

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 10, 2025

NEW ISSUE -BOOK-ENTRY-ONLY

**Ratings: Moody's: Aa2
S&P: AA
Fitch: AA
(See "RATINGS" herein)**

This Official Statement has been prepared by the City of Fayetteville, North Carolina (the "City") and the Fayetteville Public Works Commission (the "PWC") to provide certain information in connection with the sale and issuance of the bonds offered hereby (the "2025 Bonds") as described herein. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the 2025 Bonds, a prospective investor should read this Official Statement in its entirety. Capitalized terms used on this cover page have the meanings given such terms in this Official Statement.



\$156,135,000*
CITY OF FAYETTEVILLE, NORTH CAROLINA
Public Works Commission Revenue Bonds
Series 2025

Dated: Date of Issuance

Due: As shown on the inside front cover

Tax Treatment:

In the opinion of Bond Counsel, which is based on existing law and assumes continuing compliance by the City and the PWC with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the 2025 Bonds will not be includable in the gross income of the owners thereof for purposes of federal income taxation and will not be a specific preference item for purposes of the alternative minimum tax imposed by the Code. Furthermore, in the opinion of Bond Counsel, which is based on existing law, interest on the 2025 Bonds will be exempt from all State of North Carolina income taxes. See "TAX TREATMENT" herein.

Security:

The 2025 Bonds are limited obligations of the City, and the principal of and interest on the 2025 Bonds are payable solely from Net Revenues of the System. The 2025 Bonds do not constitute a debt of the City for which the faith and credit and taxing power of the City are pledged, and the issuance of the 2025 Bonds will not directly or indirectly or contingently obligate the City to levy any tax or pledge any form of taxation for the payment thereof. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2025 BONDS" herein.

Redemption:

The 2025 Bonds are subject to redemption before maturity at the times, at the price and in the manner described under "THE 2025 BONDS – Redemption Provisions" herein.

Purpose:

The proceeds of the 2025 Bonds will be used, together with other available funds, to (a) acquire, construct and equip certain improvements to the System as described herein and (b) pay the fees and expenses incurred in connection with the sale and issuance of the 2025 Bonds.

Interest Payment Dates:

March 1 and September 1 of each year, beginning March 1, 2026.

Denomination:

\$5,000 or integral multiples thereof.

Registration:

Full book-entry only; DTC. See Appendix E hereto.

Expected Delivery Date:

November 12, 2025.

Trustee:

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

Bond Counsel:

The Charleston Group, Fayetteville, North Carolina.

City Attorney:

Lachelle H. Pulliam, Esq., Fayetteville, North Carolina.

Municipal Advisor:

First Tryon Advisors, Charlotte, North Carolina.

Sale Date:

October 21, 2025.

Sale of 2025 Bonds:

Pursuant to sealed bids in accordance with the Notice of Sale.

The date of this Official Statement is October __, 2025.

* Preliminary; subject to change.

MATURITY SCHEDULE*

<u>Due March 1</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Yield¹</u>	<u>CUSIP⁺</u>	<u>Due March 1</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Yield¹</u>	<u>CUSIP⁺</u>
2028	\$2,755,000				2042	\$5,455,000			
2029	2,895,000				2043	5,680,000			
2030	3,040,000				2044	5,920,000			
2031	3,190,000				2045	6,165,000			
2032	3,350,000				2046	6,425,000			
2033	3,515,000				2047	6,710,000			
2034	3,695,000				2048	7,010,000			
2035	3,880,000				2049	7,325,000			
2036	4,070,000				2050	7,660,000			
2037	4,275,000				2051	8,005,000			
2038	4,490,000				2052	8,360,000			
2039	4,710,000				2053	8,735,000			
2040	4,950,000				2054	9,130,000			
2041	5,195,000				2055	9,545,000			

* Preliminary; subject to change.

¹ Information provided by the senior managing underwriter of the 2025 Bonds.

⁺ CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright © 2025 CUSIP Global Services. All rights reserved. The CUSIP data herein is provided solely for the convenience of reference only, and neither the City, the PWC, nor the Underwriter make any representation to the correctness of the CUSIP numbers either as printed on the 2025 Bonds or as contained herein.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the 2025 Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the 2025 Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the 2025 Bonds implies that the information herein is correct as of any date subsequent to the date thereof. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

The information set forth herein has been obtained from the City, the PWC and other sources that are deemed to be reliable is deemed to be a final official statement by the City and the PWC for the purpose of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (except for certain information permitted to be omitted under Rule 15c2-12(b)(1)).

THE 2025 BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED WITH THE SECURITIES AND EXCHANGE COMMISSION BY REASON OF THE PROVISIONS OF SECTION 3(A)(2) OF THE SECURITIES ACT OF 1933, AS AMENDED. THE REGISTRATION OR QUALIFICATION OF THE 2025 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE 2025 BONDS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES, SHALL NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE 2025 BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

All quotations from and summaries and explanations of laws and documents herein do not purport to be complete, and reference is made to such laws and documents for full and complete statements of their provisions. Any statements made in this Official Statement involving estimates or matters of opinion, whether or not expressly so stated, are intended merely as estimates or opinions and not as representations of fact.

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STATE AND LOCAL GOVERNMENT FINANCE DIVISION
LOCAL GOVERNMENT COMMISSION

**OFFICIAL STATEMENT
of the North Carolina Local Government Commission
Concerning**

**\$156,135,000*
CITY OF FAYETTEVILLE, NORTH CAROLINA
Public Works Commission Revenue Bonds
Series 2025**

INTRODUCTION

This Official Statement, including the cover page and the Appendices, is intended to furnish information in connection with the issuance by the City of Fayetteville, North Carolina (the "City") of \$156,135,000* Public Works Commission Revenue Bonds, Series 2025 (the "2025 Bonds"). The 2025 Bonds are being issued pursuant to a Bond Order duly adopted by the City Council of the City of Fayetteville, North Carolina (the "City") on November 5, 1990, as amended and supplemented by orders adopted or to be adopted on December 7, 1992, October 25, 1993, April 24, 1995, November 17, 1997, November 15, 1999, March 27, 2001, January 13, 2003, August 25, 2003, January 14, 2008, September 14, 2009, August 4, 2014, May 9, 2016, November 13, 2018, September 27, 2021, September 25, 2023, and September 22, 2025 (collectively, the "Bond Order"). Capitalized terms used herein and not otherwise defined herein shall have the same meanings set forth in the Bond Order. See "DEFINITIONS OF CERTAIN TERMS" in Appendix B hereto.

The North Carolina General Assembly created the Fayetteville Public Works Commission (the "PWC") as a public authority for the purpose of managing, controlling and operating electric, water and sanitary sewer systems (the "System") in order to provide customers in the City and surrounding areas within Cumberland County, North Carolina (the "County") with electricity, water and wastewater services.

The City has heretofore issued the following Bonds under the Bond Order which are currently outstanding:

<u>Series</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding</u>
Public Works Commission Revenue Bonds, Series 2016	\$114,405,000	\$70,620,000
Public Works Commission Revenue Bonds, Series 2018	\$83,645,000	\$61,345,000
Public Works Commission Revenue Bonds, Series 2021	\$94,790,000	\$92,315,000
Public Works Commission Revenue Bonds, Series 2023	\$169,420,000	\$169,420,000
Public Works Commission Refunding Revenue Bonds, Series 2024	\$76,400,000	\$72,820,000

The City has also executed and delivered seven final promissory notes to the State of North Carolina (the “State”) which are currently outstanding in the aggregate principal amount of \$26,581,937 (the “State Loans”). This figure excludes certain State Loans that have been delivered but are currently in the draw down phase.

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

Authorization. The 2025 Bonds are being issued pursuant to The State and Local Government Revenue Bond Act, Article 5 of Chapter 159, as amended, of the General Statutes of North Carolina (the “Act”) and the Bond Order.

Security. In accordance with the Bond Order, the City has made a pledge to the Trustee of the Net Revenues (as defined in the Bond Order) from the operation of the System for the benefit of the registered owners of the 2025 Bonds. Such pledge is on parity with the pledge of such Net Revenues securing the payment of the other outstanding Bonds of the City described above (the “Prior Bonds”) and any future Additional Bonds (collectively with the 2025 Bonds, the “Bonds”). The State Loans are payable from Net Revenues on a subordinate basis to the Bonds. Pursuant to the Bond Order, if money is available therefor and unless a Default has occurred and is continuing, the PWC is also required to make certain payments to the City in an amount agreed to and budgeted by the PWC from time to time (the “City Transfers”). See “SECURITY AND SOURCES OF PAYMENT FOR THE 2025 BONDS” herein.

Purpose. The 2025 Bonds are being issued for the purpose of providing funds, together with other available funds, to (a) acquire, construct and equip certain improvements to the System as described under “THE PLAN OF FINANCE – The 2025 Project” herein (the “2025 Project”), and (b) pay the fees and expenses incurred in connection with the sale and issuance of the 2025 Bonds. See “THE PLAN OF FINANCE” and “ESTIMATED SOURCES AND USES OF FUNDS” herein.

Details of Bonds. The 2025 Bonds will be dated the date of delivery thereof. Interest on the 2025 Bonds will be payable on March 1 and September 1, beginning March 1, 2026, at the rates shown on the inside front cover hereof. Principal of the 2025 Bonds will be payable, subject to prior redemption as described herein, on March 1 in the years and amounts shown on the inside front cover hereof.

The 2025 Bonds will be issued as fully registered bonds in book-entry-only form, without physical delivery of bond certificates to the beneficial owners of the 2025 Bonds. The Trustee will make payment of principal of and interest on the 2025 Bonds to The Depository Trust Company (“DTC”), which will in turn remit such payment to its participants for subsequent distribution to the beneficial owners of the 2025 Bonds. Individual purchases of the 2025 Bonds by the beneficial owners will be made in denominations of \$5,000 or whole multiples thereof. See Appendix E hereto for more information regarding DTC and the book-entry-only system for the 2025 Bonds.

City, PWC and System. See “THE CITY” herein for certain information regarding the City. See “THE FAYETTEVILLE PUBLIC WORKS COMMISSION” herein for certain information regarding the PWC and the System.

Tax Status. See “TAX TREATMENT” herein.

Professionals. The Charleston Group, Fayetteville, North Carolina, is serving as Bond Counsel. Lachelle H. Pulliam, Esq., Fayetteville, North Carolina, is the City Attorney. The Bank of New York Mellon Trust Company, N.A., Jacksonville, Florida, is serving as the Trustee under the Bond Order. First Tryon Advisors, Charlotte, North Carolina, is acting as municipal advisor to the City and the PWC in connection with the sale and issuance of the 2025 Bonds.

THE 2025 BONDS

Authorization

The 2025 Bonds will be issued by the City pursuant to the Act and the Bond Order. The issuance of the 2025 Bonds received the required approval of the North Carolina Local Government Commission (the “LGC”) on October 7, 2025. The LGC is a division of the State Treasurer’s office charged with general oversight of local government finance in North Carolina; its approval is required for all local government bond issues and substantially all other local government financing arrangements in North Carolina. In determining whether to allow bonds to be issued under the Act, the LGC has been given wide statutory discretion to consider the need for and feasibility of the projects to be financed, the local government’s capability to repay the amount financed from the pledged revenue sources and the local government’s general compliance with State budget and finance laws. Under the Act, the LGC is also responsible, with the issuing unit’s approval, for selling bonds issued pursuant to the Act. See Appendix D hereto for additional information on the LGC and its powers and duties.

General

The 2025 Bonds will be dated the date of their delivery, will be issued in denominations of \$5,000 or integral multiples thereof, and will bear interest from their date. Interest will be payable on March 1, 2026, and semiannually thereafter on each March 1 and September 1 at the rates, and will mature on March 1 in the years and in the amounts, set forth on the inside front cover hereof. The regular record date for the 2025 Bonds will be the 15th day preceding each Interest Payment Date, whether or not a Business Day.

The 2025 Bonds will be issued as fully registered bonds in book-entry-only form, without physical delivery of bond certificates to the beneficial owners of the 2025 Bonds. The Trustee will make payment of principal of and interest on the 2025 Bonds to DTC, which will in turn remit such payment to its participants for subsequent distribution to the beneficial owners of the 2025 Bonds. Individual purchases of the 2025 Bonds by the beneficial owners will be made in denominations of \$5,000 or whole multiples thereof. See Appendix E hereto for more information regarding DTC and the book-entry-only system for the 2025 Bonds.

Redemption Provisions

Optional Redemption. The 2025 Bonds maturing on or prior to March 1, 2035 are not subject to redemption prior to their maturity. The 2025 Bonds maturing on or after March 1, 2036 are subject to redemption prior to their respective maturities, at the option of the City, from any moneys that may be available for such purpose, either in whole or in part on any date on or after March 1, 2035, at a redemption price equal to 100% of the principal amount of the 2025 Bonds to be redeemed, plus accrued interest to the redemption date.

[Mandatory Sinking Fund Redemption]. The 2025 Bonds maturing on March 1, 20__ are subject to mandatory sinking fund redemption in part on March 1 in the years and principal amounts set forth below at a redemption price equal to 100% of the principal amount of such 2025 Bonds to be redeemed, plus accrued interest to the redemption date:

<u>Year</u>	<u>Principal Amount</u>

*Maturity]

General Redemption Provisions. At least 30 days but not more than 60 days prior to the redemption date of any 2025 Bonds to be redeemed, whether such redemption be in whole or in part, the Trustee shall cause a notice of any such redemption signed to be mailed, first class, postage prepaid, to all Owners of the 2025 Bonds to be redeemed in whole or in part; provided, however, that notice to any Securities Depository shall be sent in the manner prescribed by such Securities Depository; and provided further that failure to mail any such notice to any Owner or any defect in such notice shall not affect the validity of the proceedings for such redemption as to the 2025 Bonds of any other Owner to whom notice was properly given. The Trustee shall also provide a copy of such notice of redemption (i) to the Municipal Securities Rulemaking Board by posting the same on the EMMA system and (ii) to the LGC by first class mail, postage prepaid, but failure to provide such notices or any defect therein shall not affect the validity of any proceedings for the redemption of any 2025 Bonds.

The 2025 Bonds shall be redeemed only in whole multiples of \$5,000. If less than all the 2025 Bonds are called for redemption, the 2025 Bonds to be so redeemed shall be called for redemption in the manner set forth in an Officer's Certificate filed with the Trustee. If less than all of the 2025 Bonds of any one maturity are to be called for redemption, the Trustee shall select the 2025 Bonds to be redeemed by lot, each \$5,000 portion of principal being counted as one 2025 Bond for this purpose; provided, however, that so long as the only registered owner of the 2025 Bonds is DTC, such selection shall be made by DTC. If a portion of a 2025 Bond is called for redemption, a new 2025 Bond or Bonds of Authorized Denominations in the aggregate principal amount equal to the unredeemed portion thereof will be issued to the Owner upon surrender thereof.

On the date designated for redemption, notice having been given as aforesaid, the 2025 Bonds or portions thereof so called for redemption shall become due and payable at the redemption price provided for the redemption of such 2025 Bonds or such portions thereof on such date plus accrued interest to such redemption date. Upon the giving of notice and the deposit of moneys for redemption at the required times on or prior to the date fixed for redemption, interest on the 2025 Bonds or portions thereof so called for redemption shall no longer accrue after the date fixed for redemption.

Any notice of redemption, except a notice of redemption in respect of a mandatory sinking fund redemption, may state that the redemption to be effected is conditioned upon the receipt by the Trustee on or prior to the redemption date of moneys sufficient to pay the redemption price of and interest on the 2025 Bonds to be redeemed and that if such moneys are not so received such notice shall be of no force or effect and such 2025 Bonds shall not be required to be redeemed. In the event that such notice contains such a condition and moneys sufficient to pay the redemption price of and interest on such 2025 Bonds are not received by the Trustee on or prior to the redemption date, the redemption shall not be made, and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

SECURITY AND SOURCES OF PAYMENT FOR THE 2025 BONDS

General

The 2025 Bonds are payable solely from, and secured by a pledge of and lien upon, the Net Revenues. Net Revenues for any period shall mean the excess, if any, of Revenues for such period over the Operating Expenses and Demand Charge Components for such period. "Revenues," "Operating Expenses" and "Demand Charge Components" are defined in "DEFINITION OF CERTAIN TERMS" in Appendix B hereto. The 2025 Bonds are also secured by the money and securities held in certain funds and accounts created by the Bond Order.

The lien on the Net Revenues securing the 2025 Bonds is *pari passu* with the lien securing all other Outstanding Bonds issued under the Bond Order, any Additional Bonds hereafter issued under the Bond Order and any Credit Facility Obligations and Derivative Agreement Parity Payments.

The State Loans described above constitute Subordinated Indebtedness under the Bond Order and are also payable from revenues of the System, but the obligation to make such payments is subordinate in all respects to the payment of any Outstanding Bonds, including the 2025 Bonds, and any Credit Facility Obligations and Derivative Agreement Parity Payments.

Pursuant to the Bond Order, if money is available therefor and unless a Default has occurred and is continuing, the PWC is required to pay the City Transfers to the City. The City Transfers are paid from Net Revenues. Payment of the City Transfers is subordinated in all respect to the payment of any Outstanding Bonds, including the 2025 Bonds, any Credit Facility Obligations and Derivative Agreement Parity Payments, the Subordinated Indebtedness and certain other payment obligations of the City.

The pledge of the Net Revenues does not constitute a lien upon the System or any part thereof or any other property of the PWC or the City. The 2025 Bonds shall not be deemed to constitute a debt or a pledge of the faith and credit of the State of North Carolina or any political subdivision thereof, including the City. Neither the State of North Carolina nor any political subdivision thereof, including the City, shall be obligated to pay the principal of or interest on the 2025 Bonds or other costs incident thereto except from the revenues, receipts and payments pledged therefor under the Bond Order, and neither the faith and credit nor the taxing power of the State of North Carolina or any political subdivision thereof, including the City, is pledged to the payment of the principal of or interest on the Bonds or other costs incident thereto.

Funds and Accounts

General Fund. Except as provided below, the General Fund is administered by the PWC and is not a Trustee-held fund. All Revenues received or collected are deposited in the General Fund when received. In addition, all proceeds received by the City or the PWC pursuant to any Derivative Agreement are deposited in the General Fund when received. Upon the occurrence of any Default under the Bond Order, if written demand therefor is made by the Trustee (which the Trustee shall make at its option or upon the written request of the Owners of not less than 25% in aggregate principal amount of Outstanding Bonds, the PWC is required to transfer all funds held by it in the General Fund to the Trustee. Until such Default is cured or waived by the Trustee, all Revenues thereafter received or collected are required to be deposited in the General Fund (which shall then be held by the Trustee) on a daily basis. In such event, the PWC is required to continue to operate the System (subject to the right of the Trustee to appoint a receiver) upon the direction of the Trustee, including charging and collecting such rates for its services as are prescribed by the Trustee. Once such Default is waived or cured by the Trustee, upon the request of the PWC, the General Fund and all Revenues contained therein shall be transferred by the Trustee to the PWC. Amounts held in the General Fund shall be transferred and applied in the manner and priority of order set forth in the Bond Order. See “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER – General Fund; Payments Thereto and Use Thereof” in Appendix B hereto.

The PWC, in its discretion and except during the continuation of a Default, may transfer on or after June 30 in each Fiscal Year any balance remaining in the General Fund at the end of such Fiscal Year after making all deposits or payments required by the Bond Order during such Fiscal Year, in whole or in part, to any other fund or account designated by the PWC, including additional transfers to the City, provided that a Commission Representative shall first certify to the Trustee that, in the opinion of such Commission Representative, the transfer of such amount will not have a material adverse effect on the City’s ability over the next twelve calendar months to make all payments and deposits required by the Bond Order and to meet all other financial obligations imposed by the Bond Order.

Any funds transferred from the General Fund in accordance with the Bond Order (other than transfers made to any account or subaccount of the Bond Fund) shall no longer be subject to the pledge, charge and lien upon the Net Revenues created by the Bond Order.

Bond Fund. The Bond Fund is held by the Trustee and is composed of two separate accounts known as the Interest Account and the Principal Account. The supplemental bond order for each series of bonds provides, to the extent applicable, for the creation of separate subaccounts within the Interest Account and the Principal Account relating to the particular series of Bonds authorized by such supplemental bond order. Moneys held in such subaccounts are subject to a pledge, charge and lien in favor of the Owners of the respective series of Bonds issued and Outstanding under the Bond Order and for the further security of such Owners, except as otherwise provided in the Bond Order.

Reserve Fund. The Bond Order provides that the supplemental bond order authorizing any series of Bonds may provide for the funding of a separate account in the Reserve Fund which will only secure such series of Additional Bonds or may provide that such series of Additional Bonds will not be secured by the Reserve Fund. THE 2025 BONDS WILL NOT BE SECURED BY THE RESERVE FUND, AND THE OWNERS OF THE 2025 BONDS WILL HAVE NO RIGHT TO ANY MONEYS HELD THEREIN.

Construction Fund. The proceeds of the 2025 Bonds will be deposited in the Series 2025 Project Account of the Construction Fund created by the Bond Order and held by the Trustee. Amounts deposited in such account, including investment earnings on the 2025 Bond proceeds during construction of the 2025 Project, will be used to pay the costs of the 2025 Project and the fees and expenses incurred in connection with the sale and issuance of the 2025 Bonds. Amounts held in the Series 2025 Project Account shall be

subject to a lien and charge in favor of the Owners of the 2025 Bonds and for the further security of such Owners until paid out or transferred as provided in the Bond Order.

Application of Revenues

The PWC or the Trustee will pay from the General Fund all Operating Expenses and Demand Charge Components, and such Operating Expenses and Demand Charge Components will be a first charge and lien against the General Fund. All Operating Expenses and Demand Charge Components shall be paid as the same becomes due and payable in conformity with the applicable budgetary and payment procedures of the City and the PWC.

At such time or times as are specifically provided for in the Bond Order, the City will use amounts on deposit in the General Fund to make the required deposits under the Bond Order as described below.

The supplemental bond order adopted by the City Council relating to the 2025 Bonds provides that, with respect to the 2025 Bonds, the PWC will deposit or cause to be deposited with the Trustee from Revenues held in the General Fund, after payment of Operating Expenses and Demand Charge Components then due and payable, the following amounts to the various subaccounts specified therein in the following order:

(a) into the Series 2025 Subaccount of the Interest Account on the 25th day of the month immediately preceding each Interest Payment Date, the amount required to pay the interest due on the 2025 Bonds on such Interest Payment Date, less any amount deposited in the Series 2025 Subaccount of the Interest Account derived from proceeds of the 2025 Bonds that are to be applied to pay interest on the 2025 Bonds on such Interest Payment Date; and

(b) into the Series 2025 Subaccount of the Principal Account, on the 25th day of the month immediately preceding each March 1, the amount required to pay the principal of all Serial Bonds coming due on such March 1 [or the amount required to retire the Term Bonds to be called by mandatory sinking fund redemption or to be paid at maturity on such March 1 in accordance with the Sinking Fund Requirements therefor].

Moneys on deposit in the subaccounts mentioned above will be used to pay the scheduled payments of principal of and interest on the 2025 Bonds.

Such deposits required by the supplemental bond order adopted by the City Council relating to the 2025 Bonds are subject to the provisions of the Bond Order governing the withdrawal and transfer of funds from the Revenue Account as described under “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER – General Fund; Payments Thereto and Use Thereof” in Appendix B hereto.

Rate Covenant

Subject to any applicable law and regulations, the City has covenanted in the Bond Order to cause the PWC to fix rates, fees and charges for the use of the electric, water and wastewater services furnished by the PWC to its customers and to revise such rates, fees and charges so that (1) the Debt Service Coverage Ratio, calculated based on the PWC’s annual audited financial statements at Fiscal Year end, will not be less than 110% and (2) the Subordinated Indebtedness Debt Service Coverage Ratio, calculated based on the PWC’s annual audited financial statements at Fiscal Year end, will not be less than 100% (see “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER - System Covenants” in Appendix B hereto). The relevant covenant in the Bond Order also requires that rates, fees and charges be set such that there is sufficient cash generated annually to pay Operating Expenses, Demand Charge Components,

required debt service payments on all Bonds and City Transfers. Payment of the State Loans is deemed Subordinated Indebtedness under the Bond Order.

Issuance of Additional Bonds

So long as the City is not in default of the provisions of the Bond Order, the City may issue Additional Bonds secured equally and ratably, as to the pledge of Net Revenues, with the Outstanding Bonds, including the 2025 Bonds, upon meeting certain conditions set forth in the Bond Order (see “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER – Additional Bonds” in Appendix B hereto). The 2025 Bonds are Additional Bonds qualifying for issuance under the Bond Order.

See “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER” in Appendix B hereto for other covenants included in the Bond Order relating to the System and the Bonds.

Remedies

The actual realization of amounts to be derived upon the enforcement of any pledge or security interest securing the 2025 Bonds will depend upon the exercise of various remedies set forth in the Bond Order. These and other remedies may, in many respects, require judicial action of a nature which is often subject to discretion and delay and specific remedies which may not be readily available or may be limited. For example, a court may decide not to order the specific performance of a covenant contained in the Bond Order. The various legal opinions to be delivered concurrently with the delivery of the 2025 Bonds will be qualified as to the enforceability of various legal instruments by limitations imposed by State and federal laws, rulings, and decisions affecting remedies and by bankruptcy, reorganization or laws affecting the enforcement of creditors’ rights generally.

THE PLAN OF FINANCE

The 2025 Project

The 2025 Project consists of the acquisition, construction and equipping of various improvements to the System, including, without limitation, (a) any extension of water and sanitary sewer mains and lines to various annexed areas of the City, (b) extension, rehabilitation and replacement of water and sanitary sewer mains and lines, (c) improvements and upgrades to sanitary sewer collection and treatment facilities, (d) improvements and upgrades to the water distribution and treatment facilities and (e) construction, extension, and replacement of and improvements and upgrades to the electric system facilities. The City will use certain proceeds of the 2025 Bonds, together with any other available funds, to pay the costs, or reimburse the City for the costs, of such improvements. The total costs of the 2025 Project are approximately \$158,671,000, and the City expects all components of the 2025 Project to be completed by October 2027.

ESTIMATED SOURCES AND USES OF FUNDS

The City estimates the sources and uses for the 2025 Bonds and the plan of financing to be as follows:

Sources:

Par Amount of 2025 Bonds
[Net Original Issue Premium]

Total

Uses:

2025 Project Costs
Costs of Issuance¹

Total

¹ Includes legal fees, municipal advisor fees, printing costs, rating agency fees, fees and expenses of the Underwriter and Trustee, and miscellaneous fees and expenses.

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ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth for each Fiscal Year ending June 30, the amounts required for the payment of debt service related to the outstanding Bonds, Subordinated Indebtedness and the 2025 Bonds:

Fiscal Year Ending June 30	<u>Existing Debt Service</u> ^{1,3}		<u>2025 Bonds</u> ³		Total System Debt Service ³
	Existing Bonds	Subordinated Indebtedness ²	Principal	Interest	
2026	\$ 35,301,119	\$ 3,338,003			\$ 38,639,122
2027	34,405,869	5,978,733			40,384,602
2028	34,323,019	8,669,653			42,992,672
2029	34,259,269	8,591,574			42,850,843
2030	34,183,169	8,433,495			42,616,664
2031	34,108,719	8,355,416			42,464,134
2032	34,031,069	8,277,336			42,308,405
2033	33,963,569	8,199,257			42,162,826
2034	33,877,219	7,836,820			41,714,039
2035	33,776,369	7,564,041			41,340,410
2036	32,351,469	7,378,055			39,729,524
2037	32,337,519	6,511,977			38,849,496
2038	32,357,319	6,440,426			38,797,745
2039	32,342,669	6,368,875			38,711,544
2040	25,073,663	6,297,324			31,370,986
2041	25,079,263	6,225,773			31,305,035
2042	20,739,013	6,154,222			26,893,234
2043	20,736,750	5,355,046			26,091,796
2044	20,739,975	5,291,571			26,031,546
2045	16,042,275	5,228,097			21,270,372
2046	16,044,075	4,378,658			20,422,733
2047	16,043,625	1,989,000			18,032,625
2048	16,042,575				16,042,575
2049	16,047,350				16,047,350
2050	16,041,925				16,041,925
2051	16,042,275				16,042,275
2052	11,079,750				11,079,750
2053	11,072,250				11,072,250
2054					0
2055					0
Total	\$718,443,125	\$142,863,352			\$861,306,477

¹ Includes principal and interest.

² Includes State Loans. Loans that are currently in the draw down phase are shown based on the maximum approved amount.

³ Totals may not foot due to rounding.

THE FAYETTEVILLE PUBLIC WORKS COMMISSION

General

The PWC was organized in 1905 under the provisions of the City Charter. The PWC was established to provide electricity, water and wastewater services to the residents of the City and surrounding areas within the County. With the exception of vehicles and equipment, the City has held title to the assets of the PWC's electric system since 1896, the water system since 1890 and the wastewater system since 1906.

The PWC is governed by four commissioners of the PWC (the "Commissioners") who are appointed for four-year staggered terms by the City Council. Once appointed, the Commissioners annually elect a Chairman, Vice Chairman, Secretary and Treasurer. The current Commissioners and the expiration dates of their terms of office as Commissioner are as follows:

Name	Title	Expiration of Term
Christopher G. Davis	Chairman	September 30, 2026
Richard W. King	Vice-Chairman	September 30, 2027
Ronna Rowe Garrett	Secretary	September 30, 2029
Donald L. Porter	Treasurer	September 30, 2029

The Commissioners are responsible for establishing policy, setting rates, approving an annual budget, approving certain contracts and appointing a general manager to administer the PWC's policies and day-to-day activities. The following provides certain information on the PWC's senior management, systems and operations, capital improvement program, competitive advantages and recent developments.

Senior Management

Timothy Bryant was named Chief Executive Officer and General Manager at the PWC in August 2023. Mr. Bryant has over 25 years of utility experience. Mr. Bryant came to PWC from Florida Power and Light Company ("FPL") where he held numerous leadership roles since 2008. Mr. Bryant most recently served as Director of External Affairs for FPL where he worked as a liaison between FPL and its stakeholders in the development of power generation, transmission, distribution, economic development, community relations and environmental across Florida. He also served as General Manager of wind central maintenance that led the restoration of wind turbines across North America before moving into external affairs. Before FPL, Mr. Bryant worked for Southern Company in Birmingham, Alabama, where he led a multi-discipline engineering team in designing simple-cycle and combined-cycle power generation facilities and environmental control systems. A native of Goldsboro, North Carolina, Mr. Bryant began his utility career in 1997 with power generation engineering roles with Black & Veatch Corporation. He is a Professional Engineer and a graduate of North Carolina State University with Bachelor of Science in Mechanical Engineering. Mr. Bryant earned his MBA from Baker University in Baldwin, Kansas.

Rhonda Graham was appointed Chief Financial Officer in January 2025 after serving in various financial roles at the PWC since 2017. Prior to her appointment as Chief Financial Officer, she served as the Budget Manager, Controller, and Deputy Finance Officer. Prior to joining the PWC, she worked in the manufacturing, entertainment and publishing industries serving in capacities that included Controller, Finance Director, and Chief Finance Officer. She has 36 years of experience in financial management. She received her Bachelor's Degree in Accounting from Methodist University and her Master's Degree in Accountancy from Southern New Hampshire University. Ms. Graham is active in her community and professional organizations. She is a past board member of the United Way of Cumberland County, currently serves on the Community Impact Council, and is a panel chair. Her more recent and current local

community initiatives are the American Public Power Association, National and State Government Finance Officer Associations, the North Carolina Local Government Investment Association, and NetWorth.

Misty Manning was appointed the Chief Operations Officer for the Water Resources Division in January of 2025. Ms. Manning joined PWC in 2010 as a Water Engineer and has grown within the organization to the role of Water Resources Engineering Manager and served as Interim Chief Operations Officer for Water Resources in 2022. A native of Cumberland County, Ms. Manning graduated from North Carolina State University with a degree in Civil Engineering. She is a professional Engineer and recently completed the United Way Leadership Development Program. Ms. Manning is also actively involved in community, industry and professional organizations and serves on the FTCC Advisory Board for Civil Engineering Technology, Geomatics, and AAS in Engineering, in addition to serving on the Board of Directors of the Pearce's Mill Fire Department, the Advisory Board for the Jack Britt High School Integrated Systems Technology Academy and Engineering Academy, the NCSU Institute for Emerging Issues Water Infrastructure Advisory Council and the United Way Community Impact Review Panel.

Marcus R. Tunstall has served with PWC for over 35 years and assumed the Interim Chief Operations Officer position for the Electric Systems Division in 2025. Prior to this position, Mr. Tunstall was the Electric Operations Director overseeing the PWC Electric Transmission/Distribution System operations, construction, maintenance and Smart Grid activities. He originally joined PWC as a Technical Services Engineer responsible for substation, apparatus repair, and electric metering maintenance, testing, and operations. Before joining PWC, Mr. Tunstall worked for Duke Energy for six years. A licensed professional Engineer, Mr. Tunstall graduated in 1981 from North Carolina State University with a Bachelor of Science in Electrical Engineering. He serves as Chairman of the Substation Career Development Programs for the Electricities Safety and Training Committee.

Georgette Miller, who joined the PWC in February 2024, serves as its Chief Legal Officer and General Counsel. Ms. Miller has had a successful career as an attorney across multiple jurisdictions and has notable experience as an entrepreneur, business leader, and philanthropist. In each of these varying roles, she has leveraged her ability to partner with internal and external clients to identify and solve complex challenges, mitigate risk, and drive growth. She practiced with some of the largest international and national law firms in the United States and served as in-house counsel at a significant real estate investment trust. Ms. Miller holds a Bachelor of Arts in Government from John Jay College of Criminal Justice, a Juris Doctorate from Rutgers University School of Law, and Master of Laws in Taxation from Temple University, James E. Beasley School of Law. Additionally, she is a certified Six Sigma Green Belt and Lean Process Management Master Certificate holder. Ms. Miller is a member of the New York, New Jersey, Pennsylvania and North Carolina State Bars. Ms. Miller also serves the community in several roles. She is a board member of the Fayetteville Symphony Orchestra, where she is a member of the Governance Committee. She is also a board member of the Philadelphia Chapter of the Sickle Cell Disease Association of America, where she chairs the Finance Committee and is a former Chair and current member of the Governance Committee. She is a past board member of the Philadelphia Chapter of Habitat for Humanity.

Carolyn Justice-Hinson was named the new Chief Customer Officer for the PWC in 2024. The Customer Care Division includes Customer Service, Billing and Collections, Customer Programs, Development & Marketing, and Metering Services. She has 33 years of experience in the communications field and has managed external and internal communications at the PWC for 26 years. Since establishing PWC's first Public Information office in 1997, her role and responsibilities have grown from traditional media relations and customer communications to include extensive digital communications, internal communications, and community relations program, as well as other areas of public affairs. In 2012, she joined the PWC's executive team as one of the PWC's first female officers when she was named Communications/Community Relations Officer. She is a past Chair of the American Public Power

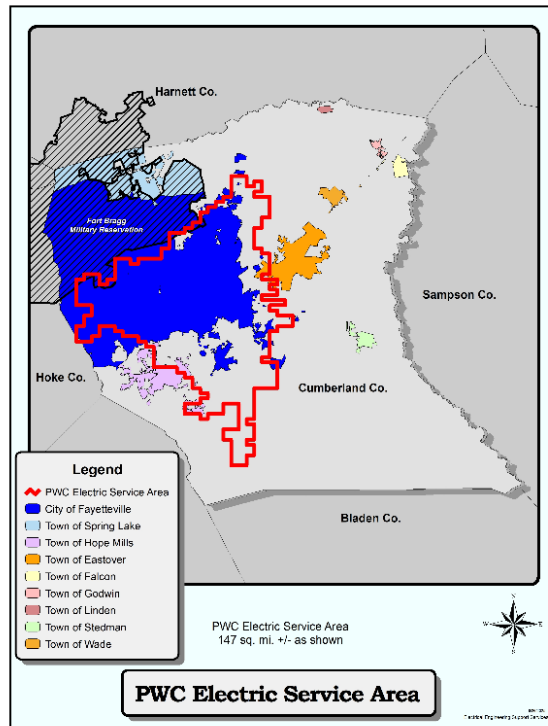
Association's Public Communication Section, the Methodist University Board of Visitors, and the Cumberland County Air Quality Stakeholders (AQS). She currently serves on the United Way of Cumberland County's Board of Directors and Development Committee, is a member of the Women's Giving Circle, and is president-elect for the Rotary Club of Fayetteville. A native of Jacksonville, North Carolina, and a 1989 graduate of East Carolina University, Ms. Justice-Hinson began her career in collegiate athletics where she served as East Carolina University's Assistant Sports Information Director from 1990 to 1997.

Tyler C. Patton currently leads as the Chief Communications and Community Relations Officer for the PWC. Mr. Patton joined the PWC in 2024 and is responsible for a portfolio consisting of advertising, branding, community engagement, customer education, government affairs, marketing, media relations and sponsorships. His distinguished career includes fulfilling senior leadership roles in Maryland, such as Director of State Government Affairs for Verizon Communications and Senior Vice President of the Maryland Broadband Cooperative. Mr. Patton dedicated over a decade to supporting senior policy makers in the United States Senate, United States House of Representatives, Maryland State Senate and Maryland House of Delegates as a member of their staff. He holds a Bachelor of Arts degree in Political Science and Communications and a Master of Education degree with a concentration in Policy from Salisbury University. Mr. Patton currently engages his local community by serving on the Board of Directors of the Cape Fear Regional Theatre, the Cool Spring Downtown District, and Fayetteville Urban Ministry. He previously was a member of the Board of Directors for the Anne Arundel Development Corporation, Maryland Chamber of Commerce, Maryland Technology Council, Upper Shore Workforce Investment Alliance and Visit Annapolis & Anne Arundel County.

The Electric System

The PWC has supplied electricity to the citizens of the City since 1905. In that time, the PWC has grown to become the largest municipal electric provider in the State and the 38th largest (of over 2,000 public power providers) in the United States, serving over 86,000 customers. In addition, the PWC is one of two municipal electric systems in the United States to earn the American Public Power Association's Reliable Public Power Provider (the "RP₃") Award, Diamond Level, seven or more times since the program started. The RP₃ Award, Diamond Level, is the highest level award given by the American Public Power Association's Reliable Public Power Provider program and serves as recognition for providing consumers with the highest degree of reliable and safe electric service in the nation.

Today, the PWC's electric service area consists of the majority of the City and portions of the Eastover Sanitary District, the Town of Hope Mills and certain surrounding areas. An outline of this service area is illustrated in the following map.



Supply and Operations. The City and the PWC strive to maintain low energy costs to help attract and retain new industry. The PWC’s electric system provides for the transmission and distribution of electrical energy purchased from Duke Energy Progress, LLC (“DEP”). In 2009, the PWC entered into a Power Supply and Coordination Agreement with DEP that became effective on the termination date of the prior agreement. Under a 30-year agreement effective July 1, 2012 (the “PSCA”), DEP provides the PWC’s full power supply requirements at an annually determined capacity and energy price based on DEP’s average system cost. The PWC continues to utilize its allocation from the Southeastern Power Administration (“SEPA”), as permitted in the SEPA contract and the PSCA. While the provisions of the PSCA are competitive by industry standards, the prior agreement contained more favorable pricing and excluded any adjustments for volatility of fuel costs. As a result, the PWC realized significant increases in power costs under the PSCA, but planned for this increase by utilizing its Electric Rate Stabilization Fund as discussed below.

Under the PSCA, either party may challenge the correctness of any bill no later than 24 months after the payment date such bill was due. DEP provides the PWC estimated energy and capacity rates each calendar year and calculates a true-up charge or credit, with interest, following the completion of DEP’s calendar year period once the actual costs are known.

In November 2019, the PWC and DEP amended the PSCA, the term of which runs through 2042. The PWC has the option to terminate the PSCA on or after July 1, 2032, by giving at least three years prior written notice. In addition to the PSCA, the PWC pays power transmission costs to DEP as the transmission grid over which power is supplied. The transmission rates are established by the Federal Energy Regulatory Commission (“FERC”).

The PWC and DEP entered into a new power purchase agreement (the “Power Purchase Agreement”) to sell capacity and energy from the PWC’s Butler Warner Generation Plant (the “BWGP”) to DEP during the period beginning July 1, 2024 through June 30, 2042. The PWC has the option to

terminate the Power Purchase Agreement effective July 1, 2032 by giving three years prior written notice. Under the Power Purchase Agreement, the PWC generates and delivers energy pursuant to scheduled energy requests from DEP. The PWC is responsible for all variable operating and maintenance expenses (“VOM”), start costs, and fuel costs associated with the BWGP for the first (a) 75 hours of operation or (b) 10 start-ups in response to DEP dispatch requests of each calendar year, whichever occurs first. For all other hours for which the BWGP is called upon by DEP to deliver energy pursuant to scheduled energy requests from DEP, DEP is obligated to pay for the fuel to be used for the generation, VOM and start costs. For each month of service under the Power Purchase Agreement, the PWC will receive an estimated demand credit for a specified amount of BWGP capacity (220 MWs for the months of January, February, June, July, August and December and 160 MWs for all other months), which demand credit may be subject to reduction based upon the actual performance of the BWGP and a schedule of performance factor adjustments that will be determined in a true up process at the end of each calendar year. In addition, for each month of service under the Power Purchase Agreement, the PWC shall receive an estimated payment based on a schedule of purchased capacity sold to DEP from the BWGP in excess of the foregoing demand credit amounts, which payment may be increased or decrease based upon the application of the performance adjustment factor in the annual true up process. The Power Purchase Agreement will be terminated if the PSCA is terminated. Additionally, pursuant to the terms of the PSCA, the PWC may not use the BWGP for its own power generation while DEP is able to deliver power under the PSCA.

The PWC electric system is interconnected with DEP at three locations. SEPA power is received under a wheeling agreement through DEP’s transmission system. The PWC has a 369 conductor mile system of radial operated 66kV sub-transmission circuits that interconnects 32 sub-transmission distribution substations and 1 industrial substation. Power is then distributed through approximately 2,263 overhead conductor miles and 1,172 underground cable miles of 25kV and 12kV distribution circuits. The highest peak demand of the PWC was 490.3 megawatts (“MW”) occurring in February 2015. The total energy requirement for the fiscal year ended June 30, 2025 was 2,070,263 megawatt hours (“MWh”).

The BWGP consists of eight gas turbine generators, six of which were converted in 1988 to a combined cycle steam mode. The plant’s current nameplate rating of generating capacity is 303 MW, but the Power Purchase Agreement provides compensation to PWC based on a winter rating of 260 MW and a summer rating of 220 MW.

The BWGP operates under an Air Quality Permit issued by the State. The current permit has been modified to reflect the significant reduction in NOx allowances resulting from the implementation of the Environmental Protection Agency’s (the “EPA”) Cross State Air Pollution Rule. The improved combustion system hardware that was installed initially to mitigate the impact of EPA’s Clean Air Interstate Rule remains in place and will continue to minimize NOx emissions. The reduced allocations will not limit the ability of the BWGP to fulfill the obligations of the Power Purchase Agreement currently in effect between the PWC and DEP. The need for additional upgrades is being considered as a part of the long-term planning for power supply.

Electric System Requirements. The following table shows the peaks in megawatts and system requirements for the electric system for the past five fiscal years. The demand for electric energy in the PWC’s service area usually reaches a peak during the summer. The decline in demand and system requirements in more recent years is mainly attributable to investments in energy efficiency and conservation.

**Electric System Requirements
(Excluding Sales for Resale)**

Fiscal Year Ended June 30	Peak Demand (MW)	Total System Requirements (MWh)	Total System Requirements % Change
2021	427.2	2,082,412	2.77
2022	416.9	2,094,431	0.58
2023	427.6	2,028,696	-3.14
2024	407.6	2,053,706	1.23
2025	420.5	2,067,966	0.69

Electric System Customers and Sales. The following tables display the number of customers and usage of the electric system for the past five fiscal years:

**Electric System Customers⁽¹⁾
Fiscal Year Ended June 30**

	2021	2022	2023	2024	2025
Residential	74,791	74,784	76,047	76,317	76,296
General Service	9,790	9,905	9,947	9,964	10,079
Large Commercial/Industrial	<u>41</u>	<u>41</u>	<u>46</u>	<u>26</u>	<u>27</u>
Total	<u>84,622</u>	<u>84,730</u>	<u>86,040</u>	<u>86,307</u>	<u>86,402</u>

⁽¹⁾ Excludes Unmetered Area Lights.

**Electric System Sales (MWh)
Fiscal Year Ended June 30**

	2021	2022	2023	2024	2025
Residential	918,870	915,776	857,410	882,713	920,590
General Service	641,606	699,855	635,939	665,556	695,527
Large Commercial/ Industrial	394,220	363,203	398,464	377,253	356,954
Street and Area Lights	<u>21,330</u>	<u>22,685</u>	<u>22,604</u>	<u>20,201</u>	<u>17,714</u>
Total	<u>1,976,026</u>	<u>2,001,519</u>	<u>1,914,417</u>	<u>1,945,723</u>	<u>1,990,785</u>

The following table shows the number of customers and MWh sales for each customer class for the fiscal year ended June 30, 2025:

**Electric System Customers and Sales
Fiscal Year Ended June 30, 2025**

	<u>Number of Customers</u>		
	<u>Inside City</u>	<u>Outside City</u>	<u>Total</u>
Residential	65,666	10,630	76,296
General Service	9,054	1,025	10,079
Large Commercial/Industrial	<u>18</u>	<u>9</u>	<u>27</u>
Total	<u>74,740</u>	<u>11,664</u>	<u>86,404</u>

	<u>MWh Sales</u>		
	<u>Inside City</u>	<u>Outside City</u>	<u>Total</u>
Residential	767,997	152,594	920,591
General Service	605,671	89,856	695,527
Large Commercial/Industrial	129,534	227,420	356,954
Street and Area Lights	<u>17,264</u>	<u>450</u>	<u>17,714</u>
Total	<u>1,520,466</u>	<u>470,320</u>	<u>1,990,786</u>

The PWC's ten largest electric customers for the fiscal year ended June 30, 2025 are shown in the following table:

**Largest Electric Customers
Fiscal Year Ended June 30, 2025**

<u>Customer</u>	<u>Industry</u>
Cape Fear Valley Medical Center	Healthcare
Cargill, Inc.	Agriculture
Fayetteville State University	Higher Education
Fayetteville Technical Community College	Higher Education
Food Lion	Retail/Grocery
Goodyear Tire & Rubber Company	Tires
Mann+ Hummel Pur Filt (Purolator)	Auto Filters
Momentive Specialty Chemicals (Hexion)	Chemicals
VA Hospital	Healthcare
Wal Mart	Retail

As of June 30, 2025, the ten largest customers represented sales of approximately 410,241,227 kWh and revenue of \$31,458,053 million, which represents 14.87% of total electric sales revenue. No individual customer accounted for more than 4.8% of total electric sales.

Electric Rate Stabilization Fund. The PWC established an Electric Rate Stabilization Fund in 1998 for the purpose of maintaining rate competitiveness and rate stability. Annually, the PWC deposits a minimum of \$250,000 with a maximum amount not to exceed 15% of its current annual electric sales into the Electric Rate Stabilization Fund, provided the accumulated balance does not exceed 40% of the average annual gross electric sales for the preceding three years. At June 30, 2025, this fund held \$23,350,298.31. The following table displays the activity within the fund for the last five fiscal years.

Electric Rate Stabilization Fund			
<u>Fiscal Year Ended June 30</u>	<u>Deposits and Earnings</u>	<u>Withdrawals</u>	<u>Balance</u>
Beginning Balance			\$46,040,362
2021	2,561,886	(7,970,771)	40,631,477
2022	11,786,970	(9,732,270)	42,686,177
2023	7,876,923	(13,798,564)	36,764,536
2024	10,570,492	(22,074,465)	25,260,563
2025	<u>9,447,049</u>	<u>(12,357,313)</u>	22,350,298
Total	\$42,243,320	\$(65,933,383)	

Electric Rates and Bills. The PWC has full authority to establish and change the rates that it charges for electric service. Current monthly electric rates for residential, general service and industrial customers are shown in the following table:

Current Monthly Electric Rates⁽¹⁾					
	Basic Facility Charge	(On Peak) Energy Charge	Off Peak Energy Charge	Coincident Peak Demand Charge	Customer Sales Demand Charge
Residential	\$ 24.00	\$0.14126	\$0.09207		
General Service	44.40	0.05325	0.04793		16.99
Industrial	348.00	0.04840		15.67	6.05

⁽¹⁾ Selected rates are standard rates for these classes. Other rate schedules may be applicable based on individual circumstances.

In fiscal year 2024, the PWC contracted with a rate consultant to conduct an electric rate study. The consultant and the PWC's staff updated the financial forecast with current financial and statistical information for budgeting, planning and rate evaluation purposes. Based on those findings, the PWC adopted 2.0% rate increases for its electric rates effective May 1, 2024 and May 1, 2025. The PWC's electric rates remain among the lowest in its service area and across the state. Base rate adjustments generally occur in May of each year. The following table presents information regarding historical rate changes for an average residential customer:

Electric System Rate Changes and Historical Residential Bills

Fiscal Year Ended June 30	End of Year Base (\$ per 1000 kWh)	Average Bill	Percentage Increase/Decrease
2021	\$111.52	\$111.52	-4.37
2022	111.52	111.52	0.00
2023	119.47	112.85	1.19
2024	121.86	125.16	10.91
2025	122.45	125.74	0.46

In September 2022, the PWC replaced its prior Wholesale Power Cost Adjustment with a Power Supply Adjustment ("PSA"). The PWC may impose a PSA when cumulative and/or projected power and generation costs are more than five percent (5%) from the determinants used to set PWC's retail electric rates. The PWC has charged a PSA to customers for three consecutive 12-month periods starting September 1, 2023 and ending August 31, 2026.

Coal Ash. In September 2014, the Coal Ash Management Act ("CAMA") became law in North Carolina. CAMA was the first state-level legislation in the country to address the handling, disposal and remediation of Coal Combustion Residuals ("CCRs") or, as more commonly known, coal ash, at coal electric generating facilities. Subsequent to the passage of CAMA in October 2015, the federal Environmental Protection Agency ("EPA") issued its own regulations relating to CCRs. The EPA regulations and CAMA will require Duke Energy Corporation ("Duke Energy") and certain of its affiliated entities to take certain remedial actions related to its plants producing CCRs. As described under "The Electric System – Supply and Operations" above, the PWC began purchasing wholesale electricity from DEP, a subsidiary of Duke Energy, in 2012.

Duke Energy has publicly stated its estimated total costs to comply with CAMA and the EPA regulations will be approximately \$4 billion. The costs associated with the DEP territory is estimated by Duke Energy to be around \$2 billion, and the PWC's pro rata share is estimated at \$74 million. Based on the requirements of CAMA and the EPA regulations, the majority of the remediation costs would be expended and recovered from all customers prior to 2024. As a result, on April 26, 2017, DEP and the PWC executed an amendment to the PSCA incorporating the recovery of CCR costs and in May 2017, DEP filed the amended PSCA with FERC, which accepted the amendment with a July 1, 2017 effective date. The amendment provides that the CCR cost recovery amount may be reduced by any disallowances to DEP's CCR costs imposed by the North Carolina Utilities Commission ("NCUC") in a final, non-appealable retail rate order. The NCUC issued a retail rate order on February 23, 2018 imposing certain disallowance, but the order was appealed before the North Carolina Supreme Court who remanded the case to the NCUC and was subsequently settled between the parties on April 16, 2021. Based on FERC's acceptance and the terms of the contract, DEP began billing the PWC for prior CCR costs dating back to January 2015 in fixed monthly installments over a period of 24 months beginning January 2018. Another component of the charges related to coal ash recovery are Beneficial Reuse Costs ("BRCs"), and the PWC was billed accordingly from July 2017 to December 2017 for DEP's BRCs incurred from January 2017 to

June 2017. Current and future costs going forward will be billed monthly on the purchased power bill as estimates subject to true-up provisions.

In anticipation of Duke Energy's coal ash recovery, the PWC's governing board took proactive measures to ensure that any FERC-approved recovery would not have a material adverse impact on the PWC's financial position by setting aside \$27.3 million restricted for this purpose. The remaining costs are funded through a combination of Electric Rate Stabilization funds and a pass-through charge to customers through a fixed charge that became effective with May 1, 2018 customer billings. In June 2021, the PWC received a \$22.2 million settlement for prior coal ash expenses and posted the adjustment as a non-recurring special item and accounts receivable to be received over a 12-month period. In May 2025, the PWC ended the fixed charge pass-through to customers in anticipation of lower CCR costs moving forward that will be included in base rate determinations.

DEP, Duke Energy Carolinas, LLC, the Public Staff of the NCUC, the Attorney Generals' Office, and the Sierra Club ("CCR Settling Parties") entered into the Coal Combustion Residuals Settlement Agreement (the "CCR Settlement"). On April 16, 2021, the NCUC issued the Order Accepting Stipulations, Granting Partial Rate Increase, and Requiring Customer Notice, in Docket Nos. E-2, Sub 1219 *et al.* (the "Order"). On page 68 of the Order, the NCUC concluded "that the CCR Settlement is in the public interest and should be approved."

Under the Tenth Amended and Restated Power Supply and Coordination Agreement between DEP and the PWC, this Order requires DEP to refund to PWC the PWC's allocable share of CCR disallowances.

The CCR Settlement applies to North Carolina retail customers and sets forth the retail plan for recovery of costs, less (a) a stated reduction in recovery of incurred costs during September 1, 2017 through February 29, 2020; (b) a stated reduction in recovery of costs to be incurred from March 1, 2020 through February 28, 2030; and (c) a waiver of rights by the CCR Settling Parties to assert certain claims relating to recovery of incurred costs specified in Section III.D.i of the CCR Settlement. Pursuant to the PSCA, a system-level CCR disallowances based on the CCR Settlement was communicated to the PWC and the amount of the PWC's allocable share of CCR disallowances, along with the underlying calculation.

This CCR refund will comprise the totality of the PWC's allocable share of CCR disallowances payable pursuant to the CCR Settlement in compliance with the PSCA. The PWC elected to receive the \$22,230,520 settlement plus interest over a 12-month period.

While the language regarding the disposition of the cost for CCR estimated that the majority of the CCR expense would be incurred by PWC prior to 2024, the schedule for DEP to mitigate coal ash has been delayed, and the pre-2024 estimates did not materialize. PWC has cost cap language for CCR payments in the PSCA that outlined a reduction in the cost cap to \$2.5 million starting in 2023. DEP's CCR cost estimates for 2023 exceeded the cap and PWC elected to pay the full amount rather than defer the excess and pay FERC interest on the balance. The CCR expenses are projected to continue at least through 2030 and are projected to reduce in the latter years.

Average electric bills for selected electric utility providers in the State are as follows:

Comparison of Monthly Electric Bills as of June 30, 2025

	Residential 1,000 kWh ⁽¹⁾⁽⁷⁾	Commercial 8,000 kWh ⁽²⁾	Industrial 1,050,000 kWh ⁽³⁾⁽⁸⁾
Lumbee River EMC ⁽⁴⁾	\$ 143.50	\$ 901.00	\$78,175.00
Duke Energy Carolinas ⁽⁴⁾	132.50	821.09	68,974.49
Greenville	130.17	888.80	76,096.98
Rocky Mount	128.02	1,005.02	77,491.42
South River EMC ⁽⁴⁾	127.52	835.34	62,840.00
Duke Energy Progress ⁽⁴⁾	127.14	844.68	71,203.50
PWC⁽⁵⁾⁽⁶⁾	123.45	1,046.45	77,110.19
Lexington	115.97	696.32	87,265.00

⁽¹⁾ Excludes adjustments or riders.

⁽²⁾ Assumes 35 kW demand.

⁽³⁾ Assumes 1,500 kW demand.

⁽⁴⁾ Serves a portion of the PWC's service area.

⁽⁵⁾ The PWC's commercial rates are published as "Medium Power Service" rate.

⁽⁶⁾ The PWC's industrial rates are published as "Large General Service-CP" rate.

⁽⁷⁾ On Time of Use Rates, calculated 15% on peak energy.

⁽⁸⁾ CP was calculated as 72% of customer's total monthly peak.

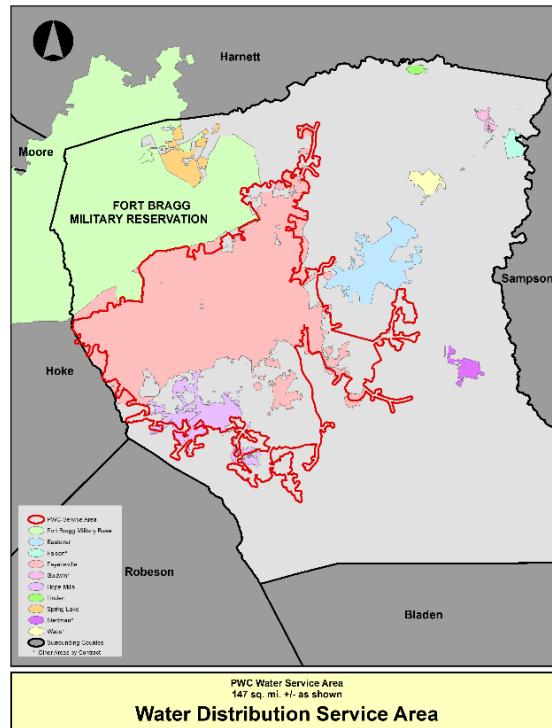
Source: Calculated by the PWC from data made available by the other utility providers.

The Water System

The City has provided water service to its citizens since 1890. Today, the PWC's water utility provides retail service to over 86,000 residential, 7,000 commercial, and 18 industrial customers, as well as to the City and the PWC. The PWC also provides wholesale water service on a contract basis to the Fort Bragg Military Reservation and Army Base ("Fort Bragg"), the Town of Spring Lake, the Town of Stedman, Hoke County and Aqua North Carolina, Inc. ("Aqua"), a commercial water company with six interconnections to the PWC water system.

The PWC has maintained the standards of the national Director's Award from the Partnership for Safe Water Program for 21 consecutive years, an accomplishment achieved by less than one percent of water utilities in the country. The award recognizes utilities that have completed the highest level of operations for providing drinking water quality that surpasses the required federal standards. In 2024, the PWC was one of only five (5) utilities nationwide to receive the Association of Metropolitan Water Agencies Gold Award for Exceptional Utility Performance.

The water system serves the majority of the retail customers in the City and the Town of Hope Mills and certain other developed areas outside the City. The service area extends north to the Town of Spring Lake and Fort Bragg, east to the Town of Stedman, south to an industrial park on Tom Starling Road and west to the Hoke County line. An outline of this service area is illustrated in the following map.



Supply and Operations. The PWC’s water distribution system contains 36.5 million gallons of storage capacity and more than 1,400 miles of water lines. The PWC operates two water treatment facilities, P.O. Hoffer Water Treatment Facility (the “P.O. Hoffer WTF”) and Glenville Lake Water Treatment Facility (the “Glenville Lake WTF”). These facilities have combined nominal treatment capacity of 50 million gallons per day (“MGD”) with an additional high-rated capacity of 7.5 MGD. Historical trending and the supply requirement for Fort Bragg, which began in 2010, requires the water system treatment capacity be expanded to meet the projected peak-day demand for the 20 year planning horizon. The Glenville Lake WTF, which is rated at 18 MGD, cannot be expanded due to site constraints. Therefore, planning and design for a 16 MGD expansion for the P.O. Hoffer WTF has been completed. Design for expansion of the P.O. Hoffer residuals facilities is underway. Three projects addressing reliability improvements not associated with treatment expansion have been completed to date. Based on current demand trending, the liquids treatment expansion work is anticipated to begin in May 2031. Total treatment capacity for the water system will then be 66 MGD and will be sufficient for supplying the PWC’s service area’s needs beyond the current 20-year planning period.

The average daily water demand is currently 25.1 MGD and the 5-year peak day demand is presently 38 MGD. The historical maximum peak daily demand was recorded at 42.3 MGD occurring in 1999. Raw water is supplied to the P.O. Hoffer WTF intake from the Cape Fear River and to the Glenville Lake WTF primarily from the Glenville Lake watershed. Glenville Lake is the southernmost lake in the Little Cross Creek watershed area supplying four bodies of water used for storage. The PWC’s safe yield draw is 85.8 MGD, which is sufficient to meet its 20-year planning needs.

Water System Requirements. The following table shows water system usage for the past five fiscal years. While there has been moderate customer growth in recent years, mild, wet weather with continued conservation efforts account for decreases in average gallon usage per customer.

Water System Usage
(gallons in millions)

Fiscal Year Ended June 30	Treatment Capacity (MGD) ⁽¹⁾	Average Usage (MGD)	Peak Usage (MGD)	Average Usage Percentage Change
2021	57.5	24.2	38.0	3.01
2022	57.5	23.7	33.7	-2.46
2023	57.5	24.8	32.0	5.33
2024	57.5	26.2	34.2	5.40
2025	57.5	25.1	33.0	-4.22

⁽¹⁾ Consists of 50 MGD of rated capacity and 7.5 MGD at high rated capacity.

Water System Customers and Usage. The following tables display by customer class the number of customers and usage of the PWC's water system for the past five fiscal years:

Water System Customers⁽¹⁾
Fiscal Year Ended June 30

	2021	2022	2023	2024	2025
Residential	84,123	84,183	85,751	86,305	86,678
Commercial	6,963	7,051	7,101	7,122	7,153
Large Users	24	22	19	19	18
Wholesale	11	12	12	12	12
Total	<u>91,121</u>	<u>91,268</u>	<u>92,883</u>	<u>93,458</u>	<u>93,861</u>

⁽¹⁾ Excludes irrigation.

Water System Usage
Fiscal Year Ended June 30
(gallons in millions)

	2021	2022	2023	2024	2025
Residential	3,964	4,010	3,943	3,932	3,973
Commercial	1,897	2,091	2,122	2,068	2,112
Large Users	1,049	1,024	1,101	1,044	975
Wholesale	<u>1,197</u>	<u>1,135</u>	<u>1,273</u>	<u>1,274</u>	<u>1,398</u>
Total	<u>8,107</u>	<u>8,260</u>	<u>8,439</u>	<u>8,318</u>	<u>8,458</u>

A summary of the number of customers and usage by customer class and location for the fiscal year ended June 30, 2025 is shown in the following table:

**Water System Customers and Usage
Fiscal Year Ended June 30, 2025**

	Customers		
	Inside City	Outside City	Total
Residential	70,807	15,871	86,678
Commercial	6,502	651	7,153
Large Users	11	7	18
Wholesale	<u>0</u>	<u>12</u>	<u>12</u>
Total	<u>77,320</u>	<u>16,541</u>	<u>93,861</u>

	Usage (gallons in millions)		
	Inside City	Outside City	Total
Residential	3,204	769	3,973
Commercial	1,906	206	2,112
Large Users	284	691	975
Wholesale	<u>0</u>	<u>1,398</u>	<u>1,398</u>
Total	<u>5,394</u>	<u>3,064</u>	<u>8,458</u>

The PWC's ten largest water customers during the fiscal year ended June 30, 2025 are shown in the following table:

**Largest Water Customers
Fiscal Year Ended June 30, 2025**

<u>Customer</u>	<u>Industry</u>
Cape Fear Valley Medical Center	Healthcare
Cargill, Inc.	Agriculture
Carolina By Products	Animal Feed
DAK Resins	Food and Drug Packaging
Fayetteville State University	Higher Education
Fort Bragg	Government
Goodyear Tire & Rubber Company	Tires
Hoke County	Local Government
Momentive Specialty Chemicals (Hexion)	Chemicals
Town of Spring Lake	Local Government

As of June 30, 2025, the ten largest customers represented sales of approximately 2.3 billion gallons and revenues of \$9.5 million, which represents almost 14.4% of total water sales revenue. No individual customer comprises more than 2.9% of total water sales. For more information regarding the PWC's wholesale customers, see "The Combined System – Interlocal and Wholesale Agreements" below.

Water/Wastewater System Rate Stabilization Fund. The PWC established a Water/Wastewater Rate Stabilization Fund in 2005 for the purpose of maintaining rate competitiveness and rate stability. Annually, the PWC deposits a minimum of \$250,000, with a maximum amount not to exceed 5% of its current annual water and wastewater sales into the Water and Wastewater Rate Stabilization Fund, provided the accumulated balance does not exceed 20% of the average annual gross water and wastewater sales for the preceding three years. At June 30, 2025, this fund held \$2,570,353. The following table displays the activity within such fund for the last five fiscal years:

Water/Wastewater System Rate Stabilization Fund

Fiscal Year Ended June 30	Deposits and Earnings	Withdrawals	Balance
Beginning Balance			\$1,105,373
2021	250,226	0	1,355,599
2022	220,908	0	1,576,507
2023	290,124	0	1,866,631
2024	365,813	0	2,232,445
2025	<u>337,908</u>	<u>0</u>	2,570,353
Total	\$1,464,980	\$(0)	

Water Rates. The PWC has full authority to establish and change the rates that it charges for water service. The current water rates for consumption are as follows:

**Existing Monthly Water Rates
(Mgal = 1,000 gallons)**

Monthly Flow	Rate Per Mgal	
	Inside City	Outside City
Residential		
1-2 Mgal	\$2.26	\$3.96
3-5 Mgal	2.69	4.71
6-10 Mgal	3.65	6.39
> 10 Mgal	4.37	7.65
Commercial	3.91	6.83
Large User	4.23	4.23

A fixed monthly basic facility charge is also charged with each billing based on meter size as follows:

Size of Meter	Monthly Charge	
	Inside City	Outside City
3/4"	\$ 23.75	\$ 41.55
1"	37.80	66.15
1 1/2"	61.65	107.90
2"	102.40	179.20
3"	288.15	504.25
4"	487.45	853.05
6"	826.20	1,445.85
8"	1,401.55	2,452.70

In fiscal year 2025, the PWC contracted with a water and wastewater rate consultant to conduct a rate study. The PWC utilizes the rate and forecasting models from the study for its budgeting, planning and rate evaluation purposes. As a result of these models, the PWC adopted rate changes effective May 1, 2025 and May 1, 2026. These rate changes incorporated increased fixed basic charges and rates per gallon for most customers. The rate differential for residential and commercial customers outside of the City limits was unchanged. The approximate annual system revenue growth requirement is 5.1% over these two years with 5.1% for fiscal year 2026 and 5.1% for fiscal year 2027.

The recent history of the effects of the percentage rate changes on sample bills for residential water system usage is shown in the following table:

Residential Historical Percentage Monthly Bill Changes⁽¹⁾

Fiscal Year Ended June 30	Inside City		Outside City	
	Bill Amount	Percentage Increase	Bill Amount	Percentage Increase
2021	\$35.26	6.72	\$61.70	6.66
2022	35.26	0.00	61.72	0.03
2023	36.94	4.76	64.67	4.78
2024	38.74	4.87	67.84	4.90
2025	39.99	3.23	69.99	3.17

Average water bills for selected water utility providers in the State are as follows:

Comparison of Monthly Water Bills as of June 30, 2025

	Residential 6,000 Gallons ⁽¹⁾	Commercial 175,000 Gallons ⁽²⁾	Industrial 1,500,000 Gallons ⁽³⁾
OWASA	\$77.61	\$1,795.59	\$14,569.10
Wilmington (Cape Fear Public Authority)	49.22	1,049.08	8,196.50
Harnett Regional Water	45.00	1,024.75	8,643.50
Raleigh	42.89	982.44	8,202.91
Greensboro	42.28	1,277.54	9,875.65
Durham	40.89	2,011.57	17,356.02
PWC⁽⁴⁾	39.99	786.65	6,832.45
Greenville	39.30	830.78	6,574.37

⁽¹⁾ Residential based on 3/4" meter. Includes basic facilities charge.

⁽²⁾ Commercial based on 2" meter. Includes basic facilities charge.

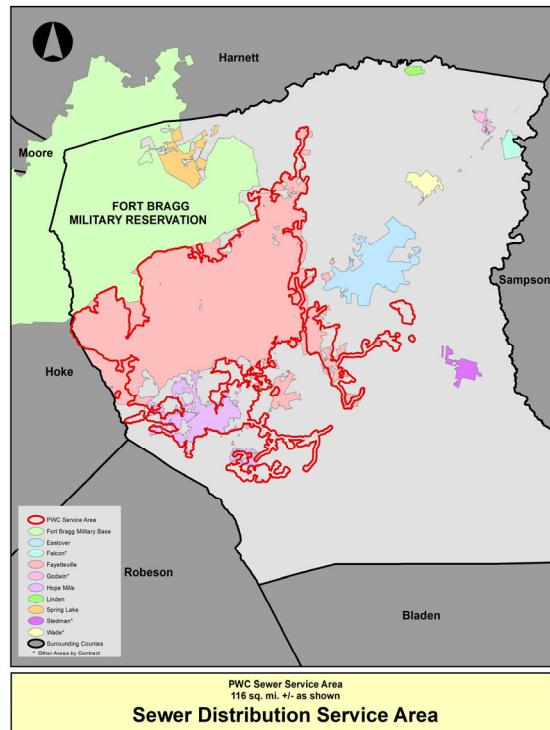
⁽³⁾ Industrial based on 4" meter. Includes basic facilities charge.

⁽⁴⁾ The PWC's water bills are based on the rates effective May 1, 2025.

Source: Calculated by the PWC from data made available by the other utility providers.

The Wastewater System

Since its inception, the PWC's wastewater system has grown to service over 87,000 residential, 6,000 commercial, 16 industrial, and 6 wholesale customers in 2025. The system's service area includes the majority of the City and the Town of Hope Mills. The PWC also provides wastewater treatment and collection services under contract to the Town of Stedman, Eastover Sanitary District, Kelly Hills Sanitary District, Hoke County and the NORCRESS system, which is comprised of the Towns of Wade, Godwin and Falcon. An outline of this service area is illustrated in the following map.



Supply and Operations. The PWC’s wastewater system is separated into two basins, the Cross Creek and the Rockfish Creek basins, where wastewater is conveyed to its two wastewater treatment plants, the Cross Creek Water Reclamation Facility (the “Cross Creek WRF”) and the Rockfish Creek Water Reclamation Facility (the “Rockfish Creek WRF”). The current combined permitted capacity of the PWC’s wastewater system is 46 MGD with the highest 5-year monthly peak flow and the historical maximum monthly peak flow of 46.4 MGD occurring in September of 2018 during Hurricane Florence. Projections of wastewater flow for both basins through year 2060 were updated in 2020. Based on these projections and the historical trending for each water reclamation facility that accounts for inflow/infiltration volumes in the wastewater system, capacity at the Cross Creek WRF of 25 MGD is expected to be sufficient to meet the PWC’s 20 year planning needs. Design for expansion of the Rockfish Creek WRF from 21 MGD to 28 MGD was initiated in 2020 and completed in August of 2023. Bids for construction are tentatively scheduled to be received in the fall of 2026. The total project cost is estimated at \$153 million. The wastewater collection system consists of approximately 1,300 miles of gravity and 90 miles of force mains running throughout the City and its environs. The PWC operates 85 wastewater lift station sites and a 700-acre farm in the eastern part of the County for land application of sludge.

Wastewater System Requirements. The following table shows the wastewater volumes for the wastewater system over the past five fiscal years. Because the majority of wastewater customers are measured by water meters, the factors impacting water usage follow suit with wastewater except for wholesale customer and irrigation activity.

Wastewater System Usage

Fiscal Year Ended June 30	Treatment Capacity (MGD)	Average Flow (MGD)	Highest Monthly Peak Flow (MGD)	Total Volume (Million Gallons)	Average Flow Percentage Change
2021	46	31.7	39.7	6,133	5.67
2022	46	26.2	28.6	6,150	-17.35
2023	46	25.2	27.4	6,225	-3.82
2024	46	24.9	27.3	6,212	-1.19
2025	46	26.1	29.9	6,240	4.82

Wastewater System Customers and Usage. The following tables display by customer class the number of customers and usage of the PWC's wastewater system over the past five fiscal years:

**Wastewater System Customers
Fiscal Year Ended June 30**

	2021	2022	2023	2024	2025
Residential	84,508	84,725	86,220	86,758	87,166
Commercial	6,365	6,453	6,543	6,572	6,546
Large Users	18	18	17	17	16
Wholesale	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>
Total	<u>90,897</u>	<u>91,202</u>	<u>92,786</u>	<u>93,353</u>	<u>93,734</u>

**Wastewater System Usage
Fiscal Year Ended June 30
(gallons in millions)**

	2021	2022	2023	2024	2025
Residential	3,742	3,735	3,699	3,703	3,752
Commercial	1,588	1,712	1,753	1,750	1,798
Large Users	640	599	628	590	554
Wholesale	<u>169</u>	<u>107</u>	<u>148</u>	<u>149</u>	<u>150</u>
Total	<u>6,139</u>	<u>6,153</u>	<u>6,228</u>	<u>6,192</u>	<u>6,254</u>

A summary of the number of customers and usage by customer class and location for the fiscal year ended June 30, 2025 is shown in the following table:

**Wastewater System Customers and Usage
Fiscal Year Ended June 30, 2025**

	Customers		
	Inside City	Outside City	Total
Residential	76,015	11,151	87,166
Commercial	6,245	301	6,546
Large Users	11	5	16
Wholesale	<u>0</u>	<u>6</u>	<u>6</u>
Total	<u>82,271</u>	<u>11,463</u>	<u>93,734</u>

	Usage (gallons in millions)		
	Inside City	Outside City	Total
Residential	3,232	520	3,752
Commercial	1,686	112	1,798
Large Users	192	362	554
Wholesale	<u>0</u>	<u>150</u>	<u>150</u>
Total	<u>5,110</u>	<u>1,144</u>	<u>6,254</u>

The PWC's ten largest wastewater customers during the fiscal year ended June 30, 2025 are shown in the following table:

**Largest Wastewater Customers
Fiscal Year Ended June 30, 2025**

<u>Customer</u>	<u>Industry</u>
Cape Fear Valley Medical Center	Healthcare
Cargill, Inc.	Agriculture
Carolina By Products	Animal Feed
Eastover Sanitary District	Government
Fayetteville State University	College/University
Goodyear Tire & Rubber Company	Automotive
Momentive Specialty Chemicals (Hexion)	Chemicals
Norcross	Government
Stedman	Government
CCSO Detention Center	Government

As of June 30, 2025, the ten largest customers represented sales of approximately 680 million gallons and revenue of \$4.8 million, which represents 6.2% of total wastewater sales revenue. No individual customer comprises more than 1.8% of total wastewater sales. For more information regarding the PWC's wholesale customers, see "The Combined System – Interlocal and Wholesale Agreements" below.

Water/Wastewater System Rate Stabilization Fund. See "The Water System – Water/Wastewater Rate Stabilization Fund" above for a description of the PWC's Water and Wastewater Rate Stabilization Fund.

Wastewater Rates. The PWC has full authority to establish and change the rates that it charges for wastewater service. The current wastewater rates are as follows:

Existing Monthly Wastewater Rates

	Inside City		Outside City	
	Usage Charge (per 1,000 gallons)	Basic Facility Charge	Usage Charge (per 1,000 gallons)	Basic Facility Charge
Residential	\$6.18	\$ 26.50	\$10.82	\$ 46.40
Commercial	8.75	114.20	15.32	199.85
Large Users	7.43	543.90	7.43	951.80

Customers who only use wastewater, and are not water customers of the PWC, are charged a fee of \$51.22 (inside City) and \$89.64 (outside City) per month.

A fixed monthly basic facility charge is also charged with each billing based on meter size as follows:

	Monthly Charge	
Size of Meter	Inside City	Outside City
3/4"	\$ 26.50	\$ 46.40
1"	42.15	73.75
1 1/2"	68.80	120.40
2"	114.20	199.85
3"	321.75	563.05
4"	543.90	951.80
6"	921.80	1,613.50
8"	1,563.90	2,736.85

As discussed above, in fiscal year 2025, the PWC contracted with a water and wastewater rate consultant to conduct a rate study. The PWC utilizes the rate and forecasting models from the study internally for budgeting, planning and rate evaluation purposes. As a result of these models, the PWC adopted rate changes effective May 1, 2025 and May 1, 2026. These rate changes incorporated increased fixed basic charges and rates per gallon for all customers. The rate differential for residential and commercial customers outside of the City limits was unchanged. The approximate annual system revenue growth requirement is 5.8% over these two years with 5.8% for fiscal year 2026 and 5.7% for fiscal year 2027.

The recent history of the effects of the percentage rate changes on sample bills for residential wastewater system usage is as follows:

Residential Historical Percentage Monthly Bill Changes⁽¹⁾

Fiscal Year Ended June 30	Inside City		Outside City	
	Bill Amount	Percentage Increase	Bill Amount	Percentage Increase
2021	\$47.68	3.25	\$83.44	3.22
2022	50.10	5.08	87.66	5.06
2023	56.75	13.27	99.31	13.29
2024	61.58	8.51	107.82	8.57
2025	63.58	3.25	111.32	3.25

⁽¹⁾ Assumes usage of 6,000 gallons per month and includes basic facility charges for meter sizes less than 1 inch.

Average wastewater bills for selected wastewater utility providers in the State are shown in the following table:

Comparison of Wastewater Monthly Bills as of June 30, 2025

	Residential 6,000 Gallons ⁽¹⁾	Commercial 175,000 Gallons ⁽²⁾	Industrial 1,500,000 Gallons ⁽³⁾
OWASA	\$83.22	\$1,942.83	\$16,153.90
Cary	74.23	2,076.90	17,660.38
PWC⁽⁴⁾	63.58	1,645.45	11,688.90
Hoke County	62.20	964.80	8,119.80
Durham	57.09	1,403.08	11,662.10
Harnett Regional Water	55.00	1,182.50	9,795.00
Raleigh	52.76	1,252.09	10,444.71
Greenville	52.69	1,343.93	11,206.06
Wilmington (Cape Fear Public Authority)	52.37	1,144.13	9,017.75

⁽¹⁾ Residential based on 3/4" meter. Includes basic facilities charge.

⁽²⁾ Commercial based on 2" meter. Includes basic facilities charge.

⁽³⁾ Industrial based on 4" meter. Includes basic facilities charge.

⁽⁴⁾ The PWC's wastewater bills are based on the rates effective May 1, 2025.

Source: Calculated by the PWC from data made available by the other utility providers.

The Combined System

Budget Process. The PWC's budget and accounting system is separated into two funds, Electric and Water/Wastewater. Budgets are presented and approved independently for each fund.

The PWC's current practice is to prepare an annual budget, including the current year's capital projects. In addition, the PWC staff annually prepares a separate Capital Improvement Program ("CIP") which includes projections of capital improvements recommended over the ensuing ten-year period. No later than mid-April, the annual operating and capital budget is prepared by staff and submitted for consideration by the General Manager. By mid-May, the General Manager submits the budget for approval by the Commissioners. On or before June 30, the Commissioners adopt the PWC's annual budget prior to the start of the fiscal year on July 1.

The Commissioners have adopted certain policies to guide the development of the annual budget. As a matter of policy, the Commissioners set rates, fees and charges sufficient to generate a minimum 1.75x debt service coverage on outstanding revenue bonds notwithstanding the lower requirement of the Bond Order. This policy is not legally binding and is subject to change. Therefore, Bondholders should rely solely on the rate covenant contained in the Bond Order in making their investment decisions.

Capital Improvements. To respond to the growth within its service area and the surrounding region, the PWC has developed and implemented its CIP to expand, improve, maintain and rehabilitate its electric, water and wastewater infrastructure. Capital expenditures and funding sources under the CIP during the last five fiscal years are highlighted in the following table:

Capital Improvements – Electric, Water and Wastewater Funds

	2021	2022	2023	2024	2025*
<u>Capital Improvements:</u>					
Electric System	\$30,567,967	\$34,044,188	\$24,346,859	\$46,659,911	\$ 54,612,857
Water/Wastewater System	<u>69,653,539</u>	<u>69,190,374</u>	<u>69,251,059</u>	<u>59,197,628</u>	<u>128,217,047</u>
Total Capital Improvements	<u>\$100,221,507</u>	<u>\$103,234,562</u>	<u>\$93,597,918</u>	<u>\$105,857,539</u>	<u>\$182,829,904</u>
<u>Source of Funding:</u>					
PWC Contribution	\$46,065,836	\$38,328,951	\$31,309,705	\$65,328,415	\$65,018,184
Reserves	15,431,230	12,695,893	17,425,665	7,481,020	8,952,319
Debt Proceeds	15,565,560	41,912,228	26,404,050	22,101,023	97,436,472
Other Contributions	19,817,308	8,941,619	15,372,479	9,140,128	9,204,058
Grants	<u>3,341,572</u>	<u>1,355,870</u>	<u>3,086,018</u>	<u>1,806,953</u>	<u>2,218,871</u>
Total Sources	<u>\$100,221,507</u>	<u>\$103,234,562</u>	<u>\$93,597,918</u>	<u>\$105,857,539</u>	<u>\$182,829,904</u>

* Preliminary data.

The PWC's CIP for fiscal years 2026 through 2030 is presented below. The CIP is a long-range planning tool and the Commissioners formally adopt the first year of the program each budget year. The projects in the table below include, but are not limited to, annexation areas, various water and wastewater extension, replacement and relining projects, water distribution and wastewater system improvements, various North Carolina Department of Transportation utility relocation projects, downtown revitalization improvements, P.O. Hoffer WTF capacity expansion, Granular Activated Carbon facilities for the P.O. Hoffer WTF and Glenville Lake WTF, Rockfish Creek expansion and outfall improvements, P.O. Hoffer WTF, Glenville Lake WTF, and Cross Creek WRF reliability improvements, Solar Compliance Resources, LED street lighting conversions and distribution system smart grid improvements, new and upfitted substations and numerous overhead and underground service extensions.

The PWC expects to fund a significant portion of the projected capital expenditures set forth below from internally generated funds on a pay-as-you-go basis. The balance will be financed from a combination of revenue bonds, state loans, special reserves, special revenues and other third party contributions. Approximately \$155 million of the proceeds of the 2025 Bonds are expected to be used to pay for projects set forth in the CIP, and approximately \$4 million of the proceeds of the 2025 Bonds will be used to reimburse the PWC for prior years' expenditures. Additionally, the PWC expects to issue approximately \$288 million and \$150 million of additional revenue bonds in fiscal years 2028 and 2030, respectively, for the electric, water and wastewater systems. Further, the PWC has applied for or anticipates receiving approximately \$114 million of State Revolving Loans over the same period. No assurance can be given as to which, if any, of the projected capital projects in the CIP will be approved by the Commissioners nor can assurances be given as to the method of finance to be employed to fund approved capital projects, including any required City Council approval.

2026-2030 Capital Expenditures

Capital Improvements:	2026	2027	2028	2029	2030
Electric System	\$113,708,500	\$97,610,000	\$78,347,000	\$32,899,000	\$29,476,000
Water System	64,172,000	145,242,000	113,227,000	68,245,000	52,717,000
Wastewater System	80,442,000	88,290,000	89,019,000	128,084,000	108,594,000
General Plant	<u>5,390,500</u>	<u>4,938,500</u>	<u>2,453,000</u>	<u>1,490,000</u>	<u>1,342,500</u>
Total Capital Improvements	\$263,713,000	\$336,080,500	\$283,046,000	\$230,718,000	\$192,129,500

Liquidity Policy. The City Charter requires the PWC to maintain in its Electric Fund, Water/Wastewater Fund and all other utility funds established pursuant to the City Charter sufficient cash reserves to cover not less than 90 days' operating expenses, capital outlays, and debt service on outstanding revenue bonds or notes, but to set a target for the PWC's cash reserves to cover not less than 120 days or as otherwise required by any financing documents. The PWC's cash reserves were approximately 180 days cash on hand as of June 30, 2025. The Bond Order does not include any form of liquidity covenant.

Customer Billing Procedures. The PWC has 18 billing cycles with each cycle ranging from 25 to 35 days. Meters are read remotely throughout the month by computer and by PWC's metering infrastructure network, as discussed below, and bills are generated monthly in accordance with a customer's assigned cycle. Bills for any component of the System are due and payable upon receipt and become past due on the date indicated on each bill, which is 25 days, adjusted for weekends and holidays, from the date the bill is rendered. A customer's utilities are terminated approximately 10 days after the customer fails to make timely payment.

Wastewater customers who are also water customers are billed for wastewater on the water meter readings, except for certain large commercial/industrial customers who have separate flow meters installed. Wastewater customers who are not water customers are billed at a flat rate.

The PWC utilizes Advanced Metering Infrastructure to collect meter data to bill customers. All electric and water meters are now advanced “smart” meters that will provide daily meter reads electronically through a new communications network throughout the service area. The daily reads provide both PWC and the customer access to usage data prior to billing which allows proactive monitoring and management of utility consumption. In addition, most residential electric meters include a remote connect and disconnect feature reducing the need to roll trucks. This system not only reduces the cost of labor, travel and equipment, it increases the PWC’s capacity to analyze data in order to design rates that reflect the hourly and seasonal variability of the cost of service, develop new programs and implement targeted strategies to support financial health and operational excellence, all of which will benefit the PWC’s customers.

2016 City Charter Amendments. North Carolina Session Law 2016-47 amended the City Charter and established the PWC as a public authority with the power to sue and be sued effective July 1, 2016. The legislation makes clear that the Charter amendment is not intended to contravene any provision of the obligations associated with the debts of the City that are payable from revenues of the utility system or to limit, impair, or alter the rights vested to bondholders or creditors under any of the obligations associated with the debts of the City that are payable from revenues of the utility system.

The amended Charter provides that the City Council of the City is responsible for appointing to 4-year terms each of the four Commissioners who manage and control the PWC, and the Mayor is responsible for annually designating a member of the City Council to serve on the PWC as an ex officio, nonvoting member. Commissioners may be removed from office for cause by a two-thirds vote of the City Council.

Under the amended Charter, the PWC has been given full charge and control over policy matters related to and the general supervision and management of electricity, waterworks, sewerage, and any other utility the PWC is authorized to undertake under the Charter (collectively, the “Utilities”). However, for purposes of Chapter 62 of the North Carolina General Statutes, which addresses the regulatory authority of the North Carolina Utilities Commission over public utilities, the PWC is considered to be a municipality, not a public utility. The PWC is authorized to employ a general manager and all other necessary employees and delegate authority to them in order to facilitate the management of the Utilities. The PWC also has charge of and control over and supervisory responsibility for the construction, repairing, alteration, or enlargement of all Utilities plant, with the power and authority to make all necessary contracts relating to the same, including the purchase of all necessary sites, machinery, supplies, and other property, and the employment of necessary labor and other help. Title to all vehicles and equipment purchased or otherwise acquired by the PWC and used or employed in the discharge of its duties may be held in the name of the PWC, but all other real or personal property related to, used, or necessary for the operation of the Utilities (including plants, transmission and distribution mains and lines, other real property, fixtures, appurtenances, inventory, accounts, and revenues) will be and remain in the name of the City under the amended Charter.

The PWC is fully authorized and empowered to fix all rates and rents for the Utilities, provided that all rates and rents must be established upon the terms and conditions deemed by the PWC to be in the best interest of the City and the PWC’s customers, in compliance with the obligations associated with the debts of the City that are payable from revenues of the utility system, and expected to be sufficient to fund the PWC’s required cash reserves and allow for annual remittances from the PWC to the City required by the amended Charter. If funds are available without violating the obligations associated with the debts of the City that are payable from revenues of the utility system, the PWC must each month remit to the City one-twelfth of an annual amount equal to 2.45% of the value of the Total Net Position of the PWC’s Electric

Fund as reported in the Comprehensive Annual Financial Report for the PWC for each immediately preceding fiscal year ending June 30.

As a North Carolina public authority, the PWC is required to prepare an annual budget and comply with all other requirements applicable under Chapter 159 of the North Carolina General Statutes. At the end of each fiscal year, the books, accounts, and records of the PWC have been and will be audited by a certified public accountant or an accountant certified by the LGC. The City Council selects the auditor, and the auditor reports directly to the City Council and the PWC. In the event the PWC and the City engage in transactions with each other, the PWC must pay for services received from the City, and the City must pay for any services received from the PWC, and the payments must be accounted for as provided by the amended Charter, general law, or guidelines established by the LGC. The services shall only be provided by the City or the PWC to the other if they can be performed at or below prevailing market rates. If the services cannot be provided at or below prevailing market rates, the City or the PWC must provide its own services or contract with a third party to provide the services.

System Development Fee. In 2017, the General Assembly adopted House Bill 436 (“HB 436”) setting forth the power of all local government utilities, including the PWC, to set impact fees for water and sewer service, and the Governor signed the bill into law with an effective date of October 1, 2017 (except with regard to provisions relating to the statute of limitations, which were retroactively effective). HB 436 specifically enacted a new Article 8 to Chapter 162A of the North Carolina General Statutes to authorize local government units to institute a system development fee for water and sewer services. HB 436 clarified that the applicable statute of limitations for claims for any refunds of unlawfully collected fees for water and/or sewer service is three years, and the provision affecting the statute of limitations for such claims is retroactive. The system development fee allowed by HB 436 is defined as “[the] charge or assessment for service imposed with respect to new development to fund costs of capital improvements necessitated by and attributable to such new development, to recoup costs of existing facilities which serve such new development, or a combination of those costs, as provided in this Article. The term includes amortized charges, lump-sum charges, and any other fee that functions as described by this definition regardless of terminology.” The PWC is required to post the system development fee analysis (prepared by a financial professional or licensed professional engineer) online at least 45 days prior to considering the adoption of the fees and must hold a public hearing on the proposed system development fee. The preparer of the supporting analysis is also required to consider the public comment. The PWC calculates its system development fee using the buy-in method, and the new legislation requires the basis for the buy-in calculation for previously completed capital improvements to be determined “using a generally accepted method of valuing the actual or replacement costs of the capital improvement for which the buy-in fee is being collected less depreciation, debt credits, grants, and other generally accepted valuation adjustments.” System development fee revenues received by the PWC may be expended for “previously completed capital improvements for which capacity exists and for capital rehabilitation projects” under the new legislation. The PWC is also permitted to pledge system development fee revenues as security for the payment of an obligation. Revenues from the system development fees were initially required under HB 436 to be accounted for via a capital reserve fund established under the Local Government Budget and Fiscal Control Act. However, North Carolina Session Law 2018-34 was enacted in 2018 with an effective date of July 1, 2018 and imposed several technical amendments to HB 436, one of which eliminated the capital reserve fund requirement for system development fee proceeds that are pledged to secure revenue bonds or notes issued by a local government. As a result, the revenues may be deposited in the appropriate debt service funds, accounts or subaccounts, and applied as required by the Bond Order until all the revenue bonds are paid. All other system development fee proceeds must be accounted for in a capital reserve fund.

North Carolina Local Government Employees' Retirement System. The PWC contributes to the statewide North Carolina Local Governmental Employees' Retirement System (the "NCLGERS"), a cost sharing, and multiple-employer defined benefit pension plan administered by the State. The NCLGERS provides retirement and disability benefits to plan members and beneficiaries. Plan members are required to contribute 6% of their annual covered salary. The PWC is required to contribute at an actuarially determined rate. The current rate for the PWC is 13.60% of annual covered payroll.

For information concerning the PWC's participation in the NCLGERS, see the Notes to the PWC's audited financial statements included in Appendix A to this Official Statement.

Financial statements and required supplementary information for the NCLGERS are included in the Annual Comprehensive Financial Report ("ACFR") for the State. Please refer to the State's ACFR for additional information.

Other Post-Employment Benefits. The PWC provides certain Other Post-Employment Benefits ("OPEB") available to retirees who participate in the NCLGERS. The plan provides post-employment healthcare benefits to retirees and their dependents up to the age of 65. Qualified retirees can also purchase coverage for their dependents at the same group rate. The PWC currently funds its OPEB on an annual pay-as-you-go basis. The funding for retiree health benefits for the fiscal year ended June 30, 2025 was \$8,457,866.

In June 2015, GASB issued Statement No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The requirements of this Statement improved the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and enhanced its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This Statement was effective for fiscal years beginning after June 15, 2017.

The PWC was required to implement GASB Statement No. 75 in the fiscal year ended June 30, 2018. In response to GASB Statement No. 75, the PWC engaged an actuarial firm to prepare studies establishing the PWC's Total OPEB Liability.

The PWC's study reported as of the measurement date of June 30, 2025, that the PWC's Total OPEB Liability was \$20,679,821 for all eligible participants. The study was done under an assumption that the plan is funded on a pay-as-you-go basis. The studies will be performed annually.

Competitive Advantages. As a municipal utility, the PWC's right to serve its existing electric customers in the City is protected by state law. The PWC may serve new electric customers in newly annexed areas of the City and in the County outside of the City's corporate limits, subject to the limitations imposed by statute and lawful territorial restrictions. The PWC is subject to competition for providing electric service to new customers in the County from DEP, the Lumbee River Electric Membership Corporation and the South River Electric Membership Corporation. There is limited competition for new water and wastewater service customers inside and outside the City's limits.

Operational and Capital Programs. The PWC has initiated several operational and capital programs to provide quality service to its customers.

Key Accounts and Customer Programs. The PWC employs a Key Accounts Program to evaluate the needs of its large commercial and industrial customers. Key Account agents deliver proactive strategies and solutions by fostering partnerships and engaging internal and external experts. This group is actively involved in developing and implementing group programs that encourage intelligent use of electricity and

water through the application of efficient technology and demand response. Examples of programs specifically designed to offer incentives for the commercial customer include energy efficient HVAC replacement, smart thermostat installation, peak savings for electric water heaters with Aquanta devices, peak savings with Entek load control switches, building retro-commissioning, and rain sensors. The PWC also has formed a Customer Programs department to provide a dedicated point of contact for developers, consulting engineers and commercial customers.

Electric. The PWC annually transfers from its Electric Fund to the City's General Fund a Payment in Lieu of Taxes (PILOT). The PWC's Charter amended the PILOT formula for fiscal year 2016-2017 and thereafter to 2.45% of the total Net Position of the Electric Fund as reported on the Statement of Net Position of the PWC's most recent audited financial report. In addition to the PILOT, there are additional intergovernmental revenues and expenses pursuant to reporting requirements between the City and the PWC. Additional transfers are only allowable under certain specific limited instances defined by the amended City Charter. The PWC transferred \$6 million to the City for economic development purposes in \$1.2 million annual installments over fiscal years 2017-2021. Additionally, pursuant to the State of Emergency declared by the Mayor relating to COVID-19, pursuant to Section 6A.16 of the PWC Charter, the PWC transferred \$1 million and \$3 million to the City in fiscal years 2020 and 2021, respectively. PWC booked a receivable for repayment of \$4 million from the City in fiscal year 2023.

During the past five years, the PWC has initiated several system improvement projects for its electric system. These improvements and upgrades are designed to proactively and systematically replace aging infrastructure on a proactive basis using risk-based methodology. These projects are designed to enhance electric reliability, meet future load growth requirements and utilize current "smart grid" technologies. Several examples include a multiyear effort to replace and upgrade the PWC's main power transformers, upgrade or replacement of sub-transmission to distribution substations, life extension projects on boilers at its power plant and replacement of wood sub-transmission poles with longer life and lower maintenance metal poles.

Water and Wastewater. As discussed under "The Water System – Supply and Operations" above, a major expansion project is underway at the P.O. Hoffer WTF to add an additional 8 to 16 MGD of capacity at the plant. The expansion is being done in four phases. The first two phases of the P.O. Hoffer WTF expansion project, targeted at ensuring production reliability at the present high-rated water treatment capacity, are complete. Construction on the Phase 1A project began in November 2013 and was completed in June 2016 at a total cost of \$16 million. The cost for Phase 1A project was financed through one of the State Loans. Construction of Phase 1B project began in the summer of 2016 and was completed in January of 2018 at a total cost of \$5 million. Design of the Phase 2 project, estimated at \$40 million, is complete with construction anticipated to begin in 2025. Design of the Phase 3 – Residuals Treatment Expansion project is underway. Another significant project was the replacement of the spillway at the Glenville Lake WTF which was completed in April 2016 at an approximate cost of \$4.7 million and will ensure the long term availability of this water source for future demands.

As discussed under "The Wastewater System – Supply and Operations" above, an expansion project is underway at the Rockfish Creek WRF to increase its capacity to approximately 28 MGD. The project is being completed in three phases. The first phase was completed in 2002 expanding capacity to 16 MGD, and the second phase was completed in 2007 expanding capacity to 21 MGD. These two phases were financed through State Loans. The third and final phase of the expansion is expected to add additional treatment capacity of 7 MGD. An environmental assessment for the final upgrade to the Rockfish Creek WTF has been prepared and submitted to the North Carolina Department of Environmental Quality (the "NCDEQ") for review. In anticipation of the final phase of the project, the PWC completed an engineering evaluation of the liquids treatment processes at the Rockfish Creek WRF in 2011, which led to the construction of new alkalinity feed facilities completed in 2014 and improvements to aeration facilities

completed in June 2016. A second phase of aeration improvements that addressed residuals handling facilities was completed in the summer of 2017. Preliminary engineering for the third phase expansion project began in the Fall of 2018. Detailed design for the Phase 3 project is underway. Replacement of the existing standby power facilities for the Rockfish Creek WRF was awarded in August of 2021 with construction completed in the fall of 2022.

The PWC completed construction of a new alkalinity feed facilities for the Cross Creek WRF in 2016. Additionally, a project that replaced the existing mechanical climber screens with finer multi-rake screens installed in the facility's headworks was completed in 2019. Planned projects at the Cross Creek WRF include improvements to the influent and intermediate pump stations which began design in 2021 and replacement of the existing standby power facilities, which is currently under design and scheduled to be complete in fall of 2024. Preliminary engineering for a project addressing reliability improvements is began in 2022. Treatment capacity at the Cross Creek WRF of 25 MGD is sufficient to meet the PWC's 20-year planning needs. Both plants meet the existing treatment requirements as defined by the EPA.

Another important project is the extension of water and sewer services to areas the City annexed in 2005, which covers approximately 27 square miles and 43,000 new residents (also referred to as Phase V annexation). Extension of water and sewer services to the annexed areas is approximately 71% complete. The PWC anticipates completing work in 25 of the total of 34 separate areas by the end of fiscal year 2024. Of the total properties to be served, 100% are either completed, in construction, in pre-bid stage, or in design. The remaining project will be funded through a combination of contributions from the PWC, revenue bonds and customer assessments plus interest. Additionally, a major effort is also being made to install and relocate utilities in association with highway widening projects throughout the County. A project to construct off-line wastewater storage in the Rockfish Creek Basin with the goal of mitigating sanitary sewer overflows due to wet weather has been completed. The Rockfish Creek Basin Peak Flow Facilities project began construction in January of 2020 and was completed in the summer of 2023. The total \$15 million project is funded via a Clean Water SRF loan.

The PWC continues to balance expenditures between maintaining adequate plant capacity, addressing the needs of developed areas primarily through retrofitting existing neighborhoods as part of annexation, and installing major water transmission lines and sanitary wastewater outfalls ahead of development. In addition to these efforts, the PWC has a proactive rehabilitation program in place to ensure that aging water and wastewater lines are systematically inspected and replaced/rehabilitated to avoid more expensive repair and extend the remaining useful life. The goal of the rehabilitation program is to replace and/or rehabilitate approximately 1% of the water mains, sewer mains and manholes each fiscal year. This program has proven to be a cost effective means to enhance the life and performance of the infrastructure. As part of an effort to enhance the replacement and/or rehabilitation efforts, the PWC has begun to implement a comprehensive asset management plan to better anticipate future needs. This is an ongoing effort that started in 2016. The past installation of water transmission and wastewater outfalls in the undeveloped portions of the urban area are showing a return with most new development taking place where public utility services are available. This additional customer base is being constructed to the PWC standards at the developers' expense. In addition, the PWC is continuing to address rural development needs by providing wholesale water service to the Town of Stedman, Hoke County. NORCRESS, and the Eastover Sanitary District.

Interlocal and Wholesale Agreements. The federal government awarded jointly to the PWC and Harnett County a 40-year contract to equally supply potable water to meet the needs of Fort Bragg. The contract provides for the complete operation of Fort Bragg's existing water treatment system and funds to design and construct the infrastructure necessary for the PWC and Harnett County water systems to serve this critical military installation. Fort Bragg's water treatment facility has been decommissioned. The annual average day demand of Fort Bragg over the past ten years of the contract has been approximately

3.7 MGD. The PWC and Harnett County operate under an interlocal agreement to equally meet the contract demand levels of 8 MGD for average daily demand and 16 MGD for peak daily demand.

In addition, the PWC provides water on a wholesale basis to the Town of Spring Lake, the Town of Stedman, the Eastover Sanitary District, Hoke County and certain areas serviced by Aqua. The PWC is currently providing wastewater services on a wholesale basis to the Town of Stedman, the Eastover Sanitary District, Kelly Hills Sanitary District, Hoke County and the NORCRESS system, which is comprised of the Towns of Wade, Godwin and Falcon. These arrangements (including the Fort Bragg agreement) generate approximately \$7.0 million in annual revenue. The Fort Bragg agreement accounts for approximately 35% of the total and expires in 2046. The other agreements are currently on a year-to-year basis and PWC is working to unify its wholesale contracts.

Regulation and Environmental Compliance.

Rate Setting. The PWC is a North Carolina public authority that is statutorily empowered to construct and operate electric, water and wastewater systems and to set rates, rents, fees, charges, and penalties and promulgate service regulations for its utility services and to revise such rates and regulations from time to time. The PWC has been deemed a municipality for purposes of North Carolina utility law so its rates are not subject to regulation by the North Carolina Utilities Commission.

Electrical Regulation. The PWC is not subject to rate regulation by FERC. A small portion of the PWC's electric facilities is subject to federal reliability standards under the jurisdiction of the North American Electric Reliability Corp. ("NERC"). The PWC is compliant with all currently applicable NERC standards and passed its last comprehensive NERC audit in 2010 without any noted deficiencies. The PWC is subject to regulation by federal and state authorities with respect to air quality, water quality, chemical management and disposal of hazardous/universal wastes, and other environmental matters. All environmental reporting requirements have been properly submitted and documented, and the PWC is in compliance with all state and federal environmental regulations.

The BWGP is subject to air quality, stormwater management and groundwater quality regulations of the State. BWGP operates under permits issued by and enforced by the NCDEQ. The NCDEQ performs annual on-site inspections at BWGP, and the PWC has consistently been found to be in compliance. The PWC has made all required annual emissions reports with respect to the BWGP to the EPA in a timely manner with no negative feedback. The PWC is also required to submit with respect to the BWGP to the EPA and to update periodically both a Spill Prevention Control and Countermeasures Plan and a Facility Response Plan for BWGP. Together these two plans reduce the potential for spills and ensure proper response if a spill does occur. The PWC has met all requirements for submitting, updating and complying with these plans with respect to the BWGP.

A small portion of the PWC electrical system and certain work processes carried on at BWGP are subject to the reliability standards issued by NERC and monitored by the SERC Reliability Corporation. The PWC is periodically audited for compliance with the applicable requirements and is required to provide periodic certification of compliance during the periods between audits. The PWC is current in all system and equipment studies, monitoring, and reporting required by SERC. The PWC provides representatives to the SERC Operating Committee, Engineering Committee and Critical Infrastructure Protection Committee on a continuing basis.

North Carolina law currently mandates that each municipality selling electricity to retail customers, including the PWC, source at least 10% of its retail load (measured during the preceding calendar year) from renewable energy facilities, demand side management, and energy efficiency measures, subject to an annual cost cap. The PWC is required to file compliance reports and plans annually with the North Carolina

Utilities Commission. The PWC is in compliance with all filing and legislative mandate requirements and plans to continue its compliance through its direct participation with renewable energy projects, purchase of renewable energy credits and implementing qualifying energy efficiency programs. One of the PWC's initiatives in this area is the LED Conversion and Upgrade Project (the "LED Conversion and Upgrade Project"), started in 2014, that will replace all of the PWC's street and thoroughfare lighting with new LED fixtures. The LED fixtures will use less than half the energy and last nearly three times as long as the current sodium vapor lights used throughout the City. The LED Conversion and Upgrade Project is 99% complete with only a few thoroughfares remaining, several of which are pending approval by the State's Department of Transportation (the "NCDOT") or are contained within the NCDOT's widening projects. In addition, the PWC has completed a Community Solar Project at BWGP. This installation is a 1.0 MW solar array with battery storage and will aid the PWC in its compliance with the North Carolina Renewable Energy Portfolio Standards.

Water and Wastewater Regulation. The PWC's water and wastewater treatment plants also must comply with regulations set forth by the EPA and the State, including NCDEQ, to ensure protection of drinking water and the environment. Both water treatment plants produce drinking water that is of a higher quality than required by the permits. As a result of this high quality, the water plants are recognized by the EPA in the Partnership for Safe Water Program. The discharges from both wastewater plants are of a higher quality than is required by the permits as well. In addition to compliance with permits associated with the treatment plants, the PWC is also in compliance with permits associated with the drinking water distribution system and wastewater collection system.

Miscellaneous. The PWC is dedicated to managing its environmental responsibilities and ensuring sustainability of the environment through the due diligence of continual process improvements, increased awareness and improved environmental performance. The Environmental Management Program is a systematic process that includes plans for unplanned events. The PWC's Risk Management Team is dedicated to ensuring company-wide compliance and uses the Environmental Management System to implement the process. The PWC's contractors and consultants are also required to comply with the various EPA/PWC rules and regulations. Indemnification agreements and insurance are in place to protect the PWC against certain losses. Internal compliance audits are regularly conducted throughout the year by internal and external auditors.

The Water Resources Division is actively involved in reviewing and commenting on both State and Federal regulatory developments that affect the PWC. These efforts to oversee regulation proposals are accomplished by the PWC's active involvement in the American Water Works Association and the Water Environment Federation state level committees, as well as the NC Water Quality Association, the NC League of Municipalities Regulatory Advisory Committee and the NC Urban Water Consortium that funds needed research.

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Historic Operating Results

The following table shows the historical operating results of the System for the past five fiscal years ended June 30:

	Actual 2021	Actual 2022	Actual 2023	Actual 2024	Preliminary Actual 2025
<u>Operating Revenues</u>					
Electric Service Charges ¹	\$198,428,787	\$199,578,705	\$194,604,955	\$210,465,554	\$215,421,716
Power Supply Adjustment ²	-	-	-	9,763,758	7,653,289
Water Service Charges ³	51,868,316	54,115,160	58,113,227	61,565,628	65,807,632
Wastewater Service Charges ⁴	3,621,358	57,274,921	64,157,034	70,692,783	76,673,292
Other Operating Revenue ⁵	33,142,300	36,219,888	36,189,526	40,546,354	32,606,977
Total Operating Revenues	\$337,060,760	\$347,188,674	\$353,064,742	\$393,034,077	\$398,162,907
<u>Operating Expenses Before Depreciation & Amortization</u>					
Electric Power Supply ⁶	\$131,767,908	\$132,513,893	\$123,618,468	\$137,702,810	\$113,710,377
Electric PS True-Ups/Coal Ash ⁷	8,443,159	984,531	12,979,368	12,583,692	5,667,930
Generation Plant ⁸	8,135,727	7,832,843	14,088,150	6,320,754	6,784,969
Electric System Other	44,390,043	51,974,072	49,614,666	53,724,563	58,669,820
Water System	29,761,222	28,991,959	35,599,284	35,579,741	38,738,621
Wastewater System	33,161,391	31,897,928	36,728,887	39,312,612	41,963,641
Operating Expenses Before Depreciation & Amortization	\$255,659,449	\$254,195,225	\$272,628,824	\$285,224,172	\$265,535,356
Operating Income Before Depreciation & Amortization	\$81,401,311	\$92,993,449	\$80,435,918	\$107,809,905	\$132,627,551
Depreciation	\$(46,781,741)	\$(48,876,784)	\$(50,663,217)	\$(52,855,556)	\$(47,519,631)
Amortization of Lease/Subscription Lease	-	(900,663)	(1,472,866)	(1,544,071)	(2,618,444)
Operating Income	\$ 34,619,570	\$ 43,216,002	\$ 28,299,835	\$ 53,410,279	\$ 82,489,475
Nonoperating Revenues ⁹	\$ (799,066)	\$(8,020,331)	\$ 4,219,813	\$19,663,284	\$21,093,309
Nonoperating Expenses ¹⁰	(10,557,060)	(11,950,286)	(11,548,354)	(17,956,087)	(18,398,260)
Income before Contributions and Operating Transfers	\$23,263,444	\$23,245,385	\$20,971,294	\$55,117,476	\$85,184,524
Contributions	\$23,158,880	\$10,297,489	\$18,458,499	\$10,700,239	\$11,422,930
Special Item ¹¹	22,230,520	-	-	-	9,011,306
Other Operatings Transfers	-	-	-	-	-
City Intergovernmental Revenues ¹²	2,029,564	1,358,022	5,249,725	1,467,039	918,988
City Operating transfers (Out) ¹³	(4,200,000)	-	-	-	-

Payment in Lieu of Taxes ¹³	(11,450,867)	(11,853,127)	(12,405,712)	(12,243,713)	(11,968,928)
Change in Net Position	\$55,031,541	\$23,047,769	\$32,273,808	\$55,041,041	\$94,568,820

Income Available for Debt Service

Change in Net Position before PPA:	\$55,031,541	\$23,047,769	\$32,273,808	\$55,041,041	\$ 94,568,820
Less: Contributions and Special Item	(23,158,880)	(10,297,489)	(18,458,499)	(10,700,239)	(11,422,930)
Gain/Loss on investment valuation	1,137,068	9,660,360	1,342,266	(4,607,072)	(4,281,070)
Loss (Gain) on Sale of Fixed Assets	1,303,792	306,916	676,157	470,296	557,418
Depreciation/Amortization of Lease/Subscription Lease	46,781,741	49,777,447	52,136,083	54,399,626	50,138,076
Interest Expense	10,902,576	12,193,972	12,626,748	17,182,785	19,838,395
Amortization of Bond Cost	(922,171)	(1,090,493)	(1,207,151)	(1,417,831)	(1,675,806)
Operating Transfers Out	13,975,349	10,820,849	7,409,536	11,047,162	11,284,017
Special Item	(22,230,520)	-	-	-	(9,011,306)
System Development Fees	1,042,603	994,271	3,903,281	3,198,606	2,615,875
Assessments	14,466	10,373	8,471	9,177	4,267
Income Available for Debt Service	\$83,877,565	\$95,423,975	\$90,710,701	\$124,623,548	\$152,615,757

Revenue Bond Debt Service Coverage

	2021	2022	2023	2024	2025
Senior Debt Service Requirement	\$24,697,500	\$24,142,550	\$25,669,905	\$ 24,392,764	\$ 28,401,074
PWC Revenue Bond Debt Service Coverage Ratio	3.40	3.95	3.53	5.11	5.37

Income Available for Other Debt Service	\$59,180,065	\$71,281,425	\$65,040,795	\$100,230,785	\$124,214,682
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Other System Debt Service

GO System Debt Service Requirement	\$ 177,743	\$ -	\$ -	\$ -	\$ -
Other Debt Requirements	1,479,415	1,472,887	2,361,958	2,544,312	2,423,087
Total Other System Debt Svc.	\$1,657,158	\$1,472,887	\$2,361,958	\$2,544,312	\$2,423,087

Total Indebtedness Coverage

Annual System Debt Service	\$26,354,658	\$25,615,437	\$28,031,864	\$26,937,076	\$30,824,161
Annual System Debt Service Coverage Ratio	3.18	3.73	3.24	4.63	4.95

Footnotes

¹ Includes rate reduction of 4.3% in fiscal year 2021; annual revenue increase from rates of 0% in fiscal years 2022 and 2023; 6.1% increase in fiscal year 2024; and 2% increase in fiscal year 2025

² PWC approved power supply adjustments to customers in August of 2023, 2024 and 2025. Adjustment totals are \$9.8 million and \$7.7 million in fiscal years 2024 and 2025, respectively.

³ Includes annual revenue increases from rates in fiscal years 2021-2025 of 5.0%, 3.5%, 3.7%, 7.0% and 6.6%, respectively.

⁴ Includes annual revenue increases from rates in fiscal years 2021-2025 of 3.4%, 6.8%, 7.4%, 10.2% and 10.2%, respectively.

⁵ Includes Coal Ash Rider and Utility Relocation Rider Revenue. Fiscal year 2025 does not include the Butler Warner Generation Plant power sales agreement revenue. Fiscal year 2025 is the last year PWC received Coal Ash Rider revenue through customer billings.

⁶ Power Supply includes a deferral of \$7.2 million via regulatory asset in fiscal year 2023 that will be amortized in fiscal years 2024 and 2025. Fiscal year 2024 amortization is \$6.0 million and \$1.2 million in fiscal year 2025.

⁷ Fiscal years 2021-2025 include DEP true-ups as charges/credits and Coal Ash Expenses.

⁸ Fiscal years 2021 and 2022 include one (1) gas turbine overhaul and fiscal year 2023 includes one (1) gas turbine and one (1) steam turbine overhaul.

⁹ Includes interest earned on investments and gain/loss on disposal of assets.

¹⁰ Includes interest expense and other finance costs.

¹¹ In June 2021, PWC received a settlement for prior coal ash expenses that resulted in a receivable of \$22.2 million booked as a Special Item. In June 2025, PWC received a PFAS drinking water settlement that resulted in a receivable of \$9.0 million booked as a Special Item.

¹² Includes principal and interest payments collected by PWC for utility assessments. Fiscal years 2023-2024 include the repayment from the City of \$4 million for the emergency fund transfer (see footnote 13).

¹³ Includes transfers to the City per the City Transfer Agreement and amended Charter in 2017 and thereafter. Fiscal year 2021 includes a \$3 million emergency fund transfer, representing the remainder of the total \$4 million. Fiscal year 2021 is the last year for the \$1.2 million economic development transfer.

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Management Discussion. For an in-depth management's discussion of fiscal year 2024 audited results, please refer to the Management's Discussion and Analysis set forth in Appendix A to this Official Statement. Below is further discussion of the electric and water/wastewater system's budgets for the fiscal year ending June 30, 2025.

Electric System. The PWC's fiscal year 2025 Electric budget of \$290.3 million decreased by \$19.3 million from the final fiscal year 2024 of \$309.6 million. Fiscal year 2025 operating revenues decreased by \$8.3 million compared to fiscal year 2024. The decrease is primarily due to a decrease in revenue for the BWGP Lease Payment due to the modified PSCA with DEP. Operating expenses for this same period decreased by \$28.3 million, or 12.5%, compared to the prior fiscal year. The decrease is due to lower power supply costs.

Water and Wastewater Systems. The PWC's fiscal year 2025 Water and Wastewater budget of \$173.3 million exceeded the fiscal year 2024 final budget by \$16.7 million, or 10.7%. Fiscal year 2025 operating revenues increased by \$12.3 million, or 8.7%. This increase is mainly attributable to increasing water rates by 6.6% and wastewater by 10.2%. Operating expenses for fiscal year 2025 increased by \$4.4 million, or 5.2% compared to fiscal year 2024.

Projected Debt Service Coverage

The following table sets forth the projected debt service coverage on Bonds and total System debt for each of the five fiscal years ending June 30, 2026 to 2030. Certain assumptions were made in conjunction with such financial projections. Certain of these assumptions may not materialize and unforeseen events and circumstances may occur. Therefore, there will usually be differences between the forecasted operating results and the actual operating results and these differences may be material. These assumptions, as well as the financial projections, were reviewed by NewGen Strategies and Solutions, LLC, an independent consultant experienced in the preparation of financial projections for public utilities and were determined by such consultant to be reasonable.

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	Budget 2026	Forecast 2027	Forecast 2028	Forecast 2029	Forecast 2030
<u>Operating Revenues</u>					
Electric Service Charges ¹	\$220,659,600	\$240,880,057	\$251,341,756	\$263,005,985	\$268,020,884
Power Supply Adjustment ²	9,872,400	2,119,700	-	-	-
Water Service Charges ³	71,256,400	76,397,887	81,261,244	86,408,844	91,852,704
Wastewater Service Charges ⁴	81,055,600	88,374,152	93,618,250	99,151,154	104,984,937
Other Operating Revenue ⁵	26,468,000	27,811,978	28,077,003	28,348,299	28,626,038
Total Operating Revenues	\$409,312,000	\$435,583,774	\$454,298,252	\$476,914,282	\$493,484,562
<u>Operating Expenses Before Depreciation & Amortization</u>					
Electric Power Supply ⁶	\$116,349,700	\$113,043,213	\$119,746,451	\$126,759,346	\$130,671,353
Electric PS True-Ups/Coal Ash Generation Plant ⁷	2,909,000	2,268,616	1,532,618	1,288,369	1,560,611
Electric System Other	7,587,900	7,961,628	8,209,402	8,465,533	8,730,319
Water System	68,425,800	73,253,872	75,728,365	78,244,013	80,907,500
Wastewater System	44,909,750	46,138,236	47,589,068	61,091,501	62,912,104
	45,773,050	48,173,728	49,728,642	51,339,817	53,010,022
Operating Expenses Before Depreciation & Amortization	\$285,955,200	\$290,839,293	\$302,534,546	\$327,188,577	\$337,791,909
Operating Income Before Depreciation & Amortization	\$123,356,800	\$144,744,481	\$151,763,706	\$149,725,705	\$155,692,653
Depreciation	\$(53,699,700)	\$(63,059,482)	\$(70,383,279)	\$(79,875,259)	\$(83,798,138)
Amortization of Lease/Subscription Lease	(3,206,200)	(2,020,400)	(1,344,700)	(1,073,100)	(487,200)
Operating Income	\$ 66,450,900	\$ 79,664,599	\$ 80,035,727	\$ 68,777,346	\$ 71,407,315
Nonoperating Revenues ⁸	\$ 5,929,000	\$ 6,771,057	\$ 8,719,634	\$ 5,345,465	\$ 6,048,340
Nonoperating Expenses ⁹	(18,949,900)	(26,749,903)	(27,211,545)	(31,218,528)	(37,665,548)
Income before Contributions and Operating Transfers	\$53,430,000	\$59,685,753	\$61,543,817	\$42,904,283	\$39,790,108
Contributions	\$16,586,895	\$25,000,000	\$11,300,000	\$3,350,000	\$1,100,000
Special Item	-	-	-	-	-
Other Operatings Transfers	-	-	-	-	-
City Intergovernmental Revenues ¹⁰	2,166,000	1,811,600	2,506,700	2,041,500	1,623,300
City Operating transfers (Out) ¹¹					
Payment in Lieu of Taxes ¹¹	(12,064,900)	(12,449,381)	(13,036,128)	(13,870,657)	(14,340,809)
Change in Net Position	\$60,117,995	\$74,047,972	\$62,314,389	\$34,425,126	\$28,172,599

Income Available for Debt Service

Change in Net Position before PPA:	\$ 60,117,995	\$ 74,047,972	\$ 62,314,389	\$ 34,425,126	\$ 28,172,599
Less: Contributions and Special Item	(16,586,895)	(25,000,000)	(11,300,000)	(3,350,000)	(1,100,000)
Gain/Loss on investment valuation	-	-	-	-	-
Loss (Gain) on Sale of Fixed Assets	-	-	-	-	-
Depreciation/Amortization of Lease/Subscription Lease	56,905,900	65,079,882	71,727,979	80,948,359	84,285,338
Interest Expense	18,928,300	26,035,326	25,738,579	32,003,850	37,918,948
Amortization of Bond Cost	(1,676,400)	(1,313,417)	(1,313,417)	(1,313,417)	(1,313,417)
Operating Transfers Out	10,136,900	10,942,781	10,834,428	12,129,157	13,017,509
Special Item	-	-	-	-	-
System Development Fees	2,200,000	1,100,000	1,100,000	1,100,000	1,100,000
Assessments	5,000	5,000	5,000	-	-
Income Available for Debt Service	\$130,030,800	\$150,897,544	\$159,106,957	\$155,943,074	\$162,080,977

Revenue Bond Debt Service Coverage

	2026	2027	2028	2029	2030
Senior Debt Service Requirement	\$35,301,119	\$ 41,702,407	\$ 44,646,546	\$ 51,348,900	\$ 61,360,845
PWC Revenue Bond Debt Service Coverage Ratio	3.68	3.62	3.56	3.04	2.64

Income Available for Other Debt Service

	\$94,729,681	\$109,195,137	\$114,460,411	\$104,594,175	\$100,720,132
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Other System Debt Service

GO System Debt Service Requirement	\$ -	\$ -	\$ -	\$ -	\$ -
Other Debt Requirements	2,391,611	3,400,468	6,089,525	8,443,686	8,375,150
Total Other System Debt Service	\$2,391,611	\$3,400,468	\$6,089,525	\$8,443,686	\$8,375,150

Total Indebtedness Coverage

Annual System Debt Service	\$37,692,730	\$45,102,875	\$50,736,071	\$59,792,586	\$69,735,995
Annual System Debt Service Coverage Ratio	3.45	3.35	3.14	2.61	2.32

Footnotes

¹ Includes 2% increase from rates in fiscal year 2026. Fiscal years 2027-2030 include an estimated increase from rates of 5.0%, 3.8%, 4.2% and 1.6%, respectively.

² PWC approved power supply adjustments to customers in August of 2025. Adjustment totals are \$9.9 million, and \$2.1 million in fiscal years 2026, and 2027, respectively.

³ Includes annual revenue increases from rates in fiscal years 2026 and 2027 of 5.1%, and 5.1%, respectively. Fiscal years 2028-2030 include an annual system increase from rates of 5.5%, 5.5%, and 5.5%, respectively.

⁴ Includes annual revenue increases from rates in fiscal years 2026 and 2027 of 5.8% and 5.7%, respectively. Fiscal years 2028-2030 include an annual system increase from rates of 5.5%, 5.5%, and 5.5%, respectively.

⁵ Fiscal years 2026-2030 do not include the Butler Warner Generation Plant power sales agreement revenue.

⁶ Fiscal year 2026 includes an energy catch-up of \$5.5 million due to higher actual energy costs from DEP.

⁷ Fiscal years 2026-2030 include interest earned on investments for the general fund only.

⁸ Includes interest earned on investments and gain/loss on disposal of assets. Fiscal years 2026-2030 include interest earned on investments for the general fund only.

⁹ Includes interest expense and other finance costs. Also includes interest expense for future bond issues in fiscal years 2026, 2028, and 2030 of approximately \$160 million, \$288 million, and \$150 million, respectively. Fiscal years 2026-2030 include interest expense for State Revolving Loans of approximately \$114 million.

¹⁰ Includes principal and interest payments collected by PWC for utility assessments.

¹¹ Includes transfers to the City per the City Transfer Agreement and amended Charter in 2017 and thereafter.

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Cybersecurity

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

Cybersecurity incidents could result from unintentional events or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the PWC’s System Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. To mitigate the risk of business operations impact and/or damage from cybersecurity incidents or cyber-attacks, the PWC employs multiple forms of cybersecurity and operational safeguards.

While the PWC’s cybersecurity and operational safeguards are periodically tested, no assurances can be given by the PWC that such measures will ensure against other cybersecurity threats and attacks. Cybersecurity breaches could cause material disruption to the PWC’s finances or operations. The costs of remedying any such damage or protecting against future attacks could be substantial. Further, cybersecurity breaches could expose the PWC to material litigation and other legal risks, which could cause the PWC to incur material costs related to such legal claims or proceedings.

Severe Weather Events

The PWC and its System are susceptible to the effects of severe weather events, including floods, droughts, ice storms, tornadoes and hurricanes and has experienced multiple severe weather events in the past. Consequently, the operating results of PWC and its System may fluctuate on a seasonal and quarterly basis and can be negatively affected by severe weather events impacting water treatment processes, collection, distribution and/or other infrastructure of the System. Electric power generation and natural gas distribution are generally seasonal businesses. In most parts of the U.S., the demand for power peaks during the warmer summer months, with market prices also typically peaking at that time. In other areas, demand for power peaks during the winter. Demand for natural gas peaks during the winter months. Hurricanes, droughts, heat waves, winter storms and severe weather could cause these seasonal fluctuations to be more pronounced. Sustained severe drought conditions could impact surface water levels and water treatment processes, generation by hydroelectric plants, as well as fossil and nuclear plant operations, as these facilities use water for cooling purposes and for the operation of environmental compliance equipment. The PWC has in place a Comprehensive Emergency Management Plan and Business Continuity Plan for action before, during and after such events. No assurances can be given that a future weather event will not adversely affect the PWC.

THE CITY

General Description

Brief History. The City is the sixth largest municipality in the State in terms of population and was created by combining two early trading settlements, Cross Creek and Campbellton. Cross Creek was located approximately one mile west of the Cape Fear River. Although Cross Creek was an important trading center by the late 1750s, it was never chartered. In 1762, the colonial assembly established and chartered Campbellton, which was located on the Cape Fear River, approximately one mile east of Cross Creek. In 1778, the neighboring towns of Cross Creek and Campbellton were united to become “Upper and Lower Campbellton.” In 1783, the North Carolina General Assembly approved the town’s official renaming to Fayetteville, in honor of the Marquis de Lafayette, the French nobleman who served as a Major General in the Continental Army during the Revolutionary War.

According to the U.S. Census Bureau’s Vintage 2017 Population Estimates Program, the Fayetteville Metropolitan Statistical Area (the “Fayetteville MSA”) is the sixth largest MSA in the State. The City’s population has grown from approximately 75,850 in 1990 to approximately 209,975 in 2024. This growth also includes portions of Fort Bragg that were annexed into the City in September 2008 by an act of the North Carolina General Assembly. The City also serves as the seat of government for Cumberland County (the “County”), which had a total population of approximately 334,728 in 2020 according to the U.S. Census Bureau’s Population Division.

Location. The City, the county seat of Cumberland County (the “County”), covers an area of approximately 150 square miles and is situated approximately 60 miles south of Raleigh, the State capital. The City of Charlotte, a major commercial center, is approximately 140 miles to the west. The City is located adjacent to Interstate Highway 95, a major north-south corridor that links the City to Washington, D.C., Baltimore and New York to the north and to Charleston, Orlando and Miami to the south. State highways also link the City to the beaches along the southeast coast of the State and to the mountains in the west.

Fort Bragg, which is one of the largest military complexes in the world, is located approximately ten miles from the City’s downtown. Fort Bragg adds significantly to the area economy and to the culture of the community.

Population

The United States Department of Commerce, Bureau of the Census, has recorded the population of the City to be as follows:

<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2020</u>
75,850	121,015	200,564	208,501

The North Carolina Office of State Budget and Management has estimated the population of the City to be as follows:

<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
208,501	214,255	213,036	209,975	211,756

Commerce and Industry

Overview. The City serves as the trade, service, health care, learning and transportation center of the Fayetteville MSA. The civilian labor force within the County is over 131,140 and is supplemented by military personnel stationed at Fort Bragg.

Regional Trade. The City is a major regional trade center in eastern North Carolina, with a significant number and variety of shopping plazas, centers and independent retailers being located throughout the City. The City serves as the primary market for a two-county trade area. Evidence of the strong retail sector is reflected by one of the largest shopping areas in the Carolinas, a two square-mile area located within the City within which shoppers can visit a regional mall, five shopping centers, a variety of department stores and specialty, antique and gift shops. Additionally, Cross Creek Mall has more than one million square feet of floor space and three major department stores.

Recreation and Tourism. Approximately \$698 million is the County's visitor spending during 2024. Visitors, business travelers and motorists had an approximate economic impact of \$698 million in the County during 2024 according to DistiNCtly Fayetteville. During 2024, overnight accommodations in the area generated approximately \$8.45 million in occupancy tax revenues based on lodging revenues in excess of \$139.25 million. There are approximately 72 hotel/motel properties with over 6,000 rooms in the area catering to overnight guests.

The City serves as the cultural and arts center for the region east of Fort Bragg. The City's cultural and arts venues include the Cape Fear Regional Theatre, Cape Fear Botanical Gardens, Festival Park, as well as seven museums including the Museum of the Cape Fear Historical Complex and the Airborne and Special Operations Museum (the "ASOM"). The North Carolina Veterans Park opened beside the ASOM in 2011 creating a destination for education, reflection and celebration of military service. The Crown Center hosts sporting events, national music tours, theatre productions and trade shows. Fayetteville State University and Methodist University also host cultural and sporting events. In addition, ten golf courses are located within the area. The Fayetteville Downtown Historic District includes the Market House, a national historic landmark, Liberty Row and the Cool Spring Tavern, which was built in 1788 and is the oldest building in the City.

Downtown Development and Other City Initiatives. The City completed construction and opened a new 4,800-seat baseball stadium in the downtown area in April 2019. The stadium serves as home to a minor league franchise affiliated with the Houston Astros and has facilitated more than a \$100 million in public and private investment toward downtown development in the City. These downtown development projects include renovating an old landmark hotel into residential apartments and a downtown parking deck, both of which are complete, and tentatively adding another major-chain hotel and 81,000 square feet of office space. The new stadium was host to the NCAA Big South Conference tournament from 2019 through 2021.

A \$35 million parks and recreation general obligation bond referendum approved by voters in 2016 has led to the construction of several splash pads across the city. Also because of this bond funding, construction has been completed on improvements to various parks and recreation centers, a new skateboard park located in the downtown area, and the senior center west. Construction has begun on the senior center located in the eastern part of the City along with a sports field complex; a soccer complex; and a tennis center. The North Carolina General Assembly enacted the Small Business Enterprise Program, which modified the City's Charter. It allows the City to establish a race- and gender-neutral small business enterprise program to promote the development of small businesses in the Fayetteville Metropolitan Statistical Area and to enhance opportunities for small businesses to participate in City contracts. City staff is developing and implementing this program.

For the fiscal year ending June 30, 2025, the City made significant strides in community and economic development, having managed more than \$11 million in federal grants, including \$1.5 million in community development block grants.

United States Military. The Fort Bragg Army Base has a significant impact on the City's economy. It accounted for more than \$8.87 billion in total direct and indirect economic impact on the local economy in federal fiscal year 2024.

Fort Bragg is the largest US Army base by population, serving a population of approximately 48,775 active duty Soldiers, 3,597 Reserve Components and Temporary Duty students, 12,419 civilian employees, 4,926 Contractors, and 70,109 active duty family members. There are 125,278 Army retirees and family members in the area. Fort Bragg covers approximately 254 sq. miles, which is nearly 163,000 acres. Of the 163,000 acres, 146,000 acres are dedicated training lands. Fort Bragg has traditionally been known as the home of the Army's XVIII Airborne Corps and the 82nd Airborne Division, as well as the U.S. Army Special Operations Command and 3rd Special Forces Group. In 2011, Fort Bragg became the headquarters for the Army's combat-ready conventional forces and Army Reserve following the move of U.S. Army Forces Command and U.S. Army Reserve Command to the base. The base also encompasses Pope Army Air Field which provides fixed wing aviation assets, and Simmons Army Airfield, which provides rotary wing aviation assets required to support Fort Bragg's missions.

The North Carolina Military Business Center ("NCMBC") was established in 2004 by the North Carolina General Assembly as a business development entity of the North Carolina Community College System headquartered at Fayetteville Technical Community College. The mission of the NCMBC is to leverage military and other federal business opportunities to expand the economy, grow jobs and improve quality of life in North Carolina. The NCMBC's primary goal is to increase federal revenues for businesses in North Carolina.

Since the NCMBC opened in 2005, companies assisted by the NCMBC have won more than 6,570 contracts with a minimum value of \$18.20 billion. Given that the City is headquarters for the NCMBC, their share of the contracts and other economic benefits is a boost to the area economy.

Local Economy. In addition to Fort Bragg and the City, substantial employment is also offered in the government sector through Cumberland County Schools, Fayetteville State University, Fayetteville Technical Community College, County of Cumberland and the Veterans Administration. Other major employers in the area include Cape Fear Valley Health Systems, Goodyear Tire & Rubber Inc., with one of the largest tire producing factories in the world, Wal-Mart Associates Inc., through its distribution center and retail outlets, Mann Hummel, with their largest U.S. facility producing advanced filtration products including N95 masks, and Food Lion.

The City is a major regional trade center in eastern North Carolina, with a significant number and variety of shopping plazas, centers and independent retailers. The City's retail sector includes Freedom Town Center, a 450,000-square-foot shopping center that houses retailers such as Dick's Sporting Goods, Field and Stream; Hobby Lobby; and a number of restaurant and clothing outlets.

The City's commitment to expanding and diversifying its economy includes maintaining a strong industrial base. Manufacturing and distribution services are diverse in the City. The leading products include tires, oil, air, fuel and cabin filters, sportswear, industrialized motor controls, and plastics. The City has sites available for new industry at its 1,270 acre Cumberland Industrial Center, adjacent to Interstate Highway 95, the Fayetteville Regional Airport, and local rail service. Recently announced logistics-based projects include two Amazon distribution facilities and new facilities for both FedEx and the United States Postal Service. Additionally, there have been significant new announcements by companies providing

customer support services, data services, and information technology services including, MetroNet's \$65 million fiber optic project, which will bring advanced and affordable high-speed data to Fayetteville and Cumberland County residents.

The following table lists the twenty-five largest employers in the County:

<u>Employer</u>	<u>Description</u>	<u>Employees</u>
Defense Ex-Army Navy & Air Force	Public Administration	1000+
Cumberland County Schools	Education	1000+
Cape Fear Valley Health Systems	Health Services	1000+
Wal-Mart Associates Inc.	Retail	1000+
County of Cumberland	Public Administration	1000+
Goodyear Tire and Rubber Inc.	Manufacturing	1000+
City of Fayetteville	Public Administration	1000+
Veterans Administration	Health Services	1000+
Amazoncom Services Inc	Transportation and Warehousing	1000+
Fayetteville Technical Community College	Education	1000+
U S Postal Service	Transportation and Warehousing	1000+
Food Lion	Retail Trade	1000+
Fayetteville State University	Education	1000+
Army & Air Force Exchange Service	Public Administration	1000+
U.S. Army (Non-appropriated Fund Activity)	Health Services	500-999
Booz Allen Hamilton Inc	Waste Management and Remediation Services	500-999
Public Works Commission	Public Administration	500-999
Carolina Power & Signalization LLC	Construction	500-999
Lowes Home Centers Inc.	Retail Trade	500-999
Caci Inc-Federal	Professional, Scientific, and Technical Services	500-999
PruittHealth Veteran Services NC	Health Services	500-999
Mann+ Hummel Purolator Filters LLC	Manufacturing	500-999
Vectrus Systems Corporation	Other Services	250-499
Sitel Operating Corporation	Waste Management and Remediation Services	250-499
Methodist University	Education	250-499

Source: North Carolina Department of Commerce, Demand Driven Data Delivery System (Fourth Quarter 2024).

The total taxable sales in the County for the fiscal years ended June 30, 2021 through June 30, 2025 are shown in the following table:

Fiscal Year Ended June 30,	Total Retail Sales	Increase (Decrease) Over Previous Year
2021	5,238,219,221	20.96%
2022	5,743,623,701	9.65
2023	6,118,176,646	6.52
2024	6,167,392,254	0.80
2025	6,239,800,488	1.17

Source: North Carolina Department of Revenue, Sales and Use Tax Division.

Note: Separate data for the City is not available.

Construction activity in the City for the fiscal years ended June 30, 2021 through June 30, 2025 is indicated in the following table showing the number and value of commercial building permits and the number and value of residential units (including renovations):

Fiscal Year	Commercial		Residential		Total Value ¹
	Number	Value ¹	Number	Value ¹	
2021	410	122,187	801	80,765	202,952
2022	444	240,643	1,429	122,084	362,727
2023	549	411,757	1,149	187,298	599,055
2024	427	155,098	1,084	188,228	343,326
2025	409	216,287	1,031	170,714	387,001

¹ Value shown in thousands.

Source: City Building Inspections; City Planning Department.

Labor Force and Unemployment

According to the United States Department of Commerce, Bureau of Economic Analysis, per capita income figures for the County and the State are as follows:

Year	County	State
2019	39,164	48,374
2020	42,615	51,758
2021	45,986	57,023
2022	46,490	58,871
2023	48,345	61,579

Note: Latest available data.

According to the Labor and Economic Analysis Division of the North Carolina Department of Commerce, the percentage of unemployment in the United States, the State and the City is as follows (latest data available):

Year	United States	State	City
2021	5.3%	4.9%	7.1%
2022	3.6	3.7	5.2
2023	3.6	3.5	4.8
2024	4.0	3.6	4.8
2025*	4.3	3.8	5.1

* Eight (8) month average.

Government

The City has a Council-Manager form of government. The Mayor and nine Council members are elected every two years. The City Council is the legislative body of the City government with the Mayor as the presiding officer. The City Council appoints a City Manager who administers the daily operations of the City through department heads appointed by the City Manager.

Pension Plans

North Carolina Local Governmental Employees' Retirement System. The City contributes to the statewide NCLGERS. Plan members are required to contribute six percent of their annual covered salary. The City is required to contribute at an actuarially determined rate. The City's current rate for employees not engaged in law enforcement and for law enforcement officers is 14.39% and 16.08%, respectively, of annual covered payroll.

Financial statements and required supplementary information for the NCLGERS are included in the Annual Comprehensive Financial Report ("ACFR") for the State. Please refer to the State's ACFR for additional information.

Law Enforcement Officers' Special Separation Allowance. The City administers a public employee retirement system (the "Separation Allowance"), a single-employer; defined benefit pension plan that provides retirement benefits to the City's qualified sworn law enforcement officers. The Separation Allowance is equal to 0.85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service.

Other Post-Employment Benefits

The City provides certain Other Post- Employment Benefits ("OPEB") available to retirees who participate in the NCLGERS. The plan provides post-employment healthcare benefits to retirees and their dependents up to the age of 65. Qualified retirees can also purchase coverage for their dependents at the same group rate. The City currently funds its OPEB on an annual pay-as-you-go basis. The City benefit payments and administrative costs made subsequent to the measurement date for the fiscal year ended June 30, 2025 was \$1,737,457.

In June 2015, GASB issued Statement No. 75 Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions. The requirements of this Statement improved the decision-usefulness of information in employer and governmental non employer contributing entity financial reports

and enhanced its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This Statement was effective for fiscal years beginning after June 15, 2017.

The City was required to implement GASB Statement No. 75 in the fiscal year ended June 30, 2018 and thereafter. In response to GASB Statement No. 75, the City engaged an actuarial firm to prepare studies establishing the City's total OPEB liability. The City's most recent study reported as of the measurement date of June 30, 2025 that the City's total OPEB liability was \$46,588,444 for all eligible participants. The study was done under an assumption that the plan is funded on a pay-as-you-go basis. The studies are performed annually.

FINANCIAL INFORMATION

The financial statements of the PWC have been audited by certified public accountants for the fiscal year ended June 30, 2024. Copies of these financial statements containing the unmodified report of the independent certified public accountant are available in the office of the Chief Financial Officer of the PWC, 955 Old Wilmington Road, Fayetteville, North Carolina 28301, (910) 223-4005.

Attached hereto as Appendix A is the Management Discussion and Analysis that was presented with the PWC's Basic Financial Statements for the fiscal year ended June 30, 2024 as a part of the PWC's Annual Comprehensive Financial Report for the fiscal year ended June 30, 2024, and the Basic Financial Statements of the PWC and the notes thereto, taken from the audited Annual Comprehensive Financial Report of the PWC, for the fiscal year ended June 30, 2024. Management's Discussion and Analysis provides an objective and easily readable short and long-term analysis of the PWC's financial activities based on currently known facts, decisions or conditions. Management's Discussion and Analysis is not a required part of the Basic Financial Statements but is supplementary information required by the Governmental Accounting Standards Board. The independent auditors of the PWC have applied certain limited procedures, which consist primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, they did not audit this information and did not express an opinion on it.

The PWC has been the recipient of the Government Finance Officers Association of the United States and Canada ("GFOA") Certificate of Achievement for Excellence in Financial Reporting the past 18 consecutive years through the fiscal year ended June 30, 2024. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government finance reports.

CONTINUING DISCLOSURE

Pursuant to the Bond Order and in accordance with the requirements of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), the City and the PWC will undertake to provide, for the benefit of the beneficial owners of the 2025 Bonds, to the Municipal Securities Rulemaking Board (the "MSRB"):

(a) by not later than seven months from the end of each Fiscal Year, beginning with the Fiscal Year ended June 30, 2025, audited financial statements of the PWC for such Fiscal Year, if available, prepared in accordance with Section 159-34 of the General Statutes of North Carolina, as it may be amended from time to time, or any successor statute, or, if such audited financial statements of the PWC are not available by seven months from the end of such Fiscal Year, unaudited financial statements of the PWC for such

Fiscal Year to be replaced subsequently by audited financial statements of the PWC to be delivered within fifteen (15) days after such audited financial statements become available for distribution;

(b) by not later than seven months from the end of each Fiscal Year, beginning with the Fiscal Year ended June 30, 2025, the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year for the type of information included under the following headings in this Official Statement, to the extent that such items are not included in the financial statements referred to in (a) above:

- (1) “THE FAYETTEVILLE PUBLIC WORKS COMMISSION – The Electric System – Electric System Requirements and – Electric System Customers and Sales” (tables and largest customer information therein);
- (2) “THE FAYETTEVILLE PUBLIC WORKS COMMISSION – The Electric System – Electric Rates and Bills” (rate tables therein);
- (3) “THE FAYETTEVILLE PUBLIC WORKS COMMISSION – The Water System – Water System Requirements and – Water System Customers and Sales” (tables and largest customer information therein);
- (4) “THE FAYETTEVILLE PUBLIC WORKS COMMISSION – The Water System – Water Rates” (rate tables therein);
- (5) “THE FAYETTEVILLE PUBLIC WORKS COMMISSION – The Wastewater System – Wastewater System Requirements and – Wastewater Customers and Sales” (tables and largest customer information therein);
- (6) “THE FAYETTEVILLE PUBLIC WORKS COMMISSION – The Wastewater System – Wastewater Rates” (rate tables therein); and
- (7) “THE FAYETTEVILLE PUBLIC WORKS COMMISSION – Historic Operating Results” (excluding management’s discussion);

(c) in a timely manner not in excess of ten business days after the occurrence of the event, notice of any of the following events with respect to the 2025 Bonds:

- (1) principal and interest payment delinquencies;
- (2) non-payment related defaults, if material;
- (3) unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) substitution of credit or liquidity providers, or their failure to perform;
- (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2025 Bonds or other material events affecting the tax status of the 2025 Bonds;
- (7) modification to the rights of the beneficial owners of the 2025 Bonds, if material;
- (8) bond calls, except for mandatory sinking fund redemption, if material, and tender offers;

- (9) defeasances;
- (10) release, substitution or sale of any property securing repayment of the 2025 Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the City or the PWC;
- (13) the consummation of a merger, consolidation, or acquisition involving the City or the PWC or the sale of all or substantially all of the assets of the City or the PWC, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (14) appointment of a successor or additional Trustee or the change of name of the Trustee, if material;
- (15) incurrence of a financial obligation (as defined below) of the City or the PWC, if material, or an agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City or the PWC, any of which affect beneficial owners of the Series 2025 Bonds, if material; and
- (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City or the PWC, any of which reflect financial difficulties; and

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

All information provided to the MSRB as described in this Section is required to be provided in an electronic format as prescribed by the MSRB and accompanied by identifying information as prescribed by the MSRB.

The City and the PWC may also discharge the undertaking described above by transmitting such information in any other manner subsequently authorized or required by the U.S. Securities and Exchange Commission in lieu of the manner described above.

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

For purposes of this Section, "financial obligation" means (a) a debt obligation, (b) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (c) a guarantee of either clause (a) or (b) above. The term "financial obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12.

If the City or the PWC fails to comply with the undertaking described above, the Trustee or any beneficial owner of the 2025 Bonds may take action to protect and enforce the rights of all beneficial owners with respect to such undertaking, including an action for specific performance; provided, however, that

failure to comply with such undertaking will not be a Default under the Bond Order and will not result in any acceleration of the 2025 Bonds. All actions must be instituted, had and maintained in the manner provided in this paragraph for the benefit of all beneficial owners of the 2025 Bonds.

The City and the PWC have reserved the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the City and the PWC, provided that:

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

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

(c) any such modification does not materially impair the interests of the Owners of the 2025 Bonds, as determined by the Trustee or bond counsel to the City and the PWC, or by approving vote of the Owners of a majority in principal amount of the 2025 Bonds then Outstanding pursuant to the terms of the Bond Order at the time of the amendment.

In the event that the City and the PWC make such a modification, the annual financial information containing the modified operating data or financial information must explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provisions having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the 2025 Bonds.

For the fiscal year ended June 30, 2021, the City inadvertently failed to link the required annual financial information to CUSIP numbers for two of its then or currently outstanding series of bonds. The required annual financial information was linked to all other issues of the City subject to continuing disclosure undertakings, so such information was available on the EMMA system. Within a reasonable period of time upon becoming aware of this, the City linked the required annual financial information to the CUSIP numbers for such bonds. Otherwise, in the last five years, the City and the PWC have made all required annual financial information filings pursuant to their prior continuing disclosure undertakings under Rule 15c2-12. The City and PWC have issued various publicly offered securities that were insured by various bond insurers whose ratings have changed at various times since such securities were issued. Additionally, certain of the securities issued by the City and the PWC were subject to a global ratings recalibration process instituted by certain rating agencies resulting in changes to the ratings of such securities. Information about such insurer ratings changes and ratings recalibrations was publicly reported. The City and the PWC may not have filed notices of all such events or may not have filed such notices in a timely manner. On February 27, 2020, the City entered into an installment purchase contract, notice of which was posted on the EMMA system on March 20, 2020, which is the 16th business day following the closing. This event posting was late by six business days. Other than as described above, neither the City nor the PWC is aware of any failure to comply in all material respects with any of their prior continuing disclosure undertakings under Rule 15c2-12 during the previous five years.

TAX TREATMENT

Opinion of Bond Counsel. In the opinion of The Charleston Group, Bond Counsel, under existing law and assuming continuing compliance by the City and the PWC with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), regarding, among other matters, the use, expenditure and investment of 2025 Bond proceeds and the timely payment of certain investment earnings to the United States Treasury, interest on the 2025 Bonds will not be includable in the gross income of the owners thereof for purposes of federal income taxation and will not be a specific preference item for purposes of the alternative minimum tax imposed by the Code. Bond Counsel is also of the opinion, under existing law, that interest on the 2025 Bonds will be exempt from all State of North Carolina income taxes.

The Code and other laws of taxation, including the laws of taxation of the State of North Carolina, of other states and of local jurisdictions, may contain other provisions that could result in tax consequences, upon which Bond Counsel expresses no opinion, as a result of ownership or transfer of the 2025 Bonds or the inclusion in certain computations of interest that is excluded from gross income for purposes of federal and North Carolina income taxation.

Original Issue Premium. The initial public offering prices of the 2025 Bonds maturing on March 1, _____ (the “Premium Bonds”) are greater than the amounts payable at maturity. The difference between (a) the initial offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, wholesalers or other intermediaries) at which a substantial amount of each maturity of the Premium Bonds is sold and (b) the principal amount payable at maturity of such Premium Bonds constitutes original issue premium. In general, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond based on the owner’s yield over the remaining term of the Premium Bond, determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such Premium Bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. If the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost.

Owners for and prospective purchasers of Premium Bonds should consult their own tax advisors regarding the treatment of bond premium federal income tax purposes, including various special rules relating thereto, and state and local tax consequences in connection with the ownership and disposition of Premium Bonds.

Original Issue Discount. The initial public offering prices of the 2025 Bonds maturing on March 1, _____ (the “Discount Bonds”) are less than the amounts payable at maturity. An amount not less than the difference between the initial offering prices to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents, wholesalers or other intermediaries) of the Discount Bonds and the amounts payable at maturity constitutes original issue discount. Under existing federal income tax law and regulations, the original issue discount on a Discount Bond is interest not includable in the gross income of an owner who purchases such Discount Bond in the original offering at the initial public offering price thereof and holds it to maturity, and such owner will not realize taxable gain upon payment of such Discount Bond at maturity. Owners who purchase Discount Bonds at a price other than the initial offering price or who do not purchase Discount Bonds in

the initial public offering should consult their tax advisors with respect to the consequences of the ownership of such Discount Bonds. An owner who purchases a Discount Bond in the initial offering at the initial offering price and holds such Discount Bond to maturity is deemed under existing federal tax laws and regulations to accrue original issue discount on a constant yield basis under Section 1288 of the Code from the date of original issue. An owner's adjusted basis in a Discount Bond is increased by accrued original issue discount for purposes of determining gain or loss on sale, exchange or other disposition of such Discount Bond. Accrued original issue discount may be taken into account as an increase in the amount of tax-exempt interest received or deemed to have been received for purposes of determining various other tax consequences of owning a Discount Bond even though there will not be a corresponding cash payment.

Owners and prospective purchasers of Discount Bonds should consult their own tax advisors regarding the calculation of accrued original issue discount for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the ownership or disposition of Discount Bonds.

Other Tax Consequences. Ownership or transfer of, or the accrual or receipt of interest on, the 2025 Bonds may result in collateral federal, State of North Carolina, other state or local tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers who may be eligible for the federal earned income tax credit, and taxpayers subject to franchise, estate, inheritance, gift or capital gains taxes. Owners and prospective purchasers of the 2025 Bonds should consult their tax advisors as to any such possible tax consequences. Except to the extent covered in its legal opinion, Bond Counsel expresses no opinion regarding any such collateral tax consequences.

No assurance can be given that future legislation, including amendments to the Code or interpretations thereof, if enacted into law, or certain litigation or judicial decisions, if upheld, will not contain provisions or produce results which could, directly or indirectly, reduce the benefit of the excludability of interest on the 2025 Bonds from gross income for federal income tax purposes.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether or not the Service will commence an audit of the 2025 Bonds.

Interest paid on tax-exempt obligations, such as the 2025 Bonds, will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although such reporting requirement does not, in and of itself, affect the excludability of interest with respect to the 2025 Bonds from gross income for federal income tax purposes, such reporting requirement causes the payment of interest with respect to the 2025 Bonds to be subject to backup withholding if such interest is paid to beneficial owners who (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the Service as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or credit against such beneficial owner's federal income tax liability provided the required information is furnished to the Service.

LITIGATION

There is no known pending or threatened litigation seeking to restrain or enjoin the issuance, sale, execution or delivery of the 2025 Bonds, or questioning or affecting the validity of the 2025 Bonds or any proceedings of the City, the PWC or the LGC taken with respect to the issuance or sale thereof, or questioning or affecting the validity of the pledge or application of any security pledged for the payment of the 2025 Bonds or the existence or powers of the City, the PWC or the LGC to issue and approve the 2025 Bonds, or questioning the right of the City or the PWC to adopt or comply with the Bond Order or to finance or operate the System in accordance therewith.

LEGALITY FOR INVESTMENT

Section 159-140 of the General Statutes of North Carolina provides that the 2025 Bonds are securities in which all public officers and public bodies of the State of North Carolina and its political subdivisions and agencies and all insurance companies, trust companies, investment companies, banks, savings banks, building and loan associations, savings and loan associations, credit unions, pension or retirement funds, other financial institutions engaged in business in the State of North Carolina, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital in their control or belonging to them, and the 2025 Bonds are securities which may properly and legally be deposited with and received by any State of North Carolina or municipal officer or any agency or political subdivision of the State for any purpose for which the deposit of bonds, notes or obligations of the State is now or may hereafter be authorized by law. No representation is made as to the eligibility of 2025 Bonds for investments or any other purpose under any laws of any other state.

LEGAL MATTERS

Legal matters related to the authorization, sale and issuance of the 2025 Bonds are subject to the approval of The Charleston Group, Fayetteville, North Carolina, Bond Counsel. The proposed form of the opinion of Bond Counsel is included in Appendix D hereto.

RATINGS

Moody's Investors Service ("Moody's"), S&P Global Ratings ("S&P") and Fitch Ratings ("Fitch") have assigned the 2025 Bonds the respective ratings set forth on the front cover hereof. The City has provided to Moody's, S&P and Fitch certain information that has not been included in this Official Statement. Further explanation of the significance of such ratings may be obtained from Moody's, S&P and Fitch. The ratings are not a recommendation to buy, sell or hold the 2025 Bonds and should be evaluated independently. There is no assurance that such ratings will not be withdrawn or revised downward by Moody's, S&P or Fitch. Such action may have an adverse effect on the market price of the 2025 Bonds. Neither the City nor the PWC have undertaken any responsibility after the issuance of the 2025 Bonds to assure maintenance of the ratings or to oppose any such revision or withdrawal.

UNDERWRITING

The underwriters for the 2025 Bonds are _____.¹ Such underwriters have jointly and severally agreed, subject to certain conditions, to purchase all but not less than all of the 2025 Bonds. If all of the 2025 Bonds are sold at the public offering yields set forth on the inside cover page of this Official Statement, the underwriters anticipate total underwriters' discount of \$_____.¹ The public offering prices or yields of the 2025 Bonds may be changed from time to time by such underwriters.

¹ Information provided by the underwriters of the 2025 Bonds.

MUNICIPAL ADVISOR

First Tryon Advisors, LLC, has served as municipal advisor (the "Municipal Advisor") to the City and the PWC with respect to the sale and issuance of the 2025 Bonds. The Municipal Advisor's fee for services rendered with respect to the sale of the 2025 Bonds is contingent on the issuance and delivery of the 2025 Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement or the Appendices hereto.

MISCELLANEOUS

The references herein to the 2025 Bonds and the Bond Order are brief outlines of certain provisions thereof. Such outlines do not purport to be complete, and for full and complete statements of such provisions reference is made to such documents, copies of which are available for inspection at the principal office of the PWC and the principal corporate trust office of the Trustee. Any statements involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

Members of the LGC staff have participated in the preparation of this Official Statement and other documents related to the issuance of the 2025 Bonds, but the LGC and its staff assume no responsibility for the accuracy or completeness of any representation or statement in this Official Statement other than those made in Appendix C hereto.

The LGC, the City and the PWC have each duly authorized the execution and delivery of this Official Statement.

NORTH CAROLINA LOCAL GOVERNMENT
COMMISSION

By: _____
Deputy Secretary

CITY OF FAYETTEVILLE, NORTH CAROLINA

By: _____
Mayor

FAYETTEVILLE PUBLIC WORKS COMMISSION

By: _____
Chairman

APPENDIX A

CERTAIN FINANCIAL INFORMATION
CONCERNING THE FAYETTEVILLE PUBLIC WORKS COMMISSION

**Management's Discussion and Analysis
(UNAUDITED)**

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Fayetteville Public Works Commission (PWC) offers readers this narrative overview and analysis of the financial performance for the fiscal year ended June 30, 2024 (FY24). We encourage readers to read the information presented here in conjunction with the financial statements and accompanying notes to the financial statements, which follow this narrative.

FINANCIAL HIGHLIGHTS

- PWC's net position at year end was \$1,201.5 million, an increase of \$55.1 million, or 4.8%, up from \$1,146.4 million in FY23.
- Total unrestricted and undesignated operating reserves were 151 days at June 30, 2024, up from 132 days in the prior year.
- Income before Capital Contributions and Transfers was \$44.1 million compared to \$13.8 million in FY23, up \$30.3 million in prior year.
- Water/Wastewater rate adjustments went into effect May 1, 2023 and May 1, 2024. Electric rate adjustments went into effect May 1, 2023 and May 1, 2024.
- The Electric Rate Stabilization Fund net position was \$25.3 million at June 30, 2024, down from \$36.8 million in the prior year.
- The Water and Wastewater Rate Stabilization Fund net position was \$2.2 million at June 30, 2024, up from \$1.9 million in the prior year.
- Power Supply and Generation Expenses increased by \$5.9 million to \$156.6 million in FY24, up from \$150.7 million in FY23.
- Coal Ash Charges decreased by \$1.3 million to \$6.4 million in FY24, down from \$7.7 million in FY23. The FY24 Coal Ash Reserve balance is \$5.0 million, a \$2.0 million decrease from \$7.0 in FY23.
- During FY24, PWC maintained its Aa2/AA/AA rating from Moody's, Standard and Poor's, and Fitch, respectively.
- PWC's senior lien debt coverage ratio is 5.11, exceeding the minimum requirement of 1.10.
- In November of 2023, the Fayetteville City Council approved assessments totaling \$1.0 million for sanitary sewer improvements made in the Annexation Phase V utility installation plan.
- Capital contributions were \$10.6 million at June 30, 2024, down from \$18.5 million in the prior year. The number of developer agreements decreased by 3.9% and FEMA reimbursement decreased by \$2.7 million.
- PWC has recorded Right to Use Assets for various software and office equipment in the amount of \$3.9 million net of amortization as a result of the implementation of GASB 87 Leases and GASB 96 Subscription-Based Information Technology Arrangements (see Note 8). The liabilities related to these assets totaled \$3.7 million. The lease receivable balance for office space and fiber as of June 30, 2023, was \$3.9 million.
- To reflect the estimated market value of PWC's investments as of June 30, 2024, a positive mark to market adjustment has been recorded in the amount of \$4.6 million; \$3.1 million in the Electric Fund and \$1.5 million in the Water and Wastewater Fund. This adjustment reflects the estimated reduction in negative market value that PWC would have incurred if the investments were sold as of June 30, 2024. This improvement to unrealized loss is due to portfolio maturities and shorter remaining duration of investments having lower interest rates, as some of these maturities were reinvested at higher interest rates as well, and PWC's approach remains as a buy and hold investor.
- In November of 2023, PWC issued \$169.4 million in revenue bonds for electric, water and wastewater projects.
- In February of 2024, PWC issued \$76.4 million in refunding revenue bonds with a net present value savings of \$5.3 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual statement consists of four parts: Management's Discussion and Analysis (MD&A), financial statements, required supplementary information and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

FINANCIAL STATEMENTS

The financial statements of PWC report information about PWC using accounting methods like those used by private sector companies. These statements offer short and long-term financial information about PWC's activities. The Statement of Net Position includes all PWC's assets, deferred outflows, liabilities and deferred inflows and provides information about the nature and amount of investments in resources (assets) and the obligations to PWC creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of PWC and assessing the liquidity and financial flexibility of PWC. All the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of PWC's operations over the past year and can be used to determine profitability, credit worthiness and whether PWC has successfully recovered all its costs through its user fees and other charges. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about PWC's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where cash came from, what was cash used for, and what was the change in the cash balance during the reporting period.

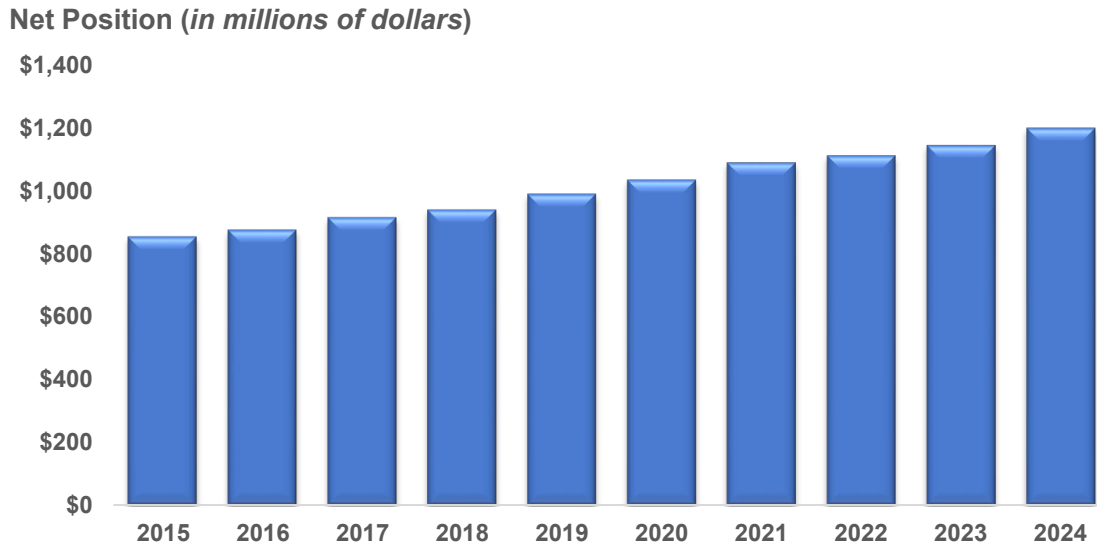
PWC is recognized as a Public Authority and is a discretely presented component unit of the City of Fayetteville, North Carolina. PWC's financial statements consist of two Enterprise Funds which account for PWC utility services.

FINANCIAL ANALYSIS OF PWC

Our analysis of PWC begins in the Financial Statements Section. As a review is made of PWC's finances, one should consider whether PWC is better off or negatively impacted as a result of the year's activities. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about PWC's activities in a way that will help answer this question. These two statements report the net position, the difference between assets/deferred outflows and liabilities/deferred inflows, as one way to measure financial health or financial position. Over time, increases or decreases in PWC's net position is one indicator of whether its financial health is improving or deteriorating as indicated in Figure A-1. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, annexation and new or changed government legislation.

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FIGURE A-1
Net Position Trend Analysis - Enterprise Funds



NET POSITION

PWC continues to report a positive net position at the end of FY24. A summary of PWC's Statement of Net Position is presented in Figure A-2. Net position increased \$55.1 million to \$1,201.5 million in FY24, up from \$1,146.4 million in FY23. By far, the largest portion of PWC's net position, \$836.9 million (69.7%) reflects the investment in capital assets less any related debt still outstanding that was issued to acquire those assets.

PWC's total assets exceeded \$1.8 billion in FY24. PWC's total assets increased by 14.2%, primarily due to the increase in capital assets of \$52.7 million or 4.3% over prior year and the increase in current and other assets of \$181.9 million or 41.6% from prior year. The increase in current and other assets is the result of the issuance of revenue bonds for various projects. The increase in capital assets, net of accumulated depreciation, is the result of an increase in additions to capital assets of \$102.8 million, offset by an increase in accumulated depreciation of \$50.2 million (see Figure A-10). Operating cash reserves increased from 132 days to 151 days. PWC's operating cash reserves policy is to have a minimum of 90 days and a target of not less than 120 days cash in reserve.

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FIGURE A-2
Statement of Net Position-Enterprise Funds
(Dollars in Millions)

	FY 2023	FY 2024	Total Dollar Change	Total Percentage Change
Current and Other Assets	\$ 437.7	\$ 619.6	\$ 181.9	41.6%
Capital Assets	1,212.8	1,265.5	52.7	4.3%
Total Assets	1,650.5	1,885.1	234.6	14.2%
Deferred Charge on Refunding	0.7	0.5	(0.2)	(28.6%)
OPEB Deferrals	6.5	3.2	(3.3)	(50.8%)
Pension Deferrals	27.6	26.7	(0.9)	(3.3%)
Deferred Outflows of Resources	34.8	30.4	(4.4)	(12.6%)
Long-term Liabilities Outstanding	447.7	613.7	166.0	37.1%
Other Liabilities	81.0	93.6	12.6	15.6%
Total Liabilities	528.7	707.3	178.6	33.8%
OPEB Deferrals	5.6	2.8	(2.8)	(50.0%)
Pension Deferrals	0.1	0.2	0.1	100.0%
Lease Deferrals	4.4	3.7	(0.7)	(15.9%)
Deferred Inflows of Resources	10.1	6.7	(3.4)	(33.7%)
Net Investment in Capital Assets	835.7	836.9	1.2	0.1%
Restricted	160.6	196.4	35.8	22.3%
Unrestricted	150.1	168.2	18.1	12.1%
Total Net Position	\$ 1,146.4	\$ 1,201.5	\$ 55.1	4.8%

Deferred Outflows of Resources and Deferred Inflows of Resources decreased by \$4.4 million and 3.4 million respectively. This is primarily due to an decrease in Resources Related to OPEB.

Restricted Net Position of \$196.4 million includes externally restricted net position of \$58.1 million (those established by debt covenants, enabling legislation, or other legal requirements) that represent a small portion of the PWC's net position and are comprised of funds set aside for the payment of debt service on outstanding bonds as required by the Bond Order. The remaining \$138.3 million of Restricted Net Position is internally restricted by the Commission through enabling legislation and is set aside for various earmarked operations of PWC (see Note 6). The \$168.2 million in Unrestricted Net Position may be used to meet the PWC's ongoing operations including the repayment of its outstanding debt.

INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS

While the Statement of Net Position shows the change in financial position, the Statement of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. As can be seen in Figure A-3, PWC's total revenues increased by \$51.2 million, or 14.1%, while total expenses increased by \$20.9 million, or 6.0%. The increase in expenses is due to \$5.9 million increase in Power Supply and Generation Expense, \$2.2 million increase in Electric Operating Expense, \$0.4 million increase in Water/Wastewater Operating Expense, \$4.0 million increase in General & Administrative, and a \$2.3 million increase in Depreciation. This resulted in a \$44.1 million Income before Capital Contributions and Transfers, increasing \$30.3 million compared to last year. Looking more closely at revenues, the \$51.2 million increase arises from Charges for Utility Services increasing \$24.5 million, Other Operating Revenue increasing \$15.5 million, an increase of \$15.2 million in Interest/Market Adjustment on Investments, and offset by a \$4.0 million decrease in Intergovernmental Revenue. Each utility will be discussed individually on the following pages.

Prior years' annual rate increases coupled with any use of the Electric Rate Stabilization Fund (ERSF) was planned by management to protect the customers from the impacts of a one-time sizable rate adjustment when the purchased power contract became effective in July 1, 2012 (see Note 14D to the financial statements). The ERSF has a net position of \$25.3 million, of which approximately \$15.2 million will be used over the next year to supplement the Electric Fund as rates are adjusted to meet its ongoing obligations. The remaining \$10.1 million represents PWC's target to maintain an on-going balance in this fund of at least 10% of power supply cost. The minimum annual transfer into this fund is \$250,000 and \$8.9 million was transferred in FY24. The transfer of \$8.7 million over the minimum was 9 months of the billed revenue from the Power Supply Adjustment (PSA).

In addition to the ERSF, PWC has a coal ash reserve for the purposes of paying coal ash cost from its purchased power provider, DEP. In anticipation of Duke Energy's coal ash recovery, the PWC's governing board took proactive measures to ensure that any FERC-approved recovery would not have a material adverse impact on the PWC's financial position. This reserve fund coupled with funds from the existing ERSF will be used to pay coal ash costs. The remaining costs will continue to be passed on to customers through a fixed charge that became effective with May 1, 2018 customer billings. In FY24, PWC collected \$2.8 million in revenue in addition to receiving a \$0.5 million CCR true-up credit. Coal Ash expenses excluding the true-up credit totaled \$6.4 million. The FY24 Coal Ash Reserve balance is \$5.0 million, a \$2.0 million decrease from FY23 (see Note 14-E for more details).

The Water and Wastewater Fund also maintains a Water/Wastewater Rate Stabilization Fund (WRSF) to stabilize water and wastewater rates and mitigate large, one-time rate hikes. Like the ERSF, the minimum annual transfer into this fund is \$250,000 and this amount was transferred in FY24, leaving an accumulated balance of \$2.2 million at June 30, 2024.

FIGURE A-3
Condensed Statement of Revenues, Expenses and Changes in Net Position-
Enterprise Funds
(Dollars in Millions)

	FY 2023	FY 2024	Total Dollar Change	Total Percentage Change
Operating Revenues				
Charges for Utility Services	\$ 306.2	\$ 330.7	\$ 24.5	8.0%
Other Operating Revenue	46.9	62.4	15.5	33.0%
Nonoperating Revenues				
Intergovernmental	5.2	1.4	(3.8)	(73.1%)
Interest on Investments	7.2	15.5	8.3	115.3%
Interest Market Adjustment	(2.3)	4.6	6.9	(300.0%)
Total Revenues	<u>363.2</u>	<u>414.6</u>	<u>51.4</u>	<u>14.2%</u>
Power Supply and Generation Expense	150.7	156.6	5.9	3.9%
Electric Operating Expense	25.7	27.9	2.2	8.6%
Water/Wastewater Operating Expense	47.7	48.3	0.6	1.3%
General & Administrative	48.6	52.4	3.8	7.8%
Depreciation Expense	52.1	54.4	2.3	4.4%
Non-Operating Expense				
Loss on Sale of Assets	0.7	0.5	(0.2)	(28.6%)
Payment in lieu of taxes	12.4	12.2	(0.2)	(1.6%)
Interest Expense	11.4	15.8	4.4	38.6%
Amortization Expense	0.1	2.2	2.1	2100.0%
Total Expenses	<u>349.4</u>	<u>370.3</u>	<u>20.9</u>	<u>6.0%</u>
Income before Capital Contributions and Transfers	<u>13.8</u>	<u>44.3</u>	<u>30.5</u>	<u>221.0%</u>
Capital Contributions	18.5	10.7	(7.8)	(42.2%)
Change in Net Position	32.3	55.1	22.8	70.6%
Beginning Net Position	1,114.1	1,146.4	32.3	2.9%
Ending Net Position	<u>\$ 1,146.4</u>	<u>\$ 1,201.5</u>	<u>\$ 55.1</u>	<u>4.8%</u>

Electric operating revenues increased \$17.4 million, or 7.9%, increasing total revenues to \$238.6 million for FY24. Electric rates increased 6.1% in May 2023 and 2.0% in May 2024. An 8.5%, or \$15.5 million, net increase to residential, commercial, and industrial sales revenue was realized. Residential kWh sold increased by 3.0% and commercial customers kWh sold increased by 3.7%. The residential class represents 50.8% of electric sales revenue with an increase of \$9.9 million (a 10.3% increase to the residential sales revenue). The commercial and industrial classes had a combined increase of \$5.5 million in sales revenue. Large users saw a 48.6% decrease in customers primarily due to the reclassification of some large power customers to medium power. Large user customers represent less than 0.5% of all customers. FY24 was a slightly hotter year for weather as compared to FY23, there was a 6.2% increase in degree days. Overall, sales increased 24,111 MWh from 1,920,185 to 1,944,296 MWh. Figure A-4 below illustrates the percentage changes by major customer classes.

FIGURE A-4
Percent Change in Sales by Major Customer Class
Electric

	Customers	Average kWh/cust	kWh Sold	Sales Revenue
Residential	0.8%	2.2%	3.0%	10.3%
Commercial	0.3%	3.4%	3.7%	9.9%
Large Users	(48.6%)	82.6%	(6.2%)	(2.0%)

Water and wastewater operating revenues collectively increased \$12.9 million, or 9.8%, to \$144.6 million, which includes increases in water and wastewater sales revenues of \$9.9 million. Although the Water and Wastewater Systems are accounted for in the same fund, we will discuss them individually.

Water System: Water sales revenue increased for all customer classes by \$3.5 million, or 6.0%, to \$61.8 million. The residential class represents 65.7% of total water sales revenue. The majority of the revenue increase is due to rate adjustments in May 2023 and May 2024, of 7.0% and 6.6%, respectively. Gallon sales per customer for the residential class remained steady while the commercial and large users both decreased in gallons sold by 1.9% and 4.7%, respectively. The rate adjustments incorporated a Basic Facility Charge (BFC) increase and rate per gallon changes for all customers, as well as the rate differential for customers outside the City corporate limits remaining at 175%. Rate changes caused the irrigation sales revenue to increase by 4.6%, while both the gallons sales per customer and gallons sold decreased by 6.0% and 8.8%. Large users gallons sold decreased 4.7% and wholesale gallons sold remained steady. The large users decrease can be partly attributed to the closure of a large customer and decreases in usage for others. Total annual rainfall for FY24 was 37.6", a decrease of 1.6" from prior year. Figure A-5-A illustrates the percentage changes by major customer classes.

FIGURE A-5-A
Percent Change by Major Customer Class
Water

	Customers	Average gal/cust	Gallons Sold	Sales Revenue
Residential	1.2%	(0.8%)	0.4%	6.4%
Commercial	0.9%	(2.7%)	(1.9%)	7.0%
Large Users	0.0%	(4.7%)	(4.7%)	8.3%
Wholesale	0.0%	0.1%	0.1%	13.0%
Irrigation	(3.0%)	(6.0%)	(8.8%)	4.6%

Wastewater System: Wastewater sales revenue for all classes increased \$6.4 million, or 10.0%, to \$70.9 million. The revenue increase is largely due to rate adjustments in May 2023 and May 2024, of 10.2% and 10.2%, respectively. The residential class represents 69.5% of wastewater sales revenue in total. Wastewater BFC and volume rates changed simultaneously with the water rates. Wastewater sales trend closely to water with residential gallons sold remaining steady and decreases in the commercial and large user classes. Wholesale gallons sold increased by 20.4%, and sales revenue increased by 29.8%; however, wholesale revenues are a small percentage of total revenues. The wholesale increase was primarily due to customer usage increases. Figure A-5-B illustrates the percentage changes by major customer classes.

FIGURE A-5-B
Percent Change by Major Customer Class
Wastewater

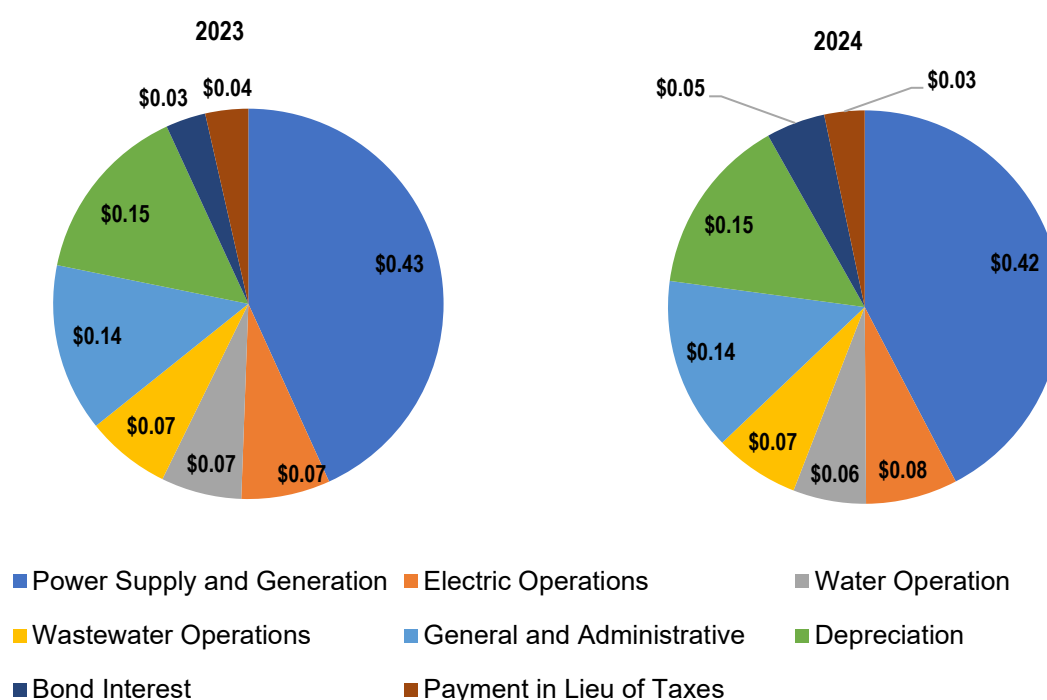
	Customers	Average gal/cust	Gallons Sold	Sales Revenue
Residential	1.1%	(1.0%)	0.1%	9.7%
Commercial	0.8%	(1.2%)	(0.4%)	13.7%
Large Users	(0.5%)	(5.7%)	(6.1%)	15.0%
Wholesale	0.0%	20.4%	20.4%	29.8%

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Electric Operating Expenses, excluding Power Supply and Generation Expenses, increased by \$2.2 million or 8.6% and Water and Wastewater Operating Expenses increased by \$0.4 million or 0.8%. Electric increases are due primarily to personal costs and contractual services for various maintenance projects. Water and wastewater increases are for personnel costs associated with various maintenance projects.

Figure A-6 provides the dollar breakdown of expenses in 2023 and 2024 to better illustrate the changes.

FIGURE A-6
Dollar Breakdown of Expenses



PWC has an annual system load of approximately 2.2 million megawatt hours. Over 99% of this system load is provided by Duke Energy Progress (DEP) under the terms of a full-requirements contract that began July 1, 2012. PWC pays fixed annual capacity and energy charges, with an annual true-up based on DEP's system average costs. Below are the FY24 highlights:

- Capacity charges rose \$1.6 million due to an 2% increase in demand, as well as pricing increase
- Energy costs increased \$2.0 million due to higher pricing and increased consumption
- Contractual true-up and negotiated catch-up for energy resulted in an additional \$11.5 million in costs
- Coal ash costs (including adjustments and true-ups) increased \$201,185

The items above were key parts in an overall increase of \$5.9 million, or a total of \$156.6 million. Total power purchased was 2.05 billion kWh, a 2.2% increase from the prior year. PWC's system peak demand for FY24 of 408 MW occurred in August and was significantly lower than the all-time system peak of 499 MW recorded in February 2015 (see Note 14D of the financial statements for more information on the purchase power contract with DEP).

Figure A-7 details the financial statement and cash flow impacts of the Power Supply and Generation Expenses.

FIGURE A-7
Power Supply & Generation Expenses
(Dollars in Millions)

	FY 2023	FY 2024	Total Dollar Change	Total Percent Change
Purchased Power - DEP	\$ 114.0	\$ 117.6	\$ 3.6	3.2%
Purchased Power-True-up	7.2	6.6	(0.6)	(8.3%)
Purchased Power-Adjustment	8.2	4.8	(3.4)	(41.5%)
Purchased Power-SEPA	0.6	0.7	0.1	16.7%
Purchased Power - Regulatory Asset	(7.2)	6.0	13.2	(183.3%)
Transmission	8.0	8.5	0.5	6.3%
Coal Ash	7.7	6.4	(1.3)	(16.9%)
Coal Ash-True-up	(1.9)	(0.5)	1.4	(73.7%)
Other Generation Expenses	14.1	6.5	(7.6)	(53.9%)
Total	\$ 150.7	\$ 156.6	\$ 5.9	3.9%

CAPITAL CONTRIBUTIONS

Capital contributions include cash and non-cash contributions and grants from various sources such as developers, system development fees (SDF), and state and federal agencies. Figure A-8 details the changes in capital contributions.

FIGURE A-8
Changes in Capital Contributions
(Dollars in Millions)

	FY 2023	FY 2024	Total Dollar Change	Total Percent Change
Developers	\$ 11.3	\$ 7.4	\$ (3.9)	(34.5%)
NCDOT	0.5	-	(0.5)	(100.0%)
Federal & State- FEMA	2.7	-	(2.7)	(100.0%)
SDF Fees	3.9	3.2	(0.7)	(17.9%)
SDF Awarded/Applied/Expired	0.1	-	(0.1)	(100.0%)
Total	\$ 18.5	\$ 10.6	\$ (7.9)	(42.7%)

Capital contributions were \$10.6 million, down \$7.9 million from FY23. There were decreases in contributions from developers of \$3.9 million, Federal and State - FEMA of \$2.7 million, and SDF Fees of \$0.8 million.

PAYMENTS IN LIEU OF TAXES AND INTERGOVERNMENTAL ACTIVITY

PWC annually transfers from its Electric Fund to the City's General Fund a Payment in Lieu of Taxes (PILOT). The PILOT formula, as defined in PWC's Charter, is 2.45% of the total Net Position of the Electric Fund as reported on the Statement of Net Position of PWC's most recent audited financial report. In addition to the PILOT, there are additional intergovernmental revenues and expenses pursuant to reporting requirements between the City and PWC discussed below. The net PILOT and Intergovernmental Activity to the City increased for FY24 by \$3.7 million.

FIGURE A-9
PILOT and Intergovernmental Activity – Enterprise Funds
(Dollars in Millions)

	FY 2023	FY 2024	Total Dollar Change	Total Percent Change
Payment in lieu of taxes (PILOT)	\$ 12.4	\$ 12.2	\$ (0.2)	(1.6%)
Intergovernmental Expense				
Total Transfers to the City	<u>12.4</u>	<u>12.2</u>	<u>(0.2)</u>	<u>(1.6%)</u>
Intergovernmental Revenues				
Additional -				
Relief Fund Repayment	4.0	-	(4.0)	(100.0%)
Assessments	1.0	1.0	-	0.0%
Assessment Interest	<u>0.2</u>	<u>0.3</u>	<u>0.1</u>	<u>50.0%</u>
Total Intergovernmental Revenue	<u>5.2</u>	<u>1.3</u>	<u>(3.9)</u>	<u>(75.0%)</u>
Net PILOT and Intergovernmental Activity	<u><u>\$ 7.2</u></u>	<u><u>\$ 10.9</u></u>	<u><u>\$ 3.7</u></u>	<u><u>51.4%</u></u>

Additional intergovernmental activities are only allowable under certain specific limited instances defined by the Charter. The following were approved by mutual agreement between PWC and the City.

- Assessments – The City's assessments and the interest related to those assessments are submitted to PWC to assist in the costs of providing utility services to the assessed properties. PWC administers the complete assessment collection program on behalf of the City.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The following is a summary of some of the major improvements to the system during FY24:

Major capital asset expenditures include:

\$	13.8 million	Installation of Water and Wastewater utility systems in annexed areas
\$	12.8 million	Butler Warner Generation
\$	12.5 million	Electric new service including transformers
\$	12.2 million	Water and Wastewater rehabilitation and replacements
\$	11.3 million	Electric system improvements
\$	9.4 million	Water and Wastewater new services
\$	7.1 million	Water and Wastewater system improvements
\$	6.1 million	Water and Wastewater plant improvements
\$	3.8 million	Computer systems
\$	2.8 million	Substation rebuild
\$	2.3 million	NCDOT Water and Wastewater relocations
\$	2.1 million	Transportation equipment
\$	1.7 million	Electric and Water meters

Capital spending for the Electric System was \$46.7 million, an increase of \$22.3 million from FY23. The increase of \$7.9 million is primarily attributable to Butler Warner Generation projects for the major overhauls of GT 8 and GT 1 and the gas turbine rotor, \$3.3 million increase for Solar Compliance Resource projects, \$6.3 increase for Padmount Transformers, and an increase of \$1.6 million in various General Fund projects.

Capital spending for the Water and Wastewater System was \$59.2 million, a decrease of \$10.1 million from FY23. The decrease is primarily attributable to the completion of the Rockfish Basin Peak Flow Facilities in FY23 of \$4.3 million, a \$7.8 million decrease for installation of water and wastewater mains and laterals for new services and annexed areas, \$2.9 million decrease in water and wastewater rehabilitation and replacement projects, offset by an increase of \$2.3 million for other water and wastewater system improvement projects.

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At June 30, 2024, PWC has a net investment of \$1.2 billion in a broad range of infrastructure as shown in Figure A-10.

FIGURE A-10
Capital Assets - Enterprise Funds
(Dollars in Millions)

	FY 2023	FY 2024	Total Dollar Change	Total Percent Change
Land	\$ 23.9	\$ 24.2	\$ 0.3	1.3%
Buildings	70.6	71.0	0.4	0.6%
Machinery, Equipment and Vehicles	62.7	66.0	3.3	5.3%
Electric System	553.5	570.7	17.2	3.1%
Water System	470.5	477.6	7.1	1.5%
Wastewater System	728.7	726.0	(2.7)	(0.4%)
Office Equipment and Intangibles	60.9	62.3	1.4	2.3%
Construction in Progress	151.0	226.8	75.8	50.2%
Subtotal	2,121.8	2,224.6	102.8	4.8%
Accumulated Depreciation	(909.0)	(959.2)	(50.2)	5.5%
Net Property, Plant and Equipment	\$ 1,212.8	\$ 1,265.4	\$ 52.6	4.3%

Additional information on the Commission's capital assets can be found in Note 7 in the financial statements.

The largest increases in capital assets are \$17.2 million in the Electric System, \$7.1 million in the Water System offset by a decrease of \$2.7 million in the Wastewater System. The \$17.2 million increase in the Electric System is the result of projects that were completed and consists of \$12.0 million in electric distribution, \$2.0 million in electric substation and \$5.6 million in the electric transmission. The \$7.1 million increase in the Water System is the result of the completion of several projects which include a \$6.3 million in the water transmission distribution system. The \$75.8 million, or 50.2%, increase in Construction in Progress is primarily attributed to the increased activity on existing projects to include Annex Phase 5, Areas 32-34, Areas 24-25, Areas 26-27, Series 2023 Electric, Water and Wastewater projects, and the NCDOT.

LONG TERM DEBT

PWC's outstanding revenue bonds carry Aa2 (stable outlook), AA (stable outlook), and AA (stable outlook) credit ratings from Moody's, Standard and Poor's, and Fitch, respectively. This high level of credit quality enables PWC to lower its overall borrowing cost by obtaining more favorable interest rates and eliminating the need to purchase insurance. PWC continues to meet all debt covenants and continuing disclosure requirements.

At year-end, PWC had \$524.2 million in long-term debt (before loss on defeasance and reacquired debt, premiums, and discounts (see Note 10D in the financial statements). This is an increase of \$149.1 million or 39.7% from \$375.1 million in FY23 which is attributed to issuing \$169.4 million in revenue bonds and \$76.4 million in refunding revenue bonds with a net present value savings of \$5.3 million, which refunded the series 2014 bonds.

As can be seen in Figure A-11, PWC's total weighted average coupon rate and true interest cost on its outstanding debt is 3.85% and 3.20%, respectively, as of June 30, 2024. The Commission constantly monitors market conditions and opportunities to lower its borrowing costs. Over the past several years, the PWC has continued to monitor refunding opportunities and has taken advantage of low interest bonds and NC State Revolving Loans (NCSRL) to achieve the best possible interest rates on its outstanding debt.

FIGURE A-11
Average Coupon Rate and True Interest Cost
(Dollars in Millions)

Issue Name	Principal Outstanding	Weighted Average Coupon Rate	Weighted Average True Interest Cost
Revenue Refunding Bonds, Series 2024	\$ 76.4	5.00%	2.95%
Revenue Bonds, Series 2023	169.4	4.71%	4.68%
Revenue Bonds, Series 2021	94.4	3.03%	2.28%
Revenue Bonds, Series 2018	63.4	4.22%	3.51%
Revenue Refunding Bonds, Series 2016	75.5	3.26%	2.47%
NCSRL - BRCO	14.8	1.06%	1.06%
2021 NCSRL - Rockfish CreekPeak Flow Facilities	13.1	1.11%	1.11%
2013 NCSRL - Hoffer Construction Phase 1	9.5	0.00%	0.00%
2012 NCSRL - Clearwell/Ferric Conversion	2.4	0.00%	0.00%
2013 NCSRL - Outfall Rehab (Large Diameter Rehab)	2.0	2.00%	2.00%
2022 NCSRL - Big Rockfish Creek Outfall- Lift Station Elim	1.9	0.00%	0.00%
2014 NCSRL - Person Street Sanitary Sewer	1.2	2.00%	2.00%
2012 NCSRL - Edgewater Project	0.2	2.00%	2.00%
Total	\$ 524.2	3.85%	3.20%

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One area that demonstrates PWC's financial strength is its ability to maintain strong debt coverage ratios, with its revenue bond coverage at 5.11 exceeding the minimum requirement of 1.10 and the additional bonds test minimum of 1.25. Figure A-12 demonstrates PWC's coverage ratio.

FIGURE A-12
Debt Coverage Ratio
(Dollars in Millions)

	FY 2023	FY 2024	Percent Change
Change in Net Position (Figure A-3)	\$ 33.3	\$ 55.1	65.5%
Adjustments			
Bond Interest Expense	11.4	15.8	38.6%
Depreciation and Amortization	52.1	54.4	4.4%
Payment in Lieu of Taxes	12.4	12.2	(1.6%)
Intergovernmental Revenue	(5.0)	(0.9)	(82.0%)
Capital Contributions	(18.5)	(10.9)	(41.1%)
(Gain)/Loss on Sale of Assets	0.7	0.5	(28.6%)
System Development Fee (SDF)	3.9	3.2	(17.9%)
(Gain)/Loss on Investment Valuation	1.3	(4.6)	(453.8%)
Income Available for Debt Service	\$ 91.6	124.8	36.2%
<u>Senior Lien Debt Coverage</u>			
Revenue Bond Debt Service ¹	25.7	24.4	(5.1%)
Senior Lien Debt Service Coverage	3.53	5.11	44.8%
<u>Total System Debt Coverage</u>			
Total System Debt Service ¹	28.0	26.9	(3.9%)
Total System Debt Service Coverage	3.24	4.63	42.9%

¹ Net of capitalized interest from bond proceeds of \$1.4 million in FY23 and \$2.4 million in FY24.

In addition to long-term debt, PWC's long-term obligations include the total OPEB Liability of \$21.6 million and the total Net Pension Liability of \$39.1 million. Additional information on PWC's long-term liabilities can be found in Note 10 of the financial statements.

CONTACTING THE PWC'S CHIEF FINANCIAL OFFICER

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the PWC's finances and to demonstrate the PWC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Public Works Commission's Chief Financial Officer, P.O. Box 1089, Fayetteville, NC 28302.

**Basic Financial Statements
(AUDITED)**

FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Net Position

June 30, 2024

	Electric Utility Major Fund	Water and Wastewater Utility Major Fund	Total Business-Type Activities PWC
ASSETS			
Current unrestricted assets			
Cash and cash equivalents	\$ 11,831,231	\$ 35,639,235	\$ 47,470,466
Investments	76,068,745	41,861,915	117,930,660
Receivables	33,110,075	24,189,801	57,299,876
Lease receivable	694,223	-	694,223
Less allowance for doubtful accounts	(143,850)	(112,993)	(256,843)
Net receivables	33,660,448	24,076,808	57,737,256
Inventories	20,081,704	3,583,666	23,665,370
Other current assets	6,471,024	1,541,369	8,012,393
Regulatory Asset - DEP Energy & Demand True Up	1,202,736	-	1,202,736
Total current unrestricted assets	149,315,888	106,702,993	256,018,881
Current restricted assets			
Cash and cash equivalents	127,982,398	198,030,793	326,013,191
Investments	7,184,917	8,442,443	15,627,360
Collateral pledged in lieu of deposits	479,097	205,327	684,424
Receivables	447,662	13,753,197	14,200,859
Total current restricted assets	136,094,074	220,431,760	356,525,834
Total current assets	285,409,962	327,134,753	612,544,715
Noncurrent assets			
Lease receivable noncurrent	3,191,866	-	3,191,866
	3,191,866	-	3,191,866
Capital assets, net:			
Land and land rights	9,996,827	14,185,472	24,182,299
Construction in process	58,489,264	168,318,612	226,807,876
Electric utility system	255,224,566	-	255,224,566
Water system	-	265,106,712	265,106,712
Wastewater system	-	434,452,773	434,452,773
Buildings	23,742,916	7,872,920	31,615,836
Equipment and machinery	7,779,026	3,538,988	11,318,014
Computer equipment	662,383	673,312	1,335,695
Intangibles	1,614,385	1,529,611	3,143,996
Vehicles	5,172,326	7,107,282	12,279,608
Office equipment	12,953	-	12,953
Capital assets, net	362,694,646	902,785,682	1,265,480,328
Right to use assets, net	1,937,681	1,937,681	3,875,362
Total capital assets, net	364,632,327	904,723,363	1,269,355,690
Total assets	653,234,155	1,231,858,116	1,885,092,271
DEFERRED OUTFLOWS OF RESOURCES			
Unamortized bond refunding charges	-	530,085	530,085
OPEB deferrals	1,497,771	1,718,951	3,216,722
Pension deferrals	12,067,335	14,540,045	26,607,380
Total deferred outflows of resources	13,565,106	\$ 16,789,081	\$ 30,354,187

FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Net Position

June 30, 2024

	Electric Utility Major Fund	Water and Wastewater Utility Major Fund	Total Business-Type Activities PWC
LIABILITIES			
Current liabilities to be paid from unrestricted current assets			
Current portion of long-term liabilities	\$ 3,861,836	\$ 16,183,824	\$ 20,045,660
Accounts payable and accrued expenses	29,818,478	15,237,178	45,055,656
Total current liabilities to be paid from unrestricted current assets	33,680,314	31,421,002	65,101,316
Current liabilities to be paid from restricted current assets			
Accounts payable and accrued expenses	10,372,173	18,128,492	28,500,665
Total current liabilities to be paid from restricted current assets	10,372,173	18,128,492	28,500,665
Total current liabilities	44,052,487	49,549,494	93,601,981
Noncurrent liabilities			
Long-term liabilities	95,767,553	454,167,927	549,935,480
Total OPEB liability	9,999,003	11,625,499	21,624,502
Net pension liability	17,699,912	21,373,984	39,073,896
Subscription lease liability	1,114,450	1,114,450	2,228,900
Other liabilities	137,827	102,915	240,742
Unearned deposits - Metronet	531,331	-	531,331
Unearned deposits	8,177	29,770	37,947
Total noncurrent liabilities	125,258,253	488,414,545	613,672,798
Total liabilities	169,310,740	537,964,039	707,274,779
DEFERRED INFLOWS OF RESOURCES			
OPEB deferrals	1,235,004	1,547,612	2,782,616
Pension deferrals	89,678	108,512	198,190
Lease deferrals	3,720,946	-	3,720,946
Total deferred inflows of resources	5,045,628	1,656,124	6,701,752
NET POSITION			
Net investment in capital assets	319,846,031	516,781,718	836,627,749
Restricted for -			
Capital projects	53,645,118	49,731,550	103,376,668
Renewable energy	8,392,851	-	8,392,851
Other internal restrictions	63,898,255	74,366,781	138,265,036
Unrestricted Net Position	46,660,638	68,146,985	114,807,623
Total Net Position	\$ 492,442,893	\$ 709,027,034	\$ 1,201,469,927

Note: Internal restrictions are restrictions through enabling legislation via the Commission's regulatory authority.

FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2024

	Electric Utility Major Fund	Water and Wastewater Utility Major Fund	Total Business-Type Activities PWC
Operating revenues			
Residential, commercial and industrial sales	\$ 196,950,472	\$ 125,492,665	\$ 322,443,137
Other charges for services	51,384,973	19,205,967	70,590,940
Total operating revenues	<u>248,335,445</u>	<u>144,698,632</u>	<u>393,034,077</u>
Operating expenses			
Power supply and generation	156,607,257	-	156,607,257
Electric operation	27,918,185	-	27,918,185
Water operations	-	22,292,636	22,292,636
Wastewater operations	-	26,025,507	26,025,507
General and administrative	25,806,378	26,574,209	52,380,587
Depreciation and Amortization	23,153,713	31,245,913	54,399,626
Total operating expenses	<u>233,485,533</u>	<u>106,138,265</u>	<u>339,623,798</u>
Operating income	<u>14,849,912</u>	<u>38,560,367</u>	<u>53,410,279</u>
Nonoperating revenue (expense)			
Intergovernmental revenue	-	1,467,039	1,467,039
Payment in lieu of taxes	(12,243,713)	-	(12,243,713)
Interest earned on investments	7,019,935	8,516,963	15,536,898
Gain on investment	3,137,508	1,459,173	4,596,681
Gain (loss) on disposal of assets	(442,669)	(27,626)	(470,295)
Interest expense	(2,835,812)	(12,929,142)	(15,764,954)
Interest - Leases	(27,202)	(27,263)	(54,465)
Finance costs	(440,580)	(1,696,088)	(2,136,668)
Total nonoperating expense, net	<u>(5,832,533)</u>	<u>(3,236,944)</u>	<u>(9,069,477)</u>
Income before transfers and contributions	<u>9,017,379</u>	<u>35,323,423</u>	<u>44,340,802</u>
Contributions	64,311	10,635,928	10,700,239
Transfers in	-	5,166,474	5,166,474
Transfers out	(5,166,474)	-	(5,166,474)
Change in Net Position	<u>3,915,216</u>	<u>51,125,825</u>	<u>55,041,041</u>
Total Net Position - beginning	<u>488,527,677</u>	<u>657,901,209</u>	<u>1,146,428,886</u>
Total Net Position - ending	<u><u>\$ 492,442,893</u></u>	<u><u>\$ 709,027,034</u></u>	<u><u>\$ 1,201,469,927</u></u>

Note: The transfers within funds have been eliminated for FY 24; \$99,473,230 for the Electric Fund & \$145,664,925 for the Water/Wastewater Fund.

FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows

Year Ended June 30, 2024

	Electric Utility Major Fund	Water and Wastewater Utility Major Fund	Total Business-Type Activities PWC
Cash flows from operating activities			
Cash received from customers	\$ 243,732,596	\$ 141,567,366	\$ 385,299,962
Cash paid for goods and services	(13,822,784)	(44,544,006)	(58,366,790)
Cash paid to or on behalf of employees for services	(28,238,098)	(28,713,149)	(56,951,247)
Cash paid for power supply and generation	(156,607,257)	-	(156,607,257)
Net cash provided by operating activities	<u>45,064,457</u>	<u>68,310,211</u>	<u>113,374,668</u>
Cash flows from noncapital financing activities			
Cash (paid) received from intergovernmental agreements	(12,243,713)	1,220,198	(11,023,515)
Transfers in	-	5,166,474	5,166,474
Transfers out	(5,166,474)	-	(5,166,474)
Net cash provided (used) by noncapital financing activities	<u>(17,410,187)</u>	<u>6,386,672</u>	<u>(11,023,515)</u>
Cash flows from capital and related financing activities			
Proceeds from sale of capital assets	393,614	140,630	534,244
Proceeds from debt issuance	81,292,338	170,031,258	251,323,596
Payment of finance cost on long-term debt	(440,580)	(1,696,088)	(2,136,668)
Contributed capital received	64,311	3,453,622	3,517,933
Acquisition and construction of capital assets	(48,398,970)	(54,422,031)	(102,821,001)
Principal payments on long-term debt	(16,337,426)	(85,899,332)	(102,236,758)
Other capital asset transactions	4,102,427	16,424,883	20,527,310
Interest payments	(2,863,014)	(12,956,405)	(15,819,419)
Net cash provided by capital and related financing activities	<u>17,812,700</u>	<u>35,076,537</u>	<u>52,889,237</u>
Cash flows from investing activities			
Interest earned on investments	10,157,443	9,976,135	20,133,578
Gross change in investments	18,591,731	(7,989,751)	10,601,980
Net cash provided by investing activities	<u>28,749,174</u>	<u>1,986,384</u>	<u>30,735,558</u>
Net increase in cash and cash equivalents	<u>74,216,144</u>	<u>111,759,804</u>	<u>185,975,948</u>
Cash and cash equivalents Beginning of year	<u>65,597,485</u>	<u>121,910,223</u>	<u>187,507,708</u>
End of year	<u><u>\$ 139,813,629</u></u>	<u><u>\$ 233,670,027</u></u>	<u><u>\$ 373,483,656</u></u>

FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Statement of Cash Flows

Year Ended June 30, 2024

	Electric Utility Major Fund	Water and Wastewater Utility Major Fund	Total Business-Type Activities PWC
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 14,849,912	\$ 38,560,366	\$ 53,410,278
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and Amortization	23,153,713	31,245,913	54,399,626
Allowance for uncollectible accounts	35,557	14,424	49,981
 Change in assets, liabilities and deferred inflows/outflows			
(Increase) decrease in receivables	(4,472,174)	(3,179,451)	(7,651,625)
(increase) decrease in inventories	(1,468,302)	(48,498)	(1,516,800)
(Increase) decrease in deferred outflows - other	1,854	121,757	123,611
(Increase) decrease in deferred outflows -OPEB	1,495,115	1,789,155	3,284,270
(Increase) decrease in deferred outflows - pension related	446,990	546,322	993,312
(Increase) decrease in other current assets	(1,332,501)	(117,996)	(1,450,497)
(Increase) decrease in other assets	6,257,656	171,962	6,429,618
Increase (decrease) in OPEB liability	(916,213)	(1,096,401)	(2,012,614)
Increase (decrease) in inflows - pension	2,171,154	2,653,633	4,824,787
Increase (decrease) in accounts payable and accrued expenses	7,396,050	(412,636)	6,983,414
Increase (decrease) in deferred revenues	(245,012)	-	(245,012)
Increase (decrease) in leases	(588,172)	(605,315)	(1,193,487)
Increase (decrease) in deferred inflows-OPEB	(1,877,323)	(1,480,544)	(3,357,867)
Increase (decrease) in accrued sick leave / vacation	156,152	147,520	303,672
Total adjustments	30,214,544	29,749,845	59,964,389
 Net cash provided by operating activities	 \$ 45,064,456	 \$ 68,310,211	 \$ 113,374,667
 Noncash investing, capital, and financing activities:			
Contributed capital assets	\$ -	\$ 7,429,147	\$ 7,429,147
FIF credits applied	\$ -	\$ -	\$ -
Adjustment to market for long term investments	\$ (5,365,843)	\$ (2,282,126)	\$ (7,647,969)
 Reconciliation to cash and cash equivalents			
Unrestricted	\$ 11,831,231	\$ 35,639,235	\$ 47,470,466
Restricted	127,982,398	198,030,792	326,013,190
Total	\$ 139,813,629	233,670,027	\$ 373,483,656

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements

June 30, 2024

Note 1 - Summary of Significant Accounting Policies

The financial statements of the Fayetteville Public Works Commission (the "Commission" or "PWC") have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing accounting and financial reporting principles. The more significant of the Commission's accounting policies are described below.

Reporting Entity

The Commission is a discretely presented component unit of the City of Fayetteville, North Carolina (the "City"). The Commission is comprised of two enterprise funds, the Electric Utility Fund and the Water and Wastewater Utility Fund. The Commission's financial statements presented herein include the financial position and operations of the Electric Utility Fund and the Water and Wastewater Utility Fund, and accordingly, are not intended to present the financial position or results of operations of the City of Fayetteville, North Carolina.

Basis of Presentation

The Commission reports the following major enterprise funds:

Electric Utility: This fund accounts for the operation and maintenance of the Butler-Warner Generation Plant and the transmission and distribution of electricity to customers within the City of Fayetteville and surrounding areas.

Water and Wastewater Utility: This fund accounts for the operations and transmission and distribution of water and wastewater for customers within the City of Fayetteville and surrounding areas.

The Commission has no fiduciary funds to report.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants, entitlements, and donations. On the full accrual basis, revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Commission's funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the funds' principal ongoing operations.

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

The principal operating revenues of the Commission's funds are charges to customers for sales and services. Operating expenses for the Commission's funds include the costs of sales and services, general and administrative services and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

Use of Estimates

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

Cash and Investments

Cash and investments include amounts in demand deposits and investments in U.S. government agencies, North Carolina Capital Management Trust (NCCMT) and commercial paper.

Investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contracts are reported at amortized cost. The NCCMT Government Portfolio, an SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with maturity of less than 6 months.

Receivables

Receivables consist primarily of customer receivables for utility services. The Commission provides allowances for uncollectible receivables equal to the estimated collection losses to be incurred. The estimated losses are computed using the experience method. The Commission grants credit to residential, business and industrial customers, substantially all of whom are local to the City of Fayetteville area.

Lease Receivable

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

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 1 – Summary of Significant Accounting Policies (continued)

Leases Receivable (continued)

Deferred inflow of resources are recorded at the initiation of the leases in an amount equal to the initial recording of the related lease receivable. The deferred inflows of resources are amortized on a straight-line basis over the term of the lease.

Inventories

Inventories of supplies are carried at cost and inventories held for resale are carried at the lower of average cost or net realizable value using the weighted average method.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2024, are recorded as prepaid items.

Capital Assets

Capital assets purchased or constructed since 1958 are recorded at cost. Assets acquired prior to 1958 are carried on an estimated cost basis. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Gains and losses on dispositions of capital assets are credited or charged to operations.

Minimum capitalization costs are: \$5,000 for all classes of assets.

Utility plant systems are depreciated over estimated useful lives ranging from 20 to 45 years. Other property and equipment are depreciated over estimated useful lives ranging from 5 to 15 years. All capital assets are depreciated using the straight-line method.

Donated capital assets received prior to June 30, 2015, are recorded at estimated fair market value at the date of donation. Donated capital assets received after June 30, 2015, are recorded at acquisition value.

Right to Use Assets

The Commission has recorded right to use lease assets as a result of implementing GASB 87. The right to use assets are initially measured at an amount equal to the initial measurement of the related lease plus any lease payments made prior to the lease term, less lease incentives, plus ancillary charges necessary to place the lease into service. The right to use assets are amortized on a straight-line basis over the life of the related lease with terms ranging from 2 - 10 years.

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 1 – Summary of Significant Accounting Policies (continued)

Right to Use Assets (continued)

The right to use IT subscription assets are initially measured at an amount equal to the initial measurement of the subscription liability plus any subscription payments made at the start of the subscription term, if applicable, plus capitalizable initial implementation cost at the start of the subscription term, less any incentives received from the IT subscription vendor at the start of the subscription term. Subscription payments, as well as payments for capitalizable implementation cost made before the start of the subscription term should be reported as a prepayment (asset). Such prepayments and incentives are reported as an asset or liability, as appropriate, before the start of the subscription term at which time the amount should be included in the initial measurement of the subscription asset. The right to use subscription assets are amortized on a straight-line basis over the subscription term.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net assets that applies to a future period and so will not be recognized as an expense or expenditure until then. The Commission has three items that meet this criterion, Pension Deferrals (see note 11), Other Post-Employment Benefits (OPEB) deferrals (see note 16); and unamortized bond refunding charges for Electric, Water and Wastewater Refunding bonds (see note 12). In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net assets that applies to a future period and so will not be recognized as revenue until then. The Commission has three items that meet the criterion for this category, deferrals of pension expense that result from the implementation of GASB 68, Accounting and Financial Reporting for Pensions, deferrals of OPEB expense that result from the implementation of GASB 75, Accounting and Financial Reporting for Other Post-Employment Benefits, and deferrals of lease and subscription revenues that result from the implementation of GASB 87 and 96.

Long-Term Obligations

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt. Lease liabilities are recognized at the present value of future minimum lease payments and amortized over the life of the related lease.

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**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 1 – Summary of Significant Accounting Policies (continued)

Pensions

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

Compensated Absences

Vested or accumulated vacation leave is reported as an expense and a liability as it accrues to employees. In accordance with the provisions of Government Accounting Standards Board Statement No. 16, "Accounting for Compensated Absences," no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, the Commission's sick leave policy allows 25% of accumulated sick leave to be paid at the time of retirement. A liability for the estimated amount of sick leave to ultimately be paid is included in the financial statements.

Unearned Deposits

System Development fee credits are given on a dollar per dollar basis for off-site water and wastewater approach mains necessary to serve Commission-approved projects. The System Development fee credit, if not utilized in the initial development, will be available to the developer for use in other Commission approved projects for a period not to exceed 5 years from the original contract date, unless otherwise stated in the contract or through extension approved by the PWC.

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**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 1 – Summary of Significant Accounting Policies (continued)

Statement of Cash Flows

For purposes of the Statement of Cash Flows, the Commission considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

Other Post-Employment Benefits

Post-employment expenses are made from the Electric and the Water & Wastewater Resources Funds, which are maintained on the full accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenses are paid as they come due. The Total OPEB Liability is recorded in accordance with GASB Statement Number 75.

Net Position

Net Position is classified as net investment in capital assets, restricted, and unrestricted (see note 10E). Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through state statute or internally imposed by the Commission as qualifying enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets.

At June 30, 2024, the Electric Fund had restricted assets of \$136,094,075 related to debt service, renewable energy and other internally restricted assets offset by \$10,372,173 of other internally restricted liabilities related to those assets (see note 6), less items associated with capital project funds, resulting in restricted net position of \$125,936,224. The Water/Wastewater Fund had restricted assets of \$220,431,761 related to debt service, capital projects and other internally restricted assets offset by debt of \$88,185,233 related to unspent bond proceeds and \$18,128,492 of internally restricted liabilities related to those assets (see note 6), less items associated with capital project funds, resulting in restricted net position of \$124,098,330.

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**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 1 – Summary of Significant Accounting Policies (continued)

Upcoming Pronouncements

GASB issued Statement No. 101, “Compensated Absences.” The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

GASB issued Statement No. 102, “Certain Risk Disclosures.” The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. This statement requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a subsequent impact. Additionally, this statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The requirements of this statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged.

GASB issued Statement No. 103, “Financial Reporting Model Improvements.” The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

GASB issued Statement No. 104, “Disclosure of Certain Capital Assets.” The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34. Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged.

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 2 - Business of the Commission

The Fayetteville Public Works Commission, a discretely presented component of the City of Fayetteville, North Carolina, provides utility services, including electric, water, and wastewater, within Cumberland County and surrounding areas.

Note 3 - Legal Compliance - Budgets

The Commission operates under its annual budget ordinance. The ordinance provides for revenues and appropriations for the electric, water and wastewater funds. All annual appropriations lapse at the end of the fiscal year. The capital project and special funds budgets are prepared under project ordinances. The budget is prepared on a budgetary non-GAAP basis as required by North Carolina state law.

Note 4 - Cash and Investments

A - Deposits

All deposits of the Commission are made in board-designated official depositories and are secured as required by North Carolina General Statute 159-31. The Commission may designate as an official depository any bank or savings and loan association whose principal office is located in North Carolina. Also, the Commission may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

All of the Commission's deposits are either insured or collateralized by the depositories, which use one of two methods. Under the dedicated method, all deposits over the federal depository insurance coverage are collateralized with securities held by the Commission's agent in the Commission's name. Under the pooling method, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Commission, these deposits are considered to be held by the Commission's agent in the Commission's name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest bearing deposits. Depositories using the pooling method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Commission or the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Commission under the pooling method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each pooling method depository.

At June 30, 2024, the Commission had deposits in pooling method banks with a carrying amount of \$77,678,087 and a bank balance of \$62,276,528. Of the total bank balance, \$764,873 was covered by federal depository insurance and \$61,511,655 was covered by collateral under the pooling method.

At June 30, 2024, the Commission had \$4,350 in petty cash.

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 4 - Cash and Investments (continued)

B - Investments

At June 30, 2024, the Commission had the following investments and maturities.

Investment Type	Valuation Measurement Method	Reported Value	Less than 6 Months	6 Mos - 1 Yr	1-5 Years	6-10 Years
U.S. Government agencies	Fair Value-Level 2	\$133,558,021	\$13,782,676	\$13,155,270	\$91,560,653	\$15,059,422
NC Capital Management Trust - Government Portfolio	Fair Value-Level 1	\$295,801,218	\$295,801,218	-	-	-
Total		\$429,359,239	\$309,583,894	\$ 13,155,270	\$ 91,560,653	\$ 15,059,422

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

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2: Debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Commission's investment policy requires that only purchases of treasuries and agency securities to be laddered with staggered maturity dates and limits these securities to a final maturity of no more than ten years. All other investment types are limited to a final maturity of no more than three years.

Credit Risk. The Commission limits investments to the provisions of the G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The investment in the Federal Home Loan Bank is rated AAA by Standard and Poor's and AAA by Moody's Investors Service. The Commission's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm-mf by Standard and Poor's and AAAm-mf by Moody's Investment Services as of June 30, 2024.

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 4 - Cash and Investments (continued)

B-Investments (continued)

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Commission has no policy on custodial credit risk, but management procedures are that the Commission shall utilize a third-party custodial agent for book entry transactions, all of which shall be held in the Commission's name.

Concentration of Credit Risk. The Commission limits investments to avoid over-concentration in securities from a specific issuer or business sector. More than 5% of the Commission's investments are in Federal Farm Credit Bank, Federal Home Loan Bank and Freddie Mac. These investments are 46%, 42%, and 9% respectively, of the Commission's total investments.

Reconciliation to cash and cash equivalents:

Total per Footnote:

	Reported
Total investments	\$ 429,359,239
Cash	77,678,087
Plus Certificates of Deposit	-
Petty cash	4,350
Total cash and investments	<u>507,041,676</u>
Less: Investments with maturities of more than 3 months	<u>(133,558,020)</u>
Total cash and cash equivalents	<u><u>\$ 373,483,656</u></u>

Total per Statement of Net Position:

Cash and cash equivalents - unrestricted	47,470,466
Cash and cash equivalents - restricted	326,013,190
Total cash and cash equivalents	<u><u>\$ 373,483,656</u></u>

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 5 – Accounts Receivable

A - Unrestricted Receivables

At June 30, 2024, the Commission's unrestricted receivable balances were as follows:

	Electric Fund	Water and Wastewater Fund	Total
Unrestricted			
Accounts	\$ 27,075,706	\$ 18,070,952	\$ 45,146,658
Sales taxes	2,628,064	111,627	2,739,691
Due from City-Assessments	-	4,674,152	4,674,152
Due from City-Assessments Interest	-	488,121	488,121
Accrued Interest	375,601	284,772	660,373
Other	3,030,704	560,177	3,590,881
Total	<u>\$ 33,110,075</u>	<u>\$ 24,189,801</u>	<u>\$ 57,299,876</u>
Lease Receivable - Current	\$ 694,233	\$ -	\$ 694,233

B – Leases

The Commission leases office space to others in the Robert C. Williams Business Center at Lafayette Plaza and leases fiber and land at various sites. These lease agreements provide for minimum rental, have terms of 3 to 12 years and are due to expire at various dates from 2024 to 2033. Minimum lease provisions at June 30, 2024, will result in rental income for future years as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2025	\$694,223	\$58,448	\$ 752,671
2026	735,630	46,712	782,342
2027	673,492	35,082	708,574
2028	647,873	24,308	672,181
2029	540,129	14,273	554,402
2030-2033	594,742	8,453	603,195
	<u>\$ 3,886,089</u>	<u>\$ 187,276</u>	<u>\$ 4,073,365</u>

In fiscal year 2024, the Commission recognized \$679,146 of lease revenue and \$63,309 of interest revenue under the leases.

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 6 - Restricted Assets and Restricted Liabilities

The Commission has classified as restricted the assets representing deposits, reserves, capital project appropriations and unexpended bond proceeds, because their use is completely restricted to the purpose for which the bonds were issued or the purpose for which the Commission has enacted enabling legislation as a regulatory body. Liabilities due to be paid from restricted assets are classified as restricted liabilities.

	Internally Restricted		Externally Restricted	
	Electric	Water	Electric	Water
Restricted Assets and Restricted Liabilities				
Cash and Cash Equivalents				
Annexation Phase V Fund Cash	\$ -	\$ 47,345,118	\$ -	\$ -
Rate Stabilization Fund Cash	22,490,330	2,232,445	-	-
NC Renewable Rider	-	-	8,392,851	-
Customer Deposits	9,528,319	4,083,565	-	-
Debt Service	1,171,572	11,570,242	1,710,735	2,563,426
TPA - Cash	241,112	76,119	-	-
Health Insurance Reserve	1,500,000	1,500,000	-	-
Coal Ash Reserve	5,011,859	-	-	-
Budget Carryovers	2,675,194	3,906,914	-	-
CPF - Cash	10,114,553	31,853,645	-	2,379,984
Construction Fund	-	-	53,501,457	88,185,234
NCCMT Fuel	5,886,834	-	-	-
Meter Reserve	3,700,000	1,300,000	-	-
BWGP Start Cost Reserve	664,748	-	-	-
Legal Reserve	729,700	694,300	-	-
Foundation Reserve	339,800	339,800	-	-
Metronet	-	-	323,334	-
Total restricted cash and cash equivalents	<u>\$ 64,054,021</u>	<u>\$ 104,902,148</u>	<u>\$ 63,928,377</u>	<u>\$ 93,128,644</u>
Investments	<u>\$ 7,184,917</u>	<u>\$ 8,442,443</u>	<u>\$ -</u>	<u>\$ -</u>
Collateral pledges in lieu of deposits	<u>\$ 479,098</u>	<u>\$ 205,327</u>	<u>\$ -</u>	<u>\$ -</u>
Receivables				
Grants	\$ 443,128	\$ 3,193,749	\$ -	\$ -
Sales Taxes	-	5,971,218	-	-
Other	6	4,583,495	-	-
Accrued Interest	4,528	4,737	-	-
Total restricted receivables	<u>\$ 447,662</u>	<u>\$ 13,753,199</u>	<u>\$ -</u>	<u>\$ -</u>
Accounts payable and accrued expenses				
Trade	\$ -	\$ 12,624,351	\$ -	\$ -
NC DOT Projects	-	214,807	-	-
Meter Deposits	10,007,417	4,379,640	-	-
Other	364,756	909,694	-	-
Total restricted accounts payable and accrued expenses	<u>\$ 10,372,173</u>	<u>\$ 18,128,492</u>	<u>\$ -</u>	<u>\$ -</u>

FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to the Financial Statements (continued)

June 30, 2024

Note 7 – Capital Assets

The following is a summary of changes in capital assets:

<u>Description</u>	<u>Balance June 30, 2023</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2024</u>
Electric Fund:					
Capital assets not being depreciated:					
Land & land rights	\$ 9,996,823	\$ 4	\$ -	\$ -	\$ 9,996,827
Construction in progress	33,402,873	36,935,754	(1,931,148)	(9,918,215)	58,489,264
Capital assets being depreciated:					
Electric utility system	553,547,671	9,997,422	(1,954,991)	9,141,501	570,731,603
Buildings	56,646,372	148,563	-	36,001	56,830,936
Equipment and machinery	22,047,479	786,424	(54,506)	190,040	22,969,437
Intangibles	25,913,429	57,386	-	85,538	26,056,353
Computer equipment	6,570,785	-	(16,759)	494,333	7,048,359
Vehicles	12,123,869	665,509	(215,209)	135,660	12,709,829
Office equipment	1,201,149	-	(10,938)	(70)	1,190,141
Total Capital assets being depreciated	678,050,754	11,655,304	(2,252,403)	10,083,003	697,536,658
Right to use assets	3,540,287	402,752	(448,872)		3,494,167
Less accumulated depreciation for:					
Electric utility system	(301,151,692)	(16,067,823)	1,711,316	1,162	(315,507,037)
Buildings	(31,597,521)	(1,490,499)	-	-	(33,088,020)
Equipment and machinery	(14,111,770)	(1,101,510)	53,285	(30,416)	(15,190,411)
Intangibles	(21,935,262)	(2,506,706)	-	-	(24,441,968)
Computer equipment	(6,002,065)	(400,670)	16,759	-	(6,385,976)
Vehicles	(6,811,755)	(801,876)	208,496	(132,368)	(7,537,503)
Office equipment	(1,167,569)	(20,628)	10,939	70	(1,177,188)
Total accumulated depreciation for:	(382,777,634)	(22,389,712)	2,000,795	(161,552)	(403,328,103)
Electric fund capital assets, net	338,672,816	26,201,350	(2,182,756)	3,236	362,694,646
Right to use assets, accumulated amortization	(1,009,408)	(764,001)	216,923	-	(1,556,486)
Total Electric fund capital assets, net and Right to use Assets	\$ 341,203,695	\$ 25,840,101	\$ (2,414,705)	\$ 3,236	\$ 364,632,327

FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to the Financial Statements (continued)

June 30, 2024

Note 7 – Capital Assets (continued)

<u>Description</u>	<u>Balance June 30, 2023</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>Balance June 30, 2024</u>
Water and Sewer Fund:					
Capital assets not being depreciated:					
Land and land rights	\$ 13,872,194	\$ 411	\$ -	\$ 312,867	\$ 14,185,472
Construction in progress	117,630,842	56,654,279	-	(5,966,509)	168,318,612
Capital assets being depreciated:					
Water system	470,501,553	23,023	(106,838)	7,210,616	477,628,354
Sewer system	728,690,533	194,032	(429)	(2,874,171)	726,009,965
Buildings	13,955,102	30,734	-	198,994	14,184,830
Equipment and machinery	15,395,295	203,705	(142,475)	301,659	15,758,184
Intangibles	20,855,569	57,387	-	281,080	21,194,036
Computer equipment	5,869,429	-	(10,571)	506,266	6,365,124
Vehicles	13,070,460	2,034,468	(383,231)	(135,660)	14,586,037
Office equipment	494,017	-	(6,046)	70	488,041
Total Capital assets being depreciated	<u>1,268,831,958</u>	<u>2,543,349</u>	<u>(649,590)</u>	<u>5,488,854</u>	<u>1,276,214,571</u>
Right to use assets	<u>3,589,256</u>	<u>402,751</u>	<u>(497,840)</u>	<u>-</u>	<u>3,494,167</u>
Less accumulated depreciation for:					
Water system	(200,949,185)	(11,668,611)	96,154	-	(212,521,642)
Sewer system	(276,028,517)	(15,528,675)	-	-	(291,557,192)
Buildings	(5,916,665)	(395,245)	-	-	(6,311,910)
Equipment and machinery	(11,755,686)	(634,871)	142,107	29,254	(12,219,196)
Intangibles	(18,578,703)	(1,085,722)	-	-	(19,664,425)
Computer equipment	(5,394,048)	(308,335)	10,571	-	(5,691,812)
Vehicles	(7,151,860)	(830,708)	371,445	132,368	(7,478,755)
Office equipment	(480,341)	(13,677)	6,047	(70)	(488,041)
Total Capital assets being depreciated	<u>(526,255,005)</u>	<u>(30,465,844)</u>	<u>626,324</u>	<u>161,552</u>	<u>(555,932,973)</u>
Water and Sewer capital assets, net	<u>874,079,989</u>	<u>28,732,195</u>	<u>(23,266)</u>	<u>(3,236)</u>	<u>902,785,682</u>
Right to use assets, accumulated amortization	<u>(1,042,054)</u>	<u>(780,069)</u>	<u>265,637</u>	<u>-</u>	<u>(1,556,486)</u>
Total Water and Sewer capital assets, net and Right to use assets	<u>\$ 876,627,191</u>	<u>\$ 28,354,877</u>	<u>\$ (255,469)</u>	<u>\$ (3,236)</u>	<u>\$ 904,723,363</u>

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 8 - Right to Use Assets

The Commission has entered into right to use leased asset contracts covering the lease of office equipment and subscription contracts covering the subscription of software services (SaaS). The related liabilities are discussed in the Lease and Subscription subsection of the Liabilities section of this note. The right of use assets are amortized on a straight-line basis over the terms of the related leases.

Right to use asset activity for the Commission for the year ended June 30, 2024, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Right to use assets				
Leased equipment	\$ 48,633	\$ -	\$ -	\$ 48,633
Subscription software	7,080,910	805,503	946,712	6,939,701
Total right to use assets	<u>\$ 7,129,543</u>	<u>\$ 805,503</u>	<u>\$ 946,712</u>	<u>\$ 6,988,334</u>
 Less accumulated amortization for:				
Leased equipment	\$ 11,860	\$ 9,727	\$ -	\$ 21,587
Subscription software	2,039,602	1,534,343	482,560	3,091,385
Total accumulated amortization	<u>2,051,462</u>	<u>1,544,070</u>	<u>482,560</u>	<u>3,112,972</u>
Right to use asset, net	<u><u>\$ 5,078,081</u></u>	<u><u>\$ (738,567)</u></u>	<u><u>\$ 464,152</u></u>	<u><u>\$ 3,875,362</u></u>

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**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 9 – Accounts Payable and Accrued Expenses

At June 30, 2024, the Commission's unrestricted accounts payable and accrued expenses balances were as follows:

	Electric Fund	Water and Wastewater Fund	Total
Unrestricted:			
Trade	\$ 7,559,549	\$ 5,174,700	\$ 12,734,249
Purchased power	13,378,020	-	13,378,020
Power supply true up adjustment	6,163,850	-	6,163,850
Payroll related	1,675,097	1,657,561	3,332,658
Interest	1,431,326	5,239,287	6,670,613
Incurred but not reported claims	1,450,852	1,450,852	2,901,704
Other	(1,840,216)	1,714,778	(125,438)
	<u>\$ 29,818,478</u>	<u>\$ 15,237,178</u>	<u>\$ 45,055,656</u>

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**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 10 – Long-Term Debt

A - Revenue Bonds

The Commission has issued revenue bonds which have been used to finance the construction of facilities utilized in the operations of the Electric and Water and Wastewater Systems. Revenue Bonds outstanding for the year ended June 30, 2024, were as follows:

	<u>June 30, 2024</u>
\$114,405,000 Series 2016 Revenue Refunding Bonds due in various annual installments through March 1, 2041; interest at various rates between 3.0% and 5.0%.	\$ 75,540,000
\$83,645,000 Series 2018 Revenue and Refunding Bonds due in various annual installments through March 1, 2044; interest at various rates between 4.0% and 5.0%.	63,370,000
\$94,790,000 Series 2021 Revenue Bonds due in various annual installments through March 1, 2051; interest at various rates between 2.0% and 5.0%.	94,420,000
\$169,420,000 Series 2023 Revenue Bonds due in various annual installments through March 1, 2053; interest at various rates between 4.0% and 5.0%.	169,420,000
\$76,400,000 Series 2024 Refunding Bonds due in various annual installments through March 1, 2039; interest at various rates between 4.0% and 5.0%.	<u>76,400,000</u>
Total Revenue Bonds	479,150,000
Add: Unamortized Premium	<u>35,204,551</u>
Total	<u><u>\$ 514,354,551</u></u>

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**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 10 - Long-Term Debt (continued)

A - Revenue Bonds (continued)

Maturities of bonds payable are as follows:

Electric Fund

Year ending June 30	Revenue Bonds	
	Principal	Interest
2025	1,253,846	4,286,853
2026	2,487,215	4,220,598
2027	2,570,210	4,096,238
2028	2,673,653	3,985,707
2029	2,803,889	3,856,180
2030-2034	16,105,391	17,124,339
2035-2039	17,796,759	13,141,802
2040-2042	7,698,190	6,029,552
2043-2053	37,670,275	11,187,787
	<u>91,059,428</u>	<u>67,929,056</u>
Add: Unamortized premium	4,882,805	
Total Electric	<u>\$ 95,942,233</u>	<u>\$ 67,929,056</u>

Water/Wastewater Fund

Year ending June 30	Revenue Bonds	
	Principal	Interest
2025	11,376,154	15,561,159
2026	13,617,785	14,975,520
2027	13,444,790	14,294,631
2028	13,891,347	13,772,312
2029	14,436,111	13,163,089
2030-2034	80,959,609	55,974,405
2035-2039	93,648,241	38,578,543
2040-2042	42,166,810	14,997,386
2043-2053	104,549,725	22,525,038
	<u>388,090,572</u>	<u>203,842,083</u>
Add: Unamortized premium	30,321,746	
Total Water/Wastewater	<u>\$ 418,412,318</u>	<u>\$ 203,842,083</u>
Total Electric & Water/Wastewater	<u>\$ 514,354,551</u>	<u>\$ 271,771,139</u>

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 10 - Long-Term Debt (continued)

A - Revenue Bonds (continued)

The Commission has pledged future electric, water and wastewater customer revenues, net of specified operating expenses to repay \$538,660,000 in revenue and revenue refunding bonds issued at various times from 2014 through 2024. Proceeds from the bonds provided financing for extensions, additions and capital improvements to or the renewal and replacement of capital assets, or purchasing and installing new equipment for, the electric, water, and wastewater systems. The bonds are payable solely from electric, water and wastewater customer net revenues and are payable through 2053. The total principal and interest remaining to be paid on the bonds is \$750,921,139. Principal and interest paid for the current year and total customer revenues were \$27,464,839 and \$393,034,076.

Interest expense related to the revenue bonds totaled \$15,764,954 for the year ended June 30, 2024.

PWC's revenue bonds are payable from and secured by a pledge of and lien upon the Net Revenues of the System. The Bond Order governing the revenue bonds contains various events of default including nonpayment of principal or interest, unreasonable delays in the reconstruction of any essential part of the System which is destroyed or damaged and is not promptly repaired or replaced or the failure to observe or perform particular covenants, conditions or agreements for a specific period of time after receiving notice of such failure. In the event one of these defaults occurs, the trustee under the Bond Order may, and upon the written request of the owners of not less than 25% of the principal amount of revenue bonds outstanding, declare the principal of all bonds outstanding to be due and payable immediately.

The revenue bond order contains significant covenants regarding annual debt service requirements, use of the system, and minimum revenue bond coverage. The Commission is in compliance with all such significant covenants at June 30, 2024.

B – Direct Placement Notes Payable

The Commission has entered into revolving loan agreements with the State of North Carolina for various water and wastewater capital projects. These direct placement loans are payable solely from the revenues of the project or benefited systems, or other available funds.

These notes payable are junior, inferior and subordinate in all respects to the Revenue Bonds of the Commission and the City of Fayetteville. Notes payables outstanding for the year ended June 30, 2024, were as follows:

	<u>June 30, 2024</u>
\$382,788 Direct Placement State Revolving Loan due in annual installments through May 1, 2033; interest at 2.0% paid semi-annually on May 1 and November 1.	\$ 172,255
\$5,299,942 Direct Placement State Revolving Loan due in annual installments through May 1, 2033; no interest.	2,386,960

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 10 - Long-Term Debt (continued)

B – Direct Placement Notes Payable (continued)

\$3,901,648 Direct Placement State Revolving Loan due in annual installments through May 1, 2034; interest at 2.0% paid semi-annually on May 1 and November 1.	1,950,824
\$15,890,541 Direct Placement State Revolving Loan due in annual installments through May 1, 2036; no interest.	9,534,325
\$2,243,830 Direct Placement State Revolving Loan due in annual installments through May 1, 2035; interest at 2.0% paid semi-annually on May 1 and November 1.	1,234,106
\$17,912,000 Direct Placement State Revolving Loan due in annual installments beginning May 1, 2023; interest at 1.11% paid semi-annually on May 1 and November 1; construction draws not yet complete.	13,097,484
\$31,187,999 Direct Placement State Revolving Loan due in annual installments beginning May 1, 2023; interest at 1.06% paid semi-annually on May 1 and November 1; construction draws not yet complete.	14,993,568
\$6,685,105 Direct Placement State Revolving Loan due in annual installments beginning May 1, 2023; no interest; construction draws not yet complete.	1,922,750
\$15,719,300 Direct Placement State Revolving Loan due in annual installments beginning May 1, 2023; interest at 1.02% paid semi-annually on May 1 and November 1	<u>3,102,772</u>
	<u><u>\$ 48,395,044</u></u>

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**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 10 - Long-Term Debt (continued)

B – Direct Placement Notes Payable (continued)

Maturities of the \$382,788, \$5,299,942, \$3,901,648, \$15,890,541, and \$2,243,830 notes payable are as follows:

Year Ending	Water/Wastewater	
	Principal	Interest
2025	\$ 1,386,158	\$ 67,144
2026	1,386,158	60,615
2027	1,386,158	54,087
2028	1,386,158	47,559
2029	1,386,158	41,031
2030-2034	6,646,433	107,229
2035-2037	1,701,247	2,244
	\$ 15,278,470	\$ 379,909

Total interest expense related to the notes payable obligations totaled \$259,000 for the year ended June 30, 2024.

The Commission expects the estimated schedule of maturity for the \$17,912,000, \$31,187,999 and \$6,685,105 and \$15,719,300 notes payable to be as follows:

Year Ending	Water/Wastewater	
	Principal	Interest
2025	\$ 895,600	\$ 178,941
2026	1,839,810	288,986
2027	1,839,810	323,645
2028	1,839,810	302,191
2029	1,839,810	280,738
2030-2034	9,199,048	1,081,884
2035-2039	9,199,048	545,546
2040-2042	6,463,638	69,885
	\$ 33,116,574	\$ 3,071,816

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 10 - Long-Term Debt (continued)

C - Leases and Subscriptions

The Commission has entered into agreements to lease certain equipment and subscriptions for certain software. These agreements qualify as other than short-term leases and subscription-based information technology arrangements under GASB 87 and GASB 96 and, therefore, have been recorded at the present value of the future minimum lease and subscription payments as of the date of their inception. There are no variable payment components of the agreements. The terms of these agreements range from two to ten years and are paid on a monthly, quarterly or annual basis according to the terms of the contract. The lease liability and subscription is measured at discount rates ranging from 0.5% to 3.0% based on the Commission's imputed borrowing rate. As a result of the lease, the Commission has recorded right to use assets totaling \$6,988,334 at June 30, 2024.

The future minimum lease and subscription obligations and the net present value of these minimum lease and subscription payments as of June 30, 2024, were as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2025	\$ 1,494,479	\$ 58,214	\$ 1,552,693
2026	935,806	28,475	964,281
2027	810,532	13,281	823,813
2028	180,406	5,055	185,461
2029	115,226	2,930	118,156
2030-2031	204,601	2,172	206,773
	<u>\$ 3,741,050</u>	<u>\$ 110,127</u>	<u>\$ 3,851,177</u>

In fiscal year 2024, the Commission paid \$1,998,991 in principal and \$54,465 in interest payments related to leases.

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FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Notes to the Financial Statements (continued)

June 30, 2024

Note 10 - Long-Term Debt (continued)

D – Changes in Long-Term Liabilities

	Balance 6/30/2023	Increases	Decreases	Balance 6/30/2024	Current Portion
Electric Fund					
Revenue Bonds	\$ 26,104,517	\$ 81,292,338	\$ 16,337,426	\$ 91,059,429	\$ 1,253,846
Unearned deposits	784,520	686,807	931,819	539,508	-
Compensated					
Absences	2,774,929	2,845,931	2,774,929	2,845,931	1,851,915
Lease and Subscription Liability	2,458,697	402,751	990,924	1,870,524	756,075
Total OPEB liability	10,915,216	545,921	1,462,134	9,999,003	-
Net pension liability					-
(LGERS)	15,528,758	2,171,154	-	17,699,912	-
	58,566,637	<u>\$ 87,944,902</u>	<u>22,497,232</u>	124,014,307	3,861,836
Add: Unamortized premium	<u>2,355,565.00</u>			<u>4,882,805</u>	-
Total Electric long-term liabilities	<u>\$ 60,922,202</u>			<u>\$ 128,897,112</u>	<u>\$ 3,861,836</u>
Water & Wastewater Fund					
Revenue Bonds	\$ 307,180,483	\$ 164,527,662	\$ 83,617,574	\$ 388,090,571	\$ 11,376,154
Notes Payable	41,849,744	8,827,058	2,281,758	48,395,044	2,281,758
Unearned deposits	29,770	-	-	29,770	-
Compensated					
Absences	2,640,795	2,683,473	2,640,795	2,683,473	1,769,837
Lease and Subscription Liability	2,475,841	402,752	1,008,067	1,870,526	756,075
Total OPEB liability	12,721,900	653,285	1,749,686	11,625,499	-
Net pension liability					
liability (LGERS)	18,720,351	2,653,633	-	21,373,984	-
	385,618,884	<u>\$ 179,747,863</u>	<u>\$ 91,297,880</u>	474,068,867	16,183,824
Add: Unamortized premium	<u>21,416,457</u>			<u>30,321,746</u>	-
Total Water/Wastewater long-term liabilities	<u>\$ 407,035,341</u>			<u>\$ 504,390,613</u>	<u>\$ 16,183,824</u>

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 10 - Long-Term Debt (continued)

E – Net Investment in Capital Assets

	<u>Electric Fund</u>	<u>Water Fund</u>
Capital Assets, Net	\$ 362,694,646	\$ 902,785,682
Add: Right to use asset	1,937,681	1,937,681
Less: Outstanding debt related to capital assets	(91,059,429)	(436,485,616)
Less: Premium on outstanding debt	(4,882,805)	(30,321,747)
Less: Deferred loss related to unspent bond proceeds	-	(257,490)
Less: Retainage and payables related to capital asset	(474,995)	(7,721,584)
Add: Deferred loss on bond refunding	-	530,085
Less: Lease and subscription liability	(1,870,524)	(1,870,526)
Add: Outstanding unspent bond proceeds	53,501,457	88,185,233
Net Investment in Capital Assets	<u><u>\$ 319,846,031</u></u>	<u><u>\$ 516,781,718</u></u>

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**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 11 - Retirement Plans

Local Governmental Employees' Retirement System

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 11 – Retirement Plans: Local Governmental Employees' Retirement System (continued)

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Commission's employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Commission's contractually required contribution rate for the year ended June 30, 2024, was 12.85% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Commission were \$7,804,191 for the year ended June 30, 2024.

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

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

At June 30, 2024, the Commission reported a liability of \$39,073,896 for its proportionate share of the net pension liability. The net pension liability is presented in other long-term liabilities in the accompanying financial statements. The net pension liability was measured as of June 30, 2023. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2022. The total pension liability was then rolled forward to the measurement date of June 30, 2023, utilizing update procedures incorporating the actuarial assumptions. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers actuarially determined. At June 30, 2023, the Commission's proportion was 0.589%, which was an decrease of 0.017% from its proportion measured as of June 30, 2022.

For the year ended June 30, 2024, the Commission recognized pension expense of \$13,385,049. At June 30, 2024, the Commission reported deferred outflows of resources and deferred, inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 4,353,989	\$ 93,734
Changes of assumptions	1,660,415	-
Net Difference between projected and actual earning on pension plans investments	10,457,885	-
Changes in proportion and differences between Commission contributions and proportionate share of contributions	2,330,900	-
Commission contributions subsequent to the measurement date	7,804,191	104,456
	<u>\$ 26,607,380</u>	<u>\$ 198,190</u>

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 11 – Retirement Plans: Local Governmental Employees' Retirement System (continued)

\$7,804,191 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2025. Other amounts reported as outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30:</u>	
2025	\$ 7,510,441
2026	3,629,513
2027	7,022,831
2028	442,214
Thereafter	-
	<u>\$18,604,999</u>

Actuarial Assumptions. The total pension liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.25 to 8.25 percent, including inflation and productivity factor
Investment rate of return	6.5 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). Mortality rates are based on the Pub-2010 Mortality tables with adjustments for mortality improvements based on the generational improvement Scale MP-2019. The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2022, valuation were based on the results of an actuarial experience investigation prepared as of December 31, 2019. Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2023, are summarized in the following table:

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 11 – Retirement Plans: Local Governmental Employees' Retirement System (continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100.0%	

The information above is based on 30-year expectations developed with the consulting actuary for the 2022 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.0%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Commission's proportionate share of the net pension asset to changes in the discount rate. The following presents the Commission's proportionate share of the net pension asset calculated using the discount rate of 7.0 percent, as well as what the Commission's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.0 percent) or one percentage point higher (8.0 percent) than the current rate:

	1% Decrease (5.5%)	Discount Rate (6.5%)	1% Increase (7.5%)
Commission's proportionate share of the net pension liability	\$67,693,988	\$ 39,073,896	\$15,511,153

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

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 12 – Deferred Outflows and Inflows of Resources – Unamortized Bond Refunding Charges

Gains and losses from debt refunding must be deferred and amortized over the lesser of the original remaining life of the old debt or the life of the new debt. In addition, gains and losses related to debt refunding are to be used in determining the carrying value of the new debt issued to finance debt refunding. The carrying values of the 2016 Revenue Refunding Bonds and the 2018 Revenue Refunding Bonds have been adjusted for the net loss from defeasance (net amortization) of \$530,085. These deferred inflows and outflows of resources are included as unamortized bond refunding charges in the statement of net position.

Note 13 - Risk Management

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

A – Property and Casualty

The Commission is self-insured with respect to workers' compensation (up to approximately \$1,000,000) and self-insured with respect to health insurance claims (up to approximately \$2,000,000). In addition, the Commission is self-insured with respect to certain policy deductible amounts as follows: up to \$200,000 per occurrence on public officials' liability, up to \$1,000,000 per occurrence on liability claims, and up to \$500,000 per occurrence on property claims. In addition, the Commission maintains excess liability insurance (\$25,000,000) to cover catastrophic losses and auto liability coverage with a \$1,000,000 deductible per occurrence. The Commission maintains an investment account amounting to \$3,500,000 to cover possible workers' compensation and other claims. This investment is classified under restricted assets in the financial statements. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under the incident reporting system has been made, because the amount is not reasonably estimated.

B – Health Insurance Claims

The Commission uses a third-party administrator to process health insurance claims. At June 30, 2024, and 2023, a liability for incurred but not reported claims of \$2,901,704 is included in accounts payable and accrued expenses on the accompanying financial statements. An analysis of claims for the Commission is presented below:

	<u>2024</u>	<u>2023</u>
Liability as of beginning of the year	\$ 3,002,452	\$ 3,159,492
Current year claims and changes		
in estimates	10,732,068	10,922,937
Actual claim payments	<u>(10,832,816)</u>	<u>(11,079,977)</u>
Liability as of end of the year	<u><u>\$ 2,901,704</u></u>	<u><u>\$ 3,002,452</u></u>

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 13 - Risk Management (continued)

C – Commercial Crime Policy Insurance

All Employees including the Chief Financial Officer, Controller and Director of Financial Planning and Capital Projects are insured under the Commission's Commercial Crime Policy in accordance with G.S. 159-29. The Crime policy provides coverage for losses related to employee dishonesty, fraud, forgery/alteration and theft of money or securities up to \$1,000,000. The Crime policy has a \$2,500 deductible per loss.

D – Commercial Performance and Surety Bond (Chief Financial Officer Specific)

The Chief Financial Officer is also insured under an individual Commercial Performance and Surety Bond Policy in accordance with Section 6A.8 of Chapter VI of the Charter of the City of Fayetteville and North Carolina General Statute 159 Article 3. It provides coverage for duties related to finance, accounting and faithful performance up to \$1,000,000 with no deductible.

E – Flood Insurance

The Commission carries flood insurance through the commercial insurance market. The current policy limit is \$300,000,000. The Federal Emergency Management Agency (FEMA) defines Zone A as an area close to a river, lake, or stream. For assets in Flood Zones A, V and B, a sublimit of \$25,000,000 applies to the loss event. The Commission's standard deductible is \$500,000 with the exception of a \$250,000 deductible set for combustion steam generators.

F – Other Commercial Coverage Insurance

The Commission carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage since the prior year and settled claims have not exceeded coverage in any of the last three fiscal years.

Note 14 - Commitments and Contingencies

A – Arbitrage

During the year ended June 30, 2024, the following bonds were subject to arbitrage regulations:

- 2018 Electric, Water and Wastewater Revenue
- 2021 Electric, Water and Wastewater Revenue
- 2023 Electric, Water and Wastewater Revenue

The arbitrage rebate payments are due on the fifth anniversary of the bond issue date. It is management's belief that the Commission's future rebate liability, if any, will be immaterial.

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 14 - Commitments and Contingencies (continued)

B – Capital Expenditures

The Commission has authorized expenditures totaling approximately \$897.7 million for capital additions and construction of various electric, water and wastewater projects. At June 30, 2024, cumulative expenditures to date totaled approximately \$251.2 million leaving an unexpended balance of \$646.5 million for projects that are expected to be completed at various dates through the year ending June 30, 2034.

C – Litigation

The Commission is involved in a few lawsuits arising principally in the normal course of operations. In the opinion of management, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statement.

D – Power Supply Contracts

In June 2009, the Commission executed a 20-year full requirements Power Supply and Coordination Agreement (PSCA) with Duke Energy Progress (DEP) formerly named Progress Energy Carolina, Inc. effective July 1, 2012. Subsequent amendments extended the term to 30 years. Under the PSCA, DEP provides PWC's full power supply requirements at an annually determined capacity and energy price based on DEP's average system cost. PWC will continue to utilize its SEPA allocation as permitted in the SEPA contract and the PSCA. In November 2019, PWC and DEP amended the contract, with the modifications expected to save PWC \$313 million (net present value saving) compared to the current agreement, including \$33 million savings prior to 2024 when the terms of the current agreement end. The terms of the amended agreement run through 2042 and PWC has the option to end the contract in 2032 with a three-year notice. In a separate agreement, DEP agreed to extend the power purchase agreement to dispatch PWC's Butler-Warner Generation Plant. New terms extend the contract through June 2024 for an additional \$5 million in PWC revenue. PWC may be able to achieve additional savings beyond 2024 if operational requirements are met.

Either party may challenge the correctness of any bill pursuant to the PSCA no later than 24 months after the payment date such bill was due. DEP provides PWC estimated energy and capacity rates each calendar year and calculates a true-up charge or credit, with interest, following the completion of DEP's calendar year period once the actual costs are known. Calendar year 2022 is open for challenges and is currently under review. As of the date of these financial statements, any known adjustments not yet billed or credited have been recorded.

In addition to the purchased power contract, PWC pays power transmission costs to its power supply provider, DEP. The transmission rates are established by the Federal Energy Regulatory Commission (FERC).

During the year ended June 30, 2024, the purchased power cost from DEP was \$133,205,079 including transmission costs and coal ash costs (see Note 14E).

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 14 - Commitments and Contingencies (continued)

E – Coal Ash

In September 2014, the Coal Ash Management Act (CAMA) became law in North Carolina. Subsequent to its passage, the Environmental Protection Agency (EPA) issued its own regulations and together with CAMA, requires DEP to take remedial actions to its plants producing Coal Combustion Residuals (CCRs). On April 26, 2017, DEP and PWC executed an amendment to the PSCA incorporating the recovery of CCR costs and in May 2017, DEP filed the amended contract with the Federal Energy Regulatory Commission (FERC). As of July 20, 2017, FERC accepted the contract with a July 1, 2017, effective date. Based on this acceptance and the terms of the contract, DEP began billing PWC for prior CCR costs (CCRCs) dating back to January 2015 in fixed monthly installments over a period of 24 months in January 2018. Another component of the charges related to coal ash recovery is Beneficial Reuse Costs (BRCs) and PWC was billed accordingly for DEP's cost incurred from January 2017. In January 2018, current and future costs going forward is estimated in the energy and demand rates of the PSCA for BRCs and CCRCs, respectively, and are subject to true-up provisions of the PSCA. The prior BRCs and CCRCs for 2015, 2016 and 2017 were previously recorded as a liability and have been fully recovered. DEP has shared with PWC the estimated cost to be recovered from PWC over the next 20 years, with the majority being due in the first 10 years. For this purpose, PWC collected approximately \$27.3 million through fiscal year 2017 restricted for this purpose and intends to fund the remaining costs through a combination of Electric Rate Stabilization funds and a pass-through charge to all customers through customer billings. Fiscal year 2024 coal ash costs of \$6,419,843 are included in the purchased power costs above. This amount was \$7,648,231 in fiscal year 2023.

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**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 15 - Related Party Transactions/Transfers Out

The Commission operates as a component unit of the City of Fayetteville, North Carolina. As such, the Commission provides electric and water/wastewater services to the City. Services, which are billed and paid monthly, totaled \$2,318,528 in 2024. In addition, intergovernmental transactions are made in amounts as determined by the respective governing Boards. Net intergovernmental transactions to/from the City amounted to \$11,023,515 in 2024. Balances due to/from the Commission were as follows:

	June 30, 2024
Receivables (due from the City of Fayetteville)	\$ 37,787
Assessments (due from the City of Fayetteville)	4,674,152
Assessments interest (due from the City of Fayetteville)	488,121
	<u>\$ 5,200,060</u>
 Payables (due to the City of Fayetteville)	 <u>\$ 324,237</u>

Note 16 - Other Post-Employment Benefits

Healthcare Benefits

Plan Description. The Commission has a single-employer defined benefit healthcare plan. The Commission has the authority to establish and amend the benefit terms and financing requirements. The Commission has chosen to fund the health care benefits on a pay as you go basis. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Benefits Provided. This plan provides post-employment healthcare benefits to retirees and their dependents up to the age of 65. The Commission and the qualified retirees share in the cost of the coverage. Employees who retire with a minimum of 20 years of creditable service have the option of sharing in the cost of coverage for themselves and purchasing coverage for dependents at the Commission's group rate. The Commission may amend the benefit provisions. A separate report was not issued for the plan.

Membership of the health benefits plan consisted of the following at June 30, 2023, the date of the latest actuarial valuation:

	Employees:
Retirees and dependents receiving benefits	158
Active plan members and covered spouses	308
Total	<u>466</u>

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 16 - Other Post-Employment Benefits (continued)

Total OPEB Liability

The Commission's total OPEB liability of \$21,624,502 was measured as of June 30, 2023, and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2024, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent, average
Discount rate	3.86 percent
Healthcare cost trend rates	Composite - Medical & Rx – 4.50 - 7.00%
	Admin Rate – 3.00%

The discount rate is based on the yield of the Bond Buyer GO-20 Bond Index as of the measurement date.

Changes in the Total OPEB Liability	Total OPEB Liability
Balance at July 1, 2023	\$ 23,637,116
Changes for the year	
Service Cost	347,879
Interest	803,810
Changes of benefit terms	
Differences between expected and actual experience	47,517
Changes in assumptions or other inputs	(206,571)
Benefit payments	(3,005,249)
Net changes	(2,012,614)
Balance at June 30, 2024	\$ 21,624,502

Changes in assumptions and other inputs reflect a change in the discount rate from 3.54% to 3.86%.

Mortality rates were based on the PUB-2010 General Classification headcount-weighted table projected generationally with Scale MP-2021.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Commission, as well as what the Commission's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current discount rate:

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 16 - Other Post-Employment Benefits (continued)

Total OPEB Liability (continued)

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total OPEB liability	\$23,177,336	\$21,624,502	\$20,224,380

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Commission, as well as what the Commission's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (6.00%) decreasing to 3.5% ultimate)	Trend Rate (7.00%) decreasing to 4.5% ultimate)	1% Increase (8.00%) decreasing to 5.5% ultimate)
Total OPEB liability	\$20,169,087	\$21,624,502	\$23,258,990

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

For the year ended June 30, 2024, the Commission recognized OPEB expense of \$251,195. At June 30, 2024, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 749,783	\$ 274,303
Changes of Assumptions	725,404	2,383,163
Commission contributions subsequent to the measurement date	1,741,535	-
Retiree contributions subsequent to the measurement date	-	125,150
Total	<u>\$ 3,216,722</u>	<u>\$ 2,782,616</u>

\$1,741,535 reported as deferred outflows of resources related to OPEB resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2025. \$125,150 reported as Deferred Inflows of Resources related to OPEB resulting from retiree benefit payments subsequent to measurement date will be recognized as an increase of the total pension liability in the year-ended June 30, 2025. Other amounts reported as deferred inflows/outflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30:	
2025	\$ (978,852)
2026	(203,427)
2027	-
2028	-
Thereafter	-
	<u><u>\$ (1,182,279)</u></u>

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 17 – Interfund Activity

	DUE FROM/(TO)			
	ELECTRIC	WATER	CAPITAL PROJECT FUNDS	TOTAL
ELECTRIC FUND:				
Substation Rebuild CPF	\$ 2,385,643	\$ -	\$ (2,385,643)	\$ -
Electric NCDOT U-4405	-	-	105,549	-
Renewable Resource Development CPF	1,087,994	-	(1,087,994)	-
Series 2023 Electric CPF	(608,145)	-	608,145	-
WATER FUND:				
Annex V, 18-19 CPF	-	(213)	213	-
Annex V, 24-25 CPF	-	9,173	(9,173)	-
Annex V, 26-27 CPF	-	(890,919)	890,919	-
Annex V, 28-29 CPF	-	3,883	(3,883)	-
Annex V, 30-31 CPF	-	513	(513)	-
Annex V, 32-34 CPF	-	(57,870)	57,870	-
Hurricane Matthew CPF	-	6,391,488	(6,391,488)	-
Rockfish Creek Basin Peak Flow Facilities CPF	-	499,201	(499,201)	-
Big Rockfish - SS Outfall CPF	-	2,529,756	(2,529,756)	-
Big Rockfish - SS Outfall Lift Station Elim CPF	-	652,818	(652,818)	-
Glenville-PO Hoffer Reliability Improvements	-	837,804	(837,804)	-
Series 2021 W/WW CPF	-	(37,495)	37,495	-
Series 2023 W/WW CPF	-	(49,743)	49,743	-
TOTAL PER FUNDS	\$ 2,865,492	\$ 9,888,396	\$ (12,648,339)	\$ -
LESS ELIMINATIONS	(2,865,492)	(9,888,396)	12,648,339	-
TOTAL AFTER ELIMINATIONS	\$ -	\$ -	\$ -	\$ -

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**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

Notes to the Financial Statements (continued)

June 30, 2024

Note 17 – Interfund Activity (continued)

Transfers are primarily related to the transfer of capital assets between funds, which usually occur at the onset of a capital project and as the project draws to an end. Those transfers that are not capital related are made between the Rate Stabilization funds, various capital project funds, and the respective Electric Operating or Water and Wastewater Operating funds. These types of transfers are used to finance the programs/projects that the PWC must account for in other funds in accordance with budgetary authorizations.

	TRANSFER (TO)/FROM			
	ELECTRIC	WATER	ANNEX V RESERVE	CAPITAL PROJECT FUNDS
ELECTRIC FUND:				
transfer to Annexation Ph V Reserve Fund	\$ (5,166,474)	-	\$ 5,166,474	-
transfer to Electric Rate Stabilization Fund	(8,995,800)	-	-	8,995,800
transfer to Transportation Equipment CPF	(2,158,059)	-	-	2,158,059
transfer to Series 2023 Bonds	(65,834,466)	-	-	65,834,466
transfer to Electric (from Electric Rate Stabilization)	22,074,465	-	-	(22,074,465)
		-	-	
WATER FUND:				
transfer to Water Rate Stabilization Fund	-	(250,000)	-	250,000
transfer to Annexation V Reserve Fund	-	(4,070,921)	4,070,921	-
transfer to Transportation Equipment CPF	-	(1,602,500)	-	1,602,500
transfer to Series 2023 W/WW Bond Proceeds	-	(38,465,132)	-	38,465,132
transfer to Series 2023 Annexation, Area 24-25 Fund	-	(29,287,191)	-	29,287,191
transfer to Series 2023 Annexation, Area 26 Fund	-	(12,264,317)	-	12,264,317
transfer to Series 2023 Annexation, Area 32-34 Fund	-	(18,305,681)	-	18,305,681
transfer to AIA Grant	-	(237,900)	-	237,900
transfer to NCDOT Project Fund	-	(9,070,631)	-	9,070,631
transfer to Water (from Annexation V Reserve Fund)	-	5,071,043	(5,071,043)	-
transfer to Water (from Transportation Equip CPF)	-	1,152,984	-	(1,152,984)
transfer from Annex V Areas 24-25 (to Annex V Reserve)	-	-	7,329,878	(7,329,878)
transfer to Annex V Areas 26-27 (from Annex V Reserve)	-	-	(670,674)	670,674
transfer to Annex V Areas 28-29 (from Annex V Reserve)	-	-	(372,830)	372,830
transfer to Annex V Areas 30-31 (from Annex V Reserve)	-	-	(458,857)	458,857
transfer to Annex V Areas 32-34 (from Annex V Reserve)	-	-	11,168,021	(11,168,021)
TOTAL PER FUNDS	\$ (60,080,334)	\$ (107,330,246)	\$ 21,161,890	\$ 146,248,690
LESS ELIMINATIONS	(54,913,860)	(107,330,246)	(15,995,416)	146,248,690
TOTAL AFTER ELIMINATIONS	\$ (5,166,474)	\$ -	\$ 5,166,474	\$ -

**Required Supplementary Information
(UNAUDITED)**

FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Other Post Employment Benefit Retiree Healthcare Plan
Required Supplementary Information
(Unaudited)

Schedule of Changes in the Total OPEB Liability and Related Ratios

Last Seven Fiscal Years*

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Total OPEB Liability				
Service Cost	\$ 347,879	\$ 457,798	\$ 680,802	\$ 591,679
Interest	803,810	554,640	758,247	1,261,273
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	47,517	1,213,879	(1,277,854)	(385,318)
Changes in assumptions	(206,571)	(2,319,733)	(5,852,037)	(1,127,566)
Benefit payments	(3,005,249)	(2,963,147)	(2,475,440)	(1,630,150)
Net change in total OPEB liability	(2,012,614)	\$ (3,056,563)	\$ (8,166,282)	\$ (1,290,082)
Total OPEB liability - beginning	23,637,116	26,693,679	34,859,961	36,150,043
Total OPEB liability - ending	\$ 21,624,502	\$ 23,637,116	\$ 26,693,679	\$ 34,859,961
 Covered-employee payroll	 \$ 56,619,675	 \$ 48,092,376	 \$ 46,721,898	 \$ 44,357,862
Total OPEB liability as a percentage of covered- employee payroll	 38.19%	 49.15%	 57.13%	 78.59%

Notes to Schedule

¹ Changes of assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Discount Rate	3.86%	3.54%	2.16%	2.21%

The Commission has elected not to accumulate assets in a qualifying trust as allowed by Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*.

*Information is not available for years prior to 2018.

FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Other Post Employment Benefit Retiree Healthcare Plan
Required Supplementary Information
(Unaudited)

Schedule of Changes in the Total OPEB Liability and Related Ratios

Last Seven Fiscal Years*

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability			
Service Cost	\$ 522,127	\$ 533,802	\$ 565,873
Interest	1,066,552	996,634	836,244
Changes of benefit terms	-	-	-
Differences between expected and actual experience	1,885,481	1,283,176	1,346,521
Changes in assumptions	6,872,914	(380,720)	(1,715,410)
Benefit payments	<u>(2,445,562)</u>	<u>(2,953,023)</u>	<u>(2,066,658)</u>
Net change in total OPEB liability	\$ 7,901,512	\$ (520,131)	\$ (1,033,430)
Total OPEB liability - beginning	28,248,531	28,768,662	29,802,092
Total OPEB liability - ending	<u>\$ 36,150,043</u>	<u>\$ 28,248,531</u>	<u>\$ 28,768,662</u>
 Covered-employee payroll	 \$ 42,079,777	 \$ 38,860,875	 \$ 38,396,209
Total OPEB liability as a percentage of covered- employee payroll	 85.91%	 72.69%	 74.93%

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Discount Rate	3.51%	3.87%	2.85%

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Local Government Employees' Retirement System
Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
(Unaudited)**

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
PWC's proportion of the net pension liability (asset) (%)	0.5899%	0.6071%	0.6163%	0.5726%	0.5720%
PWC's proportion of the net pension liability (asset) (\$)	\$ 39,073,895	\$ 34,249,109	\$ 9,451,408	\$ 20,462,876	\$ 15,621,420
PWC's covered payroll	\$ 56,619,675	\$ 48,092,376	\$ 46,721,898	\$ 44,357,862	\$ 42,079,777
PWC's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	64.34%	71.22%	20.23%	46.13%	37.12%
Plan fiduciary net position as a percentage of the total pension liability **	88.20%	90.70%	95.51%	91.63%	94.18%

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

**FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA**

**Local Government Employees' Retirement System
Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
(Unaudited)**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
PWC's proportion of the net pension liability (asset) (%)	0.5575%	0.5727%	0.5647%	0.5617%	0.5597%
PWC's proportion of the net pension liability (asset) (\$)	\$ 13,227,467	\$ 8,749,736	\$ 11,984,401	\$ 2,521,055	\$ (3,301,280)
PWC's covered payroll	\$ 38,860,875	\$ 38,396,209	\$ 36,757,085	\$ 36,012,022	\$ 35,553,227
PWC's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	34.04%	22.79%	32.60%	7.00%	(9.29%)
Plan fiduciary net position as a percentage of the total pension liability **	91.47%	98.09%	99.07%	102.64%	94.35%

FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Local Government Employees' Retirement System
Required Supplementary Information
(Unaudited)

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Contractually required contribution	7,804,191	\$ 7,136,059	\$ 7,973,717	\$ 7,185,803	\$ 6,289,945
Contributions in relation to the contractually required contribution	<u>7,804,191</u>	<u>7,136,059</u>	<u>7,973,717</u>	<u>7,185,803</u>	<u>6,289,945</u>
Contribution deficiency (excess)	<u></u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
PWC's covered payroll	\$ 60,733,006	\$ 56,619,675	\$ 48,092,376	\$ 46,721,733	\$ 44,357,862
Contributions as a percentage of covered payroll	12.85%	12.60%	16.58%	15.38%	14.18%

FAYETTEVILLE PUBLIC WORKS COMMISSION
COMPONENT UNIT OF THE CITY OF FAYETTEVILLE, NORTH CAROLINA

Local Government Employees' Retirement System
Required Supplementary Information
(Unaudited)

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 5,461,958	\$ 4,946,988	\$ 4,791,848	\$ 4,374,095	\$ 4,429,479
Contributions in relation to the contractually required contribution	<u>5,461,958</u>	<u>4,946,988</u>	<u>4,791,848</u>	<u>4,374,095</u>	<u>4,429,479</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
PWC's covered payroll	\$ 42,079,777	\$ 38,860,875	\$ 38,396,209	\$ 36,757,085	\$ 36,012,022
Contributions as a percentage of covered payroll	12.98%	12.73%	12.48%	11.90%	12.30%

APPENDIX B

DEFINITIONS OF CERTAIN TERMS AND SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER

**DEFINITIONS OF CERTAIN TERMS AND
SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER**

The following is a summary of certain terms and provisions of the Bond Order. Such summary is not intended to be a complete statement of all of the terms and provisions of the Bond Order. Reference is made to the complete copy of the Bond Order on file with the Trustee for a complete description of the terms and provisions of the Bond Order.

DEFINITIONS OF CERTAIN TERMS

The following is a summary of certain defined terms contained in the Bond Order and used in this Official Statement:

“Act” means The State and Local Government Revenue Bond Act, constituting Article 5 of Chapter 159 of the General Statutes of North Carolina, as amended (§159-80 et seq.).

“Additional Bonds” shall mean additional bonds as permitted by the Bond Order as described under “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER - Additional Bonds” below.

“Additional Project” means any addition, acquisition, improvement, betterment or extension of or relating to the System. The term “Additional Project” shall not include the 1990 Project or any Special Facilities.

“Annual Budget” means the Annual Budget required by the Bond Order.

“Balloon Indebtedness” means System Indebtedness 25% or more of the principal payments of which are due in a single year, which portion of the principal is not required by the documents pursuant to which such System Indebtedness is issued to be amortized by redemption prior to such date. Balloon Indebtedness shall be subject to calculation as provided in the Bond Order.

“Bond Fund” means the fund of that name created by the Bond Order as further described under “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER - Bond Fund” below.

“Bonds” means the Series 2016 Bonds, the Series 2018 Bonds, the Series 2021 Bonds, the Series 2023 Bonds, the Series 2024 Bonds, and any other Additional Bonds.

“Bond Year” means, with respect to the Series 2025 Bonds, the period beginning the first day of March of each year and ending on the last day of February of the following year.

“Book Value” when used in connection with Property, Plant and Equipment or other Property of any Person, means either the value of such Property, net of accumulated depreciation, as it is carried on the books of such Person in conformity with generally accepted accounting principles consistently applied. In preparation of such certificate, Book Value shall be that value set forth in the most recent audited financial statements of the Person.

“Business Day” means a day on which (a) the Trustee is open for the purpose of conducting a commercial banking business and (b) the New York Stock Exchange is open.

“City” or “Issuer” means the City of Fayetteville, North Carolina, acting by and through its City Council.

“City Transfers” means payments made to the City pursuant to the Bond Order as further described under “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER - System Covenants - City Transfers” below.

“Code” means the Internal Revenue Code of 1986, as amended, as it applies to the Bonds and final regulations and all proposed regulations which, if adopted in their present form, would apply to the Bonds. Reference herein to any specific provision of the Code shall be deemed to include any successor provision thereto.

“Commission” means the Fayetteville Public Works Commission created by Chapter VIA of the City Charter, as amended.

“Commission Representative” means the person or persons at the time designated by the Commission to act on behalf of the Commission by written certification furnished to the Trustee containing the specimen signatures of such person or persons and signed on behalf of the Commission by its duly authorized agent. Such certificate may designate an alternate or alternates.

“Completion Indebtedness” means any System Indebtedness for the purpose of financing the completion of construction or equipping of facilities for which System Indebtedness has theretofore been incurred to the extent initially expected to be necessary to provide completed and equipped facilities of the type and scope contemplated at the time that such initial System Indebtedness was originally incurred, and in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformance with the documents pursuant to which such System Indebtedness in anticipation thereof was originally incurred or if certified by a Consulting Engineer, such changes as are required by the Commission or for the System, including as required by environmental or other regulatory requirements.

“Connection Charges” means the charges imposed on those connecting to the System for the cost of physically connecting into the System, including but not limited to, the cost of excavating, plumbing, installation of meters and landscaping. Connection Charges shall not include System Development Fees or Contributions in Aid of Construction.

“Construction Fund” means the fund of that name created by the Bond Order, in which fund there is created the Series 2025 Project Account.

“Consulting Engineer” means any qualified and recognized nationally known engineer or engineering firm as selected by the Commission.

“Contributions in Aid of Construction” means contributions (in the form of cash, securities or tangible assets) toward the construction of electric, water or sewer plant capital improvements received from those connecting into the System, including but not limited to, the cost of excavating, plumbing, installation of meters or landscaping. Contributions in Aid of Construction shall not include System Development Fees or Connection Charges.

“Credit Facility” means a line of credit, letter of credit, standby bond purchase agreement, bond insurance policy, surety bond, guaranteed investment contract or similar liquidity or credit facility established or obtained in connection with the issuance of any Bonds.

“Credit Facility Obligations” means any repayment obligations to the provider of any Credit Facility securing Bonds to reimburse such provider for amounts drawn or advanced under the Credit Facility to pay the principal or purchase price of, premium, if any, and interest on the Bonds, together with interest thereon, as specified in the reimbursement agreement, standby bond purchase agreement or any similar type document related to such Credit Facility (including, in the case of a bond insurance policy, reserve fund insurance policy or surety bond, the documents pursuant to which the applicable series of Bonds were issued); provided, however, that any such payment obligations to reimburse the provider of a Credit Facility for moneys drawn to purchase, but not pay and retire, Bonds will constitute a Credit Facility Obligation only to the extent such payments are in excess of any scheduled payments of principal and interest required to be made on the Bonds so purchased.

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

“Cross-over Refunded Indebtedness” means System Indebtedness refunded by Cross-over Refunding Indebtedness.

“Cross-over Refunding Indebtedness” means System Indebtedness issued for the purpose of refunding other System Indebtedness if the proceeds of such Cross-over Refunding Indebtedness are irrevocably deposited in escrow to secure the payment on the applicable redemption date or maturity date, which date is contemplated to be the Cross-over Date, of the refunded System Indebtedness, and the earnings on such escrow deposit are required to be applied to pay interest either on such Cross-over Refunding Indebtedness or such Cross-over Refunded Indebtedness until the Cross-over Date.

“Debt Service Coverage Ratio” means, for any period of time, the ratio determined by dividing the Income Available for Debt Service by the Debt Service Requirement, both as determined in the annual audited financial statements of the Commission.

“Debt Service Requirement” means, for any period of time for which such determination is made, the aggregate of the payments to be made in respect of principal and interest on outstanding Bonds during such period; provided, however, that interest shall be excluded from the determination of Debt Service Requirement to the extent such interest is provided from the proceeds of the Bonds and deposited with the Trustee or set aside by the Commission and irrevocably deposited with the Trustee from other available sources and designated exclusively for such use.

“Default” means any Default under the Bond Order as specified in and defined by the Bond Order as further described under “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER - Default and Remedies” below.

“Defeasance Obligations” means obligations described in North Carolina General Statutes Section 159-30(c)(1) or (11), including obligations issued pursuant to Section 21B(d)(3) of the Federal Home Loan Bank Act, as amended by Section 511(a) of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

“Demand Charge Component” means that portion of any rates, fees, charges or payments which the Commission is obligated to pay to another entity for purchase of electrical capacity whether or not energy is actually received, for the specific purpose of meeting principal, interest, finance charges or dividends on that entity’s obligations or any other means by which such entity raised capital for the construction or ownership of the electrical capacity which is being purchased.

“Derivative Agreement” means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk; and (v) any other type of contract or arrangement that the City determines is to be used, or is intended to be used, to manage or reduce the cost of System Indebtedness, to convert any element of System Indebtedness from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

“Derivative Agreement Additional Payments” means payments required to be paid by the City under a Derivative Agreement other than Derivative Agreement Scheduled Payments, including termination payments required to be paid in connection with the termination of a Derivative Agreement, whether voluntarily or upon the occurrence of an event of default, termination event or similar event thereunder.

“Derivative Agreement Parity Payments” means Derivative Agreement Scheduled Payments that are required by the terms of a Derivative Agreement to be paid by the City on a parity basis as provided in the Bond Order.

“Derivative Agreement Scheduled Payments” means scheduled payments required to be paid by the City under a Derivative Agreement that are based upon a fixed or variable imputed rate on a notional amount set forth in the Derivative Agreement and which are intended by the City and the Commission to correspond to interest payments on the underlying Derivative Indebtedness.

“Derivative Indebtedness” means System Indebtedness or any portion thereof with respect to which the City shall have entered into a Derivative Agreement. Derivative Indebtedness shall be subject to the calculations as provided in the Bond Order.

“Electric System” means all facilities or projects owned, operated or used by the City or the Commission for the generation, transmission and distribution of electric power and energy for lighting, heating and power, and all additions, extensions and improvements thereto which may at any time be constructed or acquired.

“Electric System Revenues” means that portion of Revenues relating to the Electric System.

“Facility Investment Fees” means System Development Fees.

“Fiscal Year” means the period beginning on July 1 of each calendar year and extending through June 30 of the succeeding calendar year or such other fiscal year used by the Commission with respect to the System from time to time.

“General Fund” means the fund of that name created by the Bond Order as further described under “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER - General Fund; Payments Thereto and Use Thereof” below.

“GO System Bonds” means general obligation bonds of the City which have been or may be issued in the future to finance the System.

“GO System Debt Service Coverage Ratio” means, for any audited Fiscal Year, the ratio determined by dividing (a) Income Available for Debt Service less the Debt Service Requirement for such Fiscal Year by (b) the sum of the principal and interest paid on outstanding GO System Bonds during such Fiscal Year (excluding any principal or interest paid on outstanding GO System Bonds during such Fiscal Year from moneys held in the City’s general fund or from any other source of funds available to the City and not derived from the use or operation of the System).

“Income Available for Debt Service” means for any period the excess of Revenues over the sum of Operating Expenses and Demand Charge Component; provided, however, that (a) no determination thereof shall take into account any gain or loss resulting from either the sale or disposal of assets or the extinguishment of any indebtedness; (b) no determination thereof shall take into account any gains or losses resulting from the periodic valuation of investments or Derivative Agreements that do not involve the sale, transfer or other disposition of any such investment or Derivative Agreement or the termination of any Derivative Agreement; (c) no determination thereof shall take into account any nonrecurring items of an extraordinary nature which do not involve the receipt, expenditure or transfer of assets and (d) no determination thereof shall take into account any scheduled payment made by or to the City or the Commission pursuant to a Derivative Agreement.

“Independent Counsel” means an attorney duly admitted to practice law before the highest court of any state and who is not a full-time employee, director, officer, or partner of the City, the Commission or the Trustee.

“Interest Account” means the account of that name in the Bond Fund.

“Interest Payment Date” means, with respect to the Series 2025 Bonds, March 1 and September 1 of each year, beginning March 1, 2026.

“Lien” means any mortgage, deed of trust or pledge of, security interest in or encumbrance or other lien on any Property of any Person that secures any indebtedness.

“LGC” means the Local Government Commission of North Carolina, a division of the Department of State Treasurer, and any successor or successors thereto, or its designated representative.

“Major Construction Account” means the account of that name created in the General Fund established by the Bond Order as further described under “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER - General Fund - Major Construction Account” below.

“Major Construction Account Requirement” means such amount as the City or the Commission determine shall be deposited in the Major Construction Account as reflected in the Annual Budget for any Fiscal Year.

“Maximum Annual Debt Service” means the largest Debt Service Requirement for any current or succeeding Bond Year.

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

“Net Proceeds”, when used with respect to any insurance proceeds or any condemnation award, means the amount remaining after deducting all expenses (including attorneys’ fees) incurred in the collection of such proceeds or award from the gross proceeds thereof.

“Net Revenues”, when used with respect to any period, means the excess, if any, of the Revenues for such period, over the Operating Expenses and Demand Charge Components for such period.

“Non-Recourse Indebtedness” means any indebtedness of the City or the Commission secured by a Lien, the liability for which is effectively limited to the Property, the purchase, acquisition or improvement of which was financed by the proceeds of such indebtedness and which is part of the System and for which there is no recourse against the City, the Commission, any operator of the System or the System (except as to a Lien on such Property).

“Officer’s Certificate” means a certificate signed by the Mayor or City Manager of the City, or the General Manager of the Commission. Each Officer’s Certificate presented under the Bond Order shall state that it is being delivered pursuant to (and shall identify the section or subsection of) the Bond Order and shall incorporate by reference and use in all appropriate instances all terms defined in the Bond Order. Each Officer’s Certificate shall state that (a) the terms thereof are in compliance with the requirements of the section or subsection pursuant to which such Officer’s Certificate is delivered, or shall state in reasonable detail the nature of any non-compliance and the steps being taken to remedy such non-compliance, and (b) it is being delivered together with any opinions, schedules, statements, pro forma financial statements or other documents required in connection therewith.

“Operating Expenses” means the current expenses, paid or accrued, of operation, maintenance and ordinary current repairs of the System and shall include, without limiting the generality of the foregoing, salaries, supplies, rents, insurance premiums, administrative expenses of the City or the Commission relating to the System, fees and expenses of the Trustee and any other tender agent or paying agent, credit facility fees, remarketing fees and fees of consultants and such other reasonable current expenses as shall be in accordance with generally accepted accounting practice. “Operating Expenses” shall not include (a) debt service on System Indebtedness or Subordinated Indebtedness or any installment or lease payments in respect of installment financing contracts or capital leases for any component of the System, (b) any allowance for depreciation, amortization or Demand Charge Components, (c) any accrued prepaid expenses that do not involve the actual payment or disposition of revenues, (d) any expenses in connection with Special Facilities or (e) Derivative Agreement Scheduled Payments or Derivative Agreement Additional Payments.

“Outstanding”, “Outstanding” or “Bonds Outstanding” means all Bonds or GO System Bonds which have been authenticated and delivered by the Trustee under the Bond Order, supplemental bond orders or resolutions with respect to GO System Bonds, except:

(a) System Indebtedness canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) System Indebtedness paid or deemed to be paid pursuant to the Bond Order or comparable provisions of other documents; and

(c) System Indebtedness in lieu of which others have been authenticated under the Bond Order or comparable provisions of other documents.

“Owner” or “Registered Owner” means the person or persons in whose name or names a Bond shall be registered on the books of the City kept for that purpose by the Trustee in accordance with the provisions of the Bond Order.

“Permitted Investments” means:

(a) Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States.

(b) Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, and the United States Postal Service.

(c) Obligations of the State.

(d) Bonds and notes of any North Carolina local government or public authority, subject to such restrictions as the Secretary of the LGC may impose.

(e) Savings certificates issued by any savings and loan association organized under the laws of the State of North Carolina or by any federal savings and loan association having its principal office in the State; provided that any principal amount of such certificate in excess of the amount insured by the federal government or any agency thereof, or by a mutual deposit guaranty association authorized by the Administrator of the Savings Institutions Division of the Department of Economic and Community Development of the State of North Carolina, be fully collateralized.

(f) Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation.

(g) Bills of exchange of time drafts drawn on and accepted by a commercial bank and eligible for use as collateral by member banks in borrowing from a federal reserve bank, provided that the accepting bank or its holding company is either (1) incorporated in the State or (2) has outstanding publicly held obligations bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations.

(h) Participating shares in a mutual fund for local government investment; provided that the investments of the fund are limited to Permitted Investments and that said fund is certified by the LGC.

(i) A commingled investment pool established and administered by the State Treasurer pursuant to Section 147-69.3 of the General Statutes of North Carolina.

(j) A commingled investment pool established by interlocal agreement by two or more units of local government pursuant to Sections 160A-460 through 160A-464 of the General Statutes of North Carolina, if the investments of the pool are limited to Permitted Investments.

(k) Evidences of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligations of the United States government or obligations the principal of and the interest on which are guaranteed by the United States, which obligations are held by a bank or trust

company organized and existing under the laws of the United States or any state in the capacity of custodian.

(1) Repurchase agreements with respect to either direct obligations of the United States or obligations the principal of and the interest on which are guaranteed by the United States if entered into with a broker or dealer, as defined by the Securities Exchange Act of 1934, which is a dealer recognized as a primary dealer by a Federal Reserve Bank, or any commercial bank, trust company or national banking association, the deposits of which are insured by the Federal Deposit Insurance Corporation or any successor thereof if:

(1) Such obligations that are subject to such repurchase agreement are delivered (in physical or in book entry form) to the Trustee or any financial institution serving as a fiscal agent for the Trustee or are supported by a safekeeping receipt issued by a depository satisfactory to the Trustee provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated at least daily, of not less than one hundred percent (100%) of the repurchase price, and, provided further, that the Trustee or any financial institution serving as a fiscal agent for the Trustee holding the obligations subject to the repurchase agreement or the depository issuing the safekeeping receipt shall not be the provider of the repurchase agreement;

(2) A valid and perfected first security interest in the obligations which are the subject of such repurchase agreement has been granted to the Trustee or its assignee or book entry procedures, conforming, to the extent practicable, with federal regulations and satisfactory to the Trustee have been established for the benefit of the Trustee or its assignee;

(3) Such securities are free and clear of any adverse third party claims; and

(4) Such repurchase agreement is in a form satisfactory to the Trustee.

(m) Participating shares in tax-exempt mutual funds, to the extent such participation, in whole or in part, is not subject to Code rebate provisions, and taxable mutual funds, to the extent such fund provides services in connection with the calculation of arbitrage rebate requirements under federal income tax law; provided, the investments of any such fund are limited to those bearing one of the two highest ratings of at least one nationally recognized rating service and not bearing a rating below one of the two highest ratings by any nationally recognized rating service which rates the particular fund.

“Permitted Liens” means those liens described in the Bond Order as further described under “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER - System Covenants - Creation of Liens” below.

“Person” means an individual, partnership, corporation, trust, unincorporated organization, association, joint venture or a government or agency or political subdivision thereof.

“Principal Account” means the account of that name in the Bond Fund.

“Principal Payment Date” means, in the case of the Series 2025 Bonds, March 1 of each year, and with respect to any other Bonds, the dates specified in the supplemental bond order authorizing such Bonds.

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

“Property, Plant and Equipment” means all Property in the System that is property, plant and equipment under generally accepted accounting principles.

“Purchase Money Lien” means (a) any Lien on any Property in the System to secure the initial financing of the acquisition or construction of such Property, provided such Lien attaches within 120 days after the date such Property was acquired or construction thereof was completed, which “initial financing” may include the refinancing of advances to or by a Person if such refinancing occurs within 120 days after such date or acquisition or completion of construction, and (b) any Lien on Property subject to a Purchase Money Lien to secure the refinancing of indebtedness secured with such Purchase Money Lien.

“Put Indebtedness” means System Indebtedness a feature of which is an option on the part of the holders of such System Indebtedness to tender all or a portion of such System Indebtedness prior to the stated maturity date of such System Indebtedness to a remarketing agent for sale to other investors or, in the event such agent is not able to remarket such tendered System Indebtedness, for which a Credit Facility is available to provide for the purchase and holding of such System Indebtedness until it is remarketed by a remarketing agent. Put Indebtedness shall be subject to calculations as provided in the Bond Order.

“Record Date” means, with respect to the Series 2025 Bonds, the 15th day of the month (whether or not a Business Day) preceding each Interest Payment Date.

“Reserve Fund” means the fund of that name created by the Bond Order, as further described under “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER - Reserve Fund” below.

“Reserve Fund Requirement” means, with respect to any other series of Additional Bonds, the amount, if any, required to be placed or maintained in an account of the Reserve Fund for such series of Additional Bonds as may be set forth in the supplemental bond order authorizing such series of Additional Bonds and creating such account. Pursuant to the Bond Order, any Reserve Fund Requirement may be met by permitted forms of credit enhancement.

“Revenue” and “Revenues” mean revenues, determined in accordance with generally accepted accounting principles, and constituting the property of the City or the Commission from, in connection with or as a result of, the ownership or operation by the City or the Commission of the System, and any earnings or interest from the investment of moneys so received and any earnings or interest from the investment of proceeds of Bonds (but only to the extent paid into the General Fund). Revenues shall specifically include (a) Connection Charges, (b) revenues derived from special assessments levied by the City or the Commission relating to all or any part of the System (but only to the extent paid into the General Fund) and (c) System Development Fees (but only to the extent paid into the General Fund), but shall not include Contributions in Aid of Construction, System Development Fees (to the extent not deposited in the General Fund) or revenues from Special Facilities.

“Series Certificate” means the certificate of the Chief Financial Officer of the Issuer filed with the Trustee on the date of delivery of the Series 2025 Bonds, as set forth in the Series 2025 Bond Order.

“Series 1995A Bonds” means the City’s Public Works Commission Revenue Bonds, Series 1995A, none of which are outstanding.

“Series 2016 Bonds” means the City’s Public Works Commission Revenue Bonds, Series 2016.

“Series 2018 Bonds” means the City’s Public Works Commission Revenue Bonds, Series 2018.

“Series 2021 Bonds” means the City’s Public Works Commission Revenue Bonds, Series 2021.

“Series 2023 Bonds” means the City’s Public Works Commission Revenue Bonds, Series 2023.

“Series 2024 Bonds” means the City’s Public Works Commission Refunding Revenue Bonds, Series 2024.

“Series 2025 Bond Order” means the Bond Order adopted by the City Council of the City on September 22, 2025, authorizing the Series 2025 Bonds, including any amendments or supplements thereto.

“Series 2025 Project Account” means the account created and so designated by the Series 2025 Bond Order.

“Series 2025 Serial Bonds” means the Series 2025 Bonds so designated in the certificate of the Chief Financial Officer of the City required under the Series 2025 Bond Order.

“Series 2025 Subaccount of the Interest Account” means the subaccount created and so designated by the Series 2025 Bond Order.

“Series 2025 Subaccount of the Principal Account” means the subaccount created and so designated by the Series 2025 Bond Order.

“Series 2025 Term Bonds” means the Series 2025 Bonds, if any, so designated in the certificate of the Chief Financial Officer of the City required under the Series 2025 Bond Order.

“Sinking Fund Requirement” means, with respect to the Series 2025 Term Bonds and for any Bond Year, the principal amount fixed or computed for retirement by purchase or redemption on March 1 of the following Bond Year.

The Sinking Fund Requirements for the Series 2025 Term Bonds shall be initially the respective principal amounts of such Series 2025 Term Bonds to be redeemed or otherwise retired on March 1 of the following Bond Year as set forth in the certificate of the Chief Financial Officer of the City required by the Series 2025 Bond Order.

On or before the 60th day next preceding any March 1 on which Series 2025 Term Bonds are to be retired pursuant to the Sinking Fund Requirement, the City may deliver to the Trustee for cancellation Series 2025 Term Bonds required to be redeemed on such March 1 in any aggregate principal amount desired and receive a credit against amounts required to be transferred from Series 2025 Subaccount of the Principal Account on account of such Series 2025 Term Bonds in the amount of 100% of the principal amount of any such Series 2025 Term Bonds so purchased. Any principal amount of Series 2025 Term Bonds delivered to the Trustee for cancellation and cancelled in excess of the principal amount required to be redeemed on such March 1 shall be credited against and reduce the principal amount of future Sinking Fund Requirements in such manner as shall be specified in an Officer’s Certificate filed with the Trustee.

It shall be the duty of the Trustee, on or before the March 15 of each Bond Year, to confirm, as necessary, the Sinking Fund Requirement for such Bond Year and all subsequent Bond Years for the Series 2025 Term Bonds. The Sinking Fund Requirement for such Bond Year as so confirmed shall continue to be applicable during the balance of such Bond Year, and no adjustment shall be made therein by reason of Series 2025 Term Bonds purchased or redeemed or called for redemption during such Bond Year.

If any Series 2025 Term Bonds of the same maturity are paid or optionally redeemed by or on behalf of the City, the Trustee shall reduce future Sinking Fund Requirements therefor in such manner as shall be specified in an Officer's Certificate filed with Trustee.

"Special Facilities" means any future extensions or additions to the System or other projects, facilities or activities operated by the Commission, the revenues and expenses relating to which can be segregated from the revenues and expenses of the System and which the City designates as such.

"State" means the State of North Carolina.

"State Clean Water Bond Loan Program" mean any program established by the State providing for loans to local government units for water and wastewater projects funded from the proceeds of bonds issued by the State for such purpose and that are designated in the debt instruments relating thereto to be payable on a parity with any other outstanding revenue bonds or other parity debt instruments of such local government unit. For purposes of the Bond Order, obligations or debt instruments executed and delivered to the State as part of any State Clean Water Bond Loan Program are deemed to be Bonds.

"State Clean Water Revolving Loan Program" means the program established by the State Water Revolving Loan and Grant Act providing for loans to local government units for water and wastewater projects.

"Subordinated Indebtedness" means all obligations or debt instruments issued or incurred by the City in respect of the System which are secured by and from Net Revenues other than the Bonds, Credit Facility Obligations and GO System Bonds. The terms of any Subordinated Indebtedness shall provide that it shall be junior, inferior and subordinate in all respects to the Bonds, Credit Facility Obligations and GO System Bonds as to the lien on and source and security for payment from the Revenues and in all other respects as provided in "SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER – Limitations on Incurrence of Indebtedness" below. Subordinated Indebtedness shall not include any obligations issued to finance Special Facilities.

In the event of (a) any insolvency or bankruptcy proceedings, any receivership, liquidation, reorganization, arrangement or other similar proceedings in connection therewith, relative to the City, the Commission or the System, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the City, the Commission or the System whether or not involving insolvency or bankruptcy, (b) any Subordinated Indebtedness is declared or otherwise becomes due and payable before its stated maturity because of the occurrence of an event of default occurring under the documents pursuant to which such Subordinated Indebtedness was incurred or (c) any Default under the Bond Order as described in "SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER – Defaults and Remedies" below shall occur and be continuing and (i) written notice of such Default shall have been given to the City and the Commission and (2) judicial proceedings shall be commenced in respect of such Default within 90 days of such Default, then, for so long as any action described in clause (a), (b) or (c) above shall not have been remedied or cured in the opinion of the Trustee, the Owners of the Bonds and GO System Bonds shall be entitled to receive payment in full of all principal, premium and interest on all Bonds and GO System Bonds before the owners or holders of the Subordinated Indebtedness are entitled to receive any payment on account of principal of or interest on the outstanding Subordinated Indebtedness, and to that end the Owners of the Bonds and the owners or holders of GO System Bonds shall be entitled to receive for application in payment thereof any payment or distribution of any kind or character, whether in cash or property or securities, which may be payable or deliverable in any such proceedings in respect of the Subordinated Indebtedness after giving effect to any concurrent payment or distribution in respect to such Bonds or GO System Bonds in the manner described in "SUMMARY OF

CERTAIN PROVISIONS OF THE BOND ORDER - General Fund; Payments Thereto and Use Thereof” below.

“Subordinated Indebtedness Debt Service Coverage Ratio” means, for any Fiscal Year, the ratio determined by dividing (a) Income Available for Debt Service less the Debt Service Requirement for such Fiscal Year and less the principal and interest paid on outstanding GO System Bonds during such Fiscal Year (excluding any principal or interest paid on outstanding GO System Bonds during such Fiscal Year from a source other than Revenues) by (b) the sum of the principal and interest paid on outstanding Subordinated Indebtedness during such Fiscal Year.

“System” means the Electric System, the Water and Sewer System and any other electric, water or sewer systems, other than Special Facilities, designated by the City to be operated by the Commission.

“System Development Fees” (formerly referred to as Facility Investment Fees) means the fees imposed by the Commission on new users connecting to the System which represent a pro rata share of the costs of the System which are attributable to the increased demand such additional connections create upon the System. System Development Fees shall not include Connection Charges or Contributions in Aid of Construction.

“System Indebtedness” means Bonds and GO System Bonds.

“S&P” means Standard & Poor’s Corporation (now known as S&P Global Ratings), its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “S&P” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City by notice to the Trustee.

“Trustee” means the trustee serving from time to time under the Bond Order.

“Trust Estate” means the property conveyed to the Trustee pursuant to the Granting Clauses of the Bond Order.

“Variable Rate Indebtedness” means any Put Indebtedness or other System Indebtedness the interest rate on which is not established at the time of incurrence at a fixed or constant rate or rates until maturity. Variable Rate Indebtedness shall be subject to calculation as provided in the Bond Order.

“Water and Sewer System” means all facilities or projects owned, operated or used by the City or the Commission for the production, collection, storage, treatment, transmission and distribution of water and the collection, storage, transmission, treatment and disposal of sewage, and all additions, extensions and improvements thereto which may at any time be constructed or acquired.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER

Security for the Bonds

The Bonds will not be general obligations of the City, but limited and special obligations payable solely from Net Revenues and other amounts specifically pledged therefor under the Bond Order, and will be a valid claim of the respective Owners thereof only against the Bond Fund, the Reserve Fund and other moneys held by the Trustee, the Net Revenues and other moneys pledged therefor, which amounts are pledged, assigned and otherwise secured for the equal and ratable payment of the Bonds. The Bonds, the premium, if any, and the interest thereon will not be deemed to constitute a debt or a pledge of the faith

and credit of the State or any political subdivision thereof, including the City. Neither the State nor any political subdivision thereof, including the City, will be obligated to pay the principal of, premium, if any, or interest on the Bonds or other costs incident thereto except from the revenues, receipts and payments pledged therefor, and neither the faith and credit nor the taxing power of the State or any political subdivision thereof, including the City, is pledged to the payment of the principal of, premium, if any, or interest on the Bonds or other costs incident thereto.

Funds and Accounts

Pursuant to the Bond Order and the Series 2025 Bond Order, the following funds and accounts relating to the Series 2025 Bonds are established:

(a) General Fund, to be held by the Commission, and within which there will be the Major Construction Account;

(b) Bond Fund, to be held by the Trustee, and within which there will be the Series 2025 Subaccount of the Interest Account and the Series 2025 Subaccount of the Principal Account; and

(c) Construction Fund, to be held by the Trustee, and within which there will be the Series 2025 Project Account.

General Fund; Payments Thereto and Use Thereof

All Revenues received or collected shall be deposited in the General Fund when received. In addition, all proceeds received by the City or the Commission pursuant to any Derivative Agreement shall be deposited in the General Fund when received.

Unless a Default has occurred and is continuing, the City shall make, or cause to be made, and if a Default has occurred and is continuing and Revenues are held by Trustee in the General Fund as provided in Bond Order, the Trustee shall make, the following transfers from the General Fund in the following order, subject to credits as provided in the Bond Order:

(1) All Operating Expenses and Demand Charge Components shall be paid as the same becomes due and payable in conformity with the applicable budgetary and payment procedures of the City and the Commission and shall be a first charge and lien against the General Fund;

(2) (A) With respect to the Series 1995A Bonds, to the Interest Account on or before the fifteenth calendar day of each month, an amount equal to one-sixth the amount of interest due on the Series 1995A Bonds on the next succeeding Interest Payment Date, or such lesser amount that, together with amounts already on deposit in the Interest Account and set aside for payment of the Series 1995A Bonds, will be sufficient to pay interest on the Series 1995A Bonds to become due on such Interest Payment Date; (B) with respect to any other series of Bonds, to the Interest Account on such dates and in such amounts as shall be specified in the supplemental bond order authorizing such series of Bonds, the amounts required to pay the interest on such Bonds on the next Interest Payment Date; (C) to the provider of any Credit Facility securing Bonds, the amount necessary to pay any interest due and payable with respect to any Credit Facility Obligations as specified in the documents providing for such Credit Facility; and (D) to the person or entity entitled thereto the amount of any Derivative Agreement Scheduled Payments and required by a Derivative Agreement to be paid by the City on a parity basis; provided, however, that if there shall not be sufficient Net Revenues to satisfy all such deposits and

payments, such deposits and payments shall be made ratably according to the amount so required to be deposited or paid;

(3) (A) With respect to the Series 1995A Bonds, to the Principal Account on or before the fifteenth calendar day of each month, an amount equal to one-twelfth the amount of principal due on the Series 1995A Bonds on the next Principal Payment Date or such lesser amount that, together with amounts already on deposit in the Principal Account, will be sufficient to pay principal of the Series 1995A Bonds to become due on such Principal Payment Date; (B) with respect to any other series of Bonds, to the Principal Account on such dates and in such amounts as shall be specified in the supplemental bond order authorizing such series of Bonds, the amounts required to pay the principal of such Bonds on the next Principal Payment Date; and (C) to the provider of any Credit Facility securing the Bonds, the amounts necessary to pay any principal due and payable with respect to any Credit Facility Obligations as specified in the documents providing for such Credit Facility; provided, however, that if there shall not be sufficient Net Revenues to satisfy all such deposits, such deposits shall be made ratably according to the amount so required to be deposited;

(4) On the first Business Day of each month (A) to the Reserve Fund, any amounts required by Bond Order as described under "Reserve Fund" below and (B) to the provider of any credit enhancement permitted by the Bond Order, such amount as shall be required by the documents relating to such credit enhancement; provided, however, that if there shall not be sufficient Net Revenues to satisfy all such deposits and payments, such deposits and payments shall be made to the Reserve Fund and to each such provider of credit enhancement ratably according to the amount so required to be deposited or paid;

(5) On the first Business Day of each month in which such amounts are due to holders of GO System Bonds, to the paying agents therefor, the amount of any debt service due on the GO System Bonds during such month;

(6) On such dates and in such amounts as shall be specified in the documentation relating to any Subordinated Indebtedness or any Derivative Agreement, the amounts required to pay the principal of or interest on Subordinated Indebtedness or to pay any Derivative Agreement Additional Payments; provided, however, that if there shall not be sufficient Net Revenues to satisfy all such payments, unless otherwise specified in the documentation relating to any Subordinated Indebtedness or any Derivative Agreement, such payments shall be made to each holder of Subordinated Indebtedness and such provider of a Derivative Agreement ratably according to the amount so required to be paid;

(7) As long as installment purchase, lease purchase, conditional sale or other similar types of indebtedness incurred to finance all or any part of the System are outstanding, the City, in its sole discretion, may pay interest on and principal of such indebtedness, or corresponding installment, lease or other similar type payments, as the same become due and payable;

(8) On or before the 20th calendar day of each month, unless waived in whole or in part by the City, to the City the amount of City Transfers;

(9) On or before the last day of each month, to the Major Construction Account; one-twelfth of the Major Construction Account Requirement, until such account contains the Major Construction Account Requirement;

(10) If a Default has occurred and is continuing, daily to the Interest Account until the Interest Account holds an amount equal to all interest due on all Outstanding Bonds during the next 12 months; and

(11) If a Default has occurred and is continuing, daily to the Principal Account until the Principal Account holds an amount equal to all principal due on all Outstanding Bonds during the next 12 months.

Notwithstanding anything above to the contrary, failure by the City or the Commission to make any deposits or payments required by clauses (5) to (9), inclusive, above shall not in and of itself be a Default under the Bond Order.

If a Default shall have occurred and be continuing, no payments shall be made in respect of payments of principal of or interest on Subordinated Indebtedness as so provided in the definition of Subordinated Indebtedness and no Derivative Agreement Additional Payments shall be made.

General Fund Excess

The Commission, in its discretion and except during the continuation of a Default, may transfer on or after June 30 in each Fiscal Year any balance remaining in the General Fund at the end of such Fiscal Year after making all deposits or payments required by the Bond Order during such Fiscal Year, in whole or in part, to any other fund or account designated by the Commission, including additional transfers to the City, provided that a Commission Representative shall first certify to the Trustee that, in the opinion of such Commission Representative, the transfer of such amount will not have a material adverse effect on the City's ability over the next twelve calendar months to make all payments and deposits required by the Bond Order and to meet all other financial obligations imposed by the Bond Order.

Any funds transferred from the General Fund in accordance with the Bond Order (other than transfers made to any account or subaccount of the Bond Fund) shall no longer be subject to the pledge, charge and lien upon the Net Revenues created by the Bond Order.

Construction Fund

The Series 2025 Bond Order establishes with the Trustee the Series 2025 Project Account. The Trustee shall make the deposit to the Series 2025 Project Account required by the Series Certificate.

The moneys in the Series 2025 Project Account shall be held by the Trustee in trust and, subject to the provisions of the Series 2025 Bond Order, shall be applied to the payment of the Costs of the Project relating to Series 2025 Project and the fees and expenses incurred in connection with the sale and issuance of the Series 2025 Bonds and, pending such application, shall be subject to a lien and charge in favor of the Owners of the Series 2025 Bonds and for the further security of such Owners until paid out or transferred as provided in the Series 2025 Bond Order.

Bond Fund

There shall be deposited into the Bond Fund from time to time the following:

Interest Account. The Series 2025 Bond Order provides that there shall be transferred from the General Fund to the Series 2025 Subaccount of the Interest Account on the 25th day of the month immediately preceding each Interest Payment Date, the amount required to pay the interest due on the Series 2025 Bonds, on such Interest Payment Date, less any amount deposited in the Series 2025

Subaccount of the Interest Account derived from proceeds of the Series 2025 Bonds that are to be applied to pay interest on the Series 2025 Bonds on such Interest Payment Date.

In the event the balance in the Series 2025 Subaccount of the Interest Account on the 25th day of each February or August is insufficient for the payment of interest becoming due on the Bonds on the next ensuing Interest Payment Date, the Trustee shall notify the City of the amount of such deficiency. Upon notification, the City shall immediately transfer, or cause to be transferred, to the Trustee an amount sufficient to cure the same.

Principal Account. The Series 2025 Bond Order provides that there shall be transferred to the Series 2025 Subaccount of the Principal Account on the 25th day of the month immediately preceding each March 1, the amount required to pay the principal of all Series 2025 Serial Bonds coming due on such March 1 or the amount required to retire the Series 2025 Term Bonds to be called by mandatory sinking fund redemption or to be paid at maturity on such March 1 in accordance with the Sinking Fund Requirements therefor.

In the event the balance in the Series 2025 Subaccount of the Principal Account on the fifth Business Day next preceding any principal payment date is insufficient to pay principal becoming due on such principal payment date, the Trustee shall notify the City of the amount of the deficiency. Upon notification, the City shall immediately transfer, or cause to be transferred, to the Trustee an amount sufficient to cure the same.

Other Accounts. The Bond Fund will have on deposit all other moneys received by the Trustee under and pursuant to any of the provisions of the Bond Order which are required to be or which are accompanied by directions that such moneys are to be paid into the Bond Fund, subject, however, to certain limitations as set forth in the Bond Order.

Subject to certain exceptions relating to Additional Bonds, moneys in the Bond Fund may be used solely for the payment of the principal of, premium, if any, and interest on the Bonds and, if a Default has occurred, the GO System Bonds, and for the redemption of the Bonds prior to maturity.

Reserve Fund

The Bond Order provides that the supplemental bond order authorizing any series of Additional Bonds may provide for the funding of a separate account in the Reserve Fund which will only secure such series of Additional Bonds or may provide that such series of Additional Bonds will not be secured by the Reserve Fund. If an account of the Reserve Fund is funded for a particular series of Additional Bonds, the supplemental bond order authorizing such series of Additional Bonds shall specify the Reserve Fund Requirement for such series of Additional Bonds and the manner for funding such account of the Reserve Fund. The Trustee will use amounts in the related account of the Reserve Fund to make transfers to the Principal Account to the extent necessary to pay the principal of (whether at maturity, upon redemption or by acceleration) and to the Interest Account to the extent necessary to pay the interest on the related series of Bonds as the same become due whenever monthly payments by the Commission or transfers to the Bond Fund from other funds established under and pursuant to the Bond Order (except for moneys held for the payment of Bonds that have been called for redemption and not then presented for payment), are insufficient therefor. In the event the balance in any account of the Reserve Fund shall exceed the Reserve Fund Requirement for the related series of Bonds (such valuations to be made at least annually at market value), any excess may be transferred to the Interest Account to pay interest on such series of Bonds. In the event the balance in any account of the Reserve Fund shall not equal the Reserve Fund Requirement for that particular series of Bonds, the City and the Commission shall make, or cause to be made, payments over the next 48 months adequate to restore such account of the Reserve Fund to the Reserve

Fund Requirement for such series of Bonds (with each such payment in an amount equal to one-twelfth of 25% of the amount of the deficiency); provided if such deficiency is a result of valuation computations, it shall be remedied within 12 months.

Notwithstanding the provisions of the preceding paragraph, the Reserve Fund Requirement for any Bonds may be funded by the delivery of credit enhancement, from a provider which is either a company licensed to issue municipal insurance policies with a claims paying ability rated “AAA” or “Aaa” by S&P or Moody’s, respectively, or a bank rated at least “AA” by S&P, in form acceptable to the Trustee, in an amount and allowing for draws by the Trustee in amounts sufficient to fund the Reserve Fund in an amount equal to the Reserve Fund Requirement as required in order to make transfers to the Bond Fund on the interest payment dates for any Bonds covered by such credit enhancement.

The City’s repayment of draws, expenses and accrued interest under any credit enhancement with respect to the Reserve Fund or any account therein will have the same priority as the City’s obligation to cure any deficiency in the Reserve Fund or any account therein.

The Series 2025 Bonds will not be secured by the Reserve Fund.

Major Construction Account

Prior to a Default the Commission, and after a Default the Trustee, may use amounts in the Major Construction Account to pay the cost of extensions, improvements or additions to, or the replacement or renewal of capital assets of the System or extraordinary repairs of the System.

Additional Bonds

Additional Bonds secured equally and ratably with the other Outstanding Bonds pursuant to the Bond Order may be issued only after the Trustee receives evidence satisfactory to it that the City is not then in Default hereunder and will not be in Default hereunder upon the issuance of the Additional Bonds and the Trustee also shall have received:

(1) A certificate of a Commission Representative indicating that Income Available for Debt Service (excluding for purposes of this clause (1) any Revenues derived from special assessments or System Development Fees levied by the City or the Commission relating to all or any part of the System) for the most recently concluded Fiscal Year for which audited financial statements of the Commission are available next preceding the date of issuance of the Additional Bonds was not less than 110% of Maximum Annual Debt Service on all Outstanding Bonds and the Additional Bonds then to be issued (excluding any Bonds to be refunded by such Additional Bonds); provided, however, that if the rates, fees and charges for the use of the System have been revised and such revised rates, fees and charges are or will be in effect prior to or concurrently with the incurrence of such Additional Bonds, the Commission Representative may add to such Income Available for Debt Service an estimate of the additional Income Available for Debt Service, as determined in accordance with the provisions of the Bond Order, that would have been included in the calculation of such Income Available for Debt Service, in the judgment of such Commission Representative, if such rates, fees and charges had been in effect at the beginning of such Fiscal Year; or

(2) a report of a Consulting Engineer showing that the forecasted Income Available for Debt Service (excluding for purposes of this clause (2) any Revenues derived from special assessments or System Development Fees levied by the City or the Commission relating to all or any part of the System), which forecast may take into consideration rates to become effective prior to or during such period, estimates of usage, inflation factors and any other factors deemed by such Consulting Engineer to be

relevant, for the first full Fiscal Year next succeeding either (a) the date on which substantially all of the facilities financed by such Additional Bonds become operational, in the case of acquisition or construction of any Additional Project or (b) the date on which such Additional Bonds are issued, in any other case, is not less than 125% of Maximum Annual Debt Service on all Outstanding Bonds and the Additional Bonds then to be issued (excluding any Bonds to be refunded by such Additional Bonds); or

(3) a report of a Consulting Engineer stating that such Additional Bonds will be Completion Indebtedness, with an appropriate description of the need for and circumstances requiring such Completion Indebtedness; provided such Completion Indebtedness may not exceed 10% of System Indebtedness Outstanding at the time of issuance of such Additional Bonds unless the conditions of (1) or (2) above are satisfied; or

(4) If the Additional Bonds are to be used to refund or advance refund Bonds, the Maximum Annual Debt Service on all Outstanding Bonds after issuance of such Additional Bonds will not be more than 110% of the Maximum Annual Debt Service on all Outstanding Bonds prior to the issuance of such Additional Bonds or the conditions specified in (1) or (2) above are satisfied.

No Additional Bonds may be issued and secured under the Bond Order if at the time of issuance thereof there is then existing any Default thereunder or any event which with notice, lapse or time or both would constitute a Default thereunder.

Any supplemental bond order providing for issuance of Additional Bonds shall require the Trustee to segregate all funds and accounts held by the Trustee for the payment of any amounts due in respect of such Additional Bonds from any accounts due in respect of any other series of Bonds.

City Covenants

Payment of Principal, Premium, if any, and Interest. The City covenants that it will promptly pay or cause to be paid the principal of, premium, if any, and interest on every Bond issued under the Bond Order at the place, on the dates, and in the manner provided in the Bonds according to the true intent and meaning thereof, but solely from the amounts pledged therefor. The principal of, premium, if any, and interest on the Bonds are payable from Net Revenues and otherwise as provided in the Bond Order, which amounts are specifically pledged to the payment thereof in the manner and to the extent specified in the Bond Order, and nothing in the Bonds or in the Bond Order shall be construed as pledging any other funds or assets of the City. Neither the City, the State, nor any political subdivision of the State shall in any event be liable for the payment of the principal of, premium, if any, or interest on any of the Bonds or for the performance of any pledge, obligation or agreement undertaken by the City except to the extent that the moneys pledged in the Bond Order are sufficient therefor.

Maintenance of Tax-Exemption. The City covenants that so long as any of the Bonds remain Outstanding, money on deposit in any fund, account or subaccount maintained in connection with the Bonds, regardless of whether such money was derived from the proceeds of the sale of the Bonds or from any other sources, will not be used in a manner that would cause any of the Bonds to be "arbitrage bonds" within the meaning of the Code, except for moneys on deposit in such funds, accounts or subaccounts with respect to any series of Bonds not intended to be tax-exempt under the provisions of the Code. The City further covenants and agrees to comply with the requirements of Section 148 of the Code with respect to any series of Bonds intended to be tax-exempt under the provisions of the Code.

System Covenants

Covenant to Fix Rates and Charges. The City covenants and agrees that, subject to any applicable requirements of law or regulations, it will, or it will cause the Commission to, fix rates, fees and charges for the use of and for the services furnished or to be furnished by the System, and from time to time it will revise, or cause the Commission to revise, such rates, fees and charges in such manner that:

(a) the Debt Service Coverage Ratio, calculated at the end of each Fiscal Year based on the Commission's audited financial statements, will not be less than 110%;

(b) the GO System Debt Service Coverage Ratio, calculated at the end of each Fiscal Year based on the Commission's audited financial statements, will not be less than 100%;

(c) the Subordinated Indebtedness Debt Service Coverage Ratio, calculated at the end of each Fiscal Year based on the Commission's audited financial statements, will not be less than 100%; and

(d) there will be generated, in each Fiscal Year, sufficient cash to pay in a timely manner all Operating Expenses, Demand Charge Components, Debt Service Requirements, principal of and interest on GO System Bonds and Subordinated Indebtedness and City Transfers.

Calculations of such ratios shall be provided by a Commission Representative in writing to the Trustee and the City within five months after the end of each Fiscal Year.

Assumptions with Respect to Computations. For purposes of the computations of the Debt Service Requirement and generally for any covenants or computations required by the Bond Order, the following rules will apply:

(a) For any Balloon Indebtedness, the principal payable in such period will be determined by assuming that the principal of such Balloon Indebtedness is to be amortized from the date of incurrence thereof over a period of twenty (20) years (or the actual number of years over which such Balloon Long-Term Indebtedness is being amortized, if greater than twenty (20) years, but in no event greater than thirty (30) years) on a level debt service basis at an interest rate equal to the current market rate for an obligation with such assumed amortization as set forth in an opinion of a banking institution or an investment banking institution knowledgeable in municipal utility finance delivered to the Trustee as the interest rate at which the City could reasonably expect to borrow the same by incurring Indebtedness with the same term as assumed above; provided, however, that if the date of calculation is within twelve (12) calendar months of the actual final maturity date of such Balloon Indebtedness, the full amount of principal payable at maturity shall be included in such calculation, unless a binding commitment by an institutional lender or municipal underwriting firm exists, which binding commitment may contain typical and customary conditions, to provide financing to refinance such Balloon Indebtedness, then in such case the payment terms contained in such commitment shall be utilized for purposes of calculating the Long-Term Debt Service Requirement with respect to such Balloon Indebtedness;

(b) For any Variable Rate Indebtedness, in connection with any future variable rates assumptions, the interest rate for such Variable Rate Indebtedness shall be calculated based on the 30-year Revenue Bond Index published by The Bond Buyer (or if not published by The Bond Buyer, published any other newspaper or similar source acceptable to the Trustee) no earlier than two weeks prior to the date of such calculation;

(c) with respect to any Credit Facility, (i) to the extent that such Credit Facility has not been used or drawn upon, the principal and interest relating to such Credit Facility will not be included in the Debt

Service Requirement and (ii) to the extent that such Credit Facility has been used or drawn upon, the debt service requirements with respect to the Credit Facility Obligations will be included in the Debt Service Requirement in the same manner as the Debt Service Requirement for Bonds; and

(d) Upon issuance of Cross-over Refunding Indebtedness, the total debt service on the Cross-over Refunded Indebtedness and Cross-over Refunding Indebtedness will be calculated assuming the Cross-over Refunded Indebtedness is redeemed on the Cross-over Date and the interest on either the Cross-over Refunded Indebtedness or the Cross-over Refunding Indebtedness is paid by the related escrow until the Cross-over Date; and

(e) with respect to Derivative Indebtedness, during any Derivative Period and for so long as the provider of the Derivative Agreement has a long-term rating of at least “A” (without regard to any rating refinement or gradation by numerical modifier or otherwise) assigned to it by Moody’s and S&P and has not defaulted on its payment obligations under the Derivative Agreement, the amount of interest payable on such Derivative Indebtedness shall be calculated as follows:

(i) if pursuant to the terms of the Derivative Agreement the City is required to pay to the provider of the Derivative Agreement a fixed rate (the “Synthetic Fixed Rate”) and the provider of the Derivative Agreement is required to pay to the City a variable rate that is reasonably expected by the City to be substantially equivalent to the variable rate or rates borne by the Derivative Indebtedness, then such Derivative Indebtedness will be assumed to bear interest at the Synthetic Fixed Rate during the Derivative Period;

(ii) if pursuant to the terms of the Derivative Agreement the City is required to pay to the provider of the Derivative Agreement a variable rate (the “Synthetic Variable Rate”) and the provider of the Derivative Agreement is required to pay to the City a fixed rate that is substantially equivalent to the fixed rate or rates borne by the Derivative Indebtedness, then such Derivative Indebtedness shall be assumed to bear interest at the Synthetic Variable Rate during the Derivative Period; and

(iii) in all other cases, the amount of interest payable on Derivative Indebtedness will be determined as if the Derivative Agreement has not been executed and delivered.

Free Service, Competing Service, Billing and Enforcement of Charges. So long as any of the Bonds are Outstanding, to the extent permitted by law, (a) the City will not permit connections to or use of the System or provide any services of the System or pay for any services similar to those provided by the System without making a charge therefor, (b) the City and the Commission will not provide, grant any franchise to provide, or give consent for anyone else to provide any services which would compete with the System, unless the City and the Commission determine that it is in their economic interest to allow such other services and file with the Trustee a written statement setting forth the reasons for such determination, and (c) the City and the Commission will bill customers for the services of the System no less frequently than bimonthly. The City and the Commission shall take all appropriate steps to enforce collection of any overdue charges by any remedy available at law or in equity.

Operation and Maintenance. The City and the Commission covenant and agree that they will at all times cause the System to be operated in an efficient manner and in accordance with all applicable laws, regulations and rules; cause the System to be operated and maintained, preserved and kept in good repair, working order and condition; cause to be made all necessary and proper repairs, replacements and reconstruction of the System; and cause all affairs of the System to be conducted properly and advantageously and shall appropriate and apply the Revenues to that purpose.

Insurance. The City and Commission covenant and agree that they will either maintain with financially sound and reputable insurers (including insurance companies or other risk sharing entities) insurance to cover risks of property damage to the System and liability in the construction and operation of the System or maintain reserves for self-insurance of those risks, all in such amounts, with such deductibles and in such manner as would be generally regarded as adequate for utilities like the System and so that the ability of the City and the Commission to meet the various covenants contained in the Bond Order not be impaired.

Sale or Lease. Except for the use of the System and services pertaining to the System in the normal course of business, neither all nor a substantial part of the System may be sold, leased, mortgaged, pledged, encumbered, alienated or otherwise disposed of, unless (a) proceeds of such sale or disposal are equal to the Book Value of such assets, or such lesser amount determined to be the fair market value in a report delivered to the City by independent consultants of national reputation in the field of utility valuation and (b) all System Indebtedness has been paid in full, or unless an irrevocable escrow of Defeasance Obligations has been established with the Trustee to provide for such payment in full. The City may not dispose of its title to the System or to any useful part of the System, including any property necessary to the operation and use of the System and the lands comprising the sites of the System, provided, however, the City or the Commission in the ordinary course of the business of the System (a) may lease, sell or dispose of any real or tangible personal property comprising a part of the System to the extent such property is no longer necessary or useful in the operation of the System and is replaced or supplanted with other real or tangible personal property comprising a part of the System and (b) may lease, sell or dispose of any real or tangible personal property comprising a part of the System to the extent such property is no longer necessary or useful in the operation of the System upon filing with the Trustee a certificate of the City signed by a Commission Representative stating that such property is no longer necessary or useful in the operation of the System and the sale, lease or other disposition of such property under clause (b) will not impair the City's or the Commission's ability to comply with the provisions of the Bond Order.

Creation of Liens. The City and the Commission will not create, incur, assume or permit to exist any lien, encumbrance, lease or charge on any of the System's properties or assets except:

(a) the pledge of the Net Revenues pursuant to the Bond Order, including any subsequent pledge for the benefit of Additional Bonds and any obligations for credit enhancement related thereto in accordance with the provisions of the Bond Order;

(b) Liens or encumbrances in connection with any lease or lease/purchase arrangements in the aggregate not to exceed 10% of net utility plant of the System, or such higher amount as approved by Financial Security Assurance, Inc., as insurer for certain series of Bonds;

(c) Liens for taxes or assessments or governmental charges or levies not yet due and payable;

(d) Mechanic's, laborers' and materialmen's and similar liens not then delinquent; and

(e) Purchase Money Liens or Liens securing Non-Recourse Indebtedness;

provided, however, the foregoing will not be applicable so long as the City or the Commission shall in good faith contest the validity of any lien, encumbrance, lease or charge and shall, with respect to the payment of any such lien, charge, lease or encumbrance in accordance with generally accepted accounting principles, set aside and maintain on its books adequate reserves with respect thereto.

Limitations on Incurrence of Indebtedness. The City may not incur, and may not allow the Commission to incur, any other obligations, except upon the conditions and in the manner provided in the Bond Order, payable from the Revenues, nor voluntarily create or cause to be created any debt, lien, pledge, assignment, encumbrance or any other charge having priority to or being on a parity with the lien of the Bonds upon any of the Revenues. Any other obligations issued by the City in addition to the System Indebtedness shall contain an express statement that such obligations are junior, inferior and subordinate in all respects to the Bonds and GO System Bonds as to lien on and source and security for payment from the Revenues and in all other respects.

City Transfers. If money is available therefor and unless a Default has occurred and is continuing, there shall be payable to the City from moneys held in the General Fund pursuant to the provisions of the Bond Order on or before the 20th day of each month an amount mutually determined and agreed upon from time to time by the City and the Commission and budgeted by the Commission in such Fiscal Year as a required transfer from the General Fund to the City's general fund.

Investment of Moneys

Any moneys held as a part of the Construction Fund or any other fund other than the Bond Fund are required to be invested or reinvested in Permitted Investments by the Trustee as directed by the Commission; and any moneys held as a part of the Bond Fund are required to be invested or reinvested by the Trustee as directed by the Commission, to the extent permitted by law, in Permitted Investments maturing not later than the next applicable Interest Payment Date or Principal Payment Date.

The City covenants that so long as any of the Bonds remain Outstanding, it will not direct that moneys on deposit in any fund or account in connection with the Bonds (whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other sources) be used in a manner which will cause the Bonds to be classified as "arbitrage bonds" within the meaning of Section 148 of the Code.

Default and Remedies

Defaults. If any of the following events occur, such event will constitute a "Default" under the Bond Order:

(a) Payment of the principal or premium, if any, of any of the Bonds is not made by the City when the same becomes due and payable;

(b) Payment of any installment of interest on the Bonds is not made by the City when due and payable;

(c) The City for any reason is rendered incapable of fulfilling its obligations under the Bond Order;

(d) Default for 30 days in the observance and performance of any of the other covenants, conditions and agreements of the City contained in the Bond Order after written notice to the City from the Trustee or to the City and the Trustee from the holders of not less than 25% of the Bonds then outstanding; provided, however, that if such failure is such that it cannot be corrected within 30 days it will not constitute a Default if corrective action is instituted within such period and diligently pursued;

(e) The City or the Commission unreasonably delays the reconstruction of any part of the System which is destroyed or damaged and is not promptly repaired or replaced (unless such reconstruction is not

essential to the efficient operation of the System which shall be evidenced by delivery to the Trustee of an Officer's Certificate from the City or the Commission); or

(f) An order or decree is entered by a court of competent jurisdiction with the consent or acquiescence of the City appointing a receiver or receivers for the System or for the Revenues and any other moneys subject to the lien securing the Bonds then outstanding, or such an order or decree is entered without the consent or acquiescence of the City and is not vacated, discharged, or stayed on appeal within 60 days after entry.

Transfer of Funds. Upon the occurrence of any Default, if written demand therefor is made by the Trustee (which the Trustee shall make at its option or upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds), the Commission shall transfer all funds held by it in the General Fund to the Trustee. Until such Default is cured or waived by the Trustee, all Revenues thereafter received or collected shall be deposited in the General Fund (which shall then be held by the Trustee) on a daily basis. In such event the Commission shall continue to operate the System (subject to the rights of the Trustee under the Bond Order and the remainder of this clause) upon the direction of the Trustee, including charging and collecting such rates for its services as are prescribed by the Trustee. Once such Default is waived or cured by the Trustee, upon the request of a Commission Representative, the General Fund and all Revenues contained therein shall be transferred by the Trustee to the Commission.

Acceleration. Upon the happening and continuance of any Default described under the caption "Defaults" above, the Trustee may, and upon the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then Outstanding shall, by notice in writing to the City, declare the principal of all Bonds then Outstanding (if not due and payable) to be due and payable immediately, and upon such declaration the same shall become and be immediately due and payable, anything contained in the Bonds or in the Bond Order to the contrary notwithstanding; provided, however, that with respect to any series of Bonds for which a credit support facility, including, but not limited to, a bond insurance policy or an irrevocable letter of credit, is in effect and as to which there has been no default by the provider thereof, upon the happening and continuance of any such Default, the Trustee will declare the principal of such series of Bonds to be immediately due and payable if the provider of the credit support facility for such series of Bonds shall so direct and will not declare the principal of such series of Bonds to be immediately due and payable unless the provider of the credit support facility for such series of Bonds shall have consented to such declaration.

Trustee Remedies. Subject to the provisions of the Bond Order described under the caption "Transfer of Funds" above and described in paragraph (b) below, upon the occurrence of a Default, the Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Outstanding Bonds. Subject to the provisions of the Bond Order described under "Transfer of Funds" above, if a Default shall have occurred and be continuing and if requested so to do by the Owners of twenty-five percent (25%) in aggregate principal amount of Outstanding Bonds and provided the Trustee is indemnified as provided in the Bond Order, the Trustee will be obligated to exercise such one or more of the rights and powers conferred by the Bond Order, as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Owners of Bonds.

Bondholder Remedies. No Owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Bond Order or for the execution of any trust thereof or for the appointment of a receiver or any other remedy under the Bond Order, unless (subject to the provisions of the Bond Order described under the caption "Transfer of Funds" above), (a) a Default has occurred of which the Trustee has been notified as provided in the Bond Order, or of which it is deemed to have notice, (b) the Owners of twenty-five percent (25%) in aggregate principal amount of

Outstanding Bonds shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted under the Bond Order or to institute such action, suit or proceeding and shall have offered to the Trustee indemnity as provided in the Bond Order, and (c) the Trustee shall thereafter fail or refuse to exercise the powers granted in the Bond Order, or to institute such action, suit or proceeding. Such notification, request and offer of indemnity are at the option of the Trustee to be conditions precedent to the execution of the powers and trusts of the Bond Order, and to any action or cause of action for the enforcement of the Bond Order, or for the appointment of a receiver or for any other remedy thereunder; it being understood and intended that no one or more Owners of the Bonds shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Bond Order by their action or to enforce any right under the Bond Order except in the manner therein provided, and that all proceedings at law or equity shall be instituted, had and maintained in the manner provided in the Bond Order and for the equal and ratable benefit of the Owners of all Outstanding Bonds. However, nothing contained in the Bond Order shall affect or impair the right of any Owner of Bonds to enforce the payment of principal of, premium, if any, and interest on any Bond at and after the maturity thereof, or the obligation of the City to pay the principal of, premium, if any, and interest on each of the Bonds issued thereunder to the respective Owners thereof at the time and place, from the source and in the manner of the Bonds expressed; and nothing contained in the Bond Order shall affect or impair the obligation of the City to make the payments required thereunder at all times required thereunder.

Application of Moneys

Subject to the provisions described under “Allocations for Credit Facility Obligations and Derivative Agreement Scheduled Payments Payable on a Parity Basis” below, all moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Bond Order, relating to Defaults, will, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, be deposited in the Bond Fund and applied as follows:

(a) Unless the principal of all Bonds shall have become or shall have been declared due and payable, all such moneys will be applied:

FIRST - To the payment to the persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest (with interest on overdue installments of such interest to the extent permitted by law) and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or privilege; and

SECOND - To the payment to the persons entitled thereto of the unpaid principal of and premium, if any, on any of the Bonds which shall have become due (other than Bonds matured or called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Order) (with interest on overdue installments of principal and premium, if any, to the extent permitted by law) and, if the amount available shall not be sufficient to pay in full all Bonds due on any particular date, then to the payment ratably according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege; and

THIRD - To the payment to the persons entitled thereto as the same shall become due of the principal of and premium, if any, and interest on the Bonds which may thereafter become due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with interest and premium, if any, then due and owing thereon, payment shall be made ratably according to the

amount of interest, principal and premium, if any, due on such date, to the persons entitled thereto without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due, respectively, for principal and interest, to the persons entitled thereto without any discrimination or privilege, with interest on overdue installments of interest or principal to the extent permitted by law.

Waiver

The Trustee must waive any Default under the Bond Order and its consequences and rescind any declaration of acceleration of principal upon the written request of the Owners of (a) more than two-thirds (2/3) in aggregate principal amount of all Outstanding Bonds in respect of which default in the payment of principal or interest, or both, exists or (b) more than two-thirds (2/3) in aggregate principal amount of Outstanding Bonds in the case of any other Default; provided, however, that there shall not be waived any Default with respect to failure to pay principal of or interest on the Bonds unless, prior to such waiver or rescission, all arrears of principal of and interest (other than principal of or interest on the Bonds which became due and payable by declaration of acceleration), with interest at 7% on overdue installments to the extent permitted by law, and all expenses of the Trustee in connection with such Default have been paid or provided for. In case of any waiver or rescission described above, or in case any proceeding taken by the Trustee on account of any such Default has been discontinued or concluded or determined adversely, then and in every such case the City, the Trustee, and the Owners of Bonds will be restored to their former positions and rights under the Bond Order, respectively, but no such waiver or rescission extend to any subsequent or other Default, or impair any right consequent thereon.

Allocations for Credit Facility Obligations and Derivative Agreement Scheduled Payments Payable on a Parity Basis

Notwithstanding any provision of the Bond Order, including any supplement bond order, any documentation providing for a Credit Facility or any Derivative Agreement to the contrary, if at any time there are Bonds Outstanding under the terms thereof and there is also Credit Facility Obligations outstanding under the terms of one or more Credit Facility or any Derivative Agreements in effect providing for Derivative Agreement Scheduled Payments to be paid by the City on a parity basis and either (a) an Event of Default has occurred and the Trustee is holding the General Fund and receiving Revenues on a daily basis as described in “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER – Defaults and Remedies – Transfer of Funds” above or (b) an Event of Default has occurred under the Bond Order and the Trustee is required to apply funds in its possession as described in “SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDER – Applications of Moneys” above, then all such Revenues or other funds to be distributed under the terms of the Bond Order will be allocated among, and distributed by the Trustee, as follows: (i) to the Owners of Bonds in the proportion that the principal amount of all Bonds then Outstanding bears to the aggregate principal amount of all Bonds then Outstanding, the principal amount of all Credit Facility Obligations then outstanding and the amount of Derivative Agreement Scheduled Payments then due and payable, (ii) to the provider of each Credit Facility (or to the trustee or any other party on behalf of the provider of such Credit Facility as shall be specified to the Trustee) in the proportion that the principal amount of Credit Facility Obligations then outstanding with respect to each such Credit Facility bears to the aggregate principal amount of all Bonds then Outstanding, the principal amount of all Credit Facility Obligations then outstanding and the amount of Derivative Agreement Scheduled Payments then due and payable and (iii) to each counterparty

under a Derivative Agreement providing for Derivative Agreement Scheduled Payments on a parity basis in the proportion that such Derivative Agreement Scheduled Payments then due and payable bear to the aggregate principal amount of all Bonds then Outstanding, the principal amount of all Credit Facility Obligations then outstanding and the amount of Derivative Agreement Scheduled Payments then due and payable, unless such an allocation and distribution has been made prior to the receipt by the Trustee of such Revenues or other funds; provided, however, that moneys maintained in funds, accounts, and subaccounts established for a particular series of Bonds which are pledged solely for the payment of that particular Series of Bonds will not be subject to such allocation and will instead be applied as provided in the applicable supplemental bond order authorizing such series of Bonds.

Trustee Fees, Charges and Expenses

The Trustee will be entitled to payment of reasonable fees for its services rendered under the Bond Order and reimbursement of all advances, counsel fees and other expenses reasonably made or incurred by the Trustee in connection with such services. Upon the occurrence of a Default, but only upon the occurrence of a Default, the Trustee will have a first lien with right of payment prior to payment on account of principal of, premium, if any, and interest on any Bond upon the Trust Estate (exclusive of any funds being held under the Bond Order for the benefit of particular Owners of Bonds) for the foregoing fees, charges and expenses of the Trustee. When the Trustee incurs expenses or renders services after the occurrence of an act of bankruptcy with respect to the City, the expenses and the compensation for the services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law. The City will have no liability to pay any fees, charges or other expenses of the Trustee hereinabove mentioned except from the amounts pledged under the Bond Order.

Removal of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, (i) executed by the Owners of not less than a majority in aggregate principal amount of Bonds then Outstanding and filed with the City; provided, however, that any provider of a credit support facility shall be deemed to be the sole Owner of any series of Bonds for which it has provided a credit support facility so long as no default by the provider of such credit support facility shall have occurred, or (ii) so long as no Default shall have occurred and be continuing and subject to the approval of the LGC, an instrument executed by the City; provided further, however, that no removal pursuant to such clause (ii) shall become effective until a successor Trustee shall have been appointed.

Appointment of Successor Trustee

If at any time the Trustee shall resign, be removed, be dissolved or otherwise become incapable of acting, or the bank or trust company acting as Trustee shall be taken over by any governmental official, agency, department or board, the position of the Trustee will thereupon become vacant. If the position of Trustee shall become vacant for any reason, the City will appoint a successor Trustee to fill such vacancy. A successor Trustee will not be required if the Trustee sells or assigns substantially all of its trust business and the vendee or assignee continues in the trust business, or if a transfer of the trust department of the Trustee is required by operation of law, provided that such vendee, assignee or transferee is a bank or trust company within or without the State which is duly authorized to exercise corporate trust powers and subject to examination by federal or State authority, of good standing, and having a combined capital and surplus aggregating not less than \$50,000,000. The City will mail notice of any such appointment by it to all Owners.

At any time within one year after any such vacancy shall have occurred, the Owners of a majority in principal amount of the Bonds then Outstanding, by an instrument or concurrent instruments in writing, executed by such Owners and filed with the City, may nominate a successor Trustee, which the City shall appoint and which shall supersede any Trustee theretofore appointed by the City.

If no appointment of a successor Trustee is made pursuant to the foregoing description of the provisions of the Bond Order, any Owner or any retiring Trustee may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any successor Trustee thereafter appointed must be a bank or trust company within or without the State which is duly authorized to exercise corporate trust powers and subject to examination by federal or State authority, of good standing, and having a combined capital and surplus aggregating not less than \$50,000,000.

For purposes of the appointment of a successor Trustee, any provider of a credit support facility will be deemed to be the sole Owner of any series of Bonds for which it has provided a credit support facility so long as no default shall have occurred thereunder.

Supplemental Bond Orders

Supplemental Bond Orders Not Requiring Consent of Owners of Bonds. The City and the Trustee may and upon notice to the LGC, and without consent of, or notice to, any of the Owners of Bonds, enter into an order or orders supplemental to the Bond Order for any one or more of the following purposes:

- (a) To cure any ambiguity or formal defect or omission in the Bond Order;
- (b) To grant to or confer upon the Trustee for the benefit of the Owners of Bonds any additional rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Owners of Bonds or the Trustee;
- (c) To subject to the Bond Order additional revenues, properties or collateral;
- (d) To modify, amend or supplement the Bond Order or any bond order supplemental thereof in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute thereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any of the states of the United States of America;
- (e) To evidence the appointment of a separate or Co-Trustee or the succession of a new Trustee under the Bond Order;
- (f) To modify, amend or supplement the Bond Order or any bond order supplemental thereof in such manner as to permit the registration and transfer of the Bonds to be effected by a system other than book-entry; or
- (g) To effect any other change in the Bond Order which, in the judgment of the Trustee, is not to the prejudice of the Trustee or the Owners of Bonds.

Supplemental Bond Orders Requiring Consent of Owners of Bonds. Exclusive of supplemental bond orders permitted by the Bond Order as described under the caption "Supplemental Bond Orders Not

Requiring Consent of the Owners of Bonds” therein, and subject to the terms and provisions contained in the Bond Order as described under this caption, and not otherwise, the Owners of not less than two-thirds (2/3) in aggregate principal amount of the Outstanding Bonds have the right, from time to time, anything contained in the Bond Order to the contrary notwithstanding, to consent to and approve the adoption by the City of such other bond order or bond orders supplemental thereto as shall be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Order or in any supplemental bond order; provided, however, that nothing contained in the Bond Order shall permit, or be construed as permitting, without the consent of the Owners of all Bonds Outstanding and upon notice to the LGC, (a) an extension of the maturity of the principal of, or the interest on, any Bond issued thereunder, (b) a reduction in the principal amount of, or redemption premium on, any Bond or the rate of interest thereon, (c) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, (d) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental bond orders or any modifications or waivers of the provisions of the Bond Order, (e) the creation of any lien ranking prior to or on a parity with the lien of the Bond Order on the Trust Estate or any part thereof, except as expressly permitted, or (f) the deprivation of the Owner of any Outstanding Bond of the lien created on the Trust Estate.

If, within sixty (60) days or such longer period as shall be prescribed by the City following proper notice of such supplemental bond order to the Owners, the Owners of not less than two-thirds (2/3) in aggregate principal amount of the Bonds Outstanding at the time of the adoption of any such supplemental bond order shall have consented to and approved the adoption thereof, no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the adoption thereof, or to enjoin or restrain the Trustee or the City from adopting the same or from taking any action pursuant to the provisions thereof.

Discharge of Bond Order; Defeasance of Bonds

Discharge of Bond Order. If the City pays, or causes to be paid, in accordance with the provisions of the Bond Order and any supplemental bond orders, to the Owners of the Bonds, the principal of, premium, if any, and interest due thereon at the times and in the manner stipulated therein, and if the City is not then in default under the provisions of the Bond Order or any supplemental bond order and if the City pays, or causes to be paid, to the Trustee all sums of money due according to the provisions of the Bond Order, any Credit Facility or any Derivative Agreement (with respect to Derivative Agreement Parity Payments), the estate and rights granted thereby will cease, determine and be void, whereupon the Trustee will cancel and discharge the lien of the Bond Order as to the Bonds, and execute and deliver to the City such instruments in writing as shall be necessary to evidence such partial cancellation and discharge. If such partial cancellation and discharge occurs, the Bond Order and the lien thereof will still apply to other System Indebtedness, if any. If payment or provision therefor is made in accordance with the terms of the Bond Order described in the first sentence of this paragraph with respect to all System Indebtedness, the Trustee will entirely cancel and discharge the lien of the Bond Order and execute and deliver to the City such instruments in writing as shall be necessary to release the lien thereof and reconvey, release, assign and deliver unto the City any and all of the estate, right, title and interest in and to any and all rights or property conveyed, assigned or pledged to the Trustee or otherwise subject to the lien of the Bond Order, except amounts required to be paid to the City pursuant to the Bond Order, and except cash held by the Trustee for the payment of the principal of, premium, if any, or interest on particular Bonds or System Indebtedness or pursuant to the Bond Order (relating to Bonds due but not presented for payment).

Defeasance of Bonds. Any Bond or obligation of System Indebtedness will be deemed to be paid for all purposes of the Bond Order when (a) payment of the principal of and premium, if any, on such Bond or obligation of System Indebtedness, plus interest thereon to the due date thereof (whether such

due date is by reason of maturity or upon redemption) either (1) shall have been made or caused to be made in accordance with the terms thereof, or (2) shall have been provided for by irrevocably depositing with the Trustee, in trust and irrevocably set aside exclusively for such payment, (i) moneys sufficient to make such payment or (ii) Defeasance Obligations maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payment, with such sufficiency confirmed by a verification report of an independent nationally recognized public accountant, and (b) all necessary and proper fees, compensation and expenses of the Trustee, the City, Financial Security Assurance, Inc., as insurer of certain series of Bonds, the provider of any Credit Facility (including all Credit Facility Obligations) pertaining to the Bonds or obligation of System Indebtedness with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee. At such time as a Bond or obligation of System Indebtedness shall be deemed to be paid, as aforesaid, such Bond or obligation of System Indebtedness will no longer be secured by or entitled to the benefits of the Bond Order, except for the purpose of any such payment from such moneys or Defeasance Obligations.

If payment of the Bonds or obligation of System Indebtedness is so provided for, the Trustee shall mail a notice so stating to each Owner. The City and the Trustee covenant that no deposit will knowingly be made or accepted and no use knowingly made of any such deposit which would cause the Bonds to be treated as arbitrage bonds within the meaning of Section 148 of the Code.

APPENDIX C

THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

THE NORTH CAROLINA LOCAL GOVERNMENT COMMISSION

The Local Government Commission (the “Commission”) is composed of nine members: the State Treasurer, the Secretary of State, the State Auditor, the Secretary of Revenue, and five others by appointment (three by the Governor, one by the General Assembly upon recommendation of the President Pro Tempore of the Senate and one by the General Assembly upon recommendation of the Speaker of the House of Representatives). The State Treasurer serves as Chairman and selects the Secretary of the Commission, who heads the administrative staff serving the Commission.

A major function of the Commission is the approval, sale, and delivery of substantially all North Carolina local government bonds and notes. A second key function is monitoring certain fiscal and accounting standards prescribed for units of local government by The Local Government Budget and Fiscal Control Act. In addition, the Commission furnishes, upon request, on-site assistance to units of local government concerning existing financial and accounting systems as well as aid in establishing new systems. Further, educational programs and materials are provided for local officials concerning finance and cash management.

Before any unit of local government can incur bonded indebtedness, the proposed bond issue must be approved by the Commission. In determining whether to give such approval the Commission may consider, among other things, the unit’s debt management procedures and policies, its compliance with The Local Government Budget and Fiscal Control Act, and its ability to service the proposed debt. All general obligation issues are customarily sold based on formal sealed bids submitted at the Commission’s offices in Raleigh and are subsequently delivered to the successful bidder by the Commission. The Commission maintains records for all units of local government of principal and interest payments coming due on bonded indebtedness in the current and future years and monitors the payment by the units of local government of debt service through a system of monthly reports.

As a part of its role in assisting and monitoring the fiscal programs of units of local government, the Commission attempts to ensure that the units of local government follow generally accepted accounting principles, systems, and practices. The Commission’s staff also counsels the units of local government in treasury and cash management, budget preparation, and investment policies and procedures. Educational programs, in the form of seminars or classes, are also provided by the Commission to accomplish these tasks. The monitoring of the financial systems of units of local government is accomplished through the examination and analysis of the annual audited financial statements and other required reports. The Local Government Budget and Fiscal Control Act requires each unit of local government to have its accounts audited annually by a certified public accountant or by an accountant certified by the Commission as qualified to audit local government accounts. A written contract must be submitted to the Secretary of the Commission for his or her approval before the commencement of the audit.

The Commission has the statutory authority to impound the books and records of any unit of local government and assume full control of all its financial affairs (a) when the unit defaults on any debt service payment or, in the opinion of the Commission, will default on a future debt service payment if the financial policies and practices of the unit are not improved or (b) when the unit persists, after notice and warning from the Commission, in willfully or negligently failing or refusing to comply with the provisions of The Local Government Finance Act. When the Commission takes action under this authority, the Commission is vested with all of the powers of the governing board of the unit of local government as to the levy of taxes, expenditure of money, adoption of budgets, and all other financial powers conferred upon such governing board by law.

In addition, if a unit of local government fails to pay any installment of principal or interest on its outstanding debt on or before its due date and remains in default for 90 days, the Commission may take such action as it deems advisable to investigate the unit's fiscal affairs, consult with its governing board and negotiate with its creditors to assist the unit in working out a refinancing plan, adjusting or compromising such debt. When a plan is developed that the Commission finds to be fair and equitable and reasonably within the ability of the unit of local government to meet, the Commission will enter an order finding that the plan is fair, equitable, and within the ability of the unit to meet and will advise the unit to take the necessary steps to implement such plan. If the governing board of the unit declines or refuses to do so within 90 days after receiving the Commission's advice, the Commission may enter an order directing the unit to implement such a plan and may apply for a court order to enforce such order. When a refinancing plan has been put into effect, the Commission has the authority (a) to require any periodic financial reports on the unit's financial affairs that the Secretary of the Commission deems necessary and (b) to approve or reject the unit's annual budget ordinance. The governing board of the unit of local government must also obtain the approval of the Secretary of the Commission before adopting any annual budget ordinance. The power and authority granted to the Commission as described in this paragraph will continue regarding a defaulting unit of local government until the Commission is satisfied that the unit has performed or will perform the duties required of it in the refinancing plan and until agreements made with the unit's creditors have been performed with following such plan.

APPENDIX D

PROPOSED FORM OF BOND COUNSEL OPINION



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November __, 2025

City Council of the
City of Fayetteville, North Carolina

We have examined, as bond counsel to the City of Fayetteville, North Carolina (the “City”), (a) the Constitution and laws of the State of North Carolina, including The State and Local Government Revenue Bond Act, as amended (the “Act”), (b) certified copies of proceedings of the City Council of the City evidencing adoption of the Bond Order (hereinafter defined) authorizing the issuance by the City of its \$[_____] Public Works Commission Revenue Bonds, Series 2025 (the “Series 2025 Bonds”) and (c) other proofs submitted relative to the sale and issuance of the Series 2025 Bonds. The Series 2025 Bonds are being issued under and pursuant to the Act, a Bond Order adopted by the City Council of the City on November 5, 1990, as supplemented and amended (the “Original Bond Order”), and as further supplemented and amended by a Bond Order with respect to the Series 2025 Bonds (the “Series 2025 Bond Order” and, together with the Original Bond Order, the “Bond Order”) adopted by the City Council of the City on September 22, 2025. The Fayetteville Public Works Commission (the “PWC”) is responsible for policy matters related to and the general supervision, operating, and management of the electric, water and sanitary sewer systems. The Bank of New York Mellon Trust Company, N.A. is currently serving as Trustee under the Bond Order.

The Series 2025 Bonds are dated the date hereof, bear interest from their date and mature, subject to redemption prior to their stated maturities, as provided in the Series 2025 Bond Order. The Series 2025 Bonds are being issued for the purpose of providing funds, together with any other available funds, to (a) pay the costs of the Series 2025 Project (as defined in the Series 2025 Bond Order) and (b) pay the fees and expenses incurred in connection with the sale and issuance of the Series 2025 Bonds.

The City has heretofore issued various series of Bonds (as defined in the Bond Order) pursuant to the Bond Order. The Bond Order provides for the issuance, under the conditions,

limitations and restrictions therein set forth, of Additional Bonds (as defined in the Bond Order) secured on a parity as to the pledge of Net Revenues (as defined in the Bond Order) with the Series 2025 Bonds and the other outstanding Bonds. The Bond Order also permits the issuance or incurrence of GO System Bonds and Subordinated Indebtedness (both as defined in the Bond Order) which are payable from Net Revenue on a subordinate basis to the Series 2025 Bonds in the manner set forth in the Bond Order.

As to matters of fact material to our opinion, we have relied upon the certified proceedings and other certificates of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based on such examination, we are of the opinion, as of the date hereof and under existing law, that:

1. The Series 2025 Bonds have been duly authorized, executed and delivered.
2. The City Council of the City has duly adopted the Bond Order, and the Bond Order is a valid and binding obligation of the City enforceable in accordance with its terms.
3. The Series 2025 Bonds, together with the outstanding Bonds and any Additional Bonds hereafter issued by the City under the Bond Order and any Credit Facility Obligations and Derivative Agreement Parity Payments (both as defined in the Bond Order) are, to the extent provided in the Bond Order, secured equally and ratably by a pledge, charge and lien upon the Net Revenues.
4. The Series 2025 Bonds are valid and binding special obligations of the City secured by a pledge, charge and lien upon, and the principal of, and the premium, if any, and interest on which are payable from, certain funds and accounts held by the Trustee under the Bond Order.
5. The City is not obligated to pay the principal of, premium, if any, or the interest on the Series 2025 Bonds except as provided in the Bond Order. The principal of and interest on the Series 2025 Bonds are not payable from the general funds of the City, nor do the Series 2025 Bonds constitute a legal or equitable pledge, charge, lien or encumbrance upon the income, receipts or revenues of the City except for the Net Revenues and the amounts referenced in paragraph 4 above, in each case to the extent provided in the Bond Order. Neither the faith and credit nor the taxing power of the State of North Carolina or any political subdivision thereof, including the City, is pledged to the payment of the principal of, premium, if any, or interest on the Series 2025 Bonds, and no holder of the Series 2025 Bonds has the right to compel the exercise of the taxing power by the State of North Carolina or any political subdivision thereof, including the City, or the forfeiture of their respective property, other than the Net Revenues, in connection with any default with respect to the Series 2025 Bonds.

6. Assuming continuing compliance by the City and the PWC with certain covenants to comply with the requirements of the Internal Revenue Code of 1986, as amended (the “Code”), regarding, among other matters, use, expenditure and investment of proceeds of the Series 2025 Bonds, and the timely payment of certain investment earnings to the United States Treasury, interest on the Series 2025 Bonds is not includable in the gross income of the owners thereof for purposes of federal income taxation and is not a specific preference item for purposes of the alternative minimum tax imposed by the Code.

7. Interest on the Series 2025 Bonds is exempt from all State of North Carolina income taxes.

The Code and other laws of taxation, including the laws of taxation of the State of North Carolina, of other states and of local jurisdictions, may contain other provisions that could result in tax consequences, upon which we render no opinion, as a result of the ownership or transfer of the Series 2025 Bonds or the inclusion in certain computations of interest that is excluded from gross income for purposes of federal and North Carolina income taxation.

The rights of the owners of the Series 2025 Bonds and the enforceability thereof and of the Bond Order may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights heretofore and hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2025 Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

With kind regards,

APPENDIX E

DTC'S BOOK-ENTRY ONLY SYSTEM

DTC'S BOOK-ENTRY ONLY SYSTEM

The Depository Trust Company (“DTC”), a New York corporation, will act as securities depository for the 2025 Bonds. The 2025 Bonds will be delivered as fully-registered certificates registered in the name of Cede & Co., DTC’s partnership nominee, or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate for each maturity of the 2025 Bonds will be registered in the name of Cede & Co., as nominee for DTC, each in the aggregate principal amount of such maturity and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2025 BONDS, AS DTC’S PARTNERSHIP NOMINEE, REFERENCES HEREIN TO THE OWNERS OR REGISTERED OWNERS OF THE 2025 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2025 BONDS.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers; banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of 2025 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2025 Bonds on DTC’s records. The ownership interest of each actual purchaser of 2025 Bonds (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchases. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2025 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive physical certificates representing their ownership interests in the 2025 Bonds, except in the event that use of the book-entry system for the 2025 Bonds is discontinued.

To facilitate subsequent transfers, all 2025 Bonds deposited by Direct Participants with the Trustee, as custodian for DTC, are registered in the name of DTC’s partnership nominee, Cede & Co, or such other name as may be requested by an authorized representative of DTC. The deposit of 2025 Bonds with the Trustee, as custodian for DTC, and their registration in the name of Cede & Co. or such other nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual identities of the

Beneficial Owners of the 2025 Bonds; DTC's records reflect only the identities of the Direct Participants to whose accounts the 2025 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants are responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct and Indirect Participants to Beneficial Owners of the 2025 Bonds will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2025 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2025 Bonds, such as redemption, tenders, defaults and proposed amendments to the documents authorizing and securing the 2025 Bonds. For example, Beneficial Owners of the 2025 Bonds may wish to ascertain that the nominee holding the 2025 Bonds for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Trustee and request that copies of notices be sent directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2025 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such 2025 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2025 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2025 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2025 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City on each payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct and Indirect Participants and not of DTC (nor its nominee), the City, the Trustee or the Bond Registrar, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal and interest to DTC is the responsibility of the Bond Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC and disbursements of such payments to the Beneficial Owners shall be the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its service as securities depository with respect to the 2025 Bonds at any time by giving reasonable notice to the City and the Trustee. Under such circumstances, or in the event that a successor depository is not obtained, 2025 Bonds will be printed and delivered. The City may decide to discontinue participation in the system of book-entry transfer through DTC (or a successor securities depository). In that event, 2025 Bonds will be printed and delivered to DTC.

The information in this Appendix concerning DTC and DTC's book-entry system has been obtained from DTC, and the City and the PWC take no responsibility for the accuracy thereof.

The City, the PWC and the Trustee cannot and do not give any assurances that DTC, Direct Participants or Indirect Participants will distribute to the Beneficial Owners of the 2025 Bonds (a) payments

of principal of or interest on the 2025 Bonds, (b) confirmations of their ownership interests in the 2025 Bonds or (c) redemption or other notices sent to DTC or Cede & Co , its partnership nominee, as the registered owner of the 2025 Bonds, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve and act in the manner described in this Official Statement.

NEITHER THE CITY, THE PWC NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS ON (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR REDEMPTION PRICE OR INTEREST ON THE 2025 BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO OWNERS OF THE 2025 BONDS UNDER THE TERMS OF THE BOND ORDER; AND (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 2025 BONDS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER.