PARITY BOND GUIDELINES
VIRGINIA RESOURCES AUTHORITY
Adopted December 14, 2010

VRA Virginia Resources Authority

Guiding Principles

Provided the Local Government is not in default on its existing VRA obligations, the Local Government may issue bonds, notes or other evidences of indebtedness (Parity Bonds) secured by a pledge of its system's revenues ranking on parity with the Local Government's existing Virginia Resources Authority (VRA) obligations to:

(1) Pay project costs to complete the project;
(2) Pay for improvements to the system deemed by the Local Government to be necessary, useful or convenient to the system;
(3) Refund some or all of the VRA obligations (with the consent of VRA), or other parity indebtedness or subordinate indebtedness;[1] or
(4) Effect any combination of the above, provided the conditions for issuing Parity Bonds are satisfied.

Please note that the conditions outlined below are summaries of the parity indebtedness provisions contained in VRA's financing and loan agreements and any Local Government considering issuance of VRA obligations containing such parity indebtedness provisions should thoroughly review such provisions.

Conditions for the Issuance of Parity Bonds

Except to the extent otherwise consented and agreed to in writing by VRA, before any Parity Bonds are issued or delivered, the Local Government shall deliver to VRA the following:

(1) Certified copies of all resolutions and ordinances of the Local Government authorizing the issuance of the Parity Bonds;

(2) A certificate of an appropriate official of the Local Government setting forth the purposes for which the Parity Bonds are to be issued and the manner in which the Local Government will apply the proceeds from the issuance of such Parity Bonds;

(3) If Parity Bonds are for new money purposes or any purpose other than a refunding, a certificate in form satisfactory and acceptable to VRA of a local engineer, independent consulting engineer or independent third party consultant, acceptable to VRA, to the effect that in the opinion of such consultant:

   i. The improvements or property to be financed by the Parity Bonds (the Project) will be a part of the system;

   ii. The funds from the Parity Bonds, together with other specified sources as applicable, will be sufficient to pay the estimated cost of the Project;

   iii. The period of time required to complete the Project; and

   iv. The Parity Bonds <u>are necessary to complete the Project</u> and the failure to construct the Project will result in an interruption or reduction of revenues – OR

[1] Please note all requests regarding the issuance of subordinate indebtedness must be approved by the VRA Board.

– during the first two complete fiscal years following the completion of the Project, the projected Net Revenues Available for Debt Service[2] will satisfy the rate covenant contained in the financing or loan agreement, taking into consideration future rate increases provided that such rate increases have been duly approved by the governing body/person/entity required to give such approval – OR – for any two of the three prior fiscal years the Local Government generated Net Revenues Available for Debt Service that satisfy the rate covenant, taking into account the issuance of the Parity Bonds.

(4) If Parity Bonds are issued to refund VRA obligations (with the consent of VRA) or any other parity indebtedness, subordinate indebtedness or prior bonds, either:

i. A certificate in form satisfactory and acceptable to VRA of an independent certified public accountant, acceptable to VRA, that the refunding Parity Bonds will have lower annual debt service requirements in each of the years the obligations to be refunded would have been outstanding; OR

ii. A certificate in form satisfactory and acceptable to VRA of a local engineer, independent consulting engineer or independent third party consultant, acceptable to VRA, to the effect that in the opinion of such consultant during the first two complete fiscal years following the issuance of the refunding Parity Bonds, the projected Net Revenues Available for Debt Service will satisfy the rate covenant.

Note: The Local Government is required to obtain VRA consent for the issuance of Parity Bonds or any other indebtedness if used to refinance existing VRA obligations.

(5) At the discretion of VRA based on the advice of its counsel, Opinion of counsel satisfactory to the Authority:

i. Approving the form of the resolution authorizing the issuance of Parity Bonds and stating that its terms and provisions conform with the financing or loan agreement;

ii. Stating that the certificates and documents delivered to VRA constitute compliance with the conditions for issuance of Parity Bonds; and

iii. Stating that the issuance of Parity Bonds will not adversely impact the tax exempt status of any of the Local Government's other VRA obligations issued as tax-exempt obligations.

To the extent that Parity Bonds are issued by a Local Government that does not have sufficient Net Revenues Available for Debt Service based on rates and charges of the system and such Local Government receives additional moral obligation support pursuant to a Support Agreement or direct

[2] Net Revenues Available for Debt Service is typically defined in VRA financing and loan agreements as the Revenues less amounts necessary to pay Operation and Maintenance Expenses. The Local Government should review its existing financing or loan agreements for any variances in the defined term.

general obligation support, the above criteria may be waived and VRA's consideration of approval of the requested Parity Bonds would be based on the Credit Evaluation Criteria below:

Credit Evaluation Criteria: The requested borrowing shall be considered and reviewed in the context of its impact on the Local Government's future budgets, tax rates and debt ratios with respect to VRA's Tax Supported Evaluation Guidelines including but not limited to:

- Debt Service versus Expenditures;
- Debt Payout Ratio;
- Undesignated Fund Balance versus Total Revenues; and
- Total Debt versus Total Valuation.