal of or interest earnings on, respectively, such invested funds. If, in accordance with the terms of the Indenture, such undisbursed balance is available to make loans to other borrowers, such balance shall not be deemed to be disbursed, but the obligation of the Bank to make disbursements in that amount and the obligation of the Borrower to repay the Loan in that amount shall lapse and be without effect. In the case of such a lapse, the Bank shall re-compute the initial and adjusted annual debt service installments of each Loan to reflect the amount of proceeds actually disbursed to the Borrower, if less than the full principal amount of the Loan, and to make the appropriate notations on the Revenue Bonds or otherwise in the records of the Bank, provided that failure to make such a notation or any error made in such a notation with respect to any Loan shall not limit the Borrower's payment obligations under this Agreement and the Revenue Bonds. Such re-computation shall be as a pro-rata reduction of the debt service on the Revenue Bonds. The Bank shall use its best efforts, consistent with the requirements of the Act, to identify other borrowers and to use the aforesaid undisbursed balance for the purpose of making other loans to such other borrowers.

2.6. A Loan may be prepaid by the Borrower at any time with the consent of the Bank but as a condition to giving such consent the Bank may require a prepayment penalty based on the cost of reinvesting the prepayment, the cost of prepaying outstanding bonds of the Bank or any other reasonable negative financial impact to the Bank.

2.7. The Revenue Bonds, when delivered to the Bank shall be in fully marketable form accompanied by documentation in form and substance satisfactory to the Bank including an opinion acceptable in form to the Bank of nationally recognized bond counsel as to the valid authorization, execution, delivery and enforceability of the Revenue Bonds and this Agreement. The Bank agrees that it will comply with Rule 15c2-12 of the Securities and Exchange Commission and any other applicable securities laws.

ARTICLE III  
PLEDGE AND DEFAULT

3.1. The Revenue Bonds shall constitute a limited obligation of the Borrower, payable only from Revenues, as that term is defined in the KCWA Trust Indenture.

3.2. At any time, any Bank funds payable to the Borrower may be set off against and applied in payment of any obligations that are due hereunder. In the event of a default in the prompt and full payment when due of any installment of principal of or interest on a Revenue Bond issued under this Agreement, any Bank funds payable to the Borrower for the Project may be held and treated as collateral security for the payment of the obligations hereunder. Any such funds applied or held shall be treated as additional principal advances under the Loan. In the event of set off, the Bank shall notify the Borrower of said set off and said funds will be applied to the annual payment due.

3.3. No delay or omission on the part of the Bank in exercising any right under the Revenue Bonds or hereunder shall operate as a waiver of such right or of any other right under the Revenue Bonds or hereunder. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion.

3.4. The Borrower will pay all costs of collection, legal expenses, and reasonable attorney's fees incurred or paid by the Bank in collecting or enforcing the Revenue Bonds, this Agreement or any Loan made hereunder on default, except to the extent that a court of competent jurisdiction has determined that such costs, expenses and fees were not reasonably incurred.

3.5. If any payment due from the Borrower to the Bank shall not be paid in full when and as due, and provided that the Bank shall have given written notice of or a bill for such payment not earlier than 45 days and not later than 30 days before the same is due, additional interest charges shall be made as a late payment fee which will be charged to the Borrower and due to the Bank. The late payment fee shall be five percent (5%) of the amount of the payment or portion thereof, which is late and will be charged every fifteen days, until the payment in question is received, or such lesser amount as shall be the maximum additional interest permitted by state law. The late payment fee shall not constitute a penalty or liquidated damages but shall constitute interest due on the Revenue Bonds and is intended to compensate the Bank for the costs and expenses incurred by it on account of each late payment, including but not limited to interest costs and accounting expenses.

ARTICLE IV  
REPRESENTATIONS AND WARRANTIES

4.1. The Borrower, as consideration for the making of the Loan by the Bank represents and warrants as follows:

- (i) it is a political subdivision of the State of Rhode Island;
- (ii) it is authorized to enter into this Agreement, to make the Loan, to issue the Revenue Bond and to undertake the Project;



(iii) at the time of or prior to the first disbursement hereunder, the Revenue Bond has been approved by the division of public utilities, as required by Rhode Island General Laws § 39-3-15;

(iv) the public utilities commission has approved user fees, charges, rates, or assessments which will be sufficient to meet the rate covenant contained in the KCWA Trust Indenture, attached as Exhibit C herein;

(v) the Loan, the Revenue Bonds, this Agreement, and the KCWA Trust Indenture have each been duly authorized by the appropriate bodies of the Borrower and, when delivered at or prior to the time the Loan is made, will constitute valid and binding obligations, enforceable in accordance with their terms;

(vi) there is no fact that the Borrower has not disclosed to the Bank in its application for the Loan or otherwise that materially adversely affects the properties, activities, financial condition or economic outlook of the Borrower or its ability to undertake the Project or repay the Loan;

(vii) except as to matters detailed in Exhibit H attached hereto, there is no litigation or other proceedings, pending or threatened, against or affecting the Borrower, in any court or before any government agency that, if decided adversely to the Borrower, would materially adversely affect the properties, activities, financial condition or economic outlook of the Borrower or its ability to undertake the Project or repay the Loan; and

(viii) the Borrower agrees that neither it nor any related party (as defined in Treas. Reg. § 1.150-1(b)) to the Borrower will purchase any of the Bank Bonds.

4.2. The Borrower shall confirm, as of the date of each construction disbursement made hereunder, the representations and warranties contained in Section 4.1 and in addition at the time of each construction disbursement shall represent and warrant as follows:

(i) it is in compliance in all material respects, with all laws, ordinances, rules and regulations affecting or relating to the Project;

(ii) it has used all previously disbursed Loan proceeds and will use all Loan proceeds to be disbursed to pay a portion of the costs of the Project or to reimburse itself for costs of the Project which it has paid and which have not been the subject of any prior disbursement;

(iii) it is not in material default hereunder, or under the Revenue Bonds;

(iv) the extent, if any, to which the representations and warranties made in Section 4.1 are no longer true and correct in all material respects; and

(v) the extent, if any, to which all representations and covenants made in any certificate furnished in connection with the delivery of the Revenue Bonds are no longer true and correct.

## ARTICLE V DISBURSEMENT

5.1. After the Loan is made pursuant to Section 1.4 of this Agreement, construction progress payments and reimbursements will be made to the Borrower or on its order from the Borrower Construction Proceeds Account held under the Depository Agreement. Payments and reimbursements will be made only on account of those portions of the Project, as identified in Exhibit B, for which the Borrower has received and filed with the Bank a Certificate of Approval from DOH.

5.2. No more frequently than monthly, the Borrower may submit to the Bank a requisition for payment, in the form set forth in Exhibit J, from the Borrower Construction Proceeds Account held under the Depository Agreement. Such requisition shall be accompanied by vendor, contractor or supplier invoices, or such other documentation as the Bank shall require, showing that the payee, the purpose and the aggregate amount of payments is within the project definition, all applicable DOH approvals and the total amount of the Loan. In the case of a requisition for the reimbursement of project costs paid in the first instance by the Borrower, the requisition shall additionally state that such costs have not been the subject of any prior requisition and are within all applicable guidelines for reimbursement financing.

5.3 Except as provided below, when the Bank has reviewed any requisition and found it to be complete and proper, or has, in its sole discretion, waived any non-compliance, the Bank shall pay such requisition. The Bank review of any requisition shall be completed within five (5) business days of its receipt. Upon receipt of such transfer, and in any case within five (5) business days thereof, the Bank shall issue its check to or on the order of the Borrower, in each case, for payment as specified in the requisition. If at the time of any requisition any of the follow shall be true:

- (i) there shall then be a continuing Event of Default hereunder;
- (ii) the Bank shall have been notified by DOH that disbursement of the Loan should be suspended as a result of conditions found during a DOH review or inspection of the Project, or any components thereof; or
- (iii) if the representations and warranties contained in Section 4.1 or Section 4.2 shall not be true and correct in all material respects as of the date of the requisition;

then the Bank shall have sole discretion as to whether to pay such requisition, as aforesaid. If the Bank has not previously been furnished with a copy of the DOH Certificate of Approval for the portion of the Project to which the requisition relates and for such portion's inclusion in the Bank's loan program, no requisition shall be approved.

## ARTICLE VI EVENTS OF DEFAULT

6.1 In the event that: (i) the Borrower shall fail to make any payment of the principal of, the premium, if any, and interest on all or a portion of the Loan when and as the same shall become due and payable, in accordance with the terms hereof; or (ii) an Event of Default occurs under the terms of the KCWA Trust Indenture, such failure or such occurrence shall constitute an Event of Default, without notice or demand of any kind whatsoever.

6.2 In the event that the Borrower shall fail to observe or comply with any other obligation or covenant under this Agreement, or if any other representation or warranty of the Borrower under this Agreement shall at any time prove to have been false or misleading in any material respect when made or given, such failure or such occurrence shall constitute an Event of Default if the same shall continue for a period of thirty (30) days after written notice thereof given to the Borrower by or on behalf of the Bank; provided, however, that if (a) the failure is not one which may be cured by the payment of money, (b) the curing of such failure cannot be accomplished with due diligence within said thirty days, (c) Borrower commences to cure such failure within said thirty days and thereafter diligently and continuously prosecutes the cure of such failure, and (d) the extension of the period for effecting a cure will not result in any material adverse effect of the interests of the holders of the Bank Bonds or the undertaking of the Bank's programs, then such period of thirty days shall be extended for such period, not in excess of six months, as is reasonably necessary for Borrower so acting to cure such failure.

6.3 Upon the occurrence and continuation of an Event of Default, the Bank may take any and all action, at law or in equity, as it may deem appropriate to enforce this Agreement and the Borrower Bond. In addition and not in limitation of all other rights which it may from time to time have, including, but not limited to, the rights set forth in Section 3.5 of this Agreement, the Bank may, if an Event of Default under Section 6.1 or Section 6.2 of this Agreement has occurred, to the extent permitted by law, declare the entire principal of the Revenue Bonds immediately due and payable, suspend all further construction progress payments and exercise its rights under Article IV hereof.

## ARTICLE VII COMPLIANCE AND REPORTS

7.1 The Borrower agrees to comply with all State and Federal Requirements with respect to carrying out the Project, including those requirements contained in:

- (i) Federal Safe Drinking Water Act of 1974, including the Safe Drinking Water Act Amendments of 1996, as amended and supplemented from time to time;
- (ii) 33 U.S.C. 1372, which requires, inter alia, providing in all contracts with contractors and subcontractors funded directly by or assisted in whole or in part with the funding provided under a federal capitalization grant shall pay laborers and mechanics at rates not less than those prevailing on projects of a character similar in the locality as determined by the Secretary of the United States Department of Labor

("DOL") in accordance with subchapter IV of Chapter 31 of Title 40, United States Code, and as further stated in Exhibit K attached hereto. The Borrower shall include such terms and conditions in any subcontract and lower-tiered transactions, requiring that contractors and subcontractors obtain wage determinations from DOL and comply with DOL guidance and regulations implementing these wage rate requirements;

(iii) To the extent applicable, requirements regarding the use of American iron and steel under the Consolidated Appropriations Act 2018;

(iv) Title 40, CFR Part 34, New Restrictions on Lobbying, including the submission of certification and disclosure forms accordingly;

(v) To the extent applicable, in accordance with 2 CFR 200.501(a), the Borrower agrees to obtain a single audit from an independent auditor, if the Borrower expends \$750,000 or more in total Federal funds in their fiscal year. The Borrower must submit the form SF-SAC and a Single Audit Report Package within 9 months of the end of the Borrower's fiscal year or 30 days after receiving the report from an independent auditor. The SF-SAC and a Single Audit Report Package must be submitted using the Federal Audit Clearinghouse's Internet Data Entry System. See Exhibit E for the amount of federal funds allocated to the Loan;

(vi) other Federal legislation or administrative rules applying to activities supported with Federal funds, including those listed in Exhibit F;

(vii) the Act; and

(viii) Chapters 37-14.4 and 37-14.3 of the Rhode Island General Laws and related regulations relating to Minority Business Enterprises, Women's Business Enterprises and Veteran Business Enterprises and with the requirements of EPA's Disadvantaged Business Enterprise (DBE) Program contained in 40 CFR, Part 23; and to the extent applicable, the reporting requirements set forth in the Federal Funding Accountability and Transparency Act; and

(ix) if the Borrower's network or information system is connected to EPA networks to transfer data to EPA using systems other than the Environmental Information Exchange Network or EPA's Central Data Exchange, the Borrower agrees that when collecting and managing environmental data, it will protect the data by following all applicable State cybersecurity requirements.

The Borrower shall, for as long as is required by applicable law, submit to the Bank on a timely basis, such reports and other information as the Bank may reasonably require to show that the Borrower is in compliance with all such requirements.

7.2. The Borrower will provide the following information to the Bank during the life of the Loan:

- (i) a copy of the annual audited financial statements of the Borrower's water system in accordance with Generally Accepted Government Accounting Standards, annually within 9 months of end of fiscal year;
- (ii) unless included as a part of the annual budget furnished pursuant to item (iii) or the audited financial statements furnished pursuant to item (i), an analysis of operating revenues and expenses, including without limitation, a description of the status of all revenues securing the Revenue Bond and of any operating expenses in excess of budget, annually within 9 months of the end of fiscal year;
- (iii) a copy of the annual budget of the Borrower's water system, within fifteen days of its adoption;
- (iv) unless included as a part of the annual budget furnished pursuant to item (iii) or the audited financial statements furnished pursuant to item (i), a schedule of current and projected short-term and long-term debt service secured by water system revenues, annually with the aforesaid budget;
- (v) copies of reports submitted to DOH, the federal Environmental Protection Agency ("EPA") and any other regulatory agency relating to any project financed by the Bank or the operation thereof, simultaneously with such submission; and
- (vi) such other information or reports as and when the Bank may reasonably require.

7.3. To the extent permitted by law, during such time as the Borrower shall constitute an obligated person within the meaning of S.E.C. Rule 15c2-12 (the "Rule") as in effect from time to time with respect to any bonds issued by the Bank, the Borrower agrees to furnish to the Bank (1) such financial information and operating data with respect to the Borrower at such times and in such forms as the Bank shall reasonably request in order to comply with the provisions of the Rule, together with audited financial statements of the Borrower; provided, however, that its audited financial statements are not then available, unaudited financial statements shall be provided, (2) if not submitted as part of the annual financial information, then when and if available, the Borrower agrees promptly to provide the Bank with its audited financial statements for each fiscal year and (3) the Borrower agrees to provide or cause to be provided to the Bank, within ten (10) business days after the occurrence thereof, notice of the occurrence of any of the following events with respect to the Revenue Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or the issuance by the IRS of proposed or final determinations

- of taxability, Notices of Proposed Issue (IRS Form 5701-TE3) or other material notices or determinations with respect to the tax status of the Revenue Bonds or other material events affecting the tax-exempt status of the Revenue Bonds;
- (g) modifications to rights of holders of the Revenue Bonds, if material;
  - (h) Revenue Bonds calls, if material, and tender offers;
  - (i) Revenue Bonds defeasances;
  - (j) release, substitution, or sale of property securing repayment of the Revenue Bonds, if material;
  - (k) rating changes;
  - (l) bankruptcy, insolvency, receivership or similar event of the Borrower\*;
  - (m) the consummation of a merger, consolidation, or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, 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;
  - (n) appointment of a successor or additional trustee or the change of name of a trustee, if material;
  - (o) Incurrence of a financial obligation of the Borrower, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Borrower, any of which affects the owners of the Revenue Bonds, if material,<sup>1</sup> and
  - (p) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Borrower, any of which reflect financial difficulties.<sup>1</sup>

The Borrower will provide, in a timely manner, to the Bank, notice of a failure to satisfy the requirements of this Section.

The intent of the Borrower undertaking pursuant to this Section is to facilitate the Bank's ability to comply with the requirements of the Rule. Accordingly, the Borrower agrees to provide the Bank with any additional information the Bank may reasonably require in order to comply with the requirements of Rule, as in effect from time to time.

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\* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Borrower in a proceeding under the U. S. Bankruptcy Code or in any 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 Borrower, 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 (ii) 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 Borrower.

<sup>1</sup> For purposes of events listed as (o) and (p), the term "financial obligation" means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged a security or a source of payment for, an existing or planned debt obligation; or (ii) guarantee of (i) or (ii). The term "financial obligation" excludes municipal securities for which an official statement has been provided to the MSRB consistent with the Rule.

ARTICLE VIII  
MISCELLANEOUS

8.1 The Borrower shall, subject to local zoning ordinances, erect or cause there to be erected at the Project site, or at each principal component thereof if more than one physical site is involved, and shall maintain during the construction of the Project, a sign approved by the Bank and DOH, as more completely described in Exhibit G having minimum dimensions of four feet by eight feet, identifying the State Revolving Loan Fund as a principal source of funding for the Project.

8.2 This Agreement may be amended, waived or discharged only by an instrument in writing signed by the parties hereto and only after approval of such amendment, waiver or discharge by the Bank.

8.3 This Agreement shall be construed in accordance with the laws of the State of Rhode Island, and is binding upon and inures to the benefit of the parties and their respective successors.

8.4 To the extent that a court of competent jurisdiction would enforce such agreement as not contrary to law or public policy, the Borrower shall indemnify the Bank against and hold the Bank harmless from any and all claims arising from or in connection with this Agreement, the loan and the project financed thereby, except for such claims as may arise from the gross negligence or willful misconduct of the Bank or its officers and except for claims arising from the issuance and marketing of the Bank Bonds unless, and only to the extent, based on information furnished by the Borrower for use in connection therewith.

8.5 Except that this Agreement, the Loan and any Revenue Bonds may be assigned by the Bank for the benefit and security of the holders of bonds of the Bank, the parties hereto do not intend to benefit any third parties and this Agreement shall not be construed to confer any such benefit.

(Remainder of page left blank)

8.6 This Agreement, which may be executed in a number of counterparts, each of which shall be deemed an original, constitutes the entire agreement and understanding between the parties, and supersedes all prior agreements and understandings relating hereto.

RHODE ISLAND  
INFRASTRUCTURE BANK

KENT COUNTY WATER AUTHORITY

By: \_\_\_\_\_  
Jeffrey R. Diehl  
Executive Director

By: \_\_\_\_\_  
Name:  
Title:

By: \_\_\_\_\_  
Name:  
Title:



EXHIBIT A  
List of Local Bond Acts

Title

Authorized Amount

EXHIBIT B

DESCRIPTION OF THE PROJECT

I. NARRATIVE STATEMENT DESCRIBING THE PROJECT

II. COSTS TO BE PAID FROM LOAN FOR EACH SEPARATELY IDENTIFIED PORTION OF THE PROJECT

1. Construction Costs: \$
2. Debt Service Reserve Fund: \$
3. Costs of Issuance: \$
4. Loan Origination Fee: \$

III. ESTIMATED COMPLETION DATE FOR THE PROJECT

EXHIBIT C

KCWA TRUST INDENTURE

EXHIBIT D  
FORM OF REVENUE BOND

EXHIBIT E

SOURCE OF LOAN

1. Amount of Direct Loan: \$
2. Amount of Bonded Loan: \$
3. Amount of Federal Funds: \$

SECURITY

The following shall constitute security for the prompt performance of the Borrower's obligation under the Agreement, the Borrower Bonds and an account of the Loans:

Revenue Pledge.

## EXHIBIT F

### FEDERAL LAWS AND ADMINISTRATIVE REQUIREMENTS

#### I. Statutes and Regulations

Age Discrimination Act, Public Law 94-135

Archeological and Historical Preservation Act of 1974, Public Law 93-291

Civil Rights Act of 1964, Public Law 88-352, as amended

Clean Air Act, 42 U.S.C. Sections 306 and 7506(c)

Clean Air Conformity Act

Clean Water Act, 33 U.S.C. 1250, et seq.

Costal Barrier Resources Act, 16 U.S.C. 3501, et seq.

Coastal Zone Management Act of 1972, Public Law 92-583, as amended

Demonstration Cities and Metropolitan Development Act of 1966, Public Law 89-754, as amended

Endangered Species Act, 16 U.S.C. 1531, et seq.

Farmland Protection Policy Act, 7 U.S.C. 4201, et seq.

Federal Water Pollution Control Act, Public Law 92-500, as amended

Fish and Wildlife Coordination Act, Public Law 85-624, as amended

Magnuson-Stevens Fisheries Conservation and Management Act

National Environmental Policy Act, including regulations at 40 CFR, Part 6

National Historic Preservation Act of 1986, Public Law 89-665, as amended

Rehabilitation Act of 1973, Public Law 93-112, as amended

Safe Drinking Water Act, Public Law 92-523, as amended

Subpart C of 2 CFR Part 180 and 2 CFR Part 1532, entitled "Responsibilities of Participants Regarding Transactions (Doing Business with Other Persons)"

Title IX of the Education Amendments of 1972

Uniform Relocation and Real Property Acquisition Policies Act of 1970, Public Law 91-646, as amended

Wild and Scenic Rivers Act, Public Law 90-542, as amended

Disadvantaged Business Enterprises in U.S. EPA Programs, 40 CFR, Part 33

## II. Executive Orders

- E.O. #11246 (Equal Employment Opportunity)
- E.O. #11250 (Rehabilitation)
- E.O. #11593 (Protection and Enhancement of the Cultural Environment)
- E.O. #11625 (Women's and Minority Business Enterprise)
- E.O. #11738 (Administration of the Clean Air Act and the Federal Water Pollution Control Act with Respect to Federal Contracts, Grants or Loans)
- E.O. #11914 (Rehabilitation)
- E.O. #11988 (Floodplain Management)
- E.O. #11990 (Protection of Wetlands)
- E.O. #12138 (Women's and Minority Business Enterprise)
- E.O. #12549 (Debarment and Suspension)
- E.O. #12898 (Environmental Justice)

## EXHIBIT G

### Specification for Sign



EXHIBIT H

Disclosure of Potential Liability  
and Possibility of Litigation or Other Claims

EXHIBIT I

BORROWER DEBT SERVICE AND FEE SCHEDULE

EXHIBIT J  
FORM OF REQUISITION

EXHIBIT K

WAGE RATE REQUIREMENTS

# RHODE ISLAND INFRASTRUCTURE BANK

## LOAN AGREEMENT

### EFFICIENT BUILDINGS FUND

This AGREEMENT is entered into as of the \_\_th day of March, 2022, between the Rhode Island Infrastructure Bank (the "Bank") and the Kent County Water Authority (the "Borrower") in accordance with Chapter 46-12.2 of the Rhode Island General Laws (the "Act"), and an act or acts of the General Assembly of the State of Rhode Island and Providence Plantations (the "Local Bond Act"), more fully described in Exhibit A hereto, in order to finance eligible energy efficiency projects listed on the Efficient Buildings Fund Project Priority List established by the Rhode Island Office of Energy Resources ("OER"), to the extent of the aggregate amount of the loans made hereunder. The Borrower's energy efficiency project is described in Exhibit B (the "Project").

#### ARTICLE I THE LOAN

1.1. The Bank agrees to and does hereby loan to the Borrower, and the Borrower agrees to and does hereby borrow from the Bank, in accordance with the terms of this Agreement, the principal sum of One Million Eight Hundred Twenty-Six Thousand Nine Hundred Thirteen Dollars (\$1,826,913) (the "Loan"), the proceeds of which shall be used to finance the Project. The Borrower shall repay the Loan, with interest thereon, in annual installments as provided in this Agreement and in the form of the Borrower Bonds, described below. The proceeds of the Loan shall be disbursed hereunder by the Bank to the Borrower, or on its order, on a periodic basis, as requested by the Borrower, but not more frequently than monthly, subject to the approval of the amount of each disbursement by the Bank and the Rhode Island Office of Energy Resources ("OER").

1.2. The Loan shall be evidenced by a bond or bonds of the Borrower (in either case, referred to herein as the "Borrower Bonds"), which the Bank agrees to purchase from the Borrower on the date hereof. The Borrower Bonds shall be issued under and in accordance with the applicable provisions of the Rhode Island General Laws, the applicable Local Bond Act and the Act and each disbursement shall be noted thereon or otherwise recorded in the records of the Bank. The Borrower Bonds shall be issued in accordance with the Trust Indenture between the Kent County Water Authority and The Bank of New York Mellon Trust Company, N.A., as Trustee (the "Borrower Trustee"), dated March \_\_, 2022, and a First Supplemental Indenture thereto, dated March \_\_, 2022 (collectively, the "KCWA Trust Indenture"), which is incorporated herein and attached as Exhibit G hereto. The Borrower Bonds shall be substantially in the form of Exhibit C hereto.

1.3. To fund loans to other Borrowers of the Efficient Buildings Fund program, the Bank has issued its Efficient Buildings Fund Revenue Bonds (the "Bank Bonds"), under and pursuant to an Indenture of Trust (the "Indenture of Trust" or "Indenture"), dated November 1, 2018, between the Bank and U.S. Bank National Association, as Trustee. The Borrower Bonds and this Agreement may be pledged and assigned to the Trustee as security for the Bank Bonds.

1.4. Funds of the Bank equal to the principal amount of the Loan, less, in each case, a loan closing fee (the "Loan Closing Fee") equal to (i) the Borrower's cost of issuance with respect to the issuance of the Borrower Bond plus (ii) one percent of the Loan, will be deposited in an account or accounts (the "Borrower Construction Account"), for the benefit of the Borrower held by U.S. Bank National Association, as Depository (the "Depository") under the Depository and Administrative Payment Agreement between the Bank and the Depository dated December 8, 2017, (the "Depository Agreement"). Such deposit or deposits, together with the Loan Closing Fee, shall constitute the Loan. The Bank, in its sole discretion, shall determine which funds available to the Bank shall be allocated to the Loan.

## **ARTICLE II THE BORROWER BONDS**

2.1. Payment of principal of and interest on the Loan shall be made by the Borrower in accordance with the terms of the Borrower Bonds and as stated in Exhibit D attached hereto. The stated interest rate on the Borrower Bonds, which is the Borrower's market rate (the "Market Rate"), is the prevailing market tax-exempt interest rate for issuers of comparable creditworthiness to the Borrower, as determined by the Bank on the advice of the Financial Advisor after consultation with the Borrower. The subsidized interest rate (the "Subsidized Interest Rate") is calculated based on a 33% interest subsidy from the Borrower's Market Rate. The Borrower will be obligated by the Borrower Bonds to pay the Market Rate stated thereon but will be billed only for the Subsidized Interest Rate except in special circumstances as set forth below in Section 2.2 and in Article VI. The Borrower shall also pay to the Bank a loan servicing fee (the "Loan Servicing Fee") in the amount of three tenths of one percent (0.003%) of the Loan amount outstanding as stated in Exhibit D.

2.2 In the event of a default in payment by the Borrower or any other borrowers of the Efficient Buildings Fund Program (EBF), the Bank may cover its debt service obligations on Bank Bonds by requiring the Borrower and/or other EBF borrowers to pay up to the Market Rate on their respective Borrower Bonds. Any adjustment from the Subsidized Rate up to the Market Rate on a loan shall never affect the amount of Loan proceeds which may be disbursed pursuant to Article V, nor shall it affect the amount of principal which must be repaid on the Borrower Bonds. The only effect shall be a requirement that the Borrower pay interest in excess of the Subsidized Interest Rate, but not in excess of the Market Rate stated on the Borrower Bonds. Such requirement shall be prospective only and shall apply to payments of interest due after the Bank has given written notice to the Borrower of the circumstances which have caused such requirement to occur. At such time as the Bank is again able to meet its debt service obligations, the Bank shall again bill the Borrower only at the Subsidized Interest Rate. The Bank shall not be required to reimburse or credit the Borrower for any increase paid pursuant to this Section.

2.3. Interest is to be calculated on the basis of a 360-day year of twelve thirty-day months. The Loan proceeds will be deemed drawn in accordance with the draw schedule set forth in Exhibit D. The Bank shall furnish to the Borrower a monthly statement of Loan activity showing all amounts which have been actually disbursed pursuant to the terms of this Agreement.

2.4. Annual payments by the Borrower of the principal of the Loan will be made in accordance with the terms of the Borrower Bonds. Principal payments will begin within one year after the estimated date of completion of construction of the Project as identified in the Project description in Exhibit B or in the case of a Project completed prior to the issuance of the Borrower Bonds, within one year after the Borrower Bonds are issued. Principal payments will be made annually on September 1 and the schedule of payments will be as shown in the form of the Borrower Bonds. The initial scheduled completion date for the Project is stated in Exhibit B.

2.5. Interest shall be paid by the Borrower semi-annually each March 1 and September 1, and shall commence not later than September 1, 2022.

2.6. A Loan may be prepaid by the Borrower at any time with the consent of the Bank but as a condition to giving such consent the Bank may require a prepayment penalty based on the cost of reinvesting the prepayment, the cost of prepaying outstanding bonds of the Bank or any other reasonable negative financial impact to the Bank.

2.7. The Borrower Bonds, when delivered to the Bank shall be in fully marketable form accompanied by documentation in form and substance satisfactory to the Bank including an opinion acceptable in form to the Bank of nationally recognized bond counsel as to the valid authorization, execution, delivery and enforceability of the Borrower Bonds and this Agreement. The Bank agrees that it will comply with Rule 15c2-12 of the Securities and Exchange Commission and any other applicable securities laws.

### ARTICLE III PLEDGE AND DEFAULT

3.1. The Borrower Bonds shall constitute a limited obligation of the Borrower, payable only from Revenues, as that term is defined in the KCWA Trust Indenture.

3.2. At any time, any Bank funds payable to the Borrower may be set off against and applied in payment of any obligations that are due hereunder. In the event of a default in the prompt and full payment when due of any installment of principal of or interest on a Borrower Bond issued under this Agreement, any Bank funds payable to the Borrower for the Project may be held and treated as collateral security for the payment of the obligations hereunder. Any such funds applied or held shall be treated as additional principal advances under the Loan. In the event of set off, the Bank shall notify the Borrower of said set off and said funds will be applied to the annual payment due.

3.3. No delay or omission on the part of the Bank in exercising any right under the Borrower Bonds or hereunder shall operate as a waiver of such right or of any other right under the Borrower Bonds or hereunder. A waiver on any one occasion shall not be construed as a bar to or waiver of any right or remedy on any future occasion.

3.4. The Borrower will pay all costs of collection, legal expenses, and reasonable attorney's fees incurred or paid by the Bank in collecting or enforcing the Borrower Bonds, this Agreement or any Loan made hereunder on default, except to the extent that a court of competent jurisdiction has determined that such costs, expenses and fees were not reasonably incurred.

3.5. If any payment due from the Borrower to the Bank shall not be paid in full when and as due, and provided that the Bank shall have given written notice of or a bill for such payment not earlier than 45 days and not later than 30 days before the same is due, additional interest charges shall be made as a late payment fee which will be charged to the Borrower and due to the Bank. The late payment fee shall be five percent (5%) of the amount of the payment or portion thereof, which is late and will be charged every fifteen days, until the payment in question is received, or such lesser amount as shall be the maximum additional interest permitted by state law. The late payment fee shall not constitute a penalty or liquidated damages but shall constitute interest due on the Borrower Bonds and is intended to compensate the Bank for the costs and expenses incurred by it on account of each late payment, including but not limited to interest costs and accounting expenses.

#### ARTICLE IV REPRESENTATIONS AND WARRANTIES

4.1. The Borrower, as consideration for the making of the Loan by the Bank represents and warrants as follows:

- (i) it is a duly authorized political subdivision of the State of Rhode Island;
- (ii) it is authorized to enter into this Agreement, to receive the Loan, to issue the Borrower Bonds and to undertake the Project;
- (iii) the Loan, the Borrower Bonds and this Agreement have each been duly authorized by the appropriate bodies of the Borrower and, when delivered at or prior to the time the Loan is made, will constitute valid and binding obligations, enforceable in accordance with their terms;
- (iv) there is no fact that the Borrower has not disclosed to the Bank that materially adversely affects the properties, activities, financial condition or economic outlook of the Borrower or its ability to undertake the Project or repay the Loan; and
- (v) except as to matters detailed in Exhibit E attached hereto, there is no litigation or other proceedings, pending or threatened, against or affecting the Borrower, in any court or before any government agency that, if decided adversely to the Borrower, would materially adversely affect the properties, activities, financial condition or economic outlook of the Borrower or its ability to undertake the Project or repay the Loan.

4.2. The Borrower shall confirm, as of the date of each construction disbursement made pursuant to Article V, the representations and warranties contained in Section 4.1 and in addition at the time of each construction disbursement shall represent and warrant as follows:

- (i) it is in compliance in all material respects, with all laws, ordinances, rules and regulations affecting or relating to the Project;



- (ii) it has used all previously disbursed Loan proceeds and will use all Loan proceeds to be disbursed to pay a portion of the costs of the Project or to reimburse itself for costs of the Project which it has paid and which have not been the subject of any prior disbursement;
- (iii) it is not in material default hereunder, or under the Borrower Bonds;
- (iv) the extent, if any, to which the representations and warranties made in Section 4.1 are no longer true and correct in all material respects;
- (v) the extent, if any, to which all representations and covenants made in any certificate furnished in connection with the delivery of the Borrower Bonds, including certificates relating to disclosure of material information in connection with the sale of Bank Bonds and to the tax-exempt nature of interest on the Borrower Bonds, are no longer true and correct; and
- (vi) the Project was built in conformance with the Project application, along with plans and specifications.

## ARTICLE V DISBURSEMENT

5.1. After the Loan is made pursuant to Section 1.3 of this Agreement, construction progress payments and reimbursements will be made to the Borrower or on its order from the Borrower's Construction Account held under the Depository Agreement. Payments and reimbursements will be made only on account of those portions of the Project, as identified in Exhibit B, which appear on the OER Project Priority List. OER, or its designated representative, will inspect the Project prior to the final disbursement for the Project to ensure that the Project has been completed as described in the Project application, and upon satisfactory inspection, shall provide the Bank with a written approval for the final disbursement. The amount of the final disbursement shall not be less than ten percent (10%) of the amount of the Loan, and the Bank shall withhold such amount until receipt of final written approval from OER.

5.2. No more frequently than monthly, the Borrower may submit to the Bank a requisition, in the form set forth in Exhibit F, for payment from the Borrower Construction Account held under the Depository Agreement. Such requisition shall be accompanied by vendor, contractor or supplier invoices, or such other documentation as the Bank shall require, showing that the payee, the purpose and the aggregate amount of payments is within the Project definition, all applicable OER approvals and the total amount of the Loan. In the case of a requisition for the reimbursement of Project costs paid in the first instance by the Borrower, the requisition shall additionally state that such costs have not been the subject of any prior requisition and are within all applicable guidelines for reimbursement financing.

5.3 Except as provided below, when the Bank and OER have reviewed any requisition and

found it to be complete and proper, or have, in their reasonable discretion, waived any non-compliance, the Bank shall cause the Depository under the Depository Agreement to transfer the amount of such requisition to the Bank for the Borrower's account therewith. The Bank and OER review of any requisition shall be completed within five (5) business days of its receipt. Upon receipt of such transfer, and in any case within five (5) business days thereof, the Bank shall issue its check to or on the order of the Borrower, in each case, for payment as specified in the requisition. If at the time of any requisition any of the following shall be true:

- (i) there shall then be a continuing Event of Default hereunder;
- (ii) the Bank shall have been notified by OER that disbursement of the Loan should be suspended as a result of conditions found during an OER review or inspection of the Project, or any components thereof; or
- (iii) if the representations and warranties contained in Section 4.1 and Section 4.2 shall not be true and correct in all material respects as of the date of the requisition.

then the Bank shall have sole discretion as to whether to cause the Depository to make such transfer and to issue such check, as aforesaid.

## ARTICLE VI EVENTS OF DEFAULT

6.1 In the event that: (i) the Borrower shall fail to make any payment of the principal of, the premium, if any, and interest on all or a portion of the Loan when and as the same shall become due and payable, in accordance with the terms hereof; or (ii) an Event of Default occurs under the terms of the KCWA Trust Indenture, such failure or such occurrence shall constitute an Event of Default, without notice or demand of any kind whatsoever.

6.2 In the event that the Borrower shall fail to observe or comply with any obligation or covenant under this Agreement, or if any other representation or warranty of the Borrower under this Agreement shall at any time prove to have been false or misleading in any material respect when made or given, such failure or such occurrence shall constitute an Event of Default if the same shall continue for a period of thirty (30) days after written notice thereof given to the Borrower by or on behalf of the Bank; provided, however, that if (a) the failure is not one which may be cured by the payment of money, (b) the curing of such failure cannot be accomplished with due diligence within said thirty days, (c) Borrower commences to cure such failure within said thirty days and thereafter diligently and continuously prosecutes the cure of such failure, and (d) the extension of the period for effecting a cure will not result in any material adverse effect of the interests of the holders of the Bank Bonds, if any, then such period of thirty (30) days shall be extended for such period, not in excess of six (6) months, as is reasonably necessary for Borrower so acting to cure such failure.

6.3 Upon the occurrence and continuation of an Event of Default, the Bank may take any and all action, at law or in equity, as it may deem appropriate to enforce this Agreement and the Borrower Bonds, including requiring the Borrower to pay up to the Market Rate on the Borrower

Bonds. In addition and not in limitation of all other rights which it may from time to time have, including, but not limited to, the rights set forth in Section 3.5 of this Agreement, the Bank may, if an Event of Default under Section 6.1 of this Agreement has occurred, if and to the extent permitted by law, suspend all further construction progress payments and exercise its rights under Section 2.2 hereof.

## ARTICLE VII COMPLIANCE AND REPORTS

7.1 OER, or its designated representative, may inspect the Project at any time during the construction process and following completion of the Project.

7.2 **For Energy Efficiency Projects** – Within thirty (30) days of construction completion, the Borrower shall have an independent, 3<sup>rd</sup> party commissioning of all energy efficiency measures. A copy of the commissioning report (hard copy and electronic copy) shall be forwarded to the Bank and OER within thirty (30) days following the commissioning.

7.3 **For Solar PV Projects** – Within thirty (30) days of interconnection, the Borrower shall have an independent third party inspection of the renewable energy system. Third party independent inspections completed pursuant to existing State programs are acceptable. A copy of the inspection report (hard copy and electronic copy) shall be forwarded to the Bank and OER within thirty (30) days following the inspection.

7.4 **For Wind Projects** - Within thirty (30) days of interconnection, the Borrower shall have an independent third party inspection of the renewable energy system. Third party independent inspections completed pursuant to existing State programs are acceptable. A copy of the inspection report (hard copy and electronic copy) shall be forwarded to the Bank and OER within sixty (60) days following the inspection.

7.5 The Borrower is required to comply with all OER data and reporting requests for a minimum period of five (5) years following completion of the Project, including, but not limited to:

- 7.5.1 Actual number of full time equivalent jobs associated with the Project;
- 7.5.2 Job types;
- 7.5.3 Borrower wide energy consumption compared to baseline consumption that was submitted to OER in the Borrower EBF Project Priority List application;
- 7.5.4 For any portion of the Project consisting of energy efficiency projects, comparison of actual units of energy (e.g. kWh, therms, gallons) saved versus estimated units of energy saved based on the Borrower EBF Project Priority List application submitted to OER; and

7.5.5 For any portion of the Project consisting of renewable energy projects, accessibility to the project production dash boards (e.g. Locus, Solectria).

7.6 Any inspection or review by the OER or its designated representative is for the limited purpose of confirming completion of the Project as described in the Project application and is not intended to relieve the Borrower or its contractors of any responsibility with respect to the design and construction.

7.7 The design and construction shall comply with all State required regulations, including applicable Americans with Disabilities (ADA) regulations, historic preservation regulations, environmental regulations, and any other pertinent regulations or applicable portions thereof.

7.8 Upon completion of the Project, the Borrower shall be responsible for maintaining all aspects of the Project in accordance with the design plans and specifications developed for the Project, at its own cost and expense.

7.9 Nothing in this Agreement shall in any way alter or negate the terms of any contracts or agreements necessary for the use of Federal funds or utility incentives for any portion of the Project.

7.10 The Borrower agrees to comply with all State requirements with respect to carrying out the Project, including those requirements contained in:

- (i) Chapter 46-12.2 of the Rhode Island General Laws;
- (ii) Chapter 37-13 of the Rhode Island General Laws;
- (iii) Chapter 37-14.1 of the Rhode Island General Laws; and
- (iv) Other State laws or administrative rules applying to activities supported with State funds.

The Borrower shall, for as long as is required by applicable law, submit to the Bank on a timely basis, such reports and other information as the Bank may reasonably require to show that the Borrower is in compliance with all such requirements.

7.11 The Borrower will provide the following information to the Bank during the life of the Loan:

- (i) a copy of the annual audited financial statements of the Borrower's water system in accordance with Generally Accepted Government Accounting Standards, annually within 9 months of end of fiscal year;
- (ii) unless included as a part of the annual budget furnished pursuant to item (iii)

or the audited financial statements furnished pursuant to item (i), an analysis of operating revenues and expenses, including without limitation, a description of the status of all revenues securing the Revenue Bond and of any operating expenses in excess of budget, annually within 9 months of the end of fiscal year;

(iii) a copy of the annual budget of the Borrower's water system, within fifteen days of its adoption;

(iv) unless included as a part of the annual budget furnished pursuant to item (iii) or the audited financial statements furnished pursuant to item (i), a schedule of current and projected short-term and long-term debt service secured by water system revenues, annually with the aforesaid budget;

(v) copies of reports submitted to OER, the Rhode Island Department of Health, U.S. Department of Energy, and any other regulatory agency relating to the Project financed by the Bank or the operation thereof, simultaneously with such submission.

(vi) such other information or reports as and when the Bank may reasonably require.

7.12 To the extent required by law, during such times as the Borrower shall constitute an obligated person with respect to the Bank Bonds within the meaning of S.E.C. Rule 15c2-12 (the "Rule") as in effect from time to time, the Borrower agrees to furnish to the Bank (1) such financial information and operating data with respect to the Borrower at such times and in such forms as the Bank shall reasonably request in order to comply with the provisions of the Rule, together with financial statements of the Borrower, provided, however, that if audited financial statements are not then available, unaudited financial statements shall be provided, (2) if not submitted as part of the annual financial information, then when and if available, the Borrower agrees promptly to provide the Bank with its audited financial statements for each fiscal year, and (3) the Borrower agrees to provide or cause to be provided to the Bank, within ten (10) business days after the occurrence thereof, notice of the occurrence of any of the following events with respect to the Borrower Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) adverse tax opinions or the issuance by the IRS 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 Borrower Bonds or other material events affecting the tax-exempt status of the Borrower Bonds;
- (g) modifications to rights of holders of the Borrower Bonds, if material;
- (h) Borrower Bonds calls, if material;
- (i) Borrower Bonds defeasances;
- (j) release, substitution, or sale of property securing repayment of the Borrower Bonds, if material;

- (k) Borrower Bond rating changes;
- (l) Borrower Bond tender offers;
- (m) bankruptcy, insolvency, receivership or similar event of the Borrower\*;
- (n) the consummation of a merger, consolidation, or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, 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;
- (o) appointment of a successor or additional trustee or the change of name of a trustee, if material;
- (p) incurrence of a financial obligation of the Borrower, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Borrower, any of which affect Bondowners, if material;<sup>1</sup> or
- (q) default, event of acceleration, termination event, modification of terms, or others similar events under the terms of a financial obligation of the Borrower, and of which reflect financial difficulties<sup>1</sup>.

To the extent required by law the Borrower will provide, in a timely manner, to the Bank, notice of a failure to satisfy the requirements of this Section.

The intent of the Borrower undertaking pursuant to this Section is to facilitate the Bank's ability to comply with the requirements of the Rule. Accordingly, the Borrower agrees to provide the Bank with any additional information the Bank may reasonably require in order to comply with the requirements of Rule, as in effect from time to time.

## ARTICLE VIII MISCELLANEOUS

8.1 This Agreement may be amended, waived or discharged only by an instrument in writing signed by the parties hereto and only after approval of such amendment, waiver or discharge by the Bank.

8.2 This Agreement shall be construed in accordance with the laws of the State of Rhode Island, and is binding upon and inures to the benefit of the parties and their respective successors.

\* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Borrower in a proceeding under the U. S. Bankruptcy Code or in any 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 Borrower, 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 (ii) 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 Borrower.

<sup>1</sup> For purposes of the events identified in Sections 7.12 (p) and (q) above, the term "financial obligation" means a (i) debt obligation; (ii) 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) guarantee of (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.

8.3 To the extent that a court of competent jurisdiction would enforce such agreement as not contrary to law or public policy, the Borrower shall indemnify the Bank against and hold the Bank harmless from any and all claims arising from or in connection with this Agreement, the Loan and the Project financed hereby, except for such claims as may arise from the gross negligence or willful misconduct of the Bank or its officers and except for claims arising from the issuance and marketing of any Bank Obligations unless, and only to the extent, based on information furnished by the Borrower for use in connection therewith.

8.4 Except that this Agreement, the Loan and any Borrower Bonds may be assigned by the Bank for the benefit and security of the holders of bonds of the Bank, the parties hereto do not intend to benefit any third parties and this Agreement shall not be construed to confer any such benefit.

(remainder of page intentionally left blank)

8.5 This Agreement, which may be executed in a number of counterparts, each of which shall be deemed an original, constitutes the entire agreement and understanding between the parties, and supersedes all prior agreements and understandings relating hereto.

RHODE ISLAND  
INFRASTRUCTURE BANK

KENT COUNTY WATER AUTHORITY

By: \_\_\_\_\_  
Jeffrey R. Diehl  
Executive Director

By: \_\_\_\_\_  
Title:

By: \_\_\_\_\_  
Title:



EXHIBIT A

List of Local Bond Acts

Title

Authorized Amount

EXHIBIT B

DESCRIPTION OF THE PROJECT

I. NARRATIVE STATEMENT DESCRIBING THE PROJECT

II. COSTS TO BE PAID FROM LOAN FOR EACH SEPARATELY IDENTIFIED PORTION OF THE PROJECT

- |    |                       |    |
|----|-----------------------|----|
| 1. | Construction Costs:   | \$ |
| 2. | Costs of Issuance:    | \$ |
| 3. | Loan Origination Fee: | \$ |

EXHIBIT C

BORROWER BOND FORM

EXHIBIT C-1

PROJECTED ENERGY SAVINGS

EXHIBIT D

BORROWER DEBT SERVICE AND FEE SCHEDULE

EXHIBIT E

Disclosure of Potential Liability  
and Possibility of Litigation or Other Claims

EXHIBIT F  
FORM OF REQUISITION

EXHIBIT G

KCWA TRUST INDENTURE



***APPENDIX E***

**KENT COUNTY WATER AUTHORITY  
WEST WARWICK, RHODE ISLAND**

ANNUAL FINANCIAL STATEMENTS

*YEARS ENDED JUNE 30, 2021 AND 2020*



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Kent County Water Authority

ANNUAL FINANCIAL STATEMENTS

*June 30, 2021 and 2020*

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CERTIFIED PUBLIC ACCOUNTANTS

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*Independent Auditor's Report*

To the Board of Directors of the  
Kent County Water Authority  
West Warwick, Rhode Island

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Kent County Water Authority ("the Authority"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Authority'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Authority'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 business-type activities and the aggregate remaining fund information of the Authority, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Prior-Year Comparative Information*

The financial statements include partial prior-year comparative information related to the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows for the Authority's business-type activities and the statement of fiduciary net position and the statement of changes in the fiduciary net position for the Authority's aggregate remaining fund information. Such information does not include all of the information required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended June 30, 2020, from which such partial information was derived.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Pension Plan information, and Other Post Employment Benefit information, as listed on 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 Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Hague, Sahady & Co., CPA's, P.C.

Fall River, Massachusetts  
August 30, 2021

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# **KENT COUNTY WATER AUTHORITY**

## **Management's Discussion and Analysis (MD&A)**

Years Ended June 30, 2021 and 2020

This section of the Authority's annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2021 and 2020. Please read it in conjunction with the Authority's financial statements, which immediately follow this section.

The Kent County Water Authority ("the Authority") is a public benefit corporation created pursuant to existing under Chapter 1740 of the Public Laws of 1946, at Chapter 16 of Title 39 of the Rhode Island General Laws (1956), as amended, and is subject to the supervisory and regulatory powers of the State Public Utilities Commission (PUC).

The Authority provides water supply services through metered sales in the communities of Coventry, Warwick, West Warwick, East Greenwich, West Greenwich, and in smaller sections of Cranston, Scituate, and North Kingstown. The Authority is responsible for operating and maintaining the water supply system.

### **FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The financial statements are organized as follows:

- The Statement of Net Position presents information on all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as "net position". Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.
- The Statement of Revenue, Expenses, and Changes in Net Position presents information showing how the Authority's net position changed during the most recent reporting period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future periods (e.g., earned but unbilled revenue and earned but unused vacation leave).
- The Statement of Cash Flows presents information depicting the Authority's cash flow activities for the most recent reporting period and the effect that these activities had on the Authority's cash and cash equivalent balances.
- The Fiduciary Financial Statements provide information about net position restricted or held in trust for benefits under the Authority's employee benefit plan and changes in net position for benefits.
- The Notes to Financial Statements present additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages indicated on the table of contents of this report.



# **KENT COUNTY WATER AUTHORITY**

## **Management's Discussion and Analysis (MD&A)**

Years Ended June 30, 2021 and 2020

### **FINANCIAL HIGHLIGHTS**

The Authority maintains a relatively strong financial performance. Management continues to carefully evaluate the Authority's finances to ensure optimum performance. In addition to meeting all debt covenants, outstanding debt and cash reserves were kept at levels appropriate for maintaining favorable bond ratings. The following are the key financial highlights:

- Net position increased \$7.7 million in fiscal year 2021 compared to \$9 million increase in fiscal year 2020, the difference in increase between years is mainly due to depreciation, the payoff of debt notes and other operating results.
- Total assets and deferred outflow of resources were \$194 million in fiscal year 2021 compared to \$201 million in 2020, which exceeded total liabilities and deferred inflow of resources by \$185 million in fiscal year 2021 and \$177 million in fiscal year 2020.
- The Authority's debt to equity ratio was 3.00% and 9.65 % at June 30, 2021 and 2020, respectively, indicating the continuance of capacity to issue additional debt.

### **FINANCIAL ANALYSIS**

The operations of the Authority are accounted for in a Proprietary Fund Type (Enterprise Fund). The Authority operates in a manner similar to private business enterprises where the costs of providing goods or services to the general public, support of a Capital Improvement Program, and funding of an Infrastructure Replacement Program are financed or recovered through user charges approved by the Rhode Island Public Utilities Commission (RIPUC).

Condensed financial information from the statements of net position and operations is presented below. The statement of net position provides information on the assets and deferred outflows of resources and liabilities and deferred inflows or resources of the Authority, as well as the net position. Over time, increases and decreases in the Authority's net position is the indicator of whether the financial health of the Authority is improving or deteriorating. The statement of operations of the Authority reflects all revenues earned and all expenses incurred for each fiscal year.

# KENT COUNTY WATER AUTHORITY

## Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2021 and 2020

### Condensed Statement of Net Position

	<u>2021</u>	<u>2020</u>
Current assets	\$ 8,077,819	\$ 7,947,492
Other noncurrent assets	16,049,692	28,689,588
Capital assets, net	170,084,008	163,823,311
Total assets	<u>194,211,519</u>	<u>200,460,391</u>
Deferred outflows of resources		
Deferred outflows of resources related to pension	601,762	810,829
Deferred outflows of resources related to OPEB	-	2,132
Total deferred outflows of resources	<u>601,762</u>	<u>812,961</u>
Current liabilities	2,681,842	6,463,417
Noncurrent liabilities	3,740,033	16,618,842
Total liabilities	<u>6,421,875</u>	<u>23,082,259</u>
Deferred inflows of resources		
Deferred inflows of resources related to pension	1,209,196	465,915
Deferred inflows of resources related to OPEB	1,924,107	-
Gain on refunding	255,477	491,300
Total deferred inflows of resources	<u>3,388,780</u>	<u>957,215</u>
Net position:		
Net investment in capital assets	170,084,008	163,823,311
Restricted for debt service	-	3,154,000
Restricted for infrastructure replacement	282,626	282,626
Unrestricted net position	<u>14,635,992</u>	<u>9,973,941</u>
Total net position	<u>\$ 185,002,626</u>	<u>\$ 177,233,878</u>

The table above reflects an increase in current assets of \$130,327 from FY 2021 to FY 2020. This increase reflects a decrease in accounts receivable and increase in cash. There is also a significant increase in capital assets (net) of \$6,260,697 from FY 2020 to FY 2021. This increase is the result of the Authority capitalizing completed construction in progress and other project and implementing and capitalizing the meter changeout program.

The largest portion of the Authority's net position, 91.94%, reflects its net investment in capital assets. The Authority uses these capital assets to provide water treatment and collection services to its customers. Consequently, only the unrestricted net assets are available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. In FY21, the Authority's net position totaled \$185 million, an increase of \$7.76 million or 4.38% from the previous year. Total assets in FY21 were \$194 million, a decrease of \$6.2 million or 3.12% from the previous year. Total liabilities decreased by \$16.6 million or 72.18%, mainly due to pay off of revenue bonds.

# KENT COUNTY WATER AUTHORITY

## Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2021 and 2020

### CHANGES IN NET POSITION

The Authority ended FY 2021 with an increase in net position of \$7,768,748. The Authority has included a Condensed Statement of Revenues, Expenses and Changes in Net Position as follows.

#### Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2021</u>	<u>2020</u>
Operating revenues:		
Water	\$ 21,283,372	\$ 20,571,461
Hydrant fees	1,482,161	1,805,483
Other	192,320	294,372
Total operating revenue	<u>22,957,853</u>	<u>22,671,316</u>
Operating expenses:		
Source of supply	5,233,615	4,263,130
Pumping	1,052,151	890,596
Transmission and distribution	1,086,164	1,028,279
Water treatment	540,106	613,052
Customer accounts	463,934	508,821
Administrative and general	3,053,992	3,262,138
Depreciation	3,431,784	3,109,197
Taxes other than income	216,956	208,755
Total operating expenses	<u>15,078,702</u>	<u>13,883,968</u>
Operating income	<u>7,879,151</u>	<u>8,787,348</u>
Nonoperating income (expense):		
Capital contributions	96,464	3,999
Loss on defeasance	(349,040)	-
Interest income	4,921	449,517
Interest expense	137,252	(257,090)
Net non-operating income (expense)	<u>(110,403)</u>	<u>196,426</u>
Increase in net position	7,768,748	8,983,774
Net position at beginning of year	<u>177,233,878</u>	<u>168,250,104</u>
Net position at end of year	<u>\$ 185,002,626</u>	<u>\$ 177,233,878</u>

# KENT COUNTY WATER AUTHORITY

## Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2021 and 2020

### REVENUES

Water user fees are the Authority's primary source of revenue, representing approximately 92.7% of total operating revenues. Fiscal Year 2021 water user fee revenue was \$21,283,372 which is \$711,911 more than the prior year. Other operating revenue decreased by \$102,052.

The operating income for FY21 totaled \$7.8 million, representing a decrease of 10.34% from the previous year, which is mainly due to the increase in delinquent and shut off accounts due to COVID-19.

### EXPENSES

Total operating expenses in FY 2021 increased by \$1.1 million over the prior year. The increase was mainly due to the increase of transmission and distribution expense, supply source fees and pumping expenses.

Net nonoperating expense of \$110,403 is primarily related the loss on defeasance in the amount of \$349,040.

### Capital Assets and Debt Administration

#### CAPITAL ASSETS

At the end of FY 2021, the Authority had \$170 million invested in capital assets. This amount represents an increase of \$6.2 million, or 3.82% over last year. The following table summarizes the Authority's capital assets and changes therein, for the years ended June 30, 2021 and June 30, 2020.

	<u>FY 2021</u>	<u>FY 2020</u>
<b>Capital assets</b>		
Land	\$ 1,836,045	\$ 1,836,045
Construction in progress	11,547,709	8,737,157
Buildings and improvements	15,522,581	15,513,181
Infrastructure	167,756,794	163,848,792
Machinery and equipment	5,545,569	2,796,002
Vehicles	863,558	790,416
<b>Total capital assets</b>	<u>203,072,256</u>	<u>193,521,593</u>
Less accumulated depreciation	<u>32,988,248</u>	<u>29,698,282</u>
<b>Capital assets, net</b>	<u>\$ 170,084,008</u>	<u>\$ 163,823,311</u>

For more information relating to capital asset activity refer to Note 3 accompanying the basic financial statements.

# KENT COUNTY WATER AUTHORITY

## Management's Discussion and Analysis (MD&A)

Years Ended June 30, 2021 and 2020

### LONG-TERM DEBT

During FY21, the Authority paid approximately \$8.9 million in principal on outstanding issuances and \$303 thousand of interest on outstanding issuances. The Authority completed payment on both outstanding debt issuances. The Series A 2012 Bonds payoff of \$4.5 million is being kept in escrow until FY2022.

The Authority is required to establish and maintain rates and charges at levels sufficient so that total net revenues in each year during which bonds are outstanding will equal at least 125% of the bond debt service requirement during such year less the amount, if any, of bond proceeds available to pay interest becoming due in such year on bonds outstanding as of the first day of such year. The Authority has exceeded the 125% debt service coverage requirement of the Resolution in each year since the 2001 issue.

For more information relating to long-term debt activity refer to Note 4 accompanying the basic financial statements.

### ECONOMIC FACTORS

Management has evaluated its economic factors for FY2021. During the fiscal year of FY2021, Kent County Water Authority (KCWA) staffed 100% of the workforce in the office and in the field. KCWA maintained standard operations during these challenging times to ensure the continued delivery of safe drinking water to our customers.

KCWA participated in the RI Public Utility Commission's directive to halt the shut-off of services for non-payment throughout most of FY2021. The mailing of shut-off notices resumed in May as well as the actual shutting off services for non-payment in June. The resumption of our shut-off procedures as well as the continued offering of payment plans to all customers experiencing difficulty paying their water bills has been a vital and successful tool in encouraging customers to stay current with their bills. KCWA continues to pay close attention to the financial impact of COVID-19 on billings, cash collections and receivables.

When preparing the FY2022 Annual budget, historical data as well as anticipated expenditures were used as contributing factors. Budgeted revenues are estimated to decrease 8% from actual revenues from FY2021 based upon the Public Utility Commission revenue requirement. Budgeted expenditures for FY2022 are estimated to increase about 16% as compared to actual expenses from FY2021.

#### *Abbreviated Rate Filing (PUC Docket 5012)*

KCWA filed an abbreviated rate filing for a rate reduction in an application submitted January 31, 2020 to the Rhode Island Public Utilities Commission (PUC) Docket 5012. A Settlement Agreement was executed between the Kent County Water Authority and the Division of Public Utilities and Carriers (collectively, the Parties) resolving the issues in the docket. The PUC approved the settlement agreement on September 1, 2020. The primary issues addressed were to reduce the rates by termination of restricted meter replacement funding, absorption of pass-through wholesale rate increase (Step 1 of 3) from Providence Water Supply Board (PWSB), include large meter right-sizing program survey and replacement, establish a new wholesale rate for water sent to supply Quonset Development Corporation, reduce fire subsidy to align public and private fire service into closer alignment, and pay off and/or defease all existing long term debt obligations. There were no intervenors in this docket. The Parties agreed that KCWA will reduce operating revenue in the amount of \$2,310,427 to support total operating revenue in the amount of \$21,634,379.

The effective date of the new rates was September 1, 2020. The bill impact for an average residential customer using 10,000 cubic feet of water per year is a decrease of \$93.86 per year from \$677.74 to \$583.88, or -13.8%.

#### *Monthly Billing on all Customers (PUC Docket 5133)*

On March 3, 2021, The Kent County Water Authority (KCWA) filed a Tariff Advice and Petition for Relief filing (Docket No. 5133) to the Public Utilities Commission (PUC). During these proceedings, KCWA entered into a settlement agreement with the Division of Public Utilities and Carriers (DPUC) requesting authorization for a revised tariff for

# **KENT COUNTY WATER AUTHORITY**

## **Management's Discussion and Analysis (MD&A)**

Years Ended June 30, 2021 and 2020

### **ECONOMIC FACTORS (Continued)**

monthly billing for all remaining customers with meters sized 2-inches and less and to adjust charge methodology for all private fire protection appliances owned and maintained by the customer based upon the service size of the connection to the property. The parties agreed that KCWA will implement one tariff change effective July 1, 2021 and that remaining customers with meters sized 2-inches and less will see the transition of their bills from quarterly to monthly in either their August 2021, September 2021, or October 2021 bill based on their respective reading cycle. The PUC unanimously approved the settlement agreement between DPUC and KCWA on June 29, 2021.

#### *Change in Rate- PWSB Pass through (PUC Docket 5161)*

Providence Water Supply Board ("PWSB") filed a multiyear step increase to its rates on December 2, 2019, which was approved by the RI Public Utilities Commission ("PUC") in Docket No.4994. Kent County Water Authority ("KCWA") purchases water at a wholesale rate from PWSB. Pursuant to Rhode Island General Laws ("RIGL"), § 39-3-38.1, KCWA may impose a retail rate adjustment as long as the PUC has approved the wholesale rate increase. KCWA must pass through wholesale rate costs to cover the increased expenses from PWSB. Pursuant to RIGL and the Rules of Practice and Procedure of the Rhode Island Public Utilities Commission, KCWA gave notice of a change in rates as a result of increase wholesale water charges by PWSB.

PWSB's first approved step increase of wholesale water costs was 16.34% effective September 1, 2020. This cost did not affect KCWA customers as it was absorbed as part of a settlement agreement under PUC Docket No. 5012 that decreased rates to KCWA customers.

PWSB's second step increase for wholesale water costs of was slated to be 4.02%, effective July 1, 2021. In an open meeting on June 29, 2021, the PUC ruled to further reduce revenue requirements to meet PWSB expenses on this step. This reduced the wholesale rate increase to 2.82%. This ruling will increase retail customers rates by 0.83%. The average retail customer that uses 2000 cubic feet (15,000 gallons) will see a yearly billing increase of \$0.87 over the current rates for the same amount of water consumed. The KCWA wholesale rate to Quonset Development Corporation is increasing by 0.83%.

### **REQUESTS FOR INFORMATION**

This financial report is intended to provide an overview of the financial picture of the Kent County Water Authority. Any further questions regarding any of the information contained within this report may be directed to the Executive Director or Director of Finance and Human Resources at P.O. Box 192, West Warwick, RI 02893.

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# KENT COUNTY WATER AUTHORITY

## Statement of Net Position

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
<i><b>Current assets</b></i>		
Cash and cash equivalents	\$ 4,511,497	\$ 431,935
Accounts receivable, less allowance of \$91,533 in 2021 and \$156,883 in 2020	1,630,865	2,821,445
Unbilled water revenue	1,523,565	1,154,827
Materials and supplies inventory	411,892	385,285
Restricted cash and cash equivalents held by trustee for current portion of long-term debt	-	3,154,000
<i><b>Total current assets</b></i>	<u>8,077,819</u>	<u>7,947,492</u>
<i><b>Noncurrent assets</b></i>		
Restricted cash and cash equivalents held by trustee	15,767,066	28,406,962
Restricted cash and cash equivalents held by trust - Infrastructure replacement	282,626	282,626
<i><b>Total noncurrent assets</b></i>	<u>16,049,692</u>	<u>28,689,588</u>
<i><b>Capital assets</b></i>		
Depreciable, net	156,700,254	153,250,109
Nondepreciable	13,383,754	10,573,202
<i><b>Total capital assets</b></i>	<u>170,084,008</u>	<u>163,823,311</u>
<i><b>Total assets</b></i>	<u>194,211,519</u>	<u>200,460,391</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
<i><b>Deferred outflows of resources</b></i>		
Deferred outflows of resources related to OPEB	-	2,132
Deferred outflows of resources related to pension	601,762	810,829
<i><b>Total deferred outflows of resources</b></i>	<u>601,762</u>	<u>812,961</u>

The accompany notes are an integral part of the financial statements



# KENT COUNTY WATER AUTHORITY

## Statement of Net Position

June 30, 2021 and 2020

### LIABILITIES

	<u>2021</u>	<u>2020</u>
<b><i>Current liabilities</i></b>		
Accounts payable	2,456,142	2,383,814
Accrued interest expense	-	212,236
Accrued liabilities	233,446	300,113
Long-term debt due within one year	(7,746)	3,567,254
<b><i>Total current liabilities</i></b>	<u>2,681,842</u>	<u>6,463,417</u>
<b><i>Noncurrent liabilities</i></b>		
Long-term debt, net	(646)	9,846,608
Net pension liability	325,520	1,413,363
Net OPEB liability	3,415,159	5,358,871
<b><i>Total noncurrent liabilities</i></b>	<u>3,740,033</u>	<u>16,618,842</u>
<b><i>Total liabilities</i></b>	<u>6,421,875</u>	<u>23,082,259</u>

### DEFERRED INFLOWS OF RESOURCES

<b><i>Deferred inflows of resources</i></b>		
Deferred inflows of resources related to pension	1,209,196	465,915
Deferred inflows of resources related to OPEB	1,924,107	-
Gain on refunding	255,477	491,300
<b><i>Total deferred inflows of resources</i></b>	<u>3,388,780</u>	<u>957,215</u>

### NET POSITION

<b><i>Net position</i></b>		
Net investment in capital assets	170,084,008	163,823,311
Restricted for debt service	-	3,154,000
Restricted for infrastructure replacement	282,626	282,626
Unrestricted net position	14,635,992	9,973,941
<b><i>Total net position</i></b>	<u>\$ 185,002,626</u>	<u>\$ 177,233,878</u>

## KENT COUNTY WATER AUTHORITY

### Statement of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2021 and 2020

	2021	2020
<b><i>Operating revenues</i></b>		
Water	\$ 21,283,372	\$ 20,571,461
Hydrant fees	1,482,161	1,805,483
Other	192,320	294,372
<b><i>Total operating revenue</i></b>	22,957,853	22,671,316
<b><i>Operating expenses</i></b>		
Source of supply	5,233,615	4,263,130
Pumping	1,052,151	890,596
Transmission and distribution	1,086,164	1,028,279
Water treatment	540,106	613,052
Customer accounts	463,934	508,821
Administrative and general	3,053,992	3,262,138
Depreciation	3,431,784	3,109,197
Taxes other than income	216,956	208,755
<b><i>Total operating expenses</i></b>	15,078,702	13,883,968
<b><i>Operating income</i></b>	7,879,151	8,787,348
<b><i>Nonoperating income (expense)</i></b>		
Capital contributions	96,464	3,999
Loss on defeasance	(349,040)	-
Interest income	4,921	449,517
Interest expense	137,252	(257,090)
<b><i>Net non-operating income (expense)</i></b>	(110,403)	196,426
<b><i>Increase in net position</i></b>	7,768,748	8,983,774
<b><i>Net position at beginning of year</i></b>	177,233,878	168,250,104
<b><i>Net position at end of year</i></b>	\$ 185,002,626	\$ 177,233,878

*The accompany notes are an integral part of the financial statements*

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# KENT COUNTY WATER AUTHORITY

## Statement of Cash Flows

Years Ended June 30, 2021 and 2020

	<b>2021</b>	<b>2020</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 23,779,695	\$ 22,733,118
Payments to employees	(3,076,758)	(1,996,152)
Payments to suppliers and services	(8,744,074)	(7,705,481)
Net cash provided (used) by operating activities	11,958,863	13,031,485
<b>Cash flows from capital and related financial activities</b>		
Capital additions	(9,692,481)	(8,901,182)
Capital contributions	96,464	3,999
Principal paid in debt	(13,658,077)	(3,673,077)
Interest paid on capital related debt	(211,788)	(257,090)
Interest expense	(212,236)	(56,253)
Net cash used by capital and related financing activities	(23,678,118)	(12,883,603)
<b>Cash flows from investing activities</b>		
Interest and dividends received	4,921	447,385
Net cash provided by investing activities	4,921	447,385
<b>Net increase (decrease) in cash and cash equivalents</b>	(11,714,334)	595,267
<b>Cash and cash equivalents, beginning of year</b>	32,275,523	31,680,256
<b>Cash and cash equivalents, end of year</b>	20,561,189	32,275,523
Cash and cash equivalents, per the statement of net position	4,511,497	431,935
Restricted cash and cash equivalents held by trustee		
for current portion of long term debt	-	3,154,000
Restricted cash and cash equivalents held by trustee (Note 3)	15,767,066	28,406,962
Restricted cash and cash equivalents held by trustee-Infrastructure replacement (Note 3)	282,626	282,626
Total cash and cash equivalents, per the statement of net position	\$ 20,561,189	\$ 32,275,523

*the accompany notes are an integral part of the financial statements*

# KENT COUNTY WATER AUTHORITY

## Statement of Cash Flows

Years Ended June 30, 2021 and 2020

### Reconciliation of operating income to net cash provided by operating activities

Operating income	\$ 7,879,151	\$ 8,787,348
<b>Adjustments to reconcile operating income to net cash provided by operating activities</b>		
Depreciation expense	3,431,784	3,109,197
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable, net	1,190,580	84,927
(Increase) decrease in unbilled water revenue	(368,738)	(23,125)
(Increase) decrease in material, supplies and inventory	(26,607)	10,079
(Increase) decrease in NPL deferred outflows	211,199	(349,755)
Increase (decrease) in accounts payable	72,328	760,835
Increase (decrease) in accrued liabilities	(66,667)	29,535
Increase (decrease) in water quality protection charges payable	-	-
Increase (decrease) in net pension liability (NPL)	(1,087,843)	467,911
Increase (decrease) in net OPEB liability (NOL)	(1,943,712)	219,067
Increase (decrease) in deferred inflows	2,667,388	(64,534)
<b>Net cash provided by operating activities</b>	<u>\$ 11,958,863</u>	<u>\$ 13,031,485</u>

# KENT COUNTY WATER AUTHORITY

## Statement of Fiduciary Net Position

June 30, 2021 and 2020

	<u>OPEB and Pension Trust Fund</u>	
	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ -	\$ -
Investments, at fair value		
Fixed income	3,254,040	2,642,441
Equities	5,081,779	4,100,700
Real Estate	<u>37,759</u>	<u>20,968</u>
<b>Total assets</b>	<u>8,373,578</u>	<u>6,764,109</u>
<b>LIABILITIES</b>		
None	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Held in trust for other post-employment benefits	433,537	262,099
Restricted for pension	<u>7,940,041</u>	<u>6,502,010</u>
<b>TOTAL NET POSITION</b>	<u>\$ 8,373,578</u>	<u>\$ 6,764,109</u>

*The accompany notes are an integral part of the financial statements*

# KENT COUNTY WATER AUTHORITY

## Statement of Changes in Fiduciary Net Position

Years Ended June 30, 2021 and 2020

	<u>OPEB and Pension Trust Fund</u>	
	<u>2021</u>	<u>2020</u>
<b>ADDITIONS</b>		
<b>Contributions</b>		
Employer contributions	\$ 463,397	\$ 424,284
<b>Total contributions</b>	<u>463,397</u>	<u>424,284</u>
<b>Investment income</b>		
Net investment income	<u>1,672,874</u>	<u>174,238</u>
<b>Total investment income</b>	<u>1,672,874</u>	<u>174,238</u>
<b>Total additions</b>	<u>2,136,271</u>	<u>598,522</u>
<b>DEDUCTIONS</b>		
Actual and service benefits payments	<u>526,802</u>	<u>475,773</u>
<b>Total deductions</b>	<u>526,802</u>	<u>475,773</u>
<b>Change in net position</b>	1,609,469	122,749
<b>Net Position - Beginning</b>	<u>6,764,109</u>	<u>6,641,360</u>
<b>Net Position - Ending</b>	<u>\$ 8,373,578</u>	<u>\$ 6,764,109</u>

*The accompany notes are an integral part of the financial statements*

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Reporting Entity*

The Kent County Water Authority (“the Authority”) was created by General Assembly of the State of Rhode Island on April 24, 1946 and was organized on July 8, 1946. The Authority serves as the governing body of the Kent County Water District, a political subdivision of the State of Rhode Island. The Authority is subject to the regulations of the Public Utility Commission of the State of Rhode Island (RIPUC).

The Authority provides water supply services through metered sales in the communities of Warwick, West Warwick, Coventry, East Greenwich, North Kingstown, Cranston, Scituate and West Greenwich. The Authority is also responsible for acquiring, constructing, improving, operating, and maintaining the water supply system. The Authority's source of water supply is principally through purchases of water from the Providence Water Supply Board and Warwick Water Department with the remaining amount produced from its own wells.

#### *Fund Financial Statements*

Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: proprietary and fiduciary.

The funds of the financial reporting entity are described below:

#### Proprietary Funds

Proprietary funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The operations of the Authority are accounted for on a Proprietary Fund Type (Enterprise Fund) basis. Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other uses. The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority's Proprietary Fund are accounted for on a flow of economic resources management focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. The statement of net position presents information on the Authorities assets, deferred outflows, liabilities, and deferred inflows. Differences between these amounts are reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. Net position is segregated into three components: net investment in capital assets, restricted, and unrestricted net position.

Proprietary fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. When restricted and unrestricted resources are available for use, it is the Authority's practice to use restricted resources first.



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *Fund Financial Statements (Continued)*

##### Fiduciary Fund

Other Post-Employment Benefit Trust (OPEB) and Pension Trust funds are used to account for resources legally held in trust for the payment of benefits other than pensions. The OPEB Trust Fund accumulates resources for future retiree health and insurance benefits for eligible retirees.

OPEB and Pension trust fund financial statements are prepared on the accrual basis of accounting. Contributions are recognized when due. Investment income is recognized when earned and expenses (benefits and administration) are recognized when they are due and payable in accordance with the terms of the plan.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, it is the Authority's policy to use restricted resources first.

##### *Component Units*

Component Units are included in the Authority's reporting entity if their operational and financial relationships with the Authority are significant. Pursuant to the criteria established by the Governmental Accounting Standards Board (GASB), no component units were identified for inclusion in the accompanying financial statements.

The Authority is considered a related organization of the State of Rhode Island for financial reporting purposes. The Authority is reported as a related organization of the State of Rhode Island, and not as a component unit, based on the criteria of GASB Statement No. 14 "The Financial Reporting Entity", as amended by GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units" and as amended by GASB Statement No. 61 "Financial Reporting Entity - Omnibus".

**Cash and Cash Equivalents** - Cash and cash equivalents and restricted cash (held by trustee) include highly liquid investments with a maturity of three months or less when purchased. Restricted cash has been classified as noncurrent as it primarily represents unspent bond proceeds restricted for future capital spending.

**Marketable Securities** - Marketable securities included in funds held by trustee are stated at fair value.

**Receivables** - Fixed fees for water usage are billed to all customers in advance on a monthly basis. Consumption based fees are billed in arrears on a monthly basis, based on estimated and actual water consumption meter readings.

The allowance for doubtful accounts for June 30, 2021 was \$91,533 This estimate is based off of 5% of the most recent 90 days receivable and 10% of any receivable older than 90 days.

**Materials and Supplies Inventory** - Materials and supplies inventory is stated at the lower of cost (average cost method) or market.

**Capital Assets** - Depreciation is computed on the straight-line method over the estimated remaining useful lives of the applicable assets. The capitalization threshold is any individual item with a total cost equal to or greater than \$5,000. Maintenance and repairs are charged to expenses as incurred. Estimated useful lives are as follows:

	Years
Infrastructure	75
Building & Improvement	20
Machinery & Equipment	10
Vehicles	5

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Construction in Progress** - Construction in progress consists of the capital projects' design, planning and construction costs. Upon completing the project and finalizing the financial transaction, the construction in progress is transferred into the completed project capital asset account. Once transferred, the Authority will start to depreciate the completed capital project.

**Capital Contributions** - Capital contributions consist of property, plant, and equipment paid for by customers for water installations. Once the installation is complete, the property, plant, and equipment transfer to the Authority.

**Unearned Revenue** - Unearned revenue represents amounts billed in the current fiscal year for pretreatment fees relating to the subsequent fiscal year.

**Long-Term Debt** - Long-term debt is reported as a liability in the Statement of Net Position. Bond premiums are deferred and amortized over the life of the bond. Long-term debt payables are reported net of the applicable bond premium.

**Deferred Outflows/Inflows of Resources** - In addition to assets, the statement of financial position can report a separate section for deferred outflows of resources. This separate section represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that later date.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate section represents the acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until a later date. At June 30, 2021 and 2020, there were \$601,762 and \$812,961 in deferred outflows relating to pensions, and \$3,388,780 and \$957,215 deferred inflows related to pension, gains on refunding, and OPEB.

**Operating Revenues and Expenses** - Operating revenues and expenses for the Authority are those that result from providing water and collection service and related activities.

**Income Taxes** - The Authority is exempt from Federal and State income taxes.

**Regulatory** - The Authority is a regulated utility, and its rates are set by the PUC. For rate-making purposes, depreciation expense is excluded while principal payments and capital outlays are included in the total expenses to arrive at a regulatory net income (loss). For this reason, the net income (loss) on a regulatory basis differs from the change in net position in the audited financial statements, which are prepared in conformance with generally accepted accounting principles.

**Use of Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Summarized Financial Information** - The financial information for the year June 30, 2021, presented for comparative purposes is not intended to be a complete financial statement presentation. Certain amounts in the prior year financial statements may have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Recently Issued Accounting Standards** – For the year ending June 30, 2021, the Authority implemented the following pronouncements issued by the GASB:

- GASB Statement No. 84, *Fiduciary Activities*. This statement is effective for period beginning after December 15, 2020. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should present a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. The Authority has implemented this Statement, but there was not a financial impact to the financial reporting framework in Fiscal Year 2021.
- GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. GASB Statement No. 95 was effective immediately and postponed the effective dates of certain GASB Statements and Implementation Guides for one year from their respective original effective dates to provide relief to governments and stakeholders in light of the COVID-19 Pandemic. The adoption of this Statement provided early adoption of any of the postponed GASB Statements and Implementation Guides.

The effective dates of certain provision in the following pronouncements are postponed by one year:

- Statement No. 83, “Certain Asset Retirement Obligations”
- Statement No. 84, “Fiduciary Activities” \*
- Statement No. 88, “Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements” \*\*
- Statement No. 90, “Majority Equity Interest”
- Statement No. 91, “Conduit Debt Obligations”
- Statement No. 92, “Omnibus 2020”
- Statement No. 93, “Replacement of Interbank Offered Rates”

\* This pronouncement was adopted by the Authority as of June 30, 2021 (Fiscal Year 2021)

\*\*This pronouncement was adopted early by the Authority as of June 30, 2020 (Fiscal Year 2020)

**Accounting standards that the Authority is currently reviewing for applicability and potential impacts in future financial statements include:**

GASB Statement No. 83, *Certain Asset Retirement Obligations*. This statement is effective for periods beginning after June 15, 2019. The objective of this statement is to establish criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The Authority is in the process of evaluating this statement and does not expect an impact to the financial reporting framework in Fiscal Year 2022.

GASB Statement No. 87, *Leases*. This Statement is effective for periods beginning after June 15, 2021, and all reporting period thereafter. This Statement requires a lessee to recognize a lease liability and an intangible right to use leased assets. The lessor is required to recognize a lease receivable and a deferred inflow of resources. The Authority is in the process of evaluating this statement and does not expect a significant impact to the financial accounting and reporting framework in Fiscal Year 2022.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Accounting standards that the Authority is currently reviewing for applicability and potential impacts in future financial statements include (continued):*

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement is effective for periods beginning after December 15, 2020. The objective of this Statement is (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period, and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Authority implemented this Statement early in Fiscal Year 2019.

GASB Statement No. 90, *Majority Equity Interest – an amendment of GASB Statement No. 14 and No. 16*. This Statement is effective for the periods beginning after December 15, 2019. This statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment or permanent fund. The Authority determined that these requirements are not expected to have a significant impact on the financial reporting of the Authority.

GASB Statement No. 91, *Conduit Debt Obligations*. This Statement is effective for reporting periods beginning after December 15, 2021. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer, establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The Authority is in the process of evaluating this statement and will complete their evaluation prior to the required implementation date of Fiscal Year 2023.

GASB Statement No. 92, *Omnibus 2020* was originally effective for reporting periods beginning after June 15, 2021. This statement addresses a variety of topics including, but not limited to, leases, financial reporting for Postemployment Benefit Plans Other Than Pension Plans, Fiduciary Activities, Measurement of Liabilities related to AROs. The Authority is in the process of evaluating this Statement and will evaluate it prior to the required implementation of FY22.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*. GASB Statement No. 93 assists state and local governments in the transition away from existing interbank offered rates (IBOR) to other reference rates because of global reference rate reform, wherein the London Interbank Offered Rate (LIBOR) is expected to cease to exist in its current form at the end of 2021. The objective of this Statement is to address implications that result from the replacement of an IBOR in Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* and Statement No. 87, *Leases and other accounting and financial reporting implications*. The impact of this standard will be evaluated by the Authority's management for fiscal year ending fiscal year 2022.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. GASB Statement No. 94 establishes standards of accounting and financial reporting for Public-Private and Public-Public Partnerships (PPPs) and Availability Payment Arrangements (APAs). The impact of this standard will be evaluated by the Authority's management for fiscal year 2023.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Accounting standards that the Authority is currently reviewing for applicability and potential impacts in future financial statements include (continued):*

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. GASB Statement No. 96 establishes standards of accounting and financial reporting for subscription-based information technology (SBITAs) for government end users. Under this Statement, a government generally should recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability. The impact of this standard will be evaluated by the Authority's management for fiscal year 2022.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The impact of this standard will be evaluated by the Authority's management for fiscal year 2022.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 2. CASH AND CASH EQUIVALENTS

**Cash Deposits** – The Authority’s cash deposits are held in one financial institution. The carrying amount of deposits is separately displayed on the Statement of Net Position and Statement of Fiduciary Net Position as “cash and cash equivalents.”

The carrying value of deposits, investments and petty cash funds reported on the Statement of Net Position and Statement of Fiduciary Net Position as “cash and cash equivalents” are as follows:

	<u>Carrying Value of Deposits</u>
Business-Type Activities	20,560,889
Petty Cash	300
OPEB Trust Fund	433,537
Pension Trust Fund	<u>7,940,041</u>
<b>Total Carrying Value</b>	<b><u>\$ 28,934,766</u></b>

Essential risk information regarding the Authority's deposits and investments is presented below.

In accordance with Rhode Island General Laws, Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State, shall at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions, which do not meet minimum capital standards prescribed by federal regulators, shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity.

The carrying amount of the Authority’s deposits at June 30, 2021 was \$28,934,766 and the bank balance was \$29,843,817.

**Custodial Credit Risk** - Custodial credit risk for deposits is the risk that in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2021, \$29,593,817 of the Authority’s bank balance of \$29,843,817 was exposed to custodial credit risk as follows:

Cash deposits	\$ 5,420,546
Cash and short term	16,049,693
Fiduciary fund investments	<u>8,373,578</u>
<b>Total Bank Balance</b>	<b><u>\$ 29,843,817</u></b>
Insured (FDIC)	\$ 250,000
Uninsured	<u>\$ 29,593,817</u>
	<u>\$ 29,843,817</u>

**Investments** – Investments are stated at fair value which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority follows the guidance for fair value measurements and disclosures in accordance with GASB Statement No. 72, “Fair Value Measurement and Application”.

GASB Statement No. 72 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The fair value hierarchy is categorized into three levels based on the inputs as follows:

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

#### *Investment (Continued)*

Level 1- Unadjusted quoted priced in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2- Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3- Unobservable inputs for the asset or liability (supported by little or no market activity). Inputs include management’s own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risks).

<u>Investments:</u>	<u>June 30, 2021</u>	<u>Quoted Price in Active Market for Identical Assets (Level 1)*</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable (Level 3)</u>
<b>Money Market Fund</b>	\$16,049,692	\$ -	\$ -	\$16,049,692
<b>Pension Fund:</b>				
Specialty	165,955	165,955	-	-
International Stocks	951,312	951,312	-	-
Small-Cap Stocks	313,447	313,447	-	-
Mid-Cap Stocks	886,078	886,078	-	-
Large-Cap Stocks	2,473,296	2,473,296	-	-
Bonds	2,368,955	2,368,955	-	-
Other - Fixed	780,998	780,998	-	-
<b>OPEB Fund:</b>				
Vanguard	433,537	433,537	-	-
<b>Total investments</b>	<u>\$24,423,270</u>	<u>\$ 8,373,578</u>	<u>\$ -</u>	<u>\$ 16,049,692</u>

#### *Interest Rate Risk*

Funds held by the Authority are invested in accordance with the Authority’s investment policy. This investment policy does not limit investment maturities as a means of limiting its exposure to fair value losses arising from interest rates.

In connection with the issuances of \$10 million of general revenue bonds in July 2001, \$24.4 million of general revenue bonds in December 2002, \$10.4 million of general revenue in April 2004, and \$17.3 million of general revenue in July 2012, the proceeds from the bonds along with subsequent debt payments by the Authority and unspent operating income are maintained in cash accounts held in trust by the trustee.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

#### *Interest Rate Risk (Continued)*

The Authority's investment policy is governed by the general bond resolution and the series resolution for all transactions covered by bond funding of the Authority. All investments are managed through the trustee of the Authority and invested as allowed.

The Authority established an "Infrastructure Replacement Fund" in conformity with all applicable provisions of state laws; Chapter 46-13 of the General Laws of Rhode Island, Public Drinking Water Supply. The dedicated fund for infrastructure replacement was \$282,626 and \$282,626 as of June 30, 2021 and 2020, respectively.

**Credit Risk** - The Authority's investment policy objective states that all financial assets held by the Authority shall be invested in a manner that will preserve the value and safety of capital. The Authority shall invest funds in order to maximize earnings and minimize risk during the period of availability of the funds. The Authority's investment policy limits investments to U.S. Treasury securities, securities of the U.S. government agencies and instrumentalities that are backed by the full faith and credit or guarantee of the U.S. government, which have a liquid market with a readily determinable market value, investment-grade obligations of the State of Rhode Island, or any municipality or political subdivision of the State of Rhode Island, repurchase agreements backed by collateral, certificate of deposits, money market mutual funds whose portfolios consist of U.S. Treasury securities, U.S. agency obligations and repurchase agreements fully collateralized by such securities and governmental investment products backed by collateral consisting of U.S. Treasury and U.S. Agency securities.

The Authority follows the credit risk policy associated with the Authority's general bond resolutions. The Authority's credit ratings for cash equivalents are as follows:

	Credit Rating
Money Market Treasury Obligation Fund	AAA (Moody's)

**Concentration of Credit Risk** - The Authority's investment policy is not specific but states that investments shall be diversified to minimize the risk of loss that may occur due to concentration in a specific maturity, a specific issue or a specific class of securities.



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 3. CAPITAL ASSETS

The cost and activity of water capital assets in service and related accumulated depreciation for the year ended June 30, 2021 is as follows:

	Balance at 6/30/2020	Increases	Decreases	Balance at 6/30/2021
<b>Capital assets, not being depreciated:</b>				
Land	\$ 1,836,045	\$ -	\$ -	\$ 1,836,045
Construction in progress	8,737,157	2,810,552	-	11,547,709
Total capital assets, not being depreciated	10,573,202	2,810,552	-	13,383,754
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	15,513,181	9,400	-	15,522,581
Infrastructure	163,848,792	3,908,002	-	167,756,794
Machinery and equipment	2,796,002	2,818,838	69,271	5,545,569
Vehicles	790,416	152,402	79,260	863,558
Total capital assets, being depreciated	182,948,391	6,888,643	148,531	189,688,503
<b>Accumulated depreciation</b>				
Buildings and improvements	6,656,548	716,923	-	7,373,471
Infrastructure	22,031,331	2,210,703	-	24,242,034
Machinery and equipment	453,591	412,121	62,557	803,155
Vehicles	556,813	92,036	79,261	569,589
<b>Total accumulated depreciation</b>	29,698,282	3,431,784	141,818	32,988,249
Total capital assets, being depreciated, net	153,250,109	3,456,859	6,713	156,700,254
<b>Capital assets, net</b>	<u>\$ 163,823,311</u>	<u>\$ 6,267,411</u>	<u>\$ 6,713</u>	<u>\$ 170,084,008</u>

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 4. LONG-TERM OBLIGATIONS

The Authority issues revenue bonds to support various projects. The following is a summary of the bond activity for the year ended June 30, 2021:

Description	Balance June 30, 2020	Additions	Reductions	Defeasance	Balance June 30, 2021	Amounts due within one year
Revenue bonds:						
July 2012 Series A bearing interest at 4%-5% and maturing in 2023	\$ 6,400,000	\$ -	\$ 1,870,000	\$ 4,530,000	\$ -	\$ -
April 2017 Series A bearing interest at 2.035% and maturing in 2024	<u>7,030,000</u>	<u>-</u>	<u>7,030,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>13,430,000</u>	<u>-</u>	<u>8,900,000</u>	<u>4,530,000</u>	<u>-</u>	<u>-</u>
Add (less):						
Unamortized discount	<u>16,138</u>	<u>-</u>	<u>7,746</u>	<u>-</u>	<u>8,392</u>	<u>7,746</u>
Total long-term liabilities	<u>\$ 13,413,862</u>	<u>\$ -</u>	<u>\$ 8,892,254</u>	<u>-</u>	<u>\$ (8,392)</u>	<u>\$ (7,746)</u>

In June 30, 2020, The Authority's outstanding bonds from *direct borrowings* related to business type activities of \$13,430,000 are secured by the Authority's pledge of all revenues, monies, securities, receivables, and other funds as well as the proceeds of the sale of the Authority's real property pursuant to a mortgage on its water supply, treatment and distribution facilities, exclusive of monies collected as water quality protection charges. As of June 30, 2021, the Authority paid in full the 2017 Series A Bond and defeased the 2012 Series A bond. The funds to satisfy the full payment of the 2012 Series A Bond will be held in escrow with Bank of NY Mellon and will be administered by the bank accordingly.

The Authority must meet certain financial covenants. The Authority was in compliance with all such covenants at June 30, 2021 and 2020.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 5. COMPENSATED ABSENCES

The Authority's employees are granted vacation and sick leave in varying amounts based on years of service with the Authority. At the termination of service, an employee is paid for accumulated unused vacation leave. The Authority has determined that the dollar value of accumulated accrued vacation leave, valued at the current rate of pay, at June 30, 2021 to be \$202,322. The accrued vacation is reported on the Statement of Net Position as accrued liabilities.

The changes in compensated absences for the year ended June 30, 2021 were as follows:

	June 30, 2020	Additions	Payments	June 30, 2021	Amounts Due Within One Year
Compensated absences	\$ 191,288	\$ 11,034	_____	\$ 202,322	\$ 16,186

### NOTE 6. NET POSITION

KCWA's net position is presented in the following categories:

**Net Investment in Capital Assets** – Net investment in capital assets reflects the portion of net position associated with non-liquid capital assets, less outstanding capital assets related debt. The net investment in capital assets also includes cash or cash equivalents restricted for the acquisition of capital assets or debt service.

**Restricted** – This category represents external restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

**Unrestricted** – This category represents the residual amount of net position not included in the net investment in capital assets or the restricted category.

Net position represents the difference between assets and liabilities. The net position amounts as of June 30, 2021 and 2020 were as follows:

	2021	2020
Net investment in capital assets		
Capital assets	170,084,008	163,823,311
Bond, ST	-	(3,575,000)
Bond, LT	-	(13,300,000)
	170,084,008	146,948,311
Restricted for debt services	-	3,154,000
Restricted for infrastructure replacement	282,626	282,626
Unrestricted net assets	14,635,992	26,848,941
	\$ 185,002,626	\$ 177,233,878

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 7. DEFINED BENEFIT PENSION PLAN

#### *General Information about the Pension Plan*

##### *Plan description*

The Kent County Water Authority administers the pension plan (plan) a single-employer defined benefit pension plan that provides pensions for all permanent full-time general employees of the Authority.

##### *Benefits provided*

To participate in the Plan, employees must be at least twenty-one years of age and be employed by the Authority for a minimum of 12 months. The plan provides retirement, and death benefits to plan members based upon the average of the highest consecutive five years of compensation of the last 10 years of participation. The Authority is responsible for making all contributions to the Plan. The benefits provisions and all other requirements under the Plan are established by the Authority's board of directors. A copy of the Plan statements may be obtained by contacting the Authority.

##### *Plan membership*

At June 30, 2021, pension plan membership consisted of the following:

Retirees and beneficiaries receiving benefits from the plan	26
Terminated members entitled to future benefits	17
Active plan members	<u>32</u>
Total	<u><u>75</u></u>

##### *Contributions*

In the January 1, 2021 actuarial valuation, the Authority utilized the aggregate actuarial method to determine the annual required employer contributions. This method does not identify or separately amortize unfunded actuarial liabilities. Therefore, the entry age method was used to prepare the funded status of the Plan. The actuarial value of assets was determined using the fair value of investments.

The schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The Authority's funding policy provides for employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. The contribution requirements of the Authority are established and may be amended by the Authority's board of directors.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

#### Net Pension Liability of the Authority

The components of the net pension liability of the Authority at June 30, 2021, were as follows:

Total pension liability	\$ 8,265,561
Plan fiduciary net position	<u>(7,940,041)</u>
Authoritys' net pension liability	<u>\$ 325,520</u>
 Plan fiduciary net position as a percentage of the total pension liability	 96.06%

#### Changes in Net Pension Liability (Asset)

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Position Liability</u>
Balance at June 30, 2020	\$ 7,915,373	\$ 6,502,010	\$ 1,413,363
Service cost	159,470		159,470
Interest on total pension liability	538,295		538,295
Differences between expected and actual experience	60,946		60,946
Changes in assumptions	15,831		15,831
Contributions - employer		280,948	(280,948)
Contributions - employee			-
Net investment income		1,581,436	(1,581,436)
Benefit payments	(424,353)	(424,353)	-
Administrative expenses			-
Other changes			-
Net changes	<u>350,189</u>	<u>1,438,031</u>	<u>(1,087,842)</u>
Balances at June 30, 2021	<u>\$ 8,265,561</u>	<u>\$ 7,940,041</u>	<u>\$ 325,520</u>

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of June 30, 2021 using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate	7.00% (7.25% prior to June 30, 2017)
Compensation increase	Salary is assumed to increase 3.00% annually
Social security wage base	The taxable wage base is assumed to increase 2.5% annually
Mortality	Mortality rates are assumed in accordance with the Sex-Distinct IRS 2021 combined static mortality table
Retirement	All participants are assumed to retire at age 62 or current age, if older
Disability	None assumed
Form of payment	Participants are assumed to elect the normal form of annuity
Marriage	75% of participants are assumed to be married; husbands are assumed to be three years older than wives
Employees	No new or rehired employees are assumed for valuation purposes

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period July 1, 2020–June 30, 2021.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Real Rate of Return</u>
Domestic equity	45%	5.50%
International equity	13%	5.75%
Fixed income	30%	3.25%
Real estate	2%	5.00%
Cash	10%	2.00%
Total	<u>100%</u>	

#### *Investment policy*

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the board of directors by a majority vote of its members. It is the policy of the board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contract, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

#### *Concentrations*

As of June 30, 2021, 5% or more of Plan assets were held in the following individual funds:

<u>Fund</u>	<u>Concentration</u>
Nationwide Fixed Fund	9.80%
Vanguard Mid-Cap Index	9.10%
Vanguard Growth Index	8.10%
Vanguard Inflation Protected Bonds	5.00%
American Fund AMCAP	8.00%
American Fund American Mutual	10.00%
Prudential Total Return Bond Fund	9.90%
LeggMason Core Bond Fund	10.00%
Vanguard Value Index	5.00%

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 7. DEFINED BENEFIT PENSION PLAN (CONTINUED)

*Discount rate*

The discount rate used to measure the total pension liability was 7 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Authority's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan'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 net pension liability of the Authority, calculated using the discount rate of 7 percent, as well as what the Authority's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6 percent) or 1-percentage-point higher (8 percent) than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Authority's net pension liability	\$ 1,204,065	\$ 325,520	\$ (425,336)

*Pension expense and deferred outflows and deferred inflows of resources related to pension*

For the year ended June 30, 2021, the Authority recognize pension expense of \$846,383. At June 30, 2021, the Authority reported deferred outflows or resources and deferred inflows of resources related to pension from the following sources:

	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
Liability experience	\$ 321,286	\$ (487,705)
Assumption changes	280,476	(8,047)
Investment experience	-	(713,444)
Total	\$ 601,762	\$(1,209,196)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

<b>Fiscal Year End</b>	<b>Expense Recognition</b>
2022	(146,362)
2023	(134,420)
2024	(149,999)
2025	(206,727)
2026	18,984
After 2026	11,090
<b>Total</b>	<b>(607,434)</b>



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 8. OTHER POST EMPLOYMENT BENEFITS

#### *General Information about the OPEB Plan*

##### *Plan Description*

The Authority's Post-Employment Medical Benefit Plan is a single-employer defined benefit postretirement health and life insurance program. All full-time employees are eligible to receive health and life insurance coverage after retirement. Retirement eligibility for continued health insurance coverage is age 62 with at least 20 years of service.

##### *Benefits Provided*

Employees are eligible for life insurance coverage if they retire on or after age 62. Spousal and/or family health coverage is not provided for under the postretirement program. The Authority will provide eligible retirees continued individual health and dental insurance comparable to the active employee plans. Retirees age 65 and older are eligible for an Individual Prescription Coverage (Part D) Medicare Supplement Plan as well as continued dental coverage. The full cost of postretirement medical and dental coverage is provided by the Authority. Eligible retirees receive term life insurance in the amount of \$2,000. The Authority provides the full cost of this insurance.

##### *Employees Covered by Benefit Terms*

At June 30, 2021 (the measurement date), the following employees were covered by the benefit terms:

<u>Description</u>	<u>Active Employees</u>	<u>Inactive or Beneficiaries Receiving Benefits</u>	<u>Total</u>
Number	32	17	49

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

#### *Actuarial Assumptions*

The total OPEB liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

<u>Description</u>	<u>Assumption</u>
<b>Measurement Date</b>	July 1, 2020
<b>Reporting Date</b>	June 30, 2021
<b>Liability Interest Rate</b>	4.66%
<b>Plan Election</b>	All eligible retirees are assumed to elect available coverage at age 62, switching coverage to Plan 65 at age 65, as applicable.
<b>Health Care Trend Rates</b>	Medical coverage costs are assumed to increase 5.0% per year in fiscal 2021 and beyond. Dental coverage costs are assumed to increase 3.5% in fiscal 2021 and beyond
<b>Cost Method</b>	Projected Unit Credit method. Benefits are accrued on service from date of hire to date of first eligibility.
<b>Changes in Assumptions</b>	The mortality assumption has been updated from the 2018 IRS static mortality table to Sex-Distinct IRS 2021 Combined Static Mortality Table.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	48%	5.50%
International Equity	21%	5.75%
Fixed Income	23%	3.25%
Real Estate	8%	5.00%
Cash	0%	2.00%
Total	<u>100%</u>	

#### *Discount Rate*

The single equivalent discount rate used to measure the total OPEB liability was 4.00 percent. The projection of cash flows used to determine the discount rate assumed that Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

#### **Changes in the Net OPEB Liability**

	<u>Total OPEB Liability</u>	<u>Increase (Decrease) Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
<b>Balance at June 30, 2020</b>	\$ 5,620,970	\$ 262,099	\$ 5,358,871
Service cost	112,939	-	112,939
Interest	259,406	-	259,406
Differences between actual and expected experience	(1,612,108)	-	(1,612,108)
Changes in assumptions	(430,062)	-	(430,062)
Benefit payments, including refunds	(102,449)	(102,449)	-
Administrative expenses	-	-	-
Contributions - employer	-	182,449	(182,449)
Contributions - active employees	-	-	-
Net investment income	-	91,438	(91,438)
Net changes	<u>(1,772,274)</u>	<u>171,438</u>	<u>(1,943,712)</u>
<b>Balances at June 30, 2021</b>	<u>\$ 3,848,696</u>	<u>\$ 433,537</u>	<u>\$ 3,415,159</u>

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates.*

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.66 percent) or 1-percentage-point higher (5.66 percent) than the current discount rate:

	<b>Impact of 1% Change in Discount Rate</b>		
	<b>1% Decrease (3.66%)</b>	<b>Current discount rate (4.66%)</b>	<b>1% Increase (5.66%)</b>
Total OPEB liability	4,130,713	3,415,159	2,861,783

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

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	<b>Impact of 1% Change in Healthcare Trend Rate</b>		
	<b>1% Decrease (4.00%)</b>	<b>Current trend rate ( 5.00%)</b>	<b>1% Increase (6.00%)</b>
Total OPEB liability	2,831,723	3,415,159	4,157,780

#### *OPEB Plan Fiduciary Net Position*

Detailed information about the OPEB plan's fiduciary net position is available in this report on the "Fiduciary Fund" pages.

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

For the year ended June 30, 2021, the Authority recognized OPEB expense of \$62,527. At June 30, 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
Liability experience	\$ -	\$(1,475,950)
Assumption change	-	(393,739)
Investment experience	-	(54,418)
Total	\$ -	\$(1,924,107)

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 8. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2022	\$ (186,438)
2023	\$ (186,205)
2024	(185,116)
2025	(186,583)
2026	(172,481)
After 2026	<u>(1,007,284)</u>
Subtotal - all years	<u>\$ (1,924,107)</u>

#### Payable to the OPEB Plan

At June 30, 2021, the Authority reported a payable of \$0 for the outstanding amount of contributions to the OPEB Trust required for the year ended June 30, 2021.

### NOTE 9. WATER QUALITY PROTECTION CHARGES PAYABLE

Pursuant to the rules and procedures of the Public Drinking Water Protection Program as promulgated by the Rhode Island Water Resources Board, the Authority has imposed a water quality protection charge on its customers. Prior to June 30, 1992, the Authority accounted for all water quality protection charges imposed as a liability due to the Authority's position that the rules and procedures regarding the imposition of the water quality protection charge did not adequately address the Authority's status as both a purchaser and supplier of water. The law governing the implementation of the water quality protection charge was amended on July 1, 1992. At June 30, 2021 water quality protection charges payable of \$0.

### NOTE 10. COMMITMENTS AND CONTINGENCIES

During the ordinary course of its operations, the Authority is a party to various claims, legal actions and complaints, and adequately provides for losses and accrues liabilities for losses when they are both probable and can be reasonably estimated.

As of June 30, 2021, the Authority had no pending contingencies to report.

### NOTE 11. REGULATORY MATTERS

The Authority periodically submits rate and compliance filings with the RIPUC to receive rate relief for amounts equal to rate increases awarded by the RIPUC to the Providence Water Supply Board, the Authority's main supplier.

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 12. FINANCIAL STATEMENTS FOR INDIVIDUAL PENSION AND OTHER POSTEMPLOYMENT BENEFIT TRUST FUNDS (OPEB)

GAAP requires that all pension and Other Postemployment Trust Funds (OPEB) be combined and presented in one column in the Fiduciary Funds financial statements and that the individual financial statements for each trust fund plan are reported in the notes to the financial statements. Provided below are the individual financial statements for the pension and OPEB plans that are included in the Fiduciary Funds as Pension and Other Postemployment Benefits Trust Funds, comparatively.

	OPEB Trust Fund		Pension Trust Fund	
	2021	2020	2021	2020
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Investments, at fair value	433,537	262,099	7,940,041	6,502,010
<b>Total Assets</b>	433,537	262,099	7,940,041	6,502,010
<b>Deferred outflows of resources</b>				
None	-	-	-	-
<b>Total deferred outflows of resources</b>	-	-	-	-
<b>Total assets and deferred outflows of resources</b>				
	433,537	262,099	7,940,041	6,502,010
<b>Liabilities</b>				
None	-	-	-	-
<b>Total liabilities</b>	-	-	-	-
<b>Deferred inflows of resources</b>				
None	-	-	-	-
<b>Total deferred inflows of resources</b>	-	-	-	-
<b>Net Position</b>				
Held in trust for other post-employment benefits	433,537	262,099	-	-
Restricted for pension	-	-	7,940,041	6,502,010
<b>Total net position</b>	433,537	262,099	7,940,041	6,502,010
<b>Total liabilities, deferred inflows of resources and net position</b>				
	\$ 433,537	\$ 262,099	\$ 7,940,041	\$ 6,502,010

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 12. FINANCIAL STATEMENTS FOR INDIVIDUAL PENSION AND OTHER POSTEMPLOYMENT BENEFIT TRUST FUNDS (OPEB) (CONTINUED)

	OPEB Trust Fund		Pension Trust Fund	
	2021	2020	2021	2020
<b>Additions</b>				
<b>Contributions</b>				
Employer contributions	\$ 182,449	\$ 175,054	\$ 280,948	\$ 249,230
<b>Total contributions</b>	<u>182,449</u>	<u>175,054</u>	<u>280,948</u>	<u>249,230</u>
<b>Investment income</b>				
Net investment income	91,438	7,474	1,581,436	166,764
<b>Total investment income</b>	<u>91,438</u>	<u>7,474</u>	<u>1,581,436</u>	<u>166,764</u>
<b>Total additions</b>	<u>273,887</u>	<u>182,528</u>	<u>1,862,384</u>	<u>415,994</u>
<b>DEDUCTIONS</b>				
Actual and service benefits payments	102,449	95,054	424,353	380,719
<b>Total deductions</b>	102,449	95,054	424,353	380,719
<b>Change in net position</b>	171,438	87,474	1,438,031	35,275
<b>Net Position - Beginning</b>	262,099	174,625	6,502,010	6,466,735
<b>Net Position - Ending</b>	<u>\$ 433,537</u>	<u>\$ 262,099</u>	<u>\$ 7,940,041</u>	<u>\$ 6,502,010</u>

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 13. RISK MANAGEMENT

#### *Insurance Held*

The Authority is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment and employee health and life insurance claims.

Buildings are fully insured against fire, theft, and natural disaster to the extent that losses exceed \$1,000 per incident. Directors, officers, and Board members are insured for a maximum of \$5,000,000 per occurrence and annual aggregate.

The Authority takes part in a voluntary workers compensation marketplace with an A.M. Best's A+ rate insurance carrier (The Hartford).

The Pool is self-sustaining through member premiums and reinsures through commercial companies for stop loss insurance.

The Authority has a third-party insured health care program for its employees for which the Authority pays 100% of the premium costs.

### NOTE 13. SUBSEQUENT EVENTS

#### *BOND PAYOFF/DEFEASEMENT*

Kent County Water Authority paid in full the 2017 Series A bond and defeased the 2012 Series A bond on January 15, 2021. The funds to satisfy the 2012 Series bond will be held in escrow with Bank of New York Mellon and will be administered by the bank accordingly. This created an overall savings to the Authority of approximately \$218,000 of interest. By paying both of these bonds early, we closed five restricted accounts with Bank of New York Mellon.

#### *NORTH/SOUTH HIGH SERVICE CONNECTION*

This project is connecting the north high service gradient with the south high service gradient to provide essential resiliency in the system and enhance water quality. Construction bid opening occurred on 2/18/2019. A bid was awarded for \$9,153,473.60. Commencement of construction for the North/South interconnection began in Mid-April 2019 between the high service gradients using accumulated capital generated under our Capital Improvement Program. The project was slated to be completed in late 2020 except for final paving in Summer of 2021. There was a delay in final construction due to damages that occurred to KCWA's transmission pipe bridge on Sandy Bottom Road in Coventry during an adjacent RIDOT bridge project. This much needed project was activated in June 2021 and allows for storage tank redundancy and provides enhanced access to the northern reaches of the system from KCWA treatment facilities in the south.

#### *NEW OFFICE AND MAINTENANCE FACILITY STUDY AND LAND ACQUISITION*

The Authority currently operates out of its office and maintenance facilities located at 1072 Main Street, West Warwick, Rhode Island. These facilities were originally built at the turn of the century with modifications and new garages in the 1970's. Several additional renovations have been accomplished to support increased operations, and accommodate capital equipment acquisitions, spare parts warehousing and workforce needs. These existing facilities have no usable area for additional expansion and the Authority believes they can no longer support the Authority's daily operations. Furthermore, there is inadequate public parking to properly service KCWA customers.



# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### **NOTE 13. SUBSEQUENT EVENTS (CONTINUED)**

In 1999, Camp Dresser & McKee conducted a feasibility study for a new KCWA Facility. In 2016, C&E Engineering Partners prepared a Water Supply System Five-Year Capital Improvement Program Update 2017- 2022 for KCWA and the Public Utilities Commission (PUC). The updated Capital Improvement Project (CIP) plan recommended a new facility supporting the 1999 findings, deeming the project as essential to provide the expected level of service goals required by State Regulatory Requirements and the Authority's Strategic Plan.

Because the original study was over 20 years old, a new updated study (2020 Study) was necessary to support and supplement future Capital Plan implementation, Commission rate filings, and bond issues. As a result, the Authority requested proposals from qualified professional architects and engineers to conduct the update to the facilities analysis and evaluation study. The Authority publicly engaged the professional services of Vision 3 Architects (V3A) partnered with Pare Engineering to complete the study.

As a part of due diligence, the 2020 study re-evaluated the potential modification and retrofitting the existing facility and concluded that the buildings have far exceeded their useful lives and are no longer adequate to support the future increase in capital equipment acquisitions, warehousing and administrative responsibilities of the KCWA. The study also calculated that a minimum net five acres would be required to meet the needs of the Authority. The Authority's current complex occupies in its entirety approximately one acre on 1072 Main Street. Exploring the viability of remaining at its current location by means of renovating the existing facility and /or constructing additional buildings would involve acquiring multiple separate sites, either adjacent to or in very close proximity to 1072 Main Street. Thus, it was reaffirmed that KCWA's current location was not an option. The efforts were then focused on spatial programming needs, potential site locations, and schematics.

The 2020 study submitted to the Authority detailed a comprehensive spatial programming analysis, conceptual building schematic options, and eleven available site locations. Based on spatial and programming needs, the study further recommended three sites that could best fit the Authority's facilities' requirements. Included in the study were pricing valuations, construction/site cost estimates, and energy efficient design components such as, rooftop solar and electric vehicle charging stations.

In addition to the 2020 study, the Board decided to perform additional due diligence in searching for potential other property locations by issuing a public RFP, which was added to the study. The RFP resulted in three property submissions satisfying the RFP requirements. Of the three properties, two new properties were added for consideration because the third property was already identified in the original updated study from Vision 3/Pare Engineering. After reviewing the thirteen properties in detail, the Board settled on one location that seemed the best fit for the next phase. A subcommittee was formed to order a formal appraisal and negotiate and provide detailed information regarding the site and its ability to satisfy the Authority's future facility needs to the full Board. The Authority has entered into a purchase and sales agreement contingent upon the satisfactory full site due diligence evaluation inclusive of geotechnical, Phase 1 environmental, wetlands delineation and verification, pre-application planning review, and a full ALTA survey. KCWA is currently engaged in reviewing bonding options with its consultants for the construction of this facility.

### *UPDATED EAST GREENWICH /WARWICK WELL TREATMENT FACILITY DESIGN*

The second project is the design and cost estimate for the construction of a new treatment plant at the existing East Greenwich/Warwick Well site. The East Greenwich well is a critical facility designed to maximize water quality and allow sufficient hydraulic capacity to meet the needs of the KCWA system now and into the future. This source in combination with KCWA's Mishnock treatment facility provide sufficient capacity to continue provide essential service to its critical customers, and emergency interconnections, in the event something goes wrong with water supplied from Providence Water and/or major disruption to the associated transmission systems.

The East Greenwich/Warwick Well has a full production yield capability of approximately 2000 gallons per minute. The East Greenwich/Warwick Well is located at 5870 Post Road, in the general vicinity of the intersection of Post Road and

# KENT COUNTY WATER AUTHORITY

## Notes to the Financial Statements

June 30, 2021

### NOTE 13. SUBSEQUENT EVENTS (CONTINUED)

Franklin Street, along the East Greenwich and Warwick city line within the Hunt River Aquifer. The existing facilities consist of one submersible pump well, emergency power, SCADA control and monitoring disinfection and pH adjustment. The Authority requested proposals from qualified Professional Engineering firms to conduct an inspection, evaluation and review of the newly constructed well facilities and prepare final design and contract documents for construction of a new water treatment facility at the existing site under its Capital Improvement initiatives. Pare Engineering was chosen and awarded the contract to design the updated facility in December of 2019. A preliminary design report is currently being reviewed by the Rhode Island Department of Health.

The updated design will include an addition to the updated well facilities constructed in 2018 under the KCWA Infrastructure Replacement initiative. The facility is being designed to provide an average daily output capacity of 1.44 MGD (1,000 gpm) to the system with one treatment unit offline and to provide for a maximum daily output capacity of 3 MGD (approx. 2,000 gpm) with both treatment units online. The output capacity is being designed at a maximum of 3 MGD to ensure resiliency and redundancy of individual unit processes, treatment trains, and discharge pumping. The design will also allow the ability treat additional well(s) if acquired in the future. The proposed well pump that will feed the station will only pump to a maximum of 2.5 MGD. This design and subsequent responsible operation will not adversely affect the Hunt River, today or in the future, as it reflects significantly less volumes than historic withdrawals from this basin.

The 2018 updates to the facility also did not encompass treatment/removal of the elevated manganese levels in the water supply system. The goal of the new treatment facility design is to reduce the secondary contaminant levels to below the applicable standards and provide disinfection treatment and radon removal to facilitate improving water quality in the use of the supply capacity of this source. The proposed treatment facility and major unit processes at the facility were evaluated based on achieving the primary objective of protecting public health by providing a reliable source of potable water that meets or exceeds current and foreseeable future proposed drinking water regulations.

Per- and polyfluoroalkyl substances (PFAS) are an emerging contaminant of concern in groundwater throughout the United States. An evaluation of per- and polyfluoroalkyl substances (PFAS) in raw water was performed and found below 10 parts per trillion (10 ppt) which is below the current EPA health advisories of 70 ppt. However, there is legislation being discussed to set a maximum contaminant level to 20 ppt, or potentially even less in Rhode Island. Although no treatment for PFAS is proposed in this design, accommodations have been made for building expansion should PFAS treatment be required in the future. This project received final comments from RIDOH regarding the preliminary design is hoping to go to full design in the fall of 2021.

### *MUNI-LINK CUSTOMER UTILITY BILLING SOFTWARE*

From October 2020 through January 2021, Kent County Water Authority converted all customer account information and associated balances from our legacy system, PACE customer utility billing software to Muni-Link. We commenced all customer utility billing activity in Muni-Link on February 1, 2021. KCWA will continue to operate our budgeting & accounting and inventory modules in PACE until we are ready to replace PACE with another accounting software package. Mini-Link allows us to offer credit card/debit card and ACH payment options to our customers as well as an auto-pay option. We also began absorbing all associated processing fees in June 2020 which has increased our collections from customers as we are trying to make it as easy as possible for them to make payment.

### *CORONAVIRUS*

On March 9, 2020, the Governor of the State of Rhode Island declared a State of Emergency in response to limit the spread of COVID-19 Coronavirus, there is considerable uncertainty around the duration of the pandemic and accordingly, the financial impact related to the collection of water sales, hydrant fees, other revenues and other potential financial impact cannot be reasonably estimated at this time.

# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

Last Ten Fiscal Years\*

For the Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total pension liability</b>							
Normal cost	\$ 159,470	\$ 145,857	\$ 136,977	\$ 131,181	\$ 126,528	\$ 114,734	\$ 144,147
Interest	538,295	503,298	498,457	454,815	444,406	431,804	419,030
Experience (gain) or loss	60,945	219,926	(252,079)	134,135	(113,280)	(120,312)	(203,680)
Assumption changes	15,831	14,824	(10,960)	176,864	179,224	12,993	74,562
Benefit payments	(424,353)	(380,719)	(266,738)	(264,564)	(266,989)	(263,800)	(260,720)
<b>Net change in total pension liability</b>	<u>350,188</u>	<u>503,186</u>	<u>105,657</u>	<u>632,431</u>	<u>369,889</u>	<u>175,419</u>	<u>173,339</u>
<b>Total pension liability - beginning</b>	<u>7,915,373</u>	<u>7,412,187</u>	<u>7,306,530</u>	<u>6,674,099</u>	<u>6,304,210</u>	<u>6,128,791</u>	<u>5,955,452</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 8,265,561</u>	<u>\$ 7,915,373</u>	<u>\$ 7,412,187</u>	<u>\$ 7,306,530</u>	<u>\$ 6,674,099</u>	<u>\$ 6,304,210</u>	<u>\$ 6,128,791</u>
<b>Pension fiduciary net position</b>							
Employer contributions	\$ 280,948	\$ 249,230	\$ 262,152	\$ 222,207	\$ 243,161	\$ 246,738	\$ 277,560
Expected investment return	452,884	450,404	429,037	400,034	375,678	379,448	369,051
Additional investment return	1,128,552	(283,640)	(77,890)	59,714	211,884	(393,374)	(222,627)
Other	(424,353)	(380,719)	(266,738)	(264,564)	(266,989)	(263,800)	(260,720)
<b>Net change in plan fiduciary net position</b>	<u>1,438,031</u>	<u>35,275</u>	<u>346,561</u>	<u>417,391</u>	<u>563,734</u>	<u>(30,988)</u>	<u>163,264</u>
<b>Plan fiduciary net position - beginning</b>	<u>6,502,010</u>	<u>6,466,735</u>	<u>6,120,174</u>	<u>5,702,783</u>	<u>5,139,049</u>	<u>5,170,037</u>	<u>5,006,773</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>7,940,041</u>	<u>6,502,010</u>	<u>6,466,735</u>	<u>6,120,174</u>	<u>5,702,783</u>	<u>5,139,049</u>	<u>5,170,037</u>
<b>Net pension liability (asset) - ending (a) - (b)</b>	<u>\$ 325,520</u>	<u>\$ 1,413,363</u>	<u>\$ 945,452</u>	<u>\$ 1,186,356</u>	<u>\$ 971,316</u>	<u>\$ 1,165,161</u>	<u>\$ 958,754</u>

\* Only seven years out of the required ten were made available in the actuarial report.

*See accompanying notes to the required supplementary information.*

# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

Last Ten Fiscal Years\*

For the Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability	\$ 8,265,561	\$ 7,915,373	\$ 7,412,187	\$ 7,306,530	\$ 6,674,098	\$ 6,304,210	\$ 6,128,791
Plan fiduciary net position	7,940,041	6,502,010	6,466,735	6,120,174	5,702,783	5,139,049	5,170,037
Net pension liability (asset)	<u>\$ 325,520</u>	<u>\$ 1,413,363</u>	<u>\$ 945,452</u>	<u>\$ 1,186,356</u>	<u>\$ 971,315</u>	<u>\$ 1,165,161</u>	<u>\$ 958,754</u>
End of year funding percentage	96.06%	82.14%	87.24%	83.76%	85.45%	81.52%	84.36%
Covered payroll**	2,345,125	2,286,296	2,248,514	2,063,078	1,996,345	1,963,460	1,798,468
Net pension liability as a percentage of covered payroll	13.88%	61.82%	42.05%	57.50%	48.65%	59.34%	53.31%

\* Only seven years out of the required ten were made available in the actuarial report.

\*\* Reflects revised definition per GASB 82.

*See accompanying notes to the required supplementary information.*

# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Schedule of Employer Contributions

Last Ten Fiscal Years\*

For the Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 277,832	\$ 280,948	\$ 249,230	\$ 262,152	\$ 222,207	\$ 243,161	\$ 246,738
Contributions in relation to the actuarially determined contribution	<u>277,832</u>	<u>280,948</u>	<u>249,230</u>	<u>262,152</u>	<u>222,207</u>	<u>243,161</u>	<u>246,738</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll**	2,345,125	2,286,296	2,248,514	2,063,078	1,996,345	1,963,460	1,798,468
Contributions as a percentage of covered payroll	11.85%	12.29%	11.08%	12.71%	11.13%	12.38%	13.72%

\* Only seven years out of the required ten were made available in the actuarial report.

\*\* Reflects revised definition per GASB 82.

*See accompanying notes to the required supplementary information.*

**KENT COUNTY WATER AUTHORITY**

Required Supplementary Information

Schedule of Investment Returns

Last Ten Fiscal Years\*

For the Year Ended June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money-weighted rate of return net of investment expense	24.59%	2.61%	5.74%	8.09%	11.46%	-0.27%	2.92%

\* Only seven years out of the required ten were made available in the actuarial report.

# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Notes to the Required Supplementary Information – Net Pension Liability

For the Year Ended June 30, 2021

Discount rate	7.00% (7.25% prior to June 30, 2017)
Compensation increase	Salary is assumed to increase 3.00% annually
Social security wage base	The taxable wage base is assumed to increase 2.5% annually
Mortality	Mortality rates are assumed in accordance with the Sex-Distinct IRS 2021 combined static mortality table
Retirement	All participants are assumed to retire at age 62 or current age, if older
Disability	None assumed
Form of payment	Participants are assumed to elect the normal form of annuity
Marriage	75% of participants are assumed to be married; husbands are assumed to be three years older than wives
Employees	No new or rehired employees are assumed for valuation purposes
Termination	Termination of employment is assumed according to Scale T-1 from the Pension Actuary's Handbook. Representative termination rates are listed below and are the same for both males and females.

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
20	5.44%	35	2.35%	50+	0.00%
25	4.89%	40	1.13%		
30	3.70%	45	0.27%		

*See accompanying notes to the required supplementary information.*

# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Schedule of Changes in Net OPEB Liability and Related Ratios

For the Year Ended June 30, 2021

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
<b>Total OPEB liability</b>				
Service cost	\$ 112,939	\$ 191,042	\$ 183,694	\$ 176,629
Interest on net OPEB liability and service cost	259,406	210,553	198,763	187,567
Differences between actual and expected experience	(1,612,108)	-	-	-
Changes of assumptions	(430,062)	-	-	-
Benefit payments, including refunds	<u>(102,449)</u>	<u>(95,054)</u>	<u>(87,695)</u>	<u>(84,292)</u>
<b>Net change in total OPEB liability</b>	(1,772,274)	306,541	294,762	279,904
Total OPEB liability - beginning	<u>5,620,970</u>	<u>5,314,429</u>	<u>5,019,667</u>	<u>4,739,763</u>
<b>Total OPEB liability - ending (a)</b>	<u>\$ 3,848,696</u>	<u>\$ 5,620,970</u>	<u>\$ 5,314,429</u>	<u>\$ 5,019,667</u>
<b>OPEB fiduciary net position</b>				
Benefit payments, including refunds	\$ (102,449)	\$ (95,054)	\$ (87,695)	\$ (84,292)
Trust administrative expenses	-	-	-	-
Contributions - employer	182,449	175,054	167,695	164,292
Contribution - Active employees	-	-	-	-
Net investment income	<u>91,438</u>	<u>7,474</u>	<u>13,455</u>	<u>1,170</u>
<b>Net change in plan fiduciary net position</b>	171,438	87,474	93,455	81,170
Plan fiduciary net position - beginning	<u>262,099</u>	<u>174,625</u>	<u>81,170</u>	<u>-</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 433,537</u>	<u>\$ 262,099</u>	<u>\$ 174,625</u>	<u>\$ 81,170</u>
<b>Plan's net pension liability - ending (a) - (b)</b>	<u>\$ 3,415,159</u>	<u>\$ 5,358,871</u>	<u>\$ 5,139,804</u>	<u>\$ 4,938,497</u>
<b>End of year funding percentage</b>	11.26%	4.66%	3.29%	1.62%
<b>Covered payroll</b>	\$ 2,345,125	\$ 2,286,296	\$ 2,248,514	\$ 2,063,078
<b>Net pension liability divided by covered payroll</b>	145.63%	234.39%	228.59%	239.38%

\*- This schedule is presented to illustrate the requirements to show information for 10 years. However, until a 10-year trend is compiled, OPEB plans should present information for those year for which information available.

*See accompanying notes to the required supplementary information.*



# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Schedule of OPEB Contributions and Schedule of Money-weighted Rate of Return

Last Ten Fiscal Years  
June 30, 2021

	<b>June 30, 2021</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Actuarial determined contribution	\$ 326,093	\$ 433,223	\$ 469,288	\$ 450,263
Contributions in relation to the actuarially determined contribution	182,449	175,054	167,695	164,292
Contribution deficiency (excess)	\$ 143,644	\$ 258,169	\$ 301,593	\$ 285,971
Covered payroll	\$ 2,345,125	\$ 2,286,296	\$ 2,248,514	\$ 2,063,078
Contributions as a percentage of covered payroll	7.78%	7.66%	7.46%	7.96%
	<b>June 30, 2021</b>	<b>June 30, 2020</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>
Annual money-weighted rate of return, net of investment expense	30.27%	3.48%	11.10%	2.93%

\*- This schedule is presented to illustrate the requirements to show information for 10 years. However, until a 10-year trend is compiled, OPEB plans should present information for those year for which information available.

*See accompanying notes to the required supplementary information.*

# KENT COUNTY WATER AUTHORITY

## Required Supplementary Information

### Notes to the Required Supplementary Information - OPEB

Last Ten Fiscal Years  
June 30, 2021

<b>Description</b>	<b>Assumption</b>
<b>Measurement Date</b>	July 1, 2020
<b>Reporting Date</b>	June 30, 2021
<b>Liability Interest Rate</b>	4.66%
<b>Plan Election</b>	All eligible retirees are assumed to elect available coverage at age 62, switching coverage to Plan 65 at age 65, as applicable.
<b>Health Care Trend Rates</b>	Medical coverage costs are assumed to increase 5.0% per year in fiscal 2021 and beyond. Dental coverage costs are assumed to increase 3.5% in fiscal 2021 and beyond
<b>Cost Method</b>	Projected Unit Credit method. Benefits are accrued on service from date of hire to date of first eligibility.
<b>Changes in Assumptions</b>	The mortality assumption has been updated from the 2018 IRS static mortality table to Sex-Distinct IRS 2021 Combined Static Mortality Table.

*See accompanying notes to the required supplementary information.*

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Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based  
on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors of  
Kent County Water Authority  
West Warwick, Rhode Island

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kent County Water Authority, as of and for the year ended June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated August 30, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kent County Water Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kent County Water Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Kent County Water Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, however, material weaknesses may exist that have not been identified.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kent County Water Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Hague, Sahady & Co. PC". The signature is written in black ink on a white background.

Hague, Sahady & Co., CPA's, P.C.

Fall River, Massachusetts  
August 30, 2021

***APPENDIX F***

**Kent County Water Authority**

**The Washington Trust Company Restricted Account Reconciliation (Account #11360)**

2/28/22

<u>Account Name</u>	<u>Account No.</u>	<u>Beginning Balance</u>	<u>Reimburse Rev / Acct Xfers</u>	<u>Feb Monthly Waterfall Xfer</u>	<u>Ending Balance</u>
Operating Revenue Allowance Account	96523970	\$1,407,709.86			\$1,407,709.86
Renewal & Replacement Account	96523980	\$88,941.17			\$88,941.17
Infrastructure Account	96523990	\$7,777,052.16			\$7,777,052.16
Meter Replacement Program Account	96524000	\$203,127.86	(\$41,774.41)		\$161,353.45
Capital Projects Account	96524010	\$2,439,161.29			\$2,439,161.29
<b>Totals</b>		\$11,915,992.34	(\$41,774.41)	\$0.00	\$11,874,217.93

## ***APPENDIX G***

### ***Download Links and URLs:***

#### ***19105a\_KCWA\_FinalReport\_vol1***

[https://kentcountywater.org/config/brd-packet/90/19105a\\_KCWA\\_FinalReport\\_vol1.pdf](https://kentcountywater.org/config/brd-packet/90/19105a_KCWA_FinalReport_vol1.pdf)

#### ***19105a\_KCWA\_FinalReport\_vol2***

[https://kentcountywater.org/config/brd-packet/90/19105a\\_KCWA\\_FinalReport\\_vol2.pdf](https://kentcountywater.org/config/brd-packet/90/19105a_KCWA_FinalReport_vol2.pdf)

#### ***19105a\_KCWA\_FinalReport\_vol3***

[https://kentcountywater.org/config/brd-packet/90/19105a\\_KCWA\\_FinalReport\\_vol3.pdf](https://kentcountywater.org/config/brd-packet/90/19105a_KCWA_FinalReport_vol3.pdf)