

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2013

NEW ISSUE - Book-Entry Only

RATINGS: See "RATINGS" herein

In the opinion of bond counsel, assuming compliance by the City with certain covenants, under existing statutes, regulations, and judicial decisions, the interest on the Series 2013 Bonds will be excluded from gross income for federal income tax purposes of the holders thereof and will not be an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2013 Bonds shall be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. See "TAX MATTERS" herein for a description of other tax consequences to holders of the Series 2013 Bonds.

[CITY LOGO]

\$ _____ *

CITY OF PALM COAST, FLORIDA
Utility System Improvement and Refunding Revenue Bonds,
Series 2013

Dated: Date of Delivery

Due: October 1, as shown on the inside cover page

The Utility System Improvement and Refunding Revenue Bonds, Series 2013 (the "Series 2013 Bonds") are being issued by the City of Palm Coast, Florida (the "City") as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases will be made in book-entry form only in denominations of \$5,000 and integral multiples thereof. Purchasers of the Series 2013 Bonds will not receive physical delivery of certificates. Transfers of ownership interest in the Series 2013 Bonds will be effected by DTC book-entry system as described herein. So long as any purchaser is the Beneficial Owner (as defined herein) of a Series 2013 Bond, such Beneficial Owner must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of principal of and interest on such Series 2013 Bond. See "DESCRIPTION OF THE SERIES 2013 BONDS - Book-Entry Only System" herein. Interest on the Series 2013 Bonds will be payable semiannually on each April 1 and October 1 of each year, commencing on October 1, 2013. Wells Fargo Bank, National Association, Jacksonville, Florida, shall serve as Paying Agent and Registrar for the Series 2013 Bonds.

The Series 2013 Bonds are subject to optional and mandatory redemption prior to their stated maturities as described herein. See "DESCRIPTION OF THE SERIES 2013

*Preliminary, subject to change.

BONDS - Optional Redemption" and "DESCRIPTION OF THE SERIES 2013 BONDS - Mandatory Redemption" herein.

The Series 2013 Bonds are being issued under the authority of, and in full compliance with, the Constitution and laws of the State of Florida, including particularly Chapter 159, Part I, and Chapter 166, Part II, Florida Statutes, as amended, the City Charter of the City and Resolution No. 2003-22 adopted by the City Council of the City (the "City Council") on September 30, 2003, as amended and supplemented, and particularly as amended and supplemented by Resolution No. 2013-__ adopted by the City Council on [May 21], 2013 (collectively, the "Bond Resolution"). Capitalized terms used but not defined in this Official Statement have the meaning ascribed thereto in the Bond Resolution, unless the context would clearly indicate otherwise.

The Series 2013 Bonds are being issued to provide funds sufficient to (a) currently refund all of the City's Utility System Revenue Bonds, Series 2003 (the "Refunded Bonds"), (b) finance and/or reimburse a portion of the cost of construction of the planned capital improvements to the City's water and wastewater utility system (the "Utility System"), and (c) pay certain costs and expenses relating to the issuance of the Series 2013 Bonds[, including the premium for a financial guaranty insurance policy.]

EACH INITIAL PURCHASER HEREOF SHALL BE DEEMED TO HAVE CONSENTED TO CERTAIN PROPOSED AMENDMENTS TO THE BOND RESOLUTION DESCRIBED HEREIN. SEE "SPRINGING AMENDMENTS TO BOND RESOLUTION" HEREIN.

The Series 2013 Bonds will be payable from and are secured by the Pledged Revenues, which primarily consists of the Net Revenues, the Sewer System Capital Facilities Fees, the Water System Capital Facilities Fees, and certain moneys in various funds and accounts established under the Bond Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS" herein.

THE SERIES 2013 BONDS SHALL NOT BE OR CONSTITUTE GENERAL OBLIGATIONS OR INDEBTEDNESS OF THE CITY, FLAGLER COUNTY, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF AS "BONDS" WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION, BUT SHALL BE SPECIAL OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM AND SECURED BY A FIRST LIEN ONLY UPON AND A PLEDGE OF THE PLEDGED REVENUES, IN THE MANNER AND TO THE EXTENT PROVIDED IN THE BOND RESOLUTION. NEITHER THE FAITH AND CREDIT OF THE CITY, FLAGLER COUNTY, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF ARE PLEDGED TO THE PAYMENT OF DEBT SERVICE ON THE SERIES 2013 BONDS AND NO HOLDER OF ANY SERIES 2013 BOND SHALL EVER HAVE THE RIGHT TO COMPEL THE

EXERCISE OF ANY AD VALOREM TAXING POWER BY THE CITY, FLAGLER COUNTY, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF TO PAY SUCH BOND, OR BE ENTITLED TO PAYMENT OF SUCH BOND FROM ANY MONEYS OF THE CITY EXCEPT FROM THE PLEDGED REVENUES IN THE MANNER AND TO THE EXTENT PROVIDED IN THE BOND RESOLUTION. THE SERIES 2013 BONDS SHALL NOT CONSTITUTE A LIEN UPON ANY PORTION OF THE UTILITY SYSTEM OR ANY OTHER PROPERTY OF THE CITY, OTHER THAN THE PLEDGED REVENUES.

Electronic bids for the Series 2013 Bonds will be received by the City via the Parity Competitive Bidding System until 11:00 a.m. Eastern Daylight Time, on June _____, 2013 or such other date or time as is determined by the City and communicated to the marketplace in accordance with the Official Notice of Sale.

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

The Series 2013 Bonds are offered when, as, and if issued by the City subject to the approval as to their legality by Bryant Miller Olive P.A., Orlando, Florida, Bond Counsel. Certain legal matters will be passed on for the City by Brown, Garganese, Weiss & D'Agresta, P.A., City Attorney. Nabors, Giblin & Nickerson, P.A., Tampa, Florida is serving as Disclosure Counsel. FirstSouthwest Company, Orlando, Florida is serving as Financial Advisor to the City. It is expected that the Series 2013 Bonds will be available for delivery through the facilities of DTC on or about _____, 2013.

Dated: _____, 2013.

MATURITY SCHEDULE

\$ _____ *

CITY OF PALM COAST, FLORIDA
Utility System Improvement and Refunding Revenue Bonds,
Series 2013

\$ _____ * **Serial Bonds**

<u>Maturity</u> <u>(October 1)</u>	<u>Principal</u> <u>Amount*</u>	<u>Interest</u> <u>Rate</u>	<u>Yield</u>	<u>Initial</u> <u>CUSIP**</u>
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* Preliminary, subject to change.

** The City is not responsible for the use of the CUSIP numbers referenced herein nor is any representation made by the City as to their correctness; such CUSIP numbers are included solely for the convenience of the readers of this Official Statement.

*** The Underwriter may designate these maturities to be part of term bonds rather than serial bonds as specified more particularly in the Official Notice of Sale under the caption "STRUCTURE."

CITY OF PALM COAST, FLORIDA
160 Cypress Point Parkway
Suite B-106
Palm Coast, Florida 32164

CITY COUNCIL

Jon Netts, Mayor
Bill McGuire, Council Member
David Ferguson, Council Member
Jason DeLorenzo, Council Member
Bill Lewis, Council Member

CITY MANAGER

Jim Landon

FINANCE DIRECTOR

Christopher Quinn

CITY CLERK

Virginia A. Smith

CITY ATTORNEY

Brown, Garganese, Weiss & D'Agresta, P.A.
Orlando, Florida

BOND COUNSEL

Bryant Miller Olive P.A.
Orlando, Florida

DISCLOSURE COUNSEL

Nabors, Giblin & Nickerson, P.A.
Tampa, Florida

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

James Moore & Co., P.L.
Daytona Beach, Florida

FINANCIAL ADVISOR

FirstSouthwest Company
Orlando, Florida

FEASIBILITY CONSULTANT

Public Resources Management Group, Inc.
Maitland, Florida

CONSULTING ENGINEER

CPH Engineers, Inc.
Sanford, Florida

NO DEALER, SALESMAN OR ANY OTHER PERSON HAS BEEN AUTHORIZED BY THE CITY OR THE UNDERWRITERS TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION, OTHER THAN THOSE CONTAINED IN THIS OFFICIAL STATEMENT, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FOREGOING. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE SERIES 2013 BONDS AND THERE SHALL BE NO SALE OF THE SERIES 2013 BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE.

The information set forth herein has been obtained from the City, DTC and other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness. The information pertaining to the book-entry only system has been supplied by DTC and is likewise not to be construed as a representation of the City. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

All summaries herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the Series 2013 Bonds are qualified in their entirety by reference to the form thereof included in the aforesaid documents and agreements.

THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE SERIES 2013 BONDS. STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT WHICH INVOLVE ESTIMATES, FORECASTS OR MATTERS OF OPINION, WHETHER OR NOT EXPRESSLY SO DESCRIBED IN THIS OFFICIAL STATEMENT, ARE INTENDED SOLELY AS SUCH AND ARE NOT TO BE CONSTRUED AS REPRESENTATIONS OF FACTS. THE INFORMATION AND EXPRESSIONS OF OPINION CONTAINED HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE THE IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY SINCE THE DATE OF OFFICIAL STATEMENT OR THE EARLIEST DATE AS OF WHICH SUCH INFORMATION IS GIVEN.

THE SERIES 2013 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE BOND RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE

UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2013 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES, IF ANY, IN WHICH THE SERIES 2013 BONDS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2013 BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2013 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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OFFICIAL STATEMENT

relating to

\$ _____ *

CITY OF PALM COAST, FLORIDA

Utility System Improvement and Refunding Revenue Bonds, Series 2013

INTRODUCTION

The purpose of this Official Statement, which includes the cover page, the inside cover and the appendices hereto, is to furnish information concerning the City of Palm Coast, Florida (the "City"), the Utility System (as defined herein), and certain other information in connection with the sale by the City of its Utility System Improvement and Refunding Revenue Bonds, Series 2013, being issued in the aggregate principal amount of \$ _____* (the "Series 2013 Bonds"). The Series 2013 Bonds are being issued to provide funds sufficient to (a) currently refund all of the City's Outstanding Utility System Revenue Bonds, Series 2003 (the "Refunded Bonds"), (b) finance and/or reimburse a portion of the cost of construction of the planned capital improvements to the City's water and wastewater utility system (the "Utility System"), and (c) pay certain costs and expenses relating to the issuance of the Series 2013 Bonds[, including, without limitation, the premium for a financial guaranty insurance policy]. See "THE 2013 PROJECT" and "PLAN OF REFUNDING" herein. There follows in this Official Statement a brief description of the Series 2013 Bonds, the Utility System, the security and sources of payment for the Series 2013 Bonds, and information regarding the City. All financial data and other statistical data included herein have been provided by the City, except where other sources are noted.

The Series 2013 Bonds are being issued pursuant to the Constitution and laws of the State of Florida, including particularly Chapter 159, Part I, and Chapter 166, Part II, Florida Statutes, as amended, the City Charter of the City and other applicable provisions of law (collectively, the "Act") and under and pursuant to Resolution No. 2003-22 adopted by the City Council of the City (the "City Council") on September 30, 2003 (the "Master Resolution"), as amended and supplemented, and particularly as amended and supplemented by Resolution No. 2013-__ adopted by the City Council on [May 21], 2013 (collectively, the "Bond Resolution"). Capitalized terms used but not otherwise defined herein have the same meaning as when used in the Bond Resolution unless the context would clearly indicate otherwise.

The Series 2013 Bonds are being issued on parity with bonds issued by the City under the Bond Resolution, including its Utility System Revenue Bonds, Series 2007 (the "Series 2007 Bonds"), currently outstanding in the aggregate principal amount of

*Preliminary, subject to change.

\$ _____, issued for the primary purpose of financing the cost of construction of improvements to the Utility System.

A description of certain of the terms and conditions of the Series 2013 Bonds is set forth in "APPENDIX D - FORM OF BOND RESOLUTION" attached hereto. The description of the Series 2013 Bonds, the documents authorizing and securing the same, and the information from various reports and statements contained herein are not comprehensive or definitive. All references herein to such documents, reports and statements are qualified by their entire, actual content.

The assumptions, estimates, projections and matters of opinion contained in this Official Statement, whether or not so expressly stated, are set forth as such and not as matters of fact, and no representation is made that any of the assumptions or matters of opinion herein are valid or that any projections or estimates contained herein will be realized. Neither this Official Statement nor any other statement which may have been made verbally or in writing in connection with the Series 2013 Bonds, other than the Bond Resolution, is to be construed as a contract with the Holders of the Series 2013 Bonds.

This Official Statement speaks only as of its date and the information contained herein is subject to change. This Official Statement contains certain information concerning DTC (as defined herein) and its book-entry system. Such information has not been provided by the City and the City does not certify as to the accuracy or sufficiency of the disclosure practices or content of information provided by such parties and is not responsible for the information provided by such parties.

THE CITY

The City is located along the Atlantic Ocean on the northeastern portion of the coast of the State of Florida (the "State") in Flagler County (the "County"). The City has a permanent population of approximately 76,450 as of September 2012 and is the largest municipality in the County. See "APPENDIX A - GENERAL INFORMATION REGARDING THE CITY OF PALM COAST AND FLAGLER COUNTY, FLORIDA" attached hereto for more information regarding the City.

The City is governed by a five-member City Council which is elected at large and serves staggered four-year terms. One member is elected as Mayor. The promulgation and adoption of policy are the responsibility of the City Council and the execution of such policy is the responsibility of the City Manager appointed by the City Council.

THE 2013 PROJECT

A portion of the Series 2013 Bonds will be used to finance and/or reimburse certain additions, extensions, improvements, renewals and replacements to the City's

Utility System described in the plans and specifications on file with the City. The 2013 Project includes certain additions, extensions, improvements, renewals and replacements to the City's water and wastewater facilities. See "THE UTILITY SYSTEM - Five Year Capital Improvement Program" herein and "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - Table 3" attached hereto for information regarding the capital projects to be funded with the Series 2013 Bonds.

PLAN OF REFUNDING

The City has determined that it can achieve a present value net debt service savings by providing for the current refunding of the Refunded Bonds. The Refunded Bonds will be called for redemption on October 1, 2013 (the "Redemption Date") at a redemption price of 100% of the principal amount to be redeemed, plus accrued interest thereon for the Refunded Bonds. The Refunded Bonds are currently outstanding in the aggregate principal amount of \$_____.

Upon delivery of the Bonds, Wells Fargo Bank, National Association, Jacksonville, Florida (the "Escrow Agent") will enter into an Escrow Deposit Agreement (the "Escrow Agreement") with the City relating to the Refunded Bonds. The Escrow Agreement will create an irrevocable escrow deposit fund for the Refunded Bonds (the "Escrow Deposit Fund") which will be held by the Escrow Agent solely for the benefit of the holders of the Refunded Bonds, and the money and securities held therein are to be applied to the payment of principal of and interest on the Refunded Bonds on the Redemption Date. The refunding will be accomplished through the issuance of the Series 2013 Bonds and the deposit of a portion of the proceeds thereof, together with any other legally available moneys of the City, into the Escrow Deposit Fund. Substantially all of such money is expected to be invested in "Acquired Obligations," as such term is defined in the Bond Resolution. The maturing principal amount of and interest on the Acquired Obligations and any cash held in the Escrow Deposit Fund is expected to be sufficient to pay the principal of and interest on the Refunded Bonds on the Redemption Date, and will be pledged solely for the benefit of the holders of the Refunded Bonds, and will not be available for payment of debt service on the Series 2013 Bonds.

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ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2013 Bonds are expected to be applied as follows:

SOURCES:

Principal Amount of Series 2013 Bonds	\$ _____
Plus[Minus] Net Original Issue Premium[Discount]	_____
Total Sources	\$ _____

USES:

Deposit to Project Fund ⁽¹⁾	_____
Deposit to Escrow Fund	_____
Costs of Issuance ⁽²⁾	_____
Total Uses	\$ _____

⁽¹⁾ To fund a portion of the costs associated with the 2013 Project.

⁽²⁾ Includes, among other things, Underwriter's discount, legal, financial and administrative expenses incurred with respect to the issuance of the Series 2013 Bonds [and the premium for the 2013 Bond Insurance Policy].

DESCRIPTION OF THE SERIES 2013 BONDS

General

The Series 2013 Bonds will be initially issued as a single fully-registered bond for each respective maturity, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). See "DESCRIPTION OF THE SERIES 2013 BONDS - Book-Entry Only System" below. Wells Fargo Bank, National Association, Jacksonville, Florida, shall serve as Paying Agent and Registrar for the Series 2013 Bonds.

The Series 2013 Bonds are dated the date of delivery, shall bear interest at the rates per annum set forth on the inside cover page of this Official Statement, shall pay interest semiannually on each April 1 and October 1, commencing October 1, 2013, and shall mature on October 1 in the years and in the principal amounts set forth on the inside cover page of this Official Statement.

Interest on the Series 2013 Bonds shall be payable by the Paying Agent on each interest payment date (or the first business day following an interest payment date if such interest payment date is not a business day) to the person appearing on the registration books of the City by check or draft mailed to the registered owner at their address as it appears on such registration books or by wire transfer to Holders of \$1,000,000 or more

in principal amount of the Series 2013 Bonds. Interest shall be calculated on the basis of a 360 day year consisting of 12 months of 30 days each. The principal of the Series 2013 Bonds shall be payable upon the presentation and surrender thereof as the same falls due at the principal office of the Registrar.

Book-Entry Only System

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CITY BELIEVES TO BE RELIABLE, BUT THE CITY DOES NOT TAKE ANY RESPONSIBILITY FOR THE ACCURACY THEREOF.

DTC will act as securities depository for the Series 2013 Bonds. A blanket City letter of representations dated October 28, 2003 (the "Blanket Letter") was entered into by the City with DTC. It is intended that the Series 2013 Bonds be registered so as to participate in a global book-entry system with DTC as set forth herein and in such Blanket Letter. The terms and conditions of such Blanket Letter shall govern the registration of the Series 2013 Bonds. The Series 2013 Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of each Series of the Series 2013 Bonds and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (the "Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants"). DTC has a Standard and Poor's rating of AA+. The DTC

Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such Series 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2013 Bonds, except in the event that use of the book-entry system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping an account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements made among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Series 2013 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2013 Bonds, as the case may be, to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2013 Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Registrar on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct or 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 with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct or Indirect Participants and not of DTC, the Registrar or the City, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City and/or the Paying Agent for the Series 2013 Bonds. Disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of the Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2013 Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository) upon compliance with applicable DTC rules and procedures. In that event, Series 2013 Bond certificates will be printed and delivered to DTC.

Transfer or Exchange of Series 2013 Bonds

So long as the Series 2013 Bonds are registered in the name of Cede & Co., as the nominee of DTC, the transfer and exchange of any Series 2013 Bonds shall be governed by rules established between DTC and its Direct and Indirect Participants. See "DESCRIPTION OF THE SERIES 2013 BONDS - Book-Entry Only System" above. Upon the discontinuance of the book-entry only registration system for the Series 2013 Bonds, the following provisions described under this subheading shall apply for Beneficial Owners.

Any Series 2013 Bonds, upon surrender thereof at the designated corporate trust office of the Registrar, together with an assignment duly executed by the Holders of the Series 2013 Bonds or their attorney or legal representative in such form as shall be satisfactory to the Registrar, may, at the option of the Bondholder, be exchanged for an aggregate principal amount of Series 2013 Bonds equal to the principal amount of the Series 2013 Bond or Series 2013 Bonds so surrendered.

The Registrar shall keep books for the registration of and for the registration of transfers of Series 2013 Bonds as provided in the Bond Resolution. The transfer of any Series 2013 Bonds may be registered only upon such books and only upon surrender thereof to the Registrar together with an assignment duly executed by the Holders of the Series 2013 Bonds or their attorney or legal representative in such form as shall be satisfactory to the Registrar. Upon any such registration of transfer, the City shall execute and the Registrar shall authenticate and deliver in exchange for such Series 2013 Bond, a new Bond or Bonds registered in the name of the transferee, and in an aggregate principal amount equal to the principal amount of such Bond or Bonds so surrendered and of the same Series.

In all cases in which Series 2013 Bonds shall be exchanged, the City shall execute and the Registrar shall authenticate and deliver, at the earliest practicable time, a new Bond or Bonds of the same type and series in accordance with the provisions of the Bond Resolution. All Series 2013 Bonds surrendered in any such exchange or registration of transfer shall forthwith be cancelled by the Registrar. The City or the Registrar may make a charge for every such exchange or registration of transfer of Series 2013 Bonds sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge shall be made to any Holder of Series 2013 Bonds for the privilege of exchanging or registering the transfer of Series 2013 Bonds under the provisions of the Bond Resolution. Neither the City nor the Registrar shall be required to make any such exchange or registration of transfer of Series 2013 Bonds after the Record Date.

Optional Redemption

The Series 2013 Bonds maturing on or prior to October 1, ____ are not subject to redemption prior to their stated maturities. The Series 2013 Bonds maturing on or after October 1, ____ are redeemable prior to their stated dates of maturity, at the option of the City, in whole or in part on any date on or after October 1, ____ (in such manner of selection of maturities as the City shall deem appropriate and by lot within maturities), at the redemption prices equal to the principal amount of the Series 2013 Bonds to be redeemed plus interest accrued to the date of redemption.

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Mandatory Redemption

The Series 2013 Bonds maturing on October 1, ____ shall be subject to mandatory redemption prior to maturity, by lot, in such manner as the Registrar may deem appropriate, at a redemption price equal to the principal amount thereof plus interest accrued to the date of redemption, on October 1, ____, and on each October 1 thereafter, from Amortization Installments deposited in the Redemption Account, in the following principal amounts in the years specified:

<u>Date</u>	<u>Amortization Installments</u>
	\$

*Maturity

The Series 2013 Bonds maturing on October 1, ____ shall be subject to mandatory redemption prior to maturity, by lot, in such manner as the Registrar may deem appropriate, at a redemption price equal to the principal amount thereof plus interest accrued to the date of redemption, on October 1, ____, and on each October 1 thereafter, from Amortization Installments deposited in the Redemption Account, in the following principal amounts in the years specified:

<u>Date</u>	<u>Amortization Installments</u>
	\$

*Maturity

The Series 2013 Bonds maturing on October 1, ____ shall be subject to mandatory redemption prior to maturity, by lot, in such manner as the Registrar may deem appropriate, at a redemption price equal to the principal amount thereof plus interest accrued to the date of redemption, on October 1, ____, and on each October 1 thereafter, from Amortization Installments deposited in the Redemption Account, in the following principal amounts in the years specified:

<u>Date</u>	<u>Amortization Installments</u>
	\$

*Maturity

Notice of Redemption

Notices of redemption shall, at least 30 days prior to the redemption date, be filed with the Registrar, and mailed by the Registrar on behalf of the City, first class mail, postage prepaid, to all Holders of Series 2013 Bonds to be redeemed at their addresses as they appear on the registration books kept by the Registrar on the Record Date. Failure to mail such notice to one or more Holders of Series 2013 Bonds to be redeemed, or any defect therein, shall not affect the validity of the proceedings for such redemption with respect to Holders of Series 2013 Bonds to which notice was duly mailed and no defect occurred. Such notices shall also be sent to the registered securities depositories and two or more nationally recognized municipal securities information repositories. Each notice of redemption shall set forth the date fixed for redemption, the redemption price to be paid and, if less than all of the Series 2013 Bonds of one maturity are to be called, the distinctive numbers of such Series 2013 Bonds to be redeemed and, in the case of Series 2013 Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed. A notice of optional redemption may state that it is conditional upon receipt by the Paying Agent of moneys sufficient to pay the redemption price, plus interest accrued to the redemption date, or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price and accrued interest if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Paying Agent to affected holders of Series 2013 Bonds as promptly as practicable upon the failure of such condition or the occurrence of such other event.

Notwithstanding the foregoing, so long as Cede & Co. is the registered owner of the Series 2013 Bonds pursuant to DTC's book-entry only system of registration, notice of redemption required to be mailed to holders of Series 2013 Bonds shall only be sent to Cede & Co.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS

VARIOUS PROVISIONS DESCRIBED IN THIS SECTION ARE TO BE AMENDED AND ARE SUBJECT TO THE AMENDMENTS DESCRIBED UNDER "SPRINGING AMENDMENTS TO BOND RESOLUTION" HEREIN.

General

The payment of the principal of and interest and premium, if any, on the Series 2013 Bonds is secured by a pledge of and an irrevocable lien on the "Pledged Revenues" which consist of: (a) the Net Revenues of the Utility System, (b) the Sewer System Capital Facilities Fees and Water System Capital Facilities Fees (both as defined below), and (c) until applied in accordance with the Bond Resolution, the moneys on deposit in the various funds and accounts created pursuant to the Bond Resolution, except (i) the Rebate Fund, (ii) to the extent moneys therein shall be required to pay the Cost of

Operation and Maintenance as defined and in accordance with the Bond Resolution, and (iii) to the extent moneys on deposit in a subaccount of the Reserve Fund shall be pledged solely for the payment of a particular Series of Bonds for which it was established in accordance with the provisions of the Bond Resolution. The City has covenanted that it will deposit all Gross Revenues (as defined below) it collects from the operation of or ownership of the Utility System into the Revenue Fund, where they will be subject to the lien of the Bonds, including the Series 2013 Bonds.

THE SERIES 2013 BONDS SHALL NOT BE OR CONSTITUTE GENERAL OBLIGATIONS OR INDEBTEDNESS OF THE CITY, FLAGLER COUNTY, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF AS "BONDS" WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION, BUT SHALL BE SPECIAL OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM AND SECURED BY A FIRST LIEN ONLY UPON AND A PLEDGE OF THE PLEDGED REVENUES, IN THE MANNER AND TO THE EXTENT PROVIDED IN THE BOND RESOLUTION. NEITHER THE FAITH AND CREDIT OF THE CITY, FLAGLER COUNTY, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF ARE PLEDGED TO THE PAYMENT OF DEBT SERVICE ON THE SERIES 2013 BONDS AND NO HOLDER OF ANY SERIES 2013 BOND SHALL EVER HAVE THE RIGHT TO COMPEL THE EXERCISE OF ANY AD VALOREM TAXING POWER BY THE CITY, FLAGLER COUNTY, THE STATE OF FLORIDA, OR ANY POLITICAL SUBDIVISION OR AGENCY THEREOF TO PAY SUCH BOND, OR BE ENTITLED TO PAYMENT OF SUCH BOND FROM ANY MONEYS OF THE CITY EXCEPT FROM THE PLEDGED REVENUES IN THE MANNER AND TO THE EXTENT PROVIDED IN THE BOND RESOLUTION. THE SERIES 2013 BONDS SHALL NOT CONSTITUTE A LIEN UPON ANY PORTION OF THE UTILITY SYSTEM OR ANY OTHER PROPERTY OF THE CITY, OTHER THAN THE PLEDGED REVENUES.

The Bond Resolution has ascribed the following meanings to the terms "Cost of Operation and Maintenance," "Gross Revenues," "Net Revenues," "Sewer System Capital Facilities Fees" and "Water System Capital Facilities Fees." For all other terms not otherwise defined herein, see "APPENDIX D - FORM OF BOND RESOLUTION" attached hereto.

"Cost of Operation and Maintenance" shall mean the then current expenses, paid or accrued, in the operation, maintenance and repair of the Utility System, as calculated in accordance with generally accepted accounting principles, including, but not limited to, general administrative and indirect labor costs, personal services, contractual services, repairs and maintenance, and materials and supplies, but shall not include expenses not annually recurring, any reserve for renewals and replacements, extraordinary repairs or any allowance for depreciation, any Bond Service Requirement, any payments in lieu of taxes, franchise fees or other transfers.

"Gross Revenues" shall mean all income and earnings, including Connection Fees, received by the City or accrued to the City from the ownership, use or operation of the Utility System and all parts thereof, moneys deposited from the Rate Stabilization Fund into the Revenue Fund in accordance with the terms of the Bond Resolution, provided any moneys transferred from the Rate Stabilization Fund into the Revenue Fund within 90 days following the end of a Fiscal Year may be designated by the City as Gross Revenues of such prior Fiscal Year, and shall also include investment income, if any, earned on any fund or account created pursuant to the Bond Resolution, except the Rebate Fund, the Sewer System Capital Facilities Fee Fund, the Water System Capital Facilities Fee Fund, and also including any income or earnings (including investment income) derived from the Utility System in any prior Fiscal Year and which is redeposited into the Revenue Fund, all as calculated in accordance with generally accepted accounting principles, and any payment received by the City from a Qualified Agreement Provider pursuant to a Qualified Agreement designed by the City, but "Gross Revenues" shall not include any direct subsidy payments received by the City relating to Direct Subsidy Bonds (as defined in the Bond Resolution), proceeds from the sale or other disposition of the Utility System or any part thereof, condemnation awards or proceeds of insurance received with respect to the Utility System and moneys deposited to the Rate Stabilization Fund from the Surplus Fund, including any moneys transferred from the Surplus Fund to the Rate Stabilization Fund within 90 days following the end of a Fiscal Year which the City determines not to be Gross Revenues of such prior Fiscal Year, Contributions in Aid of Construction, Sewer System Capital Facilities Fees, Water System Capital Facilities Fees or unrealized gains or losses from investments.

"Net Revenues" shall mean the Gross Revenues, after deduction of the Cost of Operation and Maintenance.

"Sewer System Capital Facilities Fees" shall mean the impact fees, if any, imposed by the City upon and collected from new users of the Sewer System which represent an equitable share of the capital costs of the Sewer System which are attributable to the increased demand such additional connections create upon the Sewer System. The term "Sewer System Capital Facilities Fees" in each Fiscal Year shall not include any amounts in excess of the Bond Service Requirement for such Bond Year multiplied by the Expansion Percentage applicable to the Sewer System.

"Water System Capital Facilities Fees" shall mean the impact fees, if any, imposed by the City upon and collected from new users of the Water System which represent an equitable share of the capital costs of the Water System which are attributable to the increased demand such additional connections create upon the Water System. The term "Water System Capital Facilities Fees" in each Fiscal Year shall not include any amounts in excess of the Bond Service Requirement for such Bond Year multiplied by the Expansion Percentage applicable to the Water System.

Capital Facilities Fees

The City is required to deposit, as received, all Sewer System Capital Facilities Fees into the Sewer System Capital Facilities Fees Fund. The City is also required to deposit, as received, all Water System Capital Facilities Fees into the Water System Capital Facilities Fees Fund. The Bond Resolution provides that the aggregate amount of Sewer System Capital Facilities Fees and Water System Capital Facilities Fees (collectively, the "Capital Facilities Fees") applied to pay the principal of, redemption, if any, and interest on the Bonds, including the Series 2013 Bonds in any Bond Year shall never exceed the maximum amount permitted by law. The Capital Facilities Fees not applied to pay the principal of, redemption premium, if any, and interest on the Bonds may be applied by the City for any use allowed by law as described below. See the subheading "PROJECTED OPERATING RESULTS - Principal Considerations and Assumptions Regarding Projected Operating Results" of "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto for a description of the assumptions associated with the calculation of the estimated amount of Capital Facilities Fees.

Generally, under Florida law, impact fees (such as the Capital Facilities Fees) may be validly imposed against new construction or development in order to fund capital improvements or capacity which are necessitated by such new construction or development or to satisfy debt service for the bonds or other obligations issued for such purposes. Moneys in the Sewer System Capital Facilities Fees Fund and Water System Capital Facilities Fees Fund may be used only for the capital improvements or capacity attributable to the new construction or development or to pay associated debt service.

The receipt of the Capital Facilities Fees, if any, by the City is dependent on new development within the geographical limits of the service area of the Utility System and the extent to which such fees may be used to pay principal of and interest on the Series 2013 Bonds is limited by Florida law. No assurance can be given that new development will continue within the geographical limits of the service area of the Utility System or that the City will ever receive a significant amount of Capital Facilities Fees that would be permitted to be applied to pay debt service on the Series 2013 Bonds.

It should be noted that any increase in the Capital Facilities Fees as implemented by the City pursuant to the rate regulation process above the amount of the fees prepaid by a lot owner will be required to be paid prior to service being made available.

The Bond Resolution provides that nothing therein will obligate the City to impose Capital Facilities Fees.

No Reserve Fund

The Series 2013 Bonds are not secured by the Reserve Fund or any subaccount created therein.

Rate Covenant

Pursuant to the Bond Resolution, the City has covenanted to fix, establish, revise from time to time whenever necessary, maintain and collect always such fees, rates, rentals and other charges for the use of the products, services and facilities of the Utility System which will always provide, (a) Net Revenues in each Fiscal Year sufficient to pay 110% of the Bond Service Requirement on all Outstanding Bonds in the applicable Bond Year or (b) Net Revenues in each Fiscal Year sufficient to pay 105% of the Bond Service Requirement on all Outstanding Bonds in the applicable Bond Year; and Net Revenues, Water System Capital Facilities Fees and Sewer System Capital Facilities Fees in each Fiscal Year sufficient to pay at least 120% of the Bond Service Requirement on all Outstanding Bonds in the applicable Bond Year. In addition to compliance with either (a) or (b) above, Net Revenues in each Fiscal Year shall also be sufficient to provide 100% of the Bond Service Requirement on all Outstanding Bonds in the applicable Bond Year, any amounts required by the terms of the Bond Resolution to be deposited into the Reserve Fund or with any Credit Facility Issuer as a result of a withdrawal from the Reserve Fund, the Renewal, Replacement and Improvement Fund and debt service on other obligations payable from the Revenues of the Utility System, and other payments, and all allocations and applications of revenues required by the Bond Resolution in the applicable Fiscal Year. The City also covenants that such Net Revenues will not be reduced so as to render them insufficient to provide revenues for the purposes provided therefor by the Bond Resolution.

Additional Parity Obligations

No Additional Parity Obligations may be issued under the Bond Resolution unless the City shall have first complied with the following requirements:

(a) There shall have been obtained and filed with the Clerk of the City a certificate of the Finance Director stating:

(i) that the books and records of the City relative to the Utility System and the Net Revenues and if applicable Sewer System Capital Facilities Fees and Water System Facilities Fees have been reviewed by the Finance Director; and either

(ii) that the amount of the Net Revenues derived for any consecutive 12 months out of the preceding 30 months preceding the date of issuance of the proposed Additional Parity Obligations (the "Test Period") adjusted as provided in paragraphs (b), (c), (d), (e) and/or (f) below, is equal to not less than 110% of the Maximum Bond Service Requirement becoming due in any Bond Year thereafter on (A) all Bonds issued under the Bond Resolution, if any, then Outstanding, and (B) on the Additional Parity Obligations with respect to which such certificate is made, or (C) that Net Revenues during the Test Period adjusted as provided in paragraphs (b), (c), (d), (e) and/or (f) below is equal to not less than 105% of the

Maximum Bond Service Requirement becoming due in any Bond Year thereafter on (I) all Bonds issued under the Bond Resolution, if any, then Outstanding, and (II) on the Additional Parity Obligations with respect to which such certificate is made and Net Revenues during the Test Period as so adjusted plus Sewer System Capital Facilities Fees and Water System Capital Facilities Fees during the Test Period is equal to not less than 120% of the Maximum Bond Service Requirement becoming due in any Bond Year thereafter on (1) all Bonds issued under the Bond Resolution, if any, then Outstanding, and (2) on the Additional Parity Obligations with respect to which such certificate is made;

(b) Upon recommendation of the Qualified Independent Consultants, the Net Revenues certified pursuant to (B) and (C) in paragraph (a)(ii) above may be adjusted for the purpose determining whether Additional Parity Obligations may be issued, by including: (i) 100% of the additional Net Revenues which in the opinion of the Qualified Independent Consultant would have been derived by the City from rate increases adopted before the Additional Parity Obligations are issued, if such rate increases had been implemented before the commencement of such Bond Year, and (ii) 100% of the additional Net Revenues estimated by the Qualified Independent Consultant to be derived during the first full 12-month period after the facilities of the Utility System are extended, enlarged, improved or added to with the proceeds of the Additional Parity Obligations with respect to which such certificate is made.

(c) Upon recommendation of the Qualified Independent Consultants if the Additional Parity Obligations are to be issued for the purpose of acquiring an existing water system and/or sewer system and/or any other utility system in accordance with the Bond Resolution, the Net Revenues certified pursuant to (B) and (C) in paragraph (a)(ii) above may be adjusted by including: 100% of the additional estimated Net Revenues which in the written opinion of the Qualified Independent Consultants will be derived from the acquired facilities during the first full 12-month period after the issuance of such Additional Parity Obligations (the Qualified Independent Consultants' report shall be based on the actual operating revenues of the acquired utility for a recent 12-month period adjusted to reflect the City's ownership and the City's rate structure in effect with respect to the Utility System at the time of the issuance of the Additional Parity Obligations).

(d) Upon recommendation of the Qualified Independent Consultants, if the number of connections as of the first day of the month in which the proposed Additional Parity Obligations are to be issued exceeds the average number of such connections during such 12 consecutive month period, then the Net Revenues certified pursuant to certified pursuant to (B) or (C) of paragraph (a)(ii) above may be adjusted to include the Net Revenues which would have been received in such 12 consecutive months if those additional connections had also been connected to the Utility System during all of such 12 consecutive months.

(e) Upon recommendation of the Qualified Independent Consultant, if the City shall have entered into a contract, which contract shall be for a duration of not less than the final maturity of the proposed Additional Parity Obligations, with any public body, whereby the City shall have agreed to furnish services for the collection, treatment or disposal of sewage or agreed to furnish services in connection with any water system or any other utility system, then the Net Revenues certified pursuant to (B) or (C) of paragraph (a)(ii) above may be increased (to the extent such amounts were not reflected in such Net Revenues) by the minimum amount which the public body shall guarantee to pay in any one year for the furnishing of services by the City, after deducting from such payment the estimated Cost of Operation and Maintenance attributable in such year to such services.

(f) Upon recommendations of the Qualified Independent Consultants, if there is an estimated increase in Net Revenues to be received by the City as a result of additions, extensions or improvements to the Utility System during the period of three years following the completion of such additions, extensions or improvements financed with the proceeds of Bonds or Additional Parity Obligations, then the Net Revenues derived from the Utility System certified pursuant to (B) or (C) of paragraph (a)(ii) above may be increased by 50% of the average annual additional Net Revenues calculated for such three year period.

(g) The City need not comply with the provisions of paragraph (a) above if and to the extent the Bonds to be issued are Refunding Bonds, if the City shall cause to be delivered a certificate of the Finance Director of the City setting forth the Average Annual Debt Service Requirement (i) for the Bonds then Outstanding and (ii) for all Series of Bonds to be immediately Outstanding thereafter and stating that the Average Annual Debt Service Requirement pursuant to (ii) of this paragraph (g) is not greater than that set forth pursuant to (i) of this paragraph (g).

(h) The City need not comply with the provisions of paragraph (a) above if and to the extent the Bonds to be issued are for the purpose of providing any necessary additional funds required for completion of any improvements to the Utility System ("Completion Bonds") if originally financed with the proceeds of Bonds; provided that such Completion Bonds for which the City need not comply with the provision of such paragraph (a) above may not exceed 10% of the total principal amount of Bonds estimated to be required for such improvements to the Utility System at the time of issuance of the initial Series of Bonds to finance such improvements.

(i) The Finance Director of the City shall have certified that the City is not in default in the carrying out of any of the obligations assumed under the Bond Resolution and no event of default shall have occurred under the Bond Resolution and shall be continuing, and all payments required by the Bond Resolution to be made into the funds and accounts established under the Bond Resolution shall have been made to the full extent required.

(j) The Supplemental Resolution authorizing the issuance of the Additional Parity Obligations shall recite that all of the covenants contained in the Bond Resolution will be applicable to such Additional Parity Obligations.

Subordinated Indebtedness

The City may, at any time or from time to time, issue evidences of indebtedness payable in whole or in part out of the Net Revenues of the Utility System and which may be secured by a pledge of the Net Revenues subordinated in all respect to the pledge of the Net Revenues created by the Bond Resolution. Presently, the City does not have any such outstanding subordinate debt except as described in the succeeding paragraphs.

Pursuant to four State Revolving Fund Construction Loan Agreements, each between the Florida Department of Environmental Protection ("FDEP") and the City (collectively, the "SRF Loan Agreements"), the City has obtained loans from FDEP currently outstanding in the aggregate principal amount of \$23,199,592, as of September 30, 2012 (the "FDEP Loans"). The FDEP Loans are each for a period of 20 years. Proceeds from the FDEP Loans were used to finance various improvements to the City's Utility System. The FDEP Loans are payable from a lien on the Net Revenues that is junior, inferior and subordinate to the lien created by the Bond Resolution. The average interest rate on the FDEP Loans is approximately ____% per annum. For additional information relating to the FDEP Loans, see "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - EXISTING SYSTEM DEBT AND PLAN OF FINANCE" attached hereto.

Among other remedies, the SRF Loan Agreements give FDEP the right to accelerate payments on the FDEP Loans in the case of an event of default. While any such acceleration might adversely affect the City's ability to meet the rate covenant applicable to the Series 2013 Bonds and might adversely affect the City's ability to pay debt service on the Series 2013 Bonds, the SRF Loan Agreements contains a separate rate covenant to help ensure the availability of revenues for the payment of such obligations.

Certain Covenants

In addition to those discussed elsewhere in this Official Statement, the City has made numerous other covenants in the Bond Resolution for the benefit of the holders of Bonds including, but not limited to: (a) those relating to maintaining the Utility System in good condition; (b) annually preparing an operating budget with respect to the Utility System; (c) maintaining sufficient books and records; (d) causing an annual audit of such books and records to be available for inspection by holders of the Bonds; (e) agreeing not to mortgage or sell any portion of the Utility System except in certain circumstances; (f) agreeing not provide free service by the Utility System; (g) agreeing to establish a written policy with respect to disconnection from the Utility System upon non-payment for services; (h) enforcing mandatory connection policies; (i) agreeing not to grant a franchise for the operation of any competing system in the Utility System's area of

operation; (j) providing adequate insurance protection for the Utility System; (k) enforcing collections; and (l) other covenants related to the continuing viability of the Utility System. See "APPENDIX D - FORM OF BOND RESOLUTION" attached hereto for a complete list of the covenants of the City.

FLOW OF FUNDS

VARIOUS PROVISIONS DESCRIBED IN THIS SECTION ARE TO BE AMENDED AND ARE SUBJECT TO THE AMENDMENTS DESCRIBED UNDER "SPRINGING AMENDMENTS TO BOND RESOLUTION" HEREIN.

Funds and Accounts

Pursuant to the Bond Resolution, the following funds and accounts have been established:

- (a) the Revenue Fund;
- (b) the Bond Service Fund, which consists of the Principal Account, the Interest Account, the Parity Contract Obligation Account and the Redemption Account;
- (c) the Reserve Fund;
- (d) the Subordinated Debt Service Fund;
- (e) the Renewal, Replacement and Improvement Fund;
- (f) the Project Fund, which consists of the 2013 Project Account;
- (g) the Sewer System Capital Facilities Fees Fund;
- (h) the Water System Capital Facilities Fees Fund;
- (i) the Rate Stabilization Fund;
- (j) the Surplus Fund; and
- (k) the Rebate Fund.

The cash required to be accounted for in each of the funds and accounts established under the Bond Resolution may be deposited in a single bank account, provided that adequate accounting records are maintained by the City to reflect and control the restricted allocation of the cash on deposit therein for the various purposes of such as provided in the Bond Resolution. The designation and establishment of the various funds and accounts established under the Bond Resolution shall not be construed to require the establishment of any completely independent, self-balancing funds, as such term is commonly defined and used in governmental accounting, but rather is intended

solely to constitute an earmarking of certain revenues and assets of the Utility System for certain purposes to establish certain priorities for application of such revenues and assets as provided in the Bond Resolution.

Gross Revenues

All Gross Revenues of the Utility System shall, upon receipt thereof, be deposited by the City in the Revenue Fund. All deposits into such Revenue Fund shall be deemed to be held in trust for the purposes and used only for the purposes and in the manner provided in the Bond Resolution. All Net Revenues in the Revenue Fund, after payment of Cost of Operation and Maintenance of the Utility System, shall be disposed of monthly, but not later than the 25th day of each month, only in the following manner and the following order of priority:

(a) The City shall first deposit into the Bond Service Fund and credit to the following accounts, in the following order (except that payments into the Interest Account and Parity Contract Obligations Account shall be on parity with each other, and the payments into the Principal Account and the Redemption Account shall be on a parity with each other), the following identified sums:

(i) Interest Account: Taking into account actual and anticipated earnings in the Interest Account of the Bond Service Fund within the current Bond Year, such sum as will be sufficient to pay one-sixth of all interest coming due on all Outstanding Bonds on the next interest payment date; provided, however, that monthly deposits of interest, or portions thereof, shall not be required to be made to the extent that money on deposit within such Interest Account is sufficient for such purpose. Any monthly payment out of Net Revenues to be deposited as set forth above, for the purpose of meeting interest payments for any Series of Bonds, shall be adjusted, as appropriate, to reflect the frequency of interest payment dates applicable to such Series.

(ii) Parity Contract Obligations Account: Taking into account the actual and anticipated earnings in the Parity Contract Obligations Account in the Bond Service Fund within the current Bond Year, a pro rata estimated amount necessary to build up over time the amount of any Parity Contract Obligation which will next be due and payable or reasonably expected to be due and payable under any Qualified Agreement on the next payment date thereunder; provided, however, that the monthly amount to be so deposited may be adjusted, as appropriate, to reflect the frequency of payment dates thereunder (e.g., if such Parity Contract Obligations are required to be paid semi-annually, the City shall be required to deposit monthly an amount which is estimated to equal one-sixth of the next such payment).

(iii) Principal Account: Taking into account actual and anticipated earnings in the Principal Account of the Bond Service Fund within the current

Bond Year, such sum as will be sufficient to pay one-twelfth of the principal amount of the Outstanding Bonds which will mature and become due on such annual maturity dates beginning the month which is 12 months prior to the first principal maturity date; provided, however, that monthly deposits for principal, or portions thereof, shall not be required to be made to the extent that money on deposit within such Principal Account is sufficient for such purpose. Any monthly payment out of Net Revenues to be deposited as set forth above, for the purpose of meeting principal payments for any Series of Bonds, shall be adjusted, as appropriate, to reflect the frequency of principal payment dates applicable to such Series.

(iv) Redemption Account: Taking into account actual and anticipated earnings in the Redemption Account of the Bond Service Fund within the current Bond Year, such sum as will be sufficient to pay one-twelfth of any Amortization Installment established for the mandatory redemption of Outstanding Bonds on such annual maturity date beginning the month which is 12 months prior to the first Amortization Installment date; provided, however, that monthly deposits into the Redemption Account, or portions thereof, shall not be required to be made to the extent that money on deposit in the Redemption Account is sufficient for such purpose. Any monthly payment out of Net Revenues to be deposited as set forth above, for the purpose of meeting Amortization Installments for any Series of Bonds, shall be adjusted, as appropriate, to reflect the frequency of dates established for Amortization Installments applicable to such Series. The moneys in the Redemption Account shall be used solely for the purchase or redemption of the Term Bonds payable therefrom. The City may at any time purchase any of said Term Bonds at prices not greater than the then redemption price of said Term Bonds. If the Term Bonds are not then redeemable prior to maturity, the City may purchase said Term Bonds at prices not greater than the redemption price of such Term Bonds on the next ensuing redemption date. If Term Bonds are so purchased by the City, the City shall credit the account of such purchased Term Bonds against any current Amortization Installment to be paid by the City. If the City shall purchase or call for redemption in any year Term Bonds in excess of the Amortization Installment requirement for such year, such excess of Term Bonds so purchased or redeemed shall be credited in such manner and at such times as the City shall determine.

(b) To the extent that the amounts on deposit in the Reserve Fund are less than the applicable Reserve Requirement, the City shall next make deposits into the Reserve Fund in the manner described below from moneys remaining in the Revenue Fund. Any withdrawals from the Reserve Fund shall be subsequently restored from the first moneys available in the Revenue Fund, after all required current payments for Cost of Operation and Maintenance as set forth above and all current applications and allocations to the Bond Service Fund, including all deficiencies for prior payments have been made in full. Notwithstanding the foregoing, in case of withdrawal from the Reserve Fund, in no event shall the City be required to deposit into the Reserve Fund an amount greater than that

amount necessary to ensure that the difference between the Reserve Requirement and the amounts on deposit in the Reserve Fund on the date of calculation shall be restored not later than 60 months after the date of such deficiency (assuming equal monthly payments into the Reserve Fund for such 60 month period).

(c) From the moneys remaining in the Revenue Fund, the City shall next deposit into the Subordinated Debt Service Fund an amount required to be paid as provided in the resolution or agreement of the City authorizing such Subordinated Debt, but for no other purposes.

(d) The City shall next apply and deposit monthly from the moneys remaining on deposit in the Revenue Fund into the Renewal, Replacement and Improvement Fund, an amount at least equal to one-twelfth of 5% of the Gross Revenues received during the immediately preceding Fiscal Year. The moneys in the Renewal, Replacement and Improvement Fund shall be used only for the purpose of paying the cost of extensions, enlargements or additions to, or the replacement of capital assets of the Utility System or emergency repairs or extraordinary repairs thereto. No further deposits shall be required to be made into the Renewal, Replacement and Improvement Fund when there shall be on deposit therein an amount equal to or greater than 1% of the gross book value of the fixed assets of the Utility System pursuant to generally accepted accounting principles, or such other amount as may be determined from time to time by the Consulting Engineers. Funds on hand in the Renewal, Replacement and Improvement Fund may be used to pay current Cost of Operation and Maintenance to the extent moneys on deposit in the Revenue Fund are insufficient for such purposes. The moneys on deposit in such fund may also be used to supplement the Reserve Fund, if necessary, in order to prevent a default in the payment of the principal and interest on the Bonds.

(e) The balance of any moneys remaining in the Revenue Fund after the above required payments have been made shall be deposited into the Surplus Fund and may be used for any lawful purpose of the City; provided, however, that none of such moneys shall be used for any purposes other than those as set forth above unless all current payments, including any deficiencies for prior payments, have been made in full and unless the City shall have complied fully with all the covenants and provisions of the Bond Resolution.

Capital Facilities Fees

All Sewer System Capital Facilities Fees, if any, shall be deposited into the Sewer System Capital Facilities Fees Fund. On or before the 26th day of each month, all or any portion of the amounts then on deposit in the Sewer System Capital Facilities Fees Funds and Water System Capital Facilities Fees Funds shall be applied by the City as follows:

(a) Such moneys shall, in the case of a deficiency in the Bond Service Fund, first be applied and allocated, together with Water System Capital Facilities Fees to the

Bond Service Fund to supplement other Pledged Revenues to be deposited therein or in substitution of other Pledged Revenues to be deposited therein.

(b) Thereafter, all moneys in the Sewer System Capital Facilities Fees Fund and Water System Capital Facilities Fees Fund may be applied by the City for any use allowed by law.

Notwithstanding any provision of the Bond Resolution to the contrary, the amount of Sewer System Capital Facilities Fees used for the payment of principal of, redemption premium, if any, and interest on the Bonds in any Bond Year shall never exceed the maximum amount permitted by law.

Rate Stabilization Fund

The City may transfer into the Rate Stabilization Fund such moneys which are on deposit in the Surplus Fund as it deems appropriate. The City may transfer such amount of moneys from the Rate Stabilization Fund to the Revenue Fund as it deems appropriate; provided, however, that on or prior to each principal and interest payment date for the Bonds (in no event earlier than the 25th day of the month next preceding such payment date), moneys in the Rate Stabilization Fund shall be applied for the payment into the Interest Account, the Parity Contract Obligation Account, the Principal Account and the Redemption Account when the moneys therein are insufficient to pay the principal of and interest on the Bonds coming due and to pay any Parity Contract Obligations, but only to the extent moneys transferred from the Surplus Fund and Renewal, Replacement and Improvement Fund for such purposes, shall be inadequate to fully provide for such insufficiency.

SPRINGING AMENDMENTS TO BOND RESOLUTION

The City desires to amend the Bond Resolution in order to modernize various provisions and to provide greater flexibility to the City. Certain non-material amendments became effective immediately upon adoption of Resolution No. 2013-____ on [May 21], 2013. Certain other amendments will be effective upon the earlier of (1) approval of 51% or more of the holders of the Series 2007 Bonds, or (2) such time as the Series 2007 Bonds are no longer Outstanding. Other amendments will be effective only at such time as the Series 2007 Bonds are no longer Outstanding. The amendments for each category are described in the sections below.

Amendments Effective Immediately

The definition of "Financial Services Director" set forth in Section 2 of the Master Resolution was amended as follows, with deleted text indicated by strikethrough and additional text indicated by underline.

"Financial Services Director" or "Finance Director" shall mean the Financial Director of the chief financial officer of the City, by whatever title as may be designated by the City from time to time.

Amendments Requiring 51% Approval of Series 2007 Bondholders

The definition of "Bond Service Requirement" set forth in Section 2 of the Master Resolution will be amended as follows, with additional text indicated by underline.

"Bond Service Requirement" shall mean, for any Bond Year, at any time, the amount required to be deposited in such Bond Year into the Bond Service Fund, as provided herein including any Reimbursement Obligation (any interest shall not include interest to the extent it is to be paid from a direct subsidy payment expected to be received by the Issuer relating to Direct Subsidy Bonds). In calculating such amount, the Issuer shall subtract therefrom any amounts to be transferred from the Project Fund for the purpose of paying interest on the Bonds. With respect to Variable Rate Bonds which are not subject to a Qualified Agreement, if any, the interest rate used to calculate the Bond Service Requirement shall be (i) the actual rate on the date of calculation, or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (ii) if the indebtedness has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation, and (iii) (1) if the indebtedness has been outstanding for twelve months or less, if interest on the indebtedness is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published Bond Buyer 25 Bond Revenue Index (or comparable index if no longer published) plus fifty (50) basis points, or (2) if interest is not so excludable, the interest rate on direct U.S. Treasury Obligations with comparable maturities plus fifty (50) basis points; provided, however, that for purposes of any rate covenant measuring actual debt service coverage during a test period, Variable Rate Bonds which are not subject to a Qualified Agreement shall be deemed to bear interest at the actual rate per annum applicable during the test period. If Bonds are Option Bonds, the date or dates of tender shall be disregarded, unless actually tendered and not remarketed, and the stated maturity dates thereof shall be used for purposes of this calculation, if such Option Bonds are required to be paid from Pledged Revenues hereunder on such date of tender. If the Issuer has entered into a Qualified Agreement with respect to certain Variable Rate Bonds Outstanding hereunder or to be issued hereunder, the interest coming due on such Variable Rate Bonds for purposes of this definition shall be deemed to be based upon the synthetic fixed interest rate under the Qualified Agreement, without giving any regards to fees and expenses incurred in connection with the purchase of a liquidity facility.

The definition of "Cost of Operation and Maintenance" set forth in Section 2 of the Master Resolution will be amended as follows, with additional text indicated by underline.

"Cost of Operation and Maintenance" of the System shall mean the then current expenses, paid or accrued, in the operation, maintenance and repair of the System, as calculated in accordance with generally accepted accounting principles, including, but not limited to, general administrative and indirect labor costs, personal services, contractual services, repairs and maintenance, and materials and supplies, but shall not include expenses not annually recurring, any reserve for renewals and replacements, extraordinary repairs or any allowance for depreciation, any Bond Service Requirement, any payments in lieu of taxes, franchise fees or other transfers, costs incurred with respect to the issuance of Additional Parity Obligations or amounts budgeted and paid from amounts on deposit in the Renewal, Replacement and Improvement Fund.

Section 2 of the Master Resolution will be amended to include the following definition, with additional text indicated by underline.

"Direct Subsidy Bonds" shall mean any taxable bonds issued by the Issuer hereunder for which either (1) the Issuer receives direct subsidy payments or any other interest subsidy or similar payments made by the State and/or Federal Government in an amount equal to a percentage of the interest paid on such bond, or (2) the holder of such bond receives a tax credit in an amount equal to a percentage of the interest paid on such bond.

The definition of "Gross Revenues" or "Revenues" set forth in Section 2 of the Master Resolution will be amended as follows, with additional text indicated by underline.

"Gross Revenues" or **"Revenues"** shall mean all income and earnings, including Connection Fees, received by the Issuer or accrued to the Issuer from the ownership, use or operation of the System and all parts thereof, moneys deposited from the Rate Stabilization Fund into the Revenue Fund in accordance with the terms hereof, provided any moneys transferred from the Rate Stabilization Fund into the Revenue Fund within 90 days following the end of a Fiscal Year may be designated by the Issuer as Gross Revenues of such prior Fiscal Year, and shall also include investment income, if any, earned on any fund or account created pursuant to this Resolution, except the Rebate Fund, the Sewer System Capital Facilities Fee Fund, the Water System Capital Facilities Fee Fund, and also including any income or earnings (including investment income) derived from the System in any prior Fiscal Year and which is redeposited into the Revenue Fund, all as calculated in accordance with generally accepted

accounting principles, and any payment received by the Issuer as contemplated in Section 28 hereof, but "Gross Revenues" or "Revenues" shall not include any direct subsidy payments received by the Issuer relating to Direct Subsidy Bonds, proceeds from the sale or other disposition of the System or any part thereof, condemnation awards or proceeds of insurance received with respect to the System and moneys deposited to the Rate Stabilization Fund from the Surplus Fund, including any moneys transferred from the Surplus Fund to the Rate Stabilization Fund within 90 days following the end of a Fiscal Year which the Issuer determines not to be Gross Revenues of such prior Fiscal Year, Contributions in Aid of Construction, Sewer System Capital Facilities Fees, Water System Capital Facilities Fees, or unrealized gains or losses from investments.

Section 20(A) of the Master Resolution will be amended as follows, with additional text indicated by underline.

(A) REVENUE FUND. All Gross Revenues of the System and any direct payments received by the Issuer relating to Direct Subsidy Bonds shall, upon receipt thereof, be deposited in the Revenue Fund. All deposits into such Revenue Fund shall be deemed to be held in trust for the purposes herein provided and used only for the purposes and in the manner herein provided.

Section 20(B)(2) of the Master Resolution will be amended as follows, with deleted text indicated by strikethrough and additional text indicated by underline.

(2) To the extent that the amounts on deposit in the Reserve Fund are less than the Reserve Requirement, the Issuer shall next make deposits into the Reserve Fund in the manner described below from moneys remaining in the Revenue Fund. Any withdrawals from the Reserve Fund shall be subsequently restored from the first moneys available in the Revenue Fund, after all required current payments for Cost of Operation and Maintenance as set forth above and all current applications and allocations to the Bond Service Fund, including all deficiencies for prior payments have been made in full. Notwithstanding the foregoing, in case of withdrawal from the Reserve Fund, in no event shall the Issuer be required to deposit into the Reserve Fund an amount greater than that amount necessary to ensure that the difference between the Reserve Requirement and the amounts on deposit in the Reserve Fund on the date of calculation shall be restored not later than sixty (60) months after the date of such deficiency (assuming equal monthly payments into the Reserve Fund for such sixty (60) month period).

Upon the issuance of any Additional Parity Obligations under the

terms, limitations and conditions as herein provided, the Issuer ~~may~~shall, on the date of delivery of such Additional Parity Obligations, increase the sum required to be accumulated and maintained on deposit in the Reserve Fund to be at least equal to the Reserve Requirement on all Outstanding Bonds including the Additional Parity Obligations then issued. Such required sum may be paid in full or in part from the proceeds of such Additional Parity Obligations or may be accumulated in equal monthly payments to the Reserve Fund over a period of months from the date of issuance of the Additional Parity Obligations, which shall not exceed the greater of (a) twelve (12) months, or (b) the number of months for which interest on such Additional Parity Obligations has been capitalized, as determined by Supplemental Resolution. In the event moneys in the Reserve Fund are accumulated as provided above, (i) the amount in said Reserve Fund on the date of delivery of the Additional Parity Obligations shall not be less than the Reserve Requirement on all Bonds Outstanding (excluding the Additional Parity Obligations) on such date, and (ii) the incremental difference between the Reserve Requirement on all Bonds Outstanding (excluding the Additional Parity Obligations) on the date of delivery of the Additional Parity Obligations and the Reserve Requirement on all such Bonds and the Additional Parity Obligations shall be fifty percent (50%) funded upon delivery of the Additional Parity Obligations.

~~The~~Notwithstanding anything herein to the contrary, the Issuer may ~~also~~ establish a separate subaccount in the Reserve Fund for any Series of Bonds and provide a pledge of such subaccount to the payment of such Series of Bonds apart from the pledge provided herein. To the extent a Series of Bonds is secured separately by a subaccount of the Reserve Fund, the Holders of such Bonds shall not be secured by any other moneys in the Reserve Fund. Moneys in a separate subaccount of the Reserve Fund shall be maintained at the Reserve Requirement applicable to such Series of Bonds secured by the subaccount; provided the Supplemental Resolution authorizing such Series of Bonds may establish the Reserve Requirement relating to such separate subaccount of the Reserve Fund at such level as the Issuer deems appropriate. Moneys shall be deposited in the separate subaccounts in the Reserve Fund on a pro-rata basis. ~~In the event the Issuer shall maintain a Reserve Fund Insurance Policy or Reserve Fund Letter of Credit and moneys in the Reserve Fund or any subaccount therein, the moneys shall be used prior to making any disbursements under such Reserve Fund Insurance Policy or Reserve Fund Letter of Credit.~~

Notwithstanding the foregoing, in lieu of or in substitution for the required deposits into the Reserve Fund, the Issuer may, ~~with the prior written consent of the Insurers,~~ cause to be deposited into the Reserve Fund (or any subaccount therein) a Reserve Fund Insurance Policy and/or a Reserve Fund Letter of Credit in an amount equal to the difference between

~~the applicable Reserve Requirement and the sums then on deposit in the Reserve Fund (or any subaccount therein) plus the amounts to be deposited therein pursuant to the preceding paragraph. The issuer providing such Reserve Fund Insurance Policy and/or Reserve Fund Letter of Credit shall either be (a) an insurer (i) whose municipal bond insurance policies insuring the payment, when due, of the principal of and interest on municipal bond issue results in such issues being rated in one of the two highest rating categories (without regard to gradations, such as “plus” or “minus” of such category) by either Standard & Poor’s Corporation, Moody’s or Fitch or (ii) who holds the highest policyholder rating accorded insurers by A.M. Best & Company, or any comparable service, or (b) a commercial bank, insurance company or other financial institution the obligations payable or guaranteed by which have been assigned a rating by Moody’s, Standard & Poor’s Corporation or Fitch in one of the two highest rating categories (without regard to gradations, such as “plus” or “minus” of such categories); provided, that notwithstanding the foregoing, such insurer or commercial bank must be rated by any rating agency or agencies providing a rating on the Bonds secured by such Reserve Fund Insurance Policy or Reserve Fund Letter of Credit.~~

~~In the event the Reserve Fund (or any subaccount therein) contains both a Reserve Fund Insurance Policy or Reserve Fund Letter of Credit and cash, the cash shall be drawn down completely prior to any draw on the Reserve Fund Insurance Policy or Reserve Fund Letter of Credit. In the event more than one Reserve Fund Insurance Policy or Reserve Fund Letter of Credit is on deposit in the Reserve Fund (or any subaccount therein), amounts required to be drawn thereon shall be done on a pro-rata basis calculated by reference to the maximum amounts available thereunder. The Issuer agrees to pay all Reimbursement Obligations in regard to any Reserve Fund Insurance Policy or Reserve Fund Letter of Credit from the Pledged Revenues. Pledged Revenues shall be applied in accordance with this Section 20(B)(2), on a pro rata basis, to pay Reimbursement Obligations to the issuer of the Reserve Fund Insurance Policy or Reserve Fund Letter of Credit for amounts advanced under such instruments, replenish any cash deficiencies in the Reserve Fund, and to pay the issuer of the Reserve Fund Insurance Policy or Reserve Fund Letter of Credit interest on amounts advanced under such instruments. Notwithstanding anything herein to the contrary, this Resolution shall not be discharged or defeased while any Reimbursement Obligations are owing in regard to a Reserve Fund Insurance Policy or Reserve Fund Letter of Credit on deposit in the Reserve Fund. The Issuer agrees not to optionally redeem or exercise its rights to an extraordinary mandatory redemption or refund Bonds unless all Reimbursement Obligations owing in regard to a Reserve Fund Insurance Policy or Reserve Fund Letter of Credit on deposit in the Reserve~~

Fund have been paid in full.

~~If five (5) days prior to an interest payment date, principal payment date or date an Amortization Installment is due or such other period of time as shall be established pursuant to a Supplemental Resolution, the Issuer shall determine that a deficiency exists in the amount of moneys available to pay in accordance with the terms hereof interest, principal or Amortization Installment due on the Bonds on such date, the Issuer shall immediately notify (1) the issuer of the applicable Reserve Fund Insurance Policy and/or the issuer of the Reserve Fund Letter of Credit and submit a demand for payment pursuant to the provisions of such Reserve Fund Insurance Policy and/or Reserve Fund Letter of Credit, and (2) the Paying Agent of the amount of such deficiency and the date on which such payment is due, and shall take all action to cause such issuer to provide moneys sufficient to pay all amounts due on such interest payment date.~~

~~The Issuer may evidence its obligation to reimburse the issuer of any Reserve Fund Letter of Credit or Reserve Fund Insurance Policy by executing and delivering a reimbursement agreement therefore which evidences a Reimbursement Obligation; provided, however, any reimbursement agreement (1) shall not be or create a general obligation of the Issuer the payment of which is secured by the full faith and credit or taxing power of the Issuer, and (2) shall be payable or obligate the Issuer to pay solely from the Pledged Revenues in a manner which is not inconsistent with the terms hereof.~~

~~To the extent the Issuer causes to be deposited into the Reserve Fund a Reserve Fund Insurance Policy and/or a Reserve Fund Letter of Credit for a term of years shorter than the life of the Bonds, then the Reserve Fund Insurance Policy and/or the Reserve Fund Letter of Credit shall provide, among other things, that the issuer thereof shall provide the Issuer and the Paying Agents with notice as of each anniversary of the date of the issuance of the Reserve Fund Insurance Policy and/or the Reserve Fund Letter of Credit of the intention of the issuer thereof to either (1) extend the term of the Reserve Fund Insurance Policy and/or the Reserve Fund Letter of Credit beyond the expiration dates thereof, or (2) terminate the Reserve Fund Insurance Policy and/or the Reserve Fund Letter of Credit on the initial expiration dates thereof or such other future date as the issuer thereof shall have established. If the issuer of the Reserve Fund Insurance Policy and/or the Reserve Fund Letter of Credit notifies the Issuer pursuant to clause (2) of the immediately preceding sentence or if the Issuer terminates the Reserve Fund Letter of Credit and/or Reserve Fund Insurance Policy, then the Issuer shall deposit into the Reserve Fund, on or prior to the end of the first full calendar month following the date on which such notice is received by the Issuer and each month hereafter, such sums as shall be~~

~~sufficient to pay an amount equal to a fraction, the numerator of which is one (1) and the denominator of which is equal to the number of months remaining in the term of the Reserve Fund Insurance Policy and/or the Reserve Fund Letter of Credit on the date such notice was received multiplied by the maximum amount available, assuming full reimbursement by the Issuer, under the Reserve Fund Letter of Credit and/or the Reserve Fund Insurance Policy until amounts on deposit in the Reserve Fund, as a result of the aforementioned deposits, and no later than upon the expiration of such Reserve Fund Insurance Policy and/or such Reserve Fund Letter of Credit, shall be equal to the Reserve Requirement.~~

~~Additionally, Reserve Fund Letters of Credit shall be for a term of not less than three years. The issuer of the Reserve Fund Letter of Credit shall be required to notify the Issuer and the Paying Agent, not later than 30 months prior to the stated expiration date of the Reserve Fund Letter of Credit, as to whether such expiration date shall be extended, and if so, shall indicate the new expiration date.~~

~~The Reserve Fund Letter of Credit shall permit to draw in full not less than two weeks prior to the expiration or termination of such Reserve Fund Letter of Credit if the Reserve Fund Letter of Credit has not been replaced or renewed. The Reserve Fund Letter of Credit shall direct the Paying Agent to draw upon the Reserve Fund Letter of Credit five days prior to its expiration or termination unless an acceptable replacement is in place or the funds contained in the Reserve Fund is equal to the Reserve Requirement on all Outstanding Bonds theretofore issued.~~

~~The use of any Reserve Fund Insurance Policy or Reserve Fund Letter of Credit pursuant to this Resolution shall be subject to receipt of an opinion of counsel acceptable to the Insurer and in form and substance satisfactory to the Insurer as to the due authorization, execution, delivery and enforceability of such instrument in accordance with its terms, subject to applicable laws affecting creditors' rights generally, and, in the event the issuer of such Credit Facility is not a domestic entity, an opinion of foreign counsel in form and substance satisfactory to the Insurer. In addition, the use of a Reserve Fund Letter of Credit shall be subject to receipt of an opinion of counsel acceptable to the Insurer and in form and substance satisfactory to the Insurer to the effect that payments under such Reserve Fund Letter of Credit would not constitute avoidable preference under Section 547 of the U.S. Bankruptcy Code or similar state laws with avoidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code or similar state laws by or against the Issuer of the Bonds (or any other account party under the Reserve Fund Letter of Credit).~~

~~Notwithstanding anything herein to the contrary, Reimbursement Obligations relating to a Reserve Fund Insurance Policy or Reserve Fund Letter of Credit for any fees, expenses, claims or draws upon such Reserve Fund Insurance Policy or Reserve Fund Letter of Credit shall be subordinate to the payment of debt service on the Bonds and to the payment of Parity Contract Obligations. The right of the issuer of a Reserve Fund Insurance Policy or Reserve Fund Letter of Credit to payment of reimbursement of its fees and expenses shall be subordinated to cash replenishment of the Reserve Fund, and subject to the second succeeding sentence, its right to reimbursement for claims or draws shall be prior to the replenishment of the cash drawn from the Reserve Fund. The Reserve Fund Insurance Policy or Reserve Fund Letter of Credit shall provide for a revolving feature under which the amount available thereunder will be reinstated to the extent of any reimbursement of draws or claims paid. If the revolving feature is suspended or terminated for any reason, the right of the issuer of the Reserve Fund Insurance Policy or Reserve Fund Letter of Credit reimbursement will be further subordinated to cash replenishment of the Reserve Fund to an amount equal to the difference between the full original amount available under the Reserve Fund Insurance Policy or Reserve Fund Letter of Credit and the amount then available for further draws or claims. If (1) the issuer of a Reserve Fund Insurance Policy or Reserve Fund Letter of Credit becomes insolvent or (2) the issuer of a Reserve Fund Insurance Policy or Reserve Fund Letter of Credit defaults in its payment obligations thereunder or (3) the claims paying ability of the issuer of the Reserve Fund Insurance Policy falls below a S&P "AAA" or Moody's "Aaa" or Fitch "AAA" or (4) the rating of the issuer of the Reserve Fund Letter of Credit falls below a S&P "AA", the obligation to reimburse the issuer of the Reserve Fund Insurance Policy or Reserve Fund Letter of Credit shall be subordinate to the cash replenishment of the Reserve Fund.~~

~~If (1) the revolving reinstatement feature described in the preceding paragraph is suspended or terminated or (2) the rating of the claims paying ability of the issuer of the Reserve Fund Insurance Policy falls below the S&P "AAA" or a Moody's "Aaa" or (3) the rating of the issuer of the Reserve Fund Letter of Credit falls below a S&P "AA", the Issuer shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or Permitted Investments on deposit in the Reserve Fund to equal the Reserve Requirement on all Outstanding Bonds secured thereby, such amount to be paid over the ensuing five years in equal installments deposited at least semi annually or (ii) replace such instrument with a Reserve Fund Insurance Policy or Reserve Fund Letter of Credit meeting the requirements of this Resolution within six months of such occurrence. In the event (1) the rating of the claims paying ability of the issuer of the~~

~~Reserve Fund Insurance Policy falls below "A," or (2) the rating of the issuer of the Letter of Credit falls below "A," or (3) the issuer of the Reserve Fund Insurance Policy or Reserve Fund Letter of Credit defaults in its payment obligations, or (4) the issuer of the Reserve Fund Insurance Policy or Reserve Fund Letter of Credit becomes insolvent, the Issuer shall either (i) deposit into the Reserve Fund an amount sufficient to cause the cash or Permitted Investments on deposit in the Reserve Fund to equal the Reserve Requirement on all outstanding Bonds, such amount to be paid over the ensuing year in equal installments on at least a monthly basis or (ii) replace such instrument with a Reserve Fund Insurance Policy or Reserve Fund Letter of Credit meeting the requirements of this Resolution within six months of such occurrence.~~

~~If any Reserve Fund Letter of Credit or Reserve Fund Insurance Policy shall terminate prior to the stated expiration date thereof, the Issuer agrees that it shall fund the Reserve Fund over a period not to exceed twelve (12) months during which it shall make consecutive equal monthly payments in order that the amount on deposit in the Reserve Fund shall equal the Reserve Requirement; provided, the Issuer may obtain a new Reserve Fund Letter of Credit or a new Reserve Fund Insurance Policy in lieu of making the payments required by this paragraph.~~

~~Moneys in the Reserve Fund and ~~subaccounts~~ any subaccount therein shall be used only for the purpose of the payment of Amortization Installments, principal of, or interest on the Outstanding Bonds secured thereby when the other moneys allocated to the Bond Service Fund are insufficient therefor, and for no other purpose.~~

~~Permitted Investments on deposit in the Reserve Fund shall be valued at fair value pursuant to generally accepted accounting principles at least annually. In the event of the refunding of any Series of Bonds, the Issuer may withdraw from the Reserve Fund or subaccount securing such Series, all or any portion of the amounts accumulated therein with respect to the Bonds being refunded and deposit such amounts as required by the resolution authorizing the refunding of such Series of Bonds; provided that such withdrawal shall not be made unless (a) immediately thereafter, the Bonds being refunded shall be deemed to have been paid pursuant to the provisions hereof, and (b) the amount remaining in the Reserve Fund after giving effect to the issuance of such refunding obligations and the disposition of the proceeds thereof shall not be less than the Reserve Requirement for any Bonds then Outstanding which are secured thereby.~~

Section 20(B)(4) of the Master Resolution will be amended as follows, with deleted text indicated by strikethrough and additional text indicated by underline.

(4) The Issuer shall next apply and deposit monthly from the moneys remaining on deposit in the Revenue Fund into the Renewal, Replacement and Improvement Fund, an amount at least equal to one-twelfth (1/12th) of five percent (5%) of the Gross Revenues received during the immediately preceding Fiscal Year. The moneys in the Renewal, Replacement and Improvement Fund shall be used only for the purpose of paying the cost of extensions, enlargements or additions to, or the replacement of capital assets of the System or emergency repairs or extraordinary repairs thereto. No further deposits shall be required to be made into the Renewal, Replacement and Improvement Fund when there shall be on deposit therein an ~~amount~~ unencumbered fund balance equal to or greater than one percent (1%) of the gross book value of the fixed depreciable assets of the System pursuant to generally accepted accounting principles, or such other amount as may be determined from time to time by the Consulting Engineer. Funds on hand in the Renewal, Replacement and Improvement Fund may be used to pay current Cost of Operation and Maintenance to the extent moneys on deposit in the Revenue Fund are insufficient for such purposes. The moneys on deposit in such fund may also be used to supplement the Reserve Fund, if necessary, in order to prevent a default in the payment of the principal and interest on the Bonds.

Section 20(Q)(2) of the Master Resolution will be amended as follows, with deleted text indicated by strikethrough.

(2) Upon recommendation of the Qualified Independent Consultants, the Net Revenues certified pursuant to (b) and (c) in the previous paragraph may be adjusted for purposes of this Section 20(Q) by including: (a) 100% of the additional Net Revenues which in the opinion of the Qualified Independent Consultant would have been derived by the Issuer from rate increases adopted before the Additional Parity Obligations are issued, ~~if such rate increases had been implemented before the commencement of such Bond Year~~ and (b) 100% of the additional Net Revenues estimated by the Qualified Independent Consultant to be derived during the first full twelve month period after the facilities of the System are extended, enlarged, improved or added to with the proceeds of the Additional Parity Obligations with respect to which such certificate is made.

Section 22 of the Master Resolution will be amended as follows, with additional text indicated by underline.

SECTION 22. AMENDING AND SUPPLEMENTING OF RESOLUTION WITHOUT CONSENT OF HOLDERS OF BONDS.

The Issuer, from time to time and at any time and without the consent or concurrence of any Holder of any Bonds, may adopt a Supplemental Resolution amendatory hereof or supplemental hereto if the provisions of such Supplemental Resolution shall not materially adversely affect the rights of the Holders of the Bonds then Outstanding, for any one or more of the following purposes:

(a) To make any changes or corrections in this Resolution as to which the Issuer shall have been advised by Bond Counsel that are required for the purpose of curing or correcting any ambiguity or defective or inconsistent provisions or omission or mistake or manifest error contained in this Resolution, or to insert in this Resolution such provisions clarifying matters or questions arising under this Resolution as are necessary or desirable;

(b) To add additional covenants and agreements of the Issuer for the purpose of further securing the payments of the Bonds and any Parity Contract Obligations;

(c) To surrender any right, power or privilege reserved to or conferred upon the Issuer by the terms of this Resolution;

(d) To confirm, as further assurance, any lien, pledge or charge or the subjection to any lien, pledge or charge, created or to be created by the provisions of this Resolution;

(e) To grant to or confer upon the Holders or any Qualified Agreement Provider any additional right, remedies, powers, authority or security that lawfully may be granted to or conferred upon them;

(f) To assure compliance with federal "arbitrage" provisions in effect from time to time;

(g) To provide such changes as may be necessary in order to adjust the terms hereof (but not including the provisions of Section 20(E) and Section 20(Q) hereof) so as to facilitate the issuance of Variable Rate Bonds, Option Bonds, the execution of a Qualified Agreement, or to obtain a Credit Facility;

(h) To provide for the combination of the System with any other utility provided the conditions set forth in Section 26 hereof are satisfied;

(i) To provide for the transfer of the ownership and/or operation of the System pursuant to a governmental reorganization as set forth in

Section 25 hereof;

(j) To amend Section 31 hereof to make covenants relating to Direct Subsidy Bonds, if appropriate; or

(k) To modify any of the provisions of this Resolution in any other aspects provided that such modifications shall not be effective until after the Bonds Outstanding at the time such Supplemental Resolution is adopted shall cease to be Outstanding, or until the holders thereof consent thereto pursuant to Section 23 hereof, and any Bonds issued subsequent to any such modification shall contain a specific reference to the modifications contained in such Supplemental Resolution.

Except for Supplemental Resolutions providing for the issuance of Bonds pursuant hereto, the Issuer shall not adopt any Supplemental Resolution authorized by the foregoing provisions of this Section unless, in the opinion of Bond Counsel, the adoption of such Supplemental Resolution is permitted by the foregoing provisions of this Section.

Notwithstanding anything else in this Resolution to the contrary, any amendment or supplement to this Resolution, with the exception of that relating to the issuance of Additional Parity Obligations, shall be subject to the prior written consent of each of the Insurers of the Bonds. Any rating agency rating the Bonds must receive notice of each amendment and a copy thereof at least fifteen (15) days in advance of its execution or adoption. Each of the Insurers of the Bonds shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

Amendments Requiring 100% Approval of Series 2007 Bondholders

Section 23 of the Master Resolution will be amended as follows, with deleted text indicated by strikethrough and additional text indicated by underline.

SECTION 23. AMENDMENT OF RESOLUTION WITH CONSENT OF HOLDERS OF BONDS. Except as provided in Section 22 hereof, no material modification or amendment of this Resolution or of any resolution supplemental hereto shall be made without the consent in writing of the Holders of fifty-one percent (51%) or more in the principal amount of the Bonds ~~of each Series so affected and~~ then Outstanding and any Qualified Agreement Provider. For purposes of this Section, to the extent any Bonds are insured by a Bond Insurance Policy or are secured by a Credit Facility and such Bonds are then rated in as high a rating category as the rating category in which such Bonds were rated at the time of initial issuance and delivery thereof by either S&P, Moody's or Fitch or successors and assigns, then the consent of the Insurer or Insurers of such

Bond Insurance Policy or the issuer or issuers of such letter of credit shall be deemed to constitute the consent of the Holder of such Bonds. No modification or amendment shall permit a change in the maturity of such Bonds or a reduction in the rate of interest thereon or in the amount of the principal obligation thereof or reduce the percentage of the Holders of the Bonds required to consent to any material modification or amendment hereof without the consent of the Holder or Holders of all such obligations. ~~For purposes of the immediately preceding sentence, the issuer or issuers of a Bond Insurance Policy or a Credit Facility shall not consent on behalf of the Holders of the Bonds.~~ No amendment or supplement pursuant to this Section 23 (but not including Section 22 hereof) shall be made without the consent of each of the Insurers of Bonds.

Notwithstanding anything else in this Resolution to the contrary, any amendment or supplement to this Resolution, with the exception of that relating to the issuance of Additional Parity Obligations, shall be subject to the prior written consent of each of the Insurers of the Bonds. Any rating agency rating the Bonds must receive notice of each amendment and a copy thereof at least fifteen (15) days in advance of its execution or adoption. Each of the municipal bond insurers of the Bonds shall be provided with a full transcript of all proceedings relating to the execution of any such amendment or supplement.

Notwithstanding any provision herein to the contrary, so long as an Insurer is not in default under its Bond Insurance Policy, such Insurer shall be considered the Holder of all Bonds insured by its Bond Insurance Policy and shall be entitled to give its written consent to amendments in lieu of the Holder consent requirement above relating to such Bonds.

Each owner of the Series 2013 Bonds shall be deemed to have irrevocably and expressly consented in writing to all of the above-described amendments.

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DEBT SERVICE SCHEDULE

The following table sets forth the debt service for the Series 2007 and Series 2013 Bonds, inclusive of accrued interest.

Year Ending <u>October 1</u>	Series 2007 Bonds <u>Debt Service</u>	Series 2013 Bonds		Total
		<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2013				
2014				
2015				
2016				
2017				
2018				
2019				
2020				
2021				
2022				
2023				
2024				
2025				
2026				
2027				
2028				
2029				
2030				
2031				
2032				
2033				
2034				
2035				
2036				

THE UTILITY SYSTEM

General

As defined in the Bond Resolution the "Utility System" includes the complete water system now owned, operated and maintained by the City or which is proposed to be acquired by and operated and maintained by the City and which the City is, or shall be responsible for maintaining, together with any and all acquisitions, improvements, extensions and additions thereto, hereafter constructed or acquired, together with all lands or interests therein, including plants, buildings, machinery, franchises, pipes, mains, fixtures, equipment and all property, real or personal, tangible or intangible (including agreements for the providing of such services), now or hereafter constructed and/or owned or used in connection therewith (the "Water System") and the complete sewer system now owned, operated and maintained by the City and which the City is, or shall be responsible for maintaining, together with any and all acquisitions, improvements, extensions and additions thereto, hereafter constructed or acquired, together with all lands or interests therein, including plants, buildings, machinery, franchises, pipes, mains, fixtures, equipment and all property, real or personal, tangible or intangible (including agreements for the providing of such services), now or hereafter constructed and/or owned or used in connection therewith (the "Wastewater System" or "Sewer System"). Upon compliance with the provisions of the Bond Resolution, the term "Utility System" may be deemed to include other utility functions added to the Utility System, including, but not limited to a stormwater system, a residential reuse system, the acquisition, distribution and sale of natural gas, the providing of electricity, the providing of cable television services, the providing of telecommunication services or other utility functions that are authorized from, time to time, pursuant to the Act.

The Utility System operates three water treatment plants as part of the Water System and one wastewater treatment plant as part of the Sewer System. The Utility System's service area encompasses a large portion of the eastern section of the County where the majority of the population resides. The majority of the residential and general service properties located within the corporate limits of the City currently receive water and wastewater service from the Utility System.

Public Resources Management Group, Inc. (the "Feasibility Consultant") and CPH Engineers, Inc. (the "Consulting Engineers" and together with the Feasibility Consultant are hereinafter collectively referred to as the "Utility Consultants") have prepared a consulting engineering and bond feasibility report (the "Report") for the Utility System. **PROSPECTIVE INVESTORS SHOULD REVIEW "APPENDIX - B CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" ATTACHED HERETO AND THE FINANCIAL FORECASTS RELATING TO THE UTILITY SYSTEM INCLUDED THEREIN PRIOR TO MAKING AN INVESTMENT DECISION.**

Operation and Management of Utility System

The Utility System is operated by the City's Utilities Department (the "Utilities Department") and is accounted for as a separate Enterprise Fund of the City. The Utilities Department is operated under the direction of Richard Adams, the City's Utilities Director, who joined the City after serving 26 years in operations and maintenance of the Palm Coast Utility System under ITT Corporation and Florida Water ownership and the last five years of which he served as Operations Manager for the Palm Coast Utility System. The Utilities Director is directly responsible to the City Manager of the City.

The Utility System was acquired by the City from Florida Water Services Corporation ("FWS") in the last calendar quarter of 2003 (essentially at the beginning of the Fiscal Year 2004). Many of the operational personnel employed by FWS were retained by the City at the time of acquisition to operate the Utility System, which provided a smooth transition of ownership. As outlined in the table below, the key operations personnel retained by the City have operated the utility System for many years prior to acquisition by the City.

<u>Name</u>	<u>Position</u>	<u>Years at Utility System</u>
Richard Adams	Utilities Director	35
Steve Flanagan	Utility Development Manager	27
Brian Matthews	Environmental Specialist	33
Cynthia Jessup	Customer Service Manager	8
Danny Ashburn	Manager, Wastewater Operations	31
Patrick Henderson	Chief Operator (Wastewater Treatment Plant)	22
James Hogan	Manager, Water Operations	32
Donald Holcomb	Chief Operator (Water Treatment Plant No. 1)	16
Fred Greiner	Chief Operator (Water Treatment Plant No. 2)	17
Peter Roussell	Chief Operator (Water Treatment Plant No. 3)	19
Randy Zaleski	Utility Systems Manager	39

Water System

General. The Water System is comprised of a water supply, treatment, transmission and distribution system (the "Water System"). During the Fiscal Year 2012, the Water System provided service to a total of 42,720 average active accounts and 46,611 equivalent residential connections ("ERCs") within the Water System service area. An ERC for the Water System represents the equivalent usage requirements of an individually metered residential customer and equates to approximately 154 gallons per day ("gpd") of metered water service. Since commercial and master metered residential customers are served by larger sized meters than the standard residential customer, it is useful to equate such customers on a basis equivalent to the residential class for a more consistent presentation of the total customer base served. The Water System currently

includes 59 wells, three separate water treatment plants, two elevated storage tanks and a distribution system.

Water System Historical Demands and Flow Projections. The Water System average daily demand ("ADD") and maximum daily demand ("MDD") have decreased from 8.339 million gallons per day ("MGD") and 11.328 MGD, respectively, in Fiscal Year 2006 to 7.155 MGD and 9.463 MGD, respectively, in Fiscal Year 2012. The ADD and MDD are projected to increase to 8.158 MGD and 11.439 MGD, respectively, in Fiscal Year 2017. See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - WATER SYSTEM - Water System Historical Demands and Flow Projections" attached hereto for a summary of historical and projected water demand for the Utility System.

Potable Water Consumptive Use Permit. The Water System operates under a St. Johns River Water Management District (the "Water Management District") consumptive use permit for the withdrawal of potable water. The current consumptive use permit for the Water System was issued on August 9, 2011 and expires on August 8, 2031. See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - WATER SYSTEM - Potable Water Consumptive Use Permit" attached hereto for a summary of the permitted withdrawals by year and scenario.

Water Supply. Raw water is conveyed to Water Treatment Plant No. 1, a lime softening water treatment plant, from 31 confined layer surficial aquifer ("CSA") shallow wells. The depth of the shallow wells ranges from 60 feet to 100 feet, and the pumping capacity of the shallow wells ranges from 40 gallons per minute ("gpm") to 350 gpm. Raw water is conveyed to Water Treatment Plant No. 2, a membrane softening nano-filtration plant, from eight Floridan wells. The depth of each of the Floridan Wells is approximately 300 feet, and the pumping capacity of these Floridan Wells currently ranges from approximately 350 gpm to 830 gpm. Raw water to Water Treatment Plant No. 3 is currently supplied by eight CSA wells. These wells have a pumping capacity ranging from 150 to 350 gpm. The City has recently completed the construction of 12 additional CSA wells and raw water transmission system located in the western portion of the City. The City has recently awarded a contract for construction of an overhead power supply system to this new well field. It is anticipated that the power supply system will be completed in July of this year, and the City will be able to place the new well field into service at that time.

See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT WATER SYSTEM - Raw Water Supply" attached hereto for additional data regarding the capacity and maintenance and upkeep of the wells and historical demands and flow projections for the Water System.

Water Treatment and Ground Storage. The treatment units at Water Treatment Plant No. 1 are currently rated with a capacity of 6.00 MGD and include three lime storage silos, chemical feeders, six 1.00 MGD upflow softening units, six 1.00 MGD

mixed media filters, two backwash storage tanks, two lime sludge thickeners, two treated water storage tanks and two lime storage lagoons. The treated water is stored at the water treatment plant in a 2.50 million gallon ("MG") pre-stressed concrete storage tank and a 1.00 MG ground storage steel tank and is then transferred to the water distribution system. High service pumps maintain the distribution system pressure. A generator provides standby power for the entire water treatment plant and all of the treatment units.

Water Treatment Plant No. 2 is a low-pressure nano-filtration membrane softening treatment plant with four 1.20 MGD skids, plus 33% raw water blending for a current rated capacity of 6.384 MGD. The treatment units at Water Treatment Plant No. 2 include five cartridge filters, four nano-filtration skids, chemical feeders, two degasifiers, one chlorine contact tank, a 2.00 MG pre-stressed ground storage tank and five high service pumps that maintain the distribution system pressure. The treated water is stored at the water treatment plant in a 2.00 MG pre-stressed concrete storage tank before pumping to the water distribution system. A supervisory control and data acquisition ("SCADA") system conveys the Water Treatment Plant No. 2 operational data to Water Treatment Plant No. 1.

Water Treatment Plant No. 3 is also a low-pressure nano-filtration membrane softening treatment plant with two 1.125 MGD skids, plus 25% raw water blending for a current rated finished water capacity of 3.0 MGD. The treatment units at Water Treatment Plant No. 3 include two cartridge filters, two nano-filtration membrane skids, chemical feeders, two degasification towers (one for permeate treatment and one for concentrate treatment), two scrubber towers for odor control, two concentrate pumps, one chlorine contact tank, finished water transfer pumps, high service pumps, and a 2.0 MG pre-stressed ground storage tank. A SCADA system conveys WTP No. 3 operational data to WTP No. 1.

Raw water is blended with treated permeate to obtain a blend of permeate and raw water with approximately 100 mg/l of hardness, so the finished treated water quality of Water Treatment Plant No. 1 is compatible with the finished treated water quality of Water Treatment Plant Nos. 2 and 3. Finished water from all three water treatment plants is pumped to the distribution system. Since the finished water of all three plants is similar, no adverse effects have been observed. See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - WATER SYSTEM - Water Distribution System" attached hereto for additional details regarding the water treatment plants and their condition.

Elevated Storage. The Water System currently has two elevated storage tanks with a combined storage capacity of 1,150,000 gallons to assist in maintaining system pressure and meeting peak demand usage periods. The first elevated storage tank has a capacity of 750,000 gallons and provides elevated storage at a central location of the service area near the southwest intersection of I-95 and the Palm Coast Parkway. The second elevated storage tank has a capacity of 400,000 gallons and provides storage for the service area east of the Intra-Coastal Waterway.

Water Distribution System. A water distribution system has been installed to convey treated water to residential and commercial properties and to provide fire protection. Fire hydrants have been located throughout the City. The water distribution system consists of 3,556,687 feet of water main ranging in size from 2 inch to 30 inch. Additional distribution system improvements will need to be implemented as development continues to occur within the service area.

See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - WATER SYSTEM - Water Distribution System" attached hereto for additional data regarding the capacity and maintenance and upkeep of the water distribution system.

Regulatory Compliance Issues. Water Treatment Plant No. 2 has an Industrial Waste Concentrate Disposal Permit which requires the City to develop and implement an alternate disposal method other than the current discharge to Royal Palms Canal. The City's Consulting Engineers have recently completed the design and permitting of a zero liquid discharge treatment process which will treat the concentrate to drinking water standards at Water Treatment Plant No. 2. This will eliminate the discharge of concentrate to Royal Palms Canal and comply with the permit requirements. The City has recently received a two year extension for the current discharge permit that will allow for enough time to acquire necessary funding and complete construction of the zero liquid discharge treatment process.

Water Treatment Plant No. 3 has an Industrial Waste Concentrate Disposal Permit which requires the City to comply with the total recoverable iron concentration of 0.3 mg/L when the concentrate is discharged to the intra-coastal waterway. The Consulting Engineers are currently assisting the City in studying and selecting an option for implementation to achieve compliance with the permit requirements when discharging to the intra-coastal.

The Bioterrorism Act requires that each Community Water System that serves a population greater than 3,300 persons must perform an assessment of the vulnerability of its system to a terrorist attack or other deliberate acts that are intended to substantially disrupt the ability of the system to provide a safe and reliable supply of drinking water. A vulnerability assessment of the water production system was last conducted in 2003 and measures to minimize vulnerability of the system were implemented by the City.

Condition of Water System. Water Treatment Plant No. 1, Water Treatment Plant No. 2, Water Treatment Plant No. 3 and the two elevated tanks are in good operating condition and well maintained. No immediate distribution system deficiencies were observed by the Consulting Engineers. Overall, no apparent problems with the facilities at the Water System were noted during the Consulting Engineer's inspection.

Wastewater System

General. The Wastewater System is comprised of a collection, treatment and disposal (effluent and residuals) system (the "Wastewater System"). The total number of average active accounts served by the Wastewater System during the Fiscal Year 2012 was 35,102, which equated to approximately 37,757 ERCs. Palm Coast Plantation is the only development outside of the City limits that is currently provided wastewater service. An ERC for wastewater service represents the equivalent usage requirements of an individually metered residential customer and equates to approximately 136 gpd of wastewater flow. The Wastewater System currently includes a wastewater collection system, 154 lift stations and one wastewater treatment plant.

See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - WASTEWATER SYSTEM" attached hereto for additional data regarding, among other things, the historical demands and flow projections for the Wastewater System and the sizes and lengths of the sewer service lines, sewage forcemains and the maintenance and upkeep of the same.

Wastewater System Historical Flows and Flow Projections. Wastewater System Annual Average Daily Flow ("AADF") and Three-Month Average Daily Flow ("3MADF") have increased from 4.697 MGD and 5.125 MGD, respectively, in Fiscal Year 2006 to 5.037 MGD and 5.268 MGD, respectively, in Fiscal Year 2012. The AADF and 3MADF are projected to increase to 5.603 MGD and 6.058 MGD, respectively, in Fiscal Year 2017. See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - WASTEWATER SYSTEM - Wastewater System Historical Flows and Flow Projections" attached hereto for a summary of historical and projected wastewater flow for the Utility System.

Wastewater Collection System. The wastewater collection system consists of a combination of gravity sewer systems and pre-treatment effluent pumping ("PEP") systems located at each lot. Approximately 50% of the wastewater service area is served by a gravity sanitary sewer system, and 50% is served by PEP systems.

An analysis of wastewater flows indicated that there is some increase in flow during the wet weather periods. While there is some Infiltration/Inflow ("I/I") tributary to the Palm Coast wastewater system during the wet weather periods, the I/I is not considered to be excessive. The City utility personnel continue to rehabilitate the wastewater collection system to minimize the I/I contribution to the system. The I/I tributary to the Palm Coast sewer system has not been reported to cause any major problems.

Gravity Sewer and Collection System. Sanitary sewer service lines convey wastewater from the individual residences and businesses to gravity sewer lines located within the street pavement. The gravity sewers convey the wastewater to lift stations (sewage pumping stations) and sewage forcemains convey the wastewater from the lift

stations to the wastewater treatment plant. The utility owns, maintains, and repairs the gravity collection sewers and manholes. The gravity sewer system contains 1,570,721 feet of sanitary sewer mains ranging in size from 6 to 16 inch. The pressure sewer system contains 1,144,873 feet of pressure sewer ranging from 2 to 6 inch.

The collection system of gravity sewers and manholes appear to be well maintained. No immediate deficiencies were observed by the Consulting Engineers.

Pre-treatment Effluent Pumping (PEP) System. A PEP system is provided for each customer located in the portion of the service area served by the PEP system. Power to operate the PEP effluent pump is provided and paid for by the individual residents or business owners. The Five Year Capital Improvement Plan includes funds for purchase of the PEP systems and for upgrades to the pressure sewer system. The PEP pressure sewers discharge to wastewater lift stations which convey the wastewater to the wastewater treatment plant.

The installed PEP pressure sewers were sized to serve the development anticipated within the next 10 years. Additional pressure sewers will need to be installed adjacent to the existing pressure sewers to serve the Wastewater System service area for the next 10 to 20 years and at build-out.

Lift Stations. The 154 wastewater lift stations convey wastewater from the individual sewer service areas to sewage forcemains and to the wastewater treatment plant. In addition to the City-owned facilities, there are 24 privately owned lift stations that convey wastewater to the City sewage force main system. The City operates and maintains two of these privately owned wastewater lift stations. The installed lift station pumping capacity was based on the anticipated development and the wastewater flows expected to occur within the next 10 to 20 years. The lift stations' design was based on periodic replacement of the pumps with larger capacity pumps, as additional development of the service area occurs.

Sewage Forcemains. The sewage forcemain system contains 560,562 feet of sewage forcemains ranging in size from 2 to 18 inch. The installed sewage forcemains were sized to serve the development anticipated within the next 10 years. Additional sewage forcemains will need to be installed to serve the development anticipated for the next 10 to 20 years and at build-out.

Wastewater Treatment. The wastewater treatment plant includes two office buildings, laboratory and maintenance building. Buildings also house the sludge dewatering facilities, chlorination facilities and de-chlorination facilities. The current wastewater treatment plant is permitted to provide 6.83 MGD of advanced secondary activated sludge treatment on a 3-month contiguous month basis. See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - WASTEWATER SYSTEM - Wastewater Treatment Plant" attached hereto for additional details regarding the components of the wastewater treatment plant.

Effluent Disposal. A 6.00+ MG ground storage tank provides storage for the wastewater treatment plant secondary effluent. Secondary plant effluent can be conveyed from the 6.00+ MG ground storage tank to the utility Rapid Infiltration Basins, to the Sprayfield, or to the Dunes CDD or the Grand Haven Community Development District (the "Grand Haven CDD") developments for irrigation of areas with public access.

The primary method of reclaimed water disposal by the City is through reuse (using reclaimed water for irrigation and other processes and thus serves as an additional water resource and provides additional benefit by limiting groundwater use). A Palm Coast Reuse Service Area has been designated to be same as the Palm Coast Wastewater Service Area. This Reuse Service Area has been approved by FDEP. A total disposal capacity of 21.935 MGD was identified in the Reuse Service Report prepared for the City.

Hammock Dunes, Grand Haven, Town Center, Conservatory Golf Course Development, and the Hammock Dunes Creek Course golf course are the major developments that are using reclaimed water for irrigation. All new developments are required by the City ordinance to install a reclaimed water distribution system and to take and use reclaimed water when reclaimed water becomes available.

In 2009, the City constructed an off-site reclaimed water distribution pump station located near the Northwest corner of I-95 and Royal Palms Canal. An existing 17 acres borrow pit which was dug for construction of the Town Center was used as reclaimed water storage pond. The Cigar Lake provides approximately 10 million gallons of storage capacity. The reclaimed water distribution pump station is capable of pumping up to 10 MGD of reclaimed water for irrigation at the Town Center and many other future developments located in the south section of the reclaimed water service area.

The Utility System is permitted to discharge 1.6 MGD wet weather flow to the Intra-Coastal Waterway for up to 91 days per year. The plant effluent must be dechlorinated prior to discharge to the Intra-Coastal Waterway.

Wastewater treatment plant effluent not used for irrigation (reclaimed water) can be disposed of at the Rapid Infiltration Basins ("RIBs") and the Spray Field. The RIBs and the Spray Field are located approximately 1.5 miles south of the existing wastewater treatment plant. Secondary effluent can be disposed of at the RIBs and Spray Field sites because these are City-controlled access sites. Whenever the reclaimed water demands are less than the plant effluent flows, the excess advanced secondary plant effluent can be disposed of at any or all of the RIBs and the Spray Field up to a permitted amount of 3.07 MGD. See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - WASTEWATER SYSTEM - Effluent Disposal" attached hereto for additional information.

Sludge Disposal. Sludge is periodically wasted from the return activated sludge pumping stations to five (5) aerobic digesters for partial treatment. Diffused aeration

with air supplied by centrifugal blowers is installed in all five digesters. Periodically the sludge in the digesters is decanted and then conveyed to a centrifuge for dewatering to about 20% solids by weight. The dewatered sludge is conveyed to a truck loading station where it is trucked by a contracted hauler to a regional treatment facility for further treatment and disposal. The independent contractor is responsible to provide the necessary sludge treatment to comply with the FDEP and EPA standards.

Regulatory Compliance Issues. The current Wastewater Treatment Facility Permit that allows treatment and disposal of 6.83 MGD of advanced secondary reclaimed water will expire on April 29, 2017. In the past timely applications had been made by the City to the FDEP for renewal of this permit.

Condition of Sewer System. The collection system of gravity sewers, manholes, pre-treatment effluent pumping system appurtenances and pressure sewer system are in proper working order maintained at industry standards with some deficiencies and deferred maintenance identified. The lift stations and sewage forcemain are in proper working order maintained at industry standards with some deficiencies and deferred maintenance identified. Based on review of regulatory permits and operating records, performance of on-site inspections and interviews with Wastewater System operating personnel, the wastewater treatment facilities are in good to excellent operating condition and are well maintained. The wastewater treatment plant, the rapid infiltration basins and the sprayfield are in good condition and are in proper working order.

Collection Practices; Delinquencies

The City bills the customers of the Utility System on a monthly basis. Water and wastewater service is billed jointly by the City. The entire billing process is computerized. In the event of nonpayment of a bill by the next successive billing date, the policy of the City is to notify water customers that service will be terminated to the extent permitted by law unless payment is made.

At the end of Fiscal Year 2012, the over-60-day delinquent accounts receivable of the Utility System was \$2,128,097 (or 7.2% as a percentage of operating revenue), with a bad debt reserve of \$973,962 for those amounts. Pursuant to the covenant requirements of the Bond Resolution, the City will not render any free service of any nature nor will preferential rates be established for users within the same class. The City will also diligently enforce the payment of rates, fees and other charges for services of the Utility System.

Five Year Capital Improvement Program

General. Due to the economic downturn, the growth of the Palm Coast Service Area has significantly slowed down during the past five years. As a result the demands for water and wastewater services are much lower than what were projected during the Fiscal Year 2007 when the City issued the Series 2007 Bonds. The slowdown in growth resulted in the City reducing the then identified capital plan and the delay of the

expansion of certain facilities for at least five years. The City has identified certain significant capital improvements which are anticipated for the expansion of the water and wastewater capacity and reliability of the Utility System during the next five Fiscal Years (the "Five Year Capital Improvement Program"), a portion of which will be funded from the proceeds of the Series 2013 Bonds. The projected cost of the Five Year Capital Improvement Program, including an allowance for contingencies, is anticipated by the City to be \$54,366,810. This amount will be funded from a portion of the proceeds of the Series 2013 Bonds, anticipated future bond issuances and other sources anticipated to be available to the City. Of the \$54,366,810, a total of \$15,000,000 is expected to be funded from the proceeds of the Series 2013 Bonds to cover a portion of the costs of the additions, extensions and improvements to the Utility System included as part of the 2013 Project.

2013 Project Capital Improvements. At closing, a portion of the proceeds of the Series 2013 Bonds in the amount of \$15,000,000 will be deposited into the 2013 Project Account within the Project Fund to cover a portion of the costs of the additions, extensions and improvements to the Utility System included as part of the 2013 Project. The following is a summary of the capital improvements and the estimated cost thereof.

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**Five Year Capital Improvement Program
Water System Improvements**

Description	Estimated Project Costs
Water Treatment Plant No. 1 Well Improvements	\$1,250,000
Water Treatment Plant No. 1 Miscellaneous Improvements	500,000
Water Treatment Plant No. 2 Well Improvements	4,500,000
Water Treatment Plant No. 2 Improvements	10,000,000
Water Treatment Plant No. 3 Well Improvements	1,600,000
Water Treatment Plant No. 3 Miscellaneous Improvements	900,000
Water Main Improvements	2,250,000
General Plant R & R	2,500,000
Distribution System Improvements	375,000
Fleet Replacement	<u>766,936</u>
Total Water System Improvements	<u>\$26,491,936</u>

**Five Year Capital Improvement Program
Wastewater System Improvements**

Description	Estimated Project Costs
Wastewater Treatment Plant No. 1 Improvements	\$7,580,000
Reclaimed Water System Improvements	2,750,000
Wastewater Pumping Station Improvements	2,525,000
Wastewater Force Main Improvements	1,950,000
PEP System Improvements	1,950,000
Beachside Pumping Station and Force Main Improvements	2,500,000
Fleet Replacement	1,386,189
General Plant R & R	<u>2,500,000</u>
Total Wastewater System Improvements	<u>\$23,141,189</u>

Other Miscellaneous System Improvements

Description	Estimated Project Costs
CUP Modification Application	\$250,000
Consultant Input on CIP Development	70,000
Water Supply Facilities Work Plan	60,000
Public Works / Utility Office and Yard Study	50,000
Nutrient Impact Study	17,000
Non-CIP Capital	4,156,449
Fleet Replacement	<u>130,236</u>
Total Miscellaneous System Improvements	<u>\$4,733,685</u>

Source: "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - CAPITAL IMPROVEMENT PROGRAM" attached hereto.

The following is a summary of the additions, extensions and improvements to the Utility System included as part of the Five Year Capital Improvement Program described above, and the planned funding sources over that same period.

Summary of Projects and Funding Sources

Five-Year Capital Improvement Program Summary of Projects and Funding Sources

	Fiscal Year Ending September 30, ⁽¹⁾					Total
	2013	2014	2015	2016	2017	
Capital Projects:						
Water System	\$11,175,622	\$5,663,184	\$3,427,003	\$2,242,203	\$3,983,923	\$26,491,936
Wastewater System	4,562,054	1,654,760	4,179,736	6,307,209	6,437,430	23,141,189
Miscellaneous Utility Projects ⁽²⁾	740,875	807,716	924,113	1,057,555	1,203,426	4,733,685
Total System Capital Projects	<u>\$16,478,551</u>	<u>\$8,125,661</u>	<u>\$8,530,852</u>	<u>\$9,606,967</u>	<u>\$11,624,780</u>	<u>\$54,366,810</u>
Funding Sources:						
RR&I Fund	\$2,373,551	\$2,855,661	\$3,280,852	\$3,406,967	\$3,974,780	\$15,891,810
Project Fund / 2003 Debt Service Reserve	1,439,612	700,000	4,150,000	0	0	6,289,612
Existing Bond Proceeds	1,400,000	0	0	0	0	1,400,000
Capital Facilities Fees	835,388	0	0	0	0	835,388
Series 2013 Bonds	10,430,000	4,570,000	0	0	0	15,000,000
Series 2014 Bonds	0	0	1,100,000	6,200,000	7,650,000	14,950,000
Total Funding Sources	<u>\$16,478,551</u>	<u>\$8,125,661</u>	<u>\$8,530,852</u>	<u>\$9,606,967</u>	<u>\$11,624,780</u>	<u>\$54,366,810</u>

(1) Amounts shown reflect when funding projected to be required and may be different from when funds are actually expended through project completion.

(2) Represents departmental capital such as vehicles, equipment and other related facilities that are normally not a component of the City's CIP but are considered as a recurring capital expenditure for financial reporting purposes.

Renewal, Replacement and Improvement Fund Summary. Pursuant to the terms and conditions of the Bond Resolution, the City must establish and maintain a Renewal, Replacement and Improvement Fund. With respect to the Renewal, Replacement and Improvement Fund, such amounts shall be used by the City for the purpose of paying the costs of extensions, enlargements or additions to, or the replacement of capital assets of the Utility System or emergency repairs thereto. The required annual deposit to such fund recognized shall be at least equal to 5% of the Gross Revenues derived from the operation of the Utility System during the immediately preceding Fiscal Year. However, no further deposits are required to be made into the Renewal, Replacement and Improvement Fund if the City maintains a balance therein equal to or greater than 1% of the gross book value of the fixed assets of the Utility System determined pursuant to generally accepted accounting principles or such other amount as may be determined from time to time by the Consulting Engineers as sufficient to provide immediately available funds to pay renewal and replacement costs of the Utility System. This amount will be funded annually from utility rates and will be set aside in the Renewal, Replacement and Improvement Fund for current or future projects as identified by the City and will not be used to fund daily operating expenses of the Utility System.

For purposes of the projected operating results of the Utility System and based on discussions with the City, the Utility Consultants have recommended that the City annually transfer not less than ten (10%) of Gross Revenues to the Renewal, Replacement and Improvement Fund to continue accruing funds for future facility replacement and betterment.

Utility System Sales and Customer Usage

General. Table 1 located at the end of "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto reflects the historical active customers or accounts (terms used synonymously) receiving utility service as well as metered water sales (gallons sold) for the Water System. Similar information regarding the historical customers and billed wastewater flow (revenue gallons) for the Wastewater System is also shown in that same table. Table 2 located at the end of "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto summarizes the projected customers and metered water sales and billed wastewater flow for the Water System and Wastewater System.

Water System. The Water System has experienced an increase in customers and water sales over the past several years due to the continued development located within the Water System service area although most recently at a significantly reduced rate as a result of the prolonged economic downturn that has negatively impacted the housing market in Florida and the rest of the Country. The City has a significant amount of platted vacant parcels or lots with water and wastewater service being either available to or in close proximity of which will provide a strong potential for growth over the next ten to twenty years. The Water System customer base consists primarily of single-family residential customers being serviced through a 5/8-inch or 3/4-inch meter service. This class accounted for approximately 80% of the total estimated accounts and 73% of the estimated ERCs served by the Water System during the Fiscal Year 2012.

Ocean City Utilities, Inc. ("Ocean City Utilities") and FWS entered into a Bulk Water Service Agreement on December 22, 1999 (the "OCU Bulk Agreement") for 70,000 gpd annual average of water treatment capacity from the Water System. The OCU Bulk Agreement provides for the ability to increase the amount of capacity purchased by Ocean City Utilities (in increments of no less than 10,000 gpd) and Ocean City Utilities has now reserved 90,000 gallons per day of water treatment capacity. Subsequent to the purchase of the Utility System from FWS by the City, the County and Ocean City Utilities entered into a Water and Wastewater System Purchase and Sales Agreement, dated October 5, 2004, which transferred ownership of Ocean City Utilities to the County. The bulk service agreement was assigned to the County at the time of utility transfer. The term of the OCU Bulk Agreement remains effective in perpetuity.

In addition to the assignment of the previously executed bulk water agreement and subsequent to the City's acquisition of the Utility System, the City and the City of Flagler Beach ("Flagler Beach") entered into a series of Interlocal Agreements relating to the establishment of water service areas and the provision of potable water service. On March 21, 2006 the City and Flagler Beach entered into the Interlocal Agreement Relating to Water Service Areas (the "Water Area Agreement") primarily to coordinate certain matters relative to the provision of potable water within the respective service areas of the two entities for the benefit of the public. The Water Area Agreement

provided, among other things, the modification of the City's service area (relinquishing a portion of the water service area obtained by the City as a result of the acquisition of the FWS) and the term of the agreement, which is in perpetuity. Subsequent to the execution of the Water Area Agreement, the City and Flagler Beach executed on August 1, 2006, the Interlocal Agreement for Collaborative [sic] Utility Services (the "Collaborative Agreement") and the Interlocal Agreement Relating to Bulk Potable [sic] Water Sale and Shared Utility Customers (the "Flagler Beach Bulk Agreement"). The primary intent of the Collaborative Agreement was, among other things, to (1) recognize that Flagler Beach will build a water treatment plant to serve its utility service area and that the City will provide wastewater service to the facility (as a retail customer of the City); (2) provide for conveyance by the City to Flagler Beach of an existing wastewater force main; and (3) transfer certain customers located outside the city limits of Flagler Beach to the City. The term of the Collaborative Agreement is in perpetuity. The primary intent of the Flagler Beach Bulk Agreement was, among other things, to (1) establish a specific bulk potable water service area; (2) delineate the rates for service as established by the City from time to time per resolution; and (3) provide a mechanism for the discontinuance of potable water service by the City if the Flagler Beach wastewater customers (within the specified service area) do not pay for the wastewater services. The term of the Flagler Beach Bulk Agreement is in perpetuity unless mutually agreed upon by both parties.

For additional information regarding the expected growth in the Water System service area, see "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - HISTORICAL AND PROJECTED SYSTEM SALES AND CUSTOMER USAGE STATISTICS - Water System" attached hereto.

As can be seen below, it is estimated by the City that the Water System will have sufficient water production and treatment capacity to serve the future customer demands in the Water System assuming the planned capital expansion program and the forecast of customers and ERCs are accurate.

[Remainder of page intentionally left blank]

Projected Water Production (Finished Water)					
Fiscal Year Ending September 30,	Thousands of Gallons ⁽¹⁾	Average Daily Flow (MGD)	Maximum Daily Flow (MGD) ⁽²⁾	Permitted Capacity (MGD-PDF)	Percent Capacity Utilized
2013	2,629,033	7.20	9.72	15.38	63.22%
2014	2,637,127	7.23	9.75	15.38	63.42
2015	2,653,291	7.27	9.81	15.38	63.81
2016	2,665,836	7.30	9.86	15.38	64.11
2017	2,676,325	7.33	9.90	15.38	64.36

MGD = Million Gallons per Day

MGD-PDF = Million Gallons per Day - Peak Daily Flow

(1) Amounts derived from Table 2 at the end of the Report.

(2) Amounts shown based on application of a maximum day peaking factor of 1.35 applied to anticipated average daily flows.

Wastewater System. As mentioned above, the historical and projected customer (account) statistics for the Wastewater System are shown on Tables 1 and 2, respectively in "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto. Water consumption provides the basis for the billing of wastewater usage charges and not all metered water use is billed a wastewater charge (e.g., water-only service associated with separately metered irrigation service and there is a billing threshold on the amount of wastewater flow can be billed to a residential account because not all water used flows to the sewers). Projections of wastewater gallons billed per ERC are anticipated to remain relatively constant as a result of continued water conservation efforts being implemented by the City (e.g., imposition of water conservation rates) and general downward trends in indoor water use. The amount of active wastewater customers approximated 82% of the number of water customers during the most recently completed Fiscal Year 2012. It is anticipated that the growth in wastewater customers will generally be consistent with that assumed for the Water System and the relationship of water customers receiving wastewater service should begin to get closer since the majority of the new development will be receiving both utility services.

The Wastewater System also provides effluent (reclaimed water) service to large users such as golf courses and homeowner associations (median or common area irrigation) within the Dunes CDD and Grand Haven Community Development District (the "Grand Haven CDD"). FWS and the Dunes CDD originally executed an Amendment to DCDD - PCUC Effluent Agreement on January 14, 2003 (the "Dunes CDD Effluent Agreement") and FWS also executed a Working Agreement for Reuse of Reclaimed Water on April 23, 1997 (the "Grand Haven CDD Effluent Agreement"). Both effluent agreements provide for the general terms of delivery and have been assigned to the City.

The Dunes CDD Effluent Agreement provides that the City will provide the Dunes CDD up to a maximum daily volume of 2.6 MGD of reclaimed water for a term of fifteen years under certain terms and conditions, including: (1) the Dunes CDD will have an

absolute first priority right to the first maximum daily volume of 1.6 MGD of Reclaimed Water generated by the Wastewater System; (2) the next maximum daily volume of 0.5 MGD of Reclaimed Water shall be made available to the Dunes CDD after 0.65 MGD is made available to Grand Haven CDD pursuant to the Grand Haven CDD Effluent Agreement; (3) effective upon the fourth anniversary of the agreement and subject to effluent availability, the Dunes CDD shall have an absolute first priority right to an additional maximum daily volume of 0.5 MGD of Reclaimed Water; and (4) the Dunes CDD shall accept a minimum of 0.6 MGD on a daily basis and 1.2 MGD on an average annual basis and at the fourth anniversary such minimum shall be increased to 1.2 MGD and 1.5 MGD, respectively, based on the availability of Reclaimed Water from the Wastewater System. The Dunes CDD Effluent Agreement is for a period of 15 years, with automatic renewal of additional 10 year terms thereafter.

The Grand Haven CDD Effluent Agreement is for an initial period of 12 years subject to certain termination provisions (e.g., repayment by Grand Haven CDD of debt used to build advanced secondary facility). The Grand Haven CDD Effluent Agreement provides that the City shall provide a minimum of 200,000 gpd of effluent and an annual average quantity of 650,000 gpd, subject to the same implementation schedule for the Dunes CDD mentioned above. The Grand Haven CDD has constructed a reclaimed advanced secondary facility (filtration and high level disinfection) at the City's wastewater plant site to provide spray irrigation in a public access area.

As can be seen below, it is estimated by the City that the Wastewater System will have sufficient treatment capacity to serve the future customer demands in the Wastewater System assuming the planned capital expansion program and the forecast of customers and ERCs are accurate.

Fiscal Year Ending September 30	Wastewater Treatment		
	Average Daily Flow (MGD) ⁽¹⁾	Permitted Capacity (MGD)	Percent Capacity Utilized
2013	5.050	6.83	73.93%
2014	5.061	6.83	74.10
2015	5.072	6.83	74.27
2016	5.092	6.83	74.55
2017	5.106	6.83	74.76

(1) Amounts shown based on estimated ERC growth of the wastewater system and historical wastewater treatment requirements for the service area.

For additional information regarding the expected growth in the Wastewater System service area, see "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - HISTORICAL AND PROJECTED SYSTEM SALES AND CUSTOMER USAGE STATISTICS - Wastewater System" attached hereto.

Largest Water System and Wastewater System Customers. Below is a summary of the City's ten largest Water System and Wastewater System customers on the basis of revenues billed.

Water and Wastewater Top Ten Utility Customers (Based on Sales Revenue)

Account	Service Class	Type of Service	Total Billed Revenues	% of Total System Rate Revenues
Dunes Community Dev. District	Commercial	RW	\$ 147,193	0.52%
Flagler County School Board	Commercial	W&S,RW	73,434	0.26%
Fairways Condo Assoc	Multi-Family	W&S	52,827	0.19%
Grand Haven Community Dev, Dist.	Commercial	RW	44,438	0.16%
Memorial Health Systems	Commercial	W&S	37,780	0.13%
Hammock Dunes Club	Commercial	RW	27,946	0.10%
Sunbelt Chemicals	Commercial	W&S	27,212	0.10%
Conservatory Clubhouse	Commercial	RW	23,101	0.08%
Palm Club Condo Association	Multi-Family	W	22,251	0.08%
Woodhaven Condo Association	Multi-Family	W&S	<u>21,563</u>	<u>0.08%</u>
Total Top Ten Customers			\$ 477,744	1.68%
Total System Revenues			<u>\$28,404,358</u>	<u>100.00%</u>

Service: W=Water; S=Sewer; RW=Reclaimed Water

Rates, Fees and Charges

The Bond Resolution contains a rate covenant which requires the City to fix, establish and/or revise, from time to time whenever necessary, such fees, rates and other charges associated with the Utility System at certain levels. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS - Rate Covenant" herein. The sales revenues derived from the monthly rates or user charges, as reflected on Table 7 of "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto, were developed based on (a) rates currently in effect as of October 1, 2012 as approved by the City Council pursuant to the adoption of Resolution No. 2006-25, on December 19, 2006; (b) the application of the price index adjustment as provided in Resolution No. 2006-25 of 1.70% which was made effective on October 1, 2012; and (c) adopted rates which became effective April 1, 2013 as approved by the City Council pursuant to the adoption of Resolution No. 2013-10 on February 19, 2013 (collectively, the "Rate Resolution"). Projected revenues from rates for the Forecast Period also recognize: (a) additional rate revenues associated with rate increases which were adopted by the City Council on February 19, 2013 pursuant to Resolution No. 2013-10; and (b) the anticipated implementation of an annual price index rate adjustment for the remaining years of the Forecast Period (as defined in the Report) subsequent to the rate phasing program as provided in the Rate Resolution (the City has had a price index adjustment provision the rates since Fiscal Year 2009 and such index adjustments are anticipated to continue beyond the Forecast Period).

Water System and Wastewater System Rates. The current rates for the residential, commercial and irrigation customer classes (considered as retail service) are consistent in terms of both rate structure and level. The Water System rates which are currently in effect pursuant to the Rate Resolution include: (a) a constant service charge (readiness-to-serve charge) which varies by meter size; (b) a customer account charge to recover the cost of billing, meter reading, and other customer service needs and, combined with the constant service charge, serves as the minimum bill; and (c) a volumetric flow charge based on metered water consumption which increases as consumption increases in order to promote water conservation (only applicable to the residential class). The Wastewater System rates are similar in structure to that of the Water System and include: (a) a constant service charge (readiness-to-serve charge) which varies by meter size; and (b) a volumetric flow charge based on metered water consumption which serves as the basis for wastewater use. Furthermore with respect to the individually metered single family residential class, the wastewater consumption charge includes a maximum residential billing threshold of 8,000 gallons per month per unit.

As part of the consumptive use permitting process, the Water Management District requires that utilities located within its boundaries have a water conservation promoting rate structure. This requirement is part of the Water Management District's water conservation goals relative to the regulation of raw water withdrawals. The Water Management District does not regulate the rates of the Utility System regarding rate level but requires that a conservation promoting pricing structure is in place. The current water rates of the Utility System do employ a water conservation rate structure which the City believes is consistent with the general water conservation program goals recommended by the Water Management District.

[Remainder of page intentionally left blank]

The following is a summary of the monthly rates within the Utility System for service currently in effect and delineated in the Rate Resolution:

Water and Wastewater Rates - Monthly Rate Schedule⁽¹⁾

Water System				
	Effective Oct. 1, 2012	Effective April 1, 2013	Effective Oct. 1, 2014	Effective Oct. 1, 2015
Monthly Service Charge:				
Residential Single-Family Service:				
Meter Size				
5/8 x 3/4", 3/4"	\$14.18	\$14.50	\$15.08	\$15.68
1"	35.48	36.25	37.70	39.21
1-1/2"	70.96	72.50	75.40	78.42
2"	113.54	116.00	120.64	125.47
Commercial, and Multi-Family Service:				
Meter Size				
5/8 x 3/4", 3/4"	\$14.18	\$14.50	\$15.08	\$15.68
1"	35.48	36.25	37.70	39.21
1-1/2"	70.96	72.50	75.40	78.42
2"	113.54	116.00	120.64	125.47
3"	227.05	232.00	241.28	250.93
4"	354.76	362.50	377.00	392.08
6"	709.53	725.00	754.00	784.16
8"	1,134.31	1,160.00	1,206.40	1,254.66
10"	1,630.58	1,667.50	1,734.20	1,803.57
Irrigation Service (Water-Only):				
Meter Size				
5/8 x 3/4", 3/4"	\$7.10	\$7.25	\$7.54	\$7.84
1"	35.48	36.25	37.70	39.21
1-1/2"	70.95	72.50	75.40	78.42
2"	113.54	116.00	120.64	125.47
3"	227.05	232.00	241.28	250.93
4"	354.76	362.50	377.00	392.08
6"	709.53	725.00	754.00	784.16

Table continued on following page.

Water and Wastewater Rates - Monthly Rate Schedule⁽¹⁾ (continued)

Water System (continued)

	Effective Oct. 1, 2012	Effective April 1, 2013	Effective Oct. 1, 2014	Effective Oct. 1, 2015
Consumption Charge (per 1,000 Gallons of Metered Water):				
Residential Service:				
0 - 5,000 Gallons	\$3.84	\$3.93	\$4.09	\$4.25
5,001 - 10,000 Gallons	4.22	4.32	4.49	4.67
10,001 - 20,000 Gallons	5.77	5.50	5.72	5.95
Above 20,000 Gallons	6.92	7.07	7.35	7.64
Commercial and Multi-Family Service				
All Gallons	\$3.94	\$4.50	\$4.68	\$4.87
Irrigation Service				
0 - 5,000 Gallons	\$3.94	\$4.32	\$4.49	\$4.67
5,001 - 10,000 Gallons	4.22	4.32	4.49	4.67
10,001 - 20,000 Gallons	5.77	5.50	5.72	5.95
Above 20,000 Gallons	6.92	7.07	7.35	7.64

Wastewater System

	Effective Oct. 1, 2012	Effective April 1, 2013	Effective Oct. 1, 2014	Effective Oct. 1, 2015
Monthly Service Charge:				
Residential Single-Family Service				
Meter Size				
5/8 x 3/4", 3/4"	\$11.90	\$14.23	\$14.80	\$15.39
1"	29.78	35.58	37.00	38.48
1-1/2"	59.54	71.15	74.00	76.96
2"	95.27	113.84	118.39	123.13
Commercial, and Multi-Family Service:				
Meter Size				
5/8 x 3/4", 3/4"	\$11.90	\$14.23	\$14.80	\$15.39
1"	29.78	35.58	37.00	38.48
1-1/2"	59.54	71.15	74.00	76.96
2"	95.27	113.84	118.39	123.13
3"	190.19	227.68	236.79	246.26
4"	297.72	355.75	369.98	384.78
6"	595.45	711.50	739.96	769.56
8"	951.87	1,138.40	1,183.94	1,231.30
10"	1,368.32	1,636.45	1,701.91	1,769.99

Table continued on following page.

Water and Wastewater Rates - Monthly Rate Schedule⁽¹⁾ (continued)

Water System (continued)

	<u>Effective Oct. 1, 2012</u>	<u>Effective April 1, 2013</u>	<u>Effective Oct. 1, 2014</u>	<u>Effective Oct. 1, 2015</u>
Consumption Charge (per 1,000 Gallons of Metered Water):				
Residential Service ⁽²⁾	\$3.30	\$3.70	\$3.85	\$4.00
General Service and Multi-Family	3.97	4.44	4.62	4.80
Bulk Wastewater	3.22	3.55	3.69	3.84

(1) Rates currently in effect as approved and adopted by the City pursuant to the Rate Resolution and reflect rates for service rendered inside the City limits. Pursuant to Section 180.193, Florida Statutes and as referenced in the Rate Resolution, the City has adopted and currently assesses a surcharge of twenty-five percent (25%) of the monthly rates charged to consumers located outside of the municipal boundaries of the City.

(2) For all individually metered residential units, the consumption charge shall not apply to monthly usage (metered water sales) in excess of 8,000 gallons.

Bulk Water Service. The Water System currently provides water service on a bulk or wholesale basis to the Dunes CDD for emergency backup and Flagler County Utilities. The rate for service currently in effect is \$4.08 per 1,000 gallons.

Effluent (Reclaimed Water) Service. As reflected in the Rate Resolution, the City currently charges an effluent or reclaimed water rate for bulk or low-pressure service. Effluent service is currently provided only to the Dunes CDD and Grand Haven CDD pursuant to executed effluent agreements. The rates for service currently in effect were based on the service characteristics of such customers and are as follows:

All Metered Consumption (per 1,000 gallons)				
	Effective Oct. 1, 2012	Effective April 1, 2013	Effective Oct. 1, 2014	Effective Oct. 1, 2015
Dunes CDD	\$0.21	\$0.23	\$0.24	\$0.25
Grand Haven CDD	0.32	0.35	0.36	0.37
All Other Wholesale Customers	0.51	0.55	0.57	0.59

Although the City does not presently serve any retail effluent service (reclaimed water) customers, the City has adopted an effluent service rate for this level service. The following is the current retail effluent service rates in effect pursuant to the Rate Resolution.

Retail Effluent Rates				
	Effective Oct. 1, 2012	Effective April 1, 2013	Effective Oct. 1, 2014	Effective Oct. 1, 2015
Monthly Base Charge	\$5.25	\$5.67	\$5.90	\$6.14
Usage Charge (per 1,000 Gallons)				
0 - 10,000 Gallons	\$0.79	\$0.85	\$0.88	\$0.92
10,001 - 20,000 Gallons	1.18	1.27	1.32	1.37
Over 20,000 Gallons	1.58	1.71	1.78	1.85

Capital Facilities Fees (Impact Fees). In addition to the monthly rates for water and wastewater service, the City currently charges both a Water System Capital Facilities Fee and a Wastewater System Capital Facilities Fee (sometimes referred to as "Impact Fees") to new connections based upon an equitable and proportionate share of the cost for: (a) water production and transmission facilities; and (b) wastewater transmission, treatment and effluent disposal capacity of the Utility System. The purpose of the Capital Facility Fees is for paying or reimbursing the equitable share of the capital costs relating to the construction, expansion, or equipping of excess or unused capacity of the Utility System in order to serve new users. The obligation for the payment of these charges by a new customer or developer arises at the time when the City and developer enter into a developer agreement, which is prior to construction. If an existing customer requests an increase in water or wastewater capacity due to increased development, additional Water System Capital Facilities Fees and a Wastewater System Capital Facilities Fees will be charged prior to the development consistent with the net increase in demand. The following table summarizes the Capital Facilities Fees for the Water System and the Sewer System, which have been in effect since February 19, 2013.

	<u>Capital Facilities Fees</u>
Water System - \$ per ERC	\$2,045
Wastewater System - \$ per ERC	2,265

The receipt of the Capital Facilities Fees, if any, by the City is dependent on new development within the geographical limits of the service area of the Utility System. The extent to which such fees may be used to pay principal of and interest on the Series 2013 Bonds is limited by Florida law. Although the City has had some growth in the past, no assurance can be given that new development will continue within the geographical limits of the service area of the Utility System or that the City will ever receive a significant amount of Capital Facilities Fees that would be permitted to be applied to pay debt service on the Series 2013 Bonds.

Miscellaneous Service Charges. The City also has adopted a schedule of fees, charges and deposits which are applicable to miscellaneous or customer requested services. The fees generally are imposed to recover the cost of specific service such as water and sewer taps and utility turn-on fees or a deposit to defray the risk for nonpayment of Utility System services.

Customer Deposit. The City requires a deposit at the time of service application by a customer in order to defray the risk of non-payment for utility services. The deposit is estimated on an individual account basis, and is equivalent to two months of the water and wastewater charge for such account. The City will also apply interest to the deposit equal to the average rate earned on such deposits in the previous fiscal year and will apply an interest credit to the utility bill of the account at the end of each year to recognize interest earned on the customer's deposit as held by the City.

Water Meter Installation and Service Connect Charges. The current water meter installation charges and service connect charges the City has adopted in order to recover its cost of physically connecting a water customer to the Utility System, is summarized below:

<u>Meter Size</u>	<u>Water Service</u>	
	<u>Meter Connection Fee</u>	<u>Tap-in charge</u>
5/8" x 3/4"	\$358.41	\$468.68
Any Other Meter Size	Full City Costs	Full City Costs

Source: "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto.

For meters above 2 inches in diameter and taps to the Water System above 1 inch, the fee charged will be equal to the actual cost incurred by the Utility System for labor, materials, and administrative overheads.

Other Miscellaneous Service Charges. In addition to the above referenced charges, the City charges several other fees which are applicable to miscellaneous or customer requested services. See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - RATES, FEES AND CHARGES -

Miscellaneous Service Charges" attached hereto for a current schedule of such service charges.

Comparative Rates. The average residential customer of the Utility System uses approximately 5,000 gallons of monthly water service. The table below shows the Utility System's rates compared against neighboring utilities at this consumption level.

	Residential Service Assuming 4,000 Gallons of Utility Service⁽¹⁾		
	Water	Wastewater	Total
<u>City of Palm Coast</u>			
Existing Rates	\$30.22	\$29.03	\$59.25
<u>Other Neighboring/Surveyed Utilities</u>			
Brevard County - North Brevard	\$16.18	\$29.30	\$45.48
City of Daytona Beach ⁽²⁾	26.86	34.20	61.06
City of Edgewater	22.68	32.90	55.58
City of Melbourne	23.85	35.14	58.99
City of Ormond Beach	17.99	24.04	42.03
City of Palm Bay ⁽²⁾	26.69	35.89	62.58
City of Port Orange	17.20	23.85	41.05
City of Port St. Lucie	23.96	42.68	66.64
City of St. Augustine	21.02	28.46	49.48
City of South Daytona	28.00	35.57	63.57
St. Johns County	24.03	25.87	49.90
City of Titusville ⁽²⁾	19.64	39.27	58.91
New Smyrna Beach Utilities Commission	15.68	34.89	50.57
Volusia County - Softened	25.77	34.30	60.07
JEA (City of Jacksonville) ⁽²⁾	17.80	35.34	53.14
Flagler County	55.04	33.30	88.34
City of West Melbourne	34.73	16.63	51.36
Other Florida Utilities Average	\$24.54	\$31.86	\$56.40

(1) Reflects inside-City service rates for municipal utility systems.

(2) Utilities are currently involved in or contemplating a rate study, or are expecting a change in the rates charged during the next twelve months; the proposed rate adjustments, if any, are not reflected in the current rate above.

See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - RATES, FEES AND CHARGES - Rate Comparisons" attached hereto for a schedule comparing residential rates with other neighboring utilities.

Historical Operating Results

The historical operating results for the Utility System are presented for the fiscal years ended September 30, 2008 through 2012. The historical operating results are based on audited financial information as provided by the City. In general, the historical operating results have been presented in a manner consistent with the requirements of the Bond Resolution relative to the determination of Net Revenues of the Utility System. Therefore, the amounts shown reflect certain differences in the presentation of the financial results when compared to the Comprehensive Annual Financial Reports of the

City. Specifically, these major differences relate to: (a) the determination of the Cost of Operation and Maintenance (i.e., depreciation, amortization and City payments-in-lieu-of-tax expenses not recognized due to non-cash nature of the expenditure); (b) the development of interest income (i.e., does not include earnings on Capital Facilities Fees or Project Construction Fund balances associated with proceeds of bonds issued for the Utility System, if any, which are restricted to such Funds); and (c) recognition of other transfers which are not considered as a Cost of Operation and Maintenance.

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Utility System Historical Operating Results and Bond Service Coverage Results

Description	Fiscal Year Ended September 30, ⁽¹⁾				
	2008	2009	2010	2011	2012
Gross Revenues:					
Total Sales Revenues	\$23,127,897	\$26,171,938	\$26,343,358	\$27,867,134	\$28,404,358
Other Operating Revenues ⁽²⁾	1,797,816	1,872,585	1,788,777	1,378,200	1,181,941
Transfer (To)/From Rate Stabilization ⁽³⁾	0	0	1,500,000	0	0
Total Gross Revenues	24,925,713	28,044,523	29,632,135	29,245,334	29,586,299
Total Cost of Operations and Maintenance ⁽⁴⁾	16,496,689	16,743,299	17,170,763	15,614,566	15,064,742
Net Revenues	8,429,023	11,301,224	12,461,372	13,630,768	14,521,557
Pledged Capital Facilities Fees ⁽⁵⁾	1,879,237	705,695	635,364	197,789	1,356,338
Net Revenues with Pledged Capital Facilities Fees	\$10,308,260	\$12,006,919	\$13,096,735	\$13,828,557	\$15,877,895
Senior Lien Bond Service Requirement:					
Total Bond Service Requirement	\$8,445,129	\$9,415,164	\$9,412,364	\$9,418,459	\$9,416,499
Senior Lien Bond Service Coverage⁽⁶⁾:					
Test 1 - Net Revenue Test:					
Net Revenues	\$8,429,023	\$11,301,224	\$12,461,372	\$13,630,768	\$14,521,557
Total Bond Service Requirement	<u>8,445,129</u>	<u>9,415,164</u>	<u>9,412,364</u>	<u>9,418,459</u>	<u>9,416,499</u>
Bond Service Coverage (110% Required)	1.00	1.20	1.32	1.45	1.54
-OR-					
Test 2 - Net Revenue and Pledged Revenue Test:					
Net Revenues	\$8,429,023	\$11,301,224	\$12,461,372	\$13,630,768	\$14,521,557
Total Bond Service Requirement	<u>8,445,129</u>	<u>9,415,164</u>	<u>9,412,364</u>	<u>9,418,459</u>	<u>9,416,499</u>
Bond Service Coverage (105% Required)	1.00	1.20	1.32	1.45	1.54
-AND-					
Net Revenues with Pledged Capital Facilities Fees	\$10,308,260	\$12,006,919	\$13,096,735	\$13,828,557	\$15,877,895
Total Bond Service Requirement	<u>8,445,129</u>	<u>9,415,164</u>	<u>9,412,364</u>	<u>9,418,459</u>	<u>9,416,499</u>
Bond Service Coverage (120% Required)	1.22	1.28	1.39	1.47	1.69
Subordinate Debt Service Requirement:					
State Revolving Fund Loan Requirement ⁽⁷⁾	<u>1,322,685</u>	<u>1,985,708</u>	<u>1,964,692</u>	<u>1,913,651</u>	<u>1,913,648</u>
Total Subordinate Debt Service Requirement	\$1,322,685	\$1,985,708	\$1,964,692	\$1,913,651	\$1,913,648
Subordinate Debt Service Coverage:⁽⁸⁾					
Net Revenues Available After Payment of Senior Lien Bond Service	(16,105)	1,886,060	3,049,008	4,212,310	5,105,059
Total Capital Facilities Fees ⁽⁹⁾	3,720,524	1,397,139	1,257,897	391,584	1,653,801
(Less) Senior Lien Bond Service Coverage	(1,689,026)	(941,516)	(941,236)	(941,846)	(941,650)

Table continued on following page.

Utility System Historical Operating Results and Bond Service Coverage Results (continued)

Description	Fiscal Year Ending September 30, ⁽¹⁾				
	2008	2009	2010	2011	2012
Subordinate Debt Service Coverage: ⁽⁸⁾ (continued)					
Adjusted Pledged Revenues Available for Subordinate Debt Service After Payment of Senior Lien Bonds	\$2,015,393	\$2,341,683	\$3,365,669	\$3,662,048	\$5,817,210
Subordinate Loan Debt Service Coverage (115% Required)	1.52	1.18	1.71	1.91	3.04
Less Other Required Transfers ⁽¹⁰⁾					
Utility System Reserve Account	0	0	0	0	0
Renewal, Replacement and Improvement Fund	852,228	1,246,286	1,402,226	1,481,607	1,462,267
Total Other Required Transfers ⁽¹¹⁾	\$852,228	\$1,246,286	\$1,402,226	\$1,481,607	\$1,462,267
Excess of Net Revenues Above Required Transfers Without Capital Facilities Fees	(2,191,018)	(1,345,933)	(317,910)	817,052	1,729,144
Total System Capital Facilities Fees	3,720,524	1,397,139	1,257,897	391,584	1,653,801
Total Amount Available for Capital Expenditures and Other Purposes ⁽¹²⁾	<u>\$1,529,506</u>	<u>\$51,206</u>	<u>\$939,987</u>	<u>\$1,208,636</u>	<u>\$3,382,945</u>

Source: "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto.

- (1) Amounts derived from Comprehensive Annual Financial Reports (2008 through 2012) and other System information as provided by the City.
- (2) Amounts shown include all interest income reported in the CAFR for each respective Fiscal Year and for the Fiscal Year 2012 that is considered to be a component of Gross Revenues in accordance with the Bond Resolution; such amounts do not include earnings on Capital Facilities Fee or Construction Fund balances established pursuant to the issuance of the Outstanding Bonds.
- (3) Reflects transfer from the Rate Stabilization Fund that was established by the City from operations (available reserves) prior to the beginning of the Historical Period.
- (4) Amounts shown do not include depreciation or amortization expenses which are non-cash expense of the utility or payment-in-lieu-of taxes to the City's General Fund, all of which are not considered as a Cost of Operation and Maintenance, as provided by the Bond Resolution.
- (5) Amounts shown based on estimated Expansion Percentage of 59.53% to determine the Water and Sewer System Capital Facilities Fees Bond Service Component.
- (6) Pursuant to the Bond Resolution, the debt service coverage test (rate covenant) includes a two-part calculation. The debt service coverage test includes the following:
 - Test 1 - Net Revenue Test: Net Revenues must be 110% of the Bond Service Requirement; OR
 - Test 2 - Pledged Revenue Test: Net Revenues must be 105% of the Bond Service Requirement and Pledged Revenues being 120% of the Bond Service Requirement.
- (7) Amounts shown reflect indebtedness associated with State Revolving Fund Loans secured by the City to fund improvements to the City's Wastewater System.
- (8) Pursuant to the SRF Loan Agreements, Pledged Revenues for SRF Loan repayment is after the recognition of payment of Senior Lien Bonds, including coverage. For purposes of the Report, Fiscal Year 2008 recognizing a 20% coverage allowance on the Senior Lien Bonds since Test 2 was relied on for Senior Lien Coverage purposes and a 10% coverage allowance was recognized for Fiscal Years 2009 through 2012 because Test 1 was relied upon for Senior Lien coverage.
- (9) The pledge for the repayment of the Subordinate Debt Service Obligations includes all Capacity Facilities Fee receipts and is not limited by any amounts in excess of the Bond Service Requirement of such Bond Year multiplied by the water and wastewater Expansion Percentage (reference footnote 6 above).
- (10) Other required transfers as defined in the Bond Resolution include the funding of the Bond Service Reserve Account and the Renewal, Replacement and Improvement Fund (the "RR&I Fund") in an amount equivalent to the requirement as defined in the Bond Resolution.
- (11) Amounts shown reflect additional rate covenant requirement whereby the Net Revenues of the System must fund the payment of all required transfers to the Utility System Reserve Fund, the Subordinated Debt Service Fund, and the Renewal, Replacement, and Improvement Fund.
- (12) Amounts shown represent sum of the Net Revenues available after payment of all required transfers plus the Water and Wastewater System Capital Facilities Fees and represent funds available for capital expenditures and other requirements of the System.

The Net Revenues of the Utility System (prior to the recognition of Capital Facilities Fees) approximate 45% of the total reported Gross Revenues. Additionally, the Net Revenue ratio has remained relatively constant over the historical period. Based on a review of the Cost of Operation and Maintenance, the primary operating expenses include wages and salaries, including related employee benefits, power expenses, chemicals and sludge disposal. These specific expenses accounted for approximately 56% of the total reported Cost of Operation and Maintenance of the Utility System.

Projected Operating Results

Projections of the operating results for the Utility System for the five Fiscal Years (October 1 through September 30) 2013 through 2017 (the "Forecast Period") were based on: (a) the Fiscal Year 2011 and 2012 actual operating results and other financial information as provided by the City; (b) the adopted Fiscal Year 2013 budget; (c) discussions with City staff and its consulting engineers regarding current and future utility trends and capital improvements to the Utility System; and (d) other information provided by the City and its consultants associated with the Utility System.

The projections include annual projections of Gross Revenues, Cost of Operation and Maintenance, Bond Service Requirements, required deposits to the various funds and accounts established by the Bond Resolution, including the Renewal, Replacement and Improvement Fund and the Bond Service Reserve Fund, and balances available for capital outlay and other Utility System purposes. Projected Gross Revenue includes those from sales (rate revenue), interest income on the available unrestricted funds as defined in the Bond Resolution, and other miscellaneous operating revenues anticipated to be derived from operations. The projected sales revenue has been forecasted based on revenue anticipated to be derived from the existing and anticipated rates of the Utility System. The projected Bond Service Requirement shown is subject to change based upon the actual terms of the sale of the Series 2013 Bonds. Projected sales revenue for the System is based on growth projections in customers and usage based on historical growth and usage trends coupled with data provided by the City relating to projected residential and commercial development within the utility service area. Interest income has been estimated on balances in certain funds created by the Bond Resolution including balances in the Revenue Fund and Surplus Fund (operating reserves); Bond Service Fund, including the Reserve Fund, if applicable; and the Renewal, Replacement, and Improvement Fund. Projected Cost of Operation and Maintenance is based on various factors such as projected expense increases due to inflation and projected changes in expenses due to anticipated changes in operations. Funds received from the application of Water and Wastewater System Capital Facilities Fees from new growth have been assumed, for the purposes of the determination of expenditure financing, not to be available to pay Cost of Operation and Maintenance or Bond Service Requirements. However, such fees have been recognized in the determination of Bond Service coverage requirements since they are considered as Pledged Revenue for rate covenant requirements under the terms of the Bond Resolution and in the Development of the capital improvement plan funding analysis.

The following projections for the Utility System were prepared by the Feasibility Consultant in accordance with the flow of funds prescribed by the Bond Resolution and the assumptions and considerations with respect to conditions which may occur in the future which are described in "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto.

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Utility System Projected Operating Results and Estimated Debt Coverage Analysis

Summary of Projected Operating Results and Debt Service Coverage

	Fiscal Year Ending September 30, ⁽¹⁾				
	2013	2014	2015	2016	2017
Gross Revenues:					
Total Sales Revenue	\$30,099,693	\$32,501,756	\$33,912,874	\$34,790,182	\$35,699,390
Other Operating Revenues ⁽²⁾	1,472,395	1,472,395	1,472,395	1,472,395	1,472,395
Investment Income ⁽³⁾	30,168	27,089	76,485	80,391	85,341
Transfer To / (From) Rate Stabilization Fund ⁽⁴⁾	(239,382)	(500,000)	0	0	0
Total Gross Revenues	31,362,873	33,501,240	35,461,754	36,342,968	37,257,126
Total Cost of Operations and Maintenance ⁽⁵⁾	16,494,308	17,033,692	17,486,854	17,975,315	18,503,296
Net Revenues	14,868,565	16,467,548	17,974,900	18,367,652	18,753,830
Percent to Total Revenue	47.41%	49.16%	50.69%	50.54%	50.34%
Pledged Capital Facilities Fees ⁽⁶⁾	387,900	404,686	427,958	669,920	517,519
Net Revenue with Pledged Capital Facilities Fees	\$15,256,465	\$16,872,234	\$18,402,857	\$19,037,572	\$19,271,349
Senior Lien Bond Service Requirement					
Outstanding Bonds:					
Series 2003 Bonds ⁽⁷⁾	4,716,302	0	0	0	0
Series 2007 Bonds	3,131,106	3,130,906	3,128,906	3,129,681	3,129,081
Additional Parity Bonds:					
Series 2013 Bonds ⁽⁸⁾	1,524,035	6,821,388	6,819,488	6,818,988	6,821,713
Series 2014 Bonds ⁽⁹⁾	0	0	1,190,508	1,190,508	1,190,508
Total Bond Service Requirement	\$9,371,443	\$9,952,294	\$11,138,902	\$11,139,177	\$11,141,302
Senior Lien Bond Service Coverage ⁽¹⁰⁾					
Test 1 - Net Revenue Test:					
Net Revenues	14,868,565	16,467,548	17,974,900	18,367,652	18,753,830
Total Bond Service Requirement	9,371,443	9,952,294	11,138,902	11,139,177	11,141,302
Bond Service Coverage (110% Required)	158.66%	165.46%	161.37%	164.89%	168.33%
-OR-					
Test 2 - Net Revenue and Pledged Revenue Test:					
Net Revenues	14,868,565	16,467,548	17,974,900	18,367,652	18,753,830
Total Bond Service Requirement	9,371,443	9,952,294	11,138,902	11,139,177	11,141,302
Bond Service Coverage (105% Required)	158.66%	165.46%	161.37%	164.89%	168.33%
-AND-					
Net Revenues and Pledged Capital Facilities Fees					
	15,256,465	16,872,234	18,402,857	19,037,572	19,271,349
Total Bond Service Requirement	9,371,443	9,952,294	11,138,902	11,139,177	11,141,302
Bond Service Coverage (120% Required)	162.80%	169.53%	165.21%	170.91%	172.97%
Subordinate Debt Service Requirement: ⁽¹¹⁾					
Net Revenues Available After Payment of					
Senior Lien Bond Service	5,497,122	6,515,255	6,835,998	7,228,476	7,612,528
Total Capital Facilities Fees	387,900	404,686	427,958	669,920	517,519
(Less) Senior Lien Bond Service Coverage	(937,144)	(995,229)	(1,113,890)	(1,113,918)	(1,114,130)
Adjusted Pledged Revenues Available for Subordinate Bond Service After Payment of Senior Lien Bonds	\$4,947,877	\$5,924,711	\$6,150,066	\$6,784,478	\$7,015,917

Table continued on following page.

Summary of Projected Operating Results and Debt Service Coverage (continued)

	Fiscal Year Ending September 30, ⁽¹⁾				
	2013	2014	2015	2016	2017
Subordinate Debt Service Coverage:⁽¹²⁾					
Subordinate Bond Service Requirement:					
Outstanding SRF Loan Debt Service	\$1,913,648	\$1,913,649	\$1,913,648	\$1,913,649	\$1,913,650
Total Subordinate Debt Service	<u>\$1,913,648</u>	<u>\$1,913,649</u>	<u>\$1,913,648</u>	<u>\$1,913,649</u>	<u>\$1,913,650</u>
Subordinate Loan Debt Service Coverage (115% Required)	258.56%	309.60%	321.38%	354.53%	366.62%
Less Other Required Transfers					
Utility System Reserve Account ⁽¹³⁾	0	0	0	0	0
Renewal, Replacement and Improvement Fund ⁽¹⁴⁾	1,499,547	1,580,113	1,700,062	1,773,088	1,817,148
Total Other Required Transfers	<u>\$1,499,547</u>	<u>\$1,580,113</u>	<u>\$1,700,062</u>	<u>\$1,773,088</u>	<u>\$1,817,148</u>
Excess of Net Revenues Above Required Transfers					
Without Capital Facilities Fees ⁽¹⁵⁾	2,083,927	3,021,493	3,222,288	3,541,739	3,881,730
Total System Capital Facilities Fees	<u>387,900</u>	<u>404,686</u>	<u>427,958</u>	<u>669,920</u>	<u>517,519</u>
Total Amount Available for Capital Expenditures and Other Purposes ⁽¹⁶⁾	<u><u>\$2,471,827</u></u>	<u><u>\$3,426,179</u></u>	<u><u>\$3,650,246</u></u>	<u><u>\$4,211,659</u></u>	<u><u>\$4,388,249</u></u>

- (1) Amounts derived from Table 6 of "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT".
- (2) Amounts shown includes miscellaneous income and customer-requested service charges (e.g., initiation of service, turn-on and turn-off of service, delinquent fees, meter tests, reclaimed water service, etc.).
- (3) Amounts shown reflect estimated interest income earned on projected balances of the various funds created by the Bond Resolution, including the Revenue Fund and Surplus Fund (Operating Reserves), Renewal, Replacement and Improvement Fund, and Bond Service Fund. Interest earned on the Water and Wastewater Capital Facilities Fee (Impact Fee) Funds and the Project Fund have not been recognized since such earnings are restricted to such funds.
- (4) Represents amounts anticipated to be transferred to the City's Rate Stabilization Fund which represents a reduction in the determination of Gross Revenue pursuant to the Bond Resolution.
- (5) Amounts shown do not include depreciation and amortization expenses which are a non-cash expense or payment-in-lieu-of taxes to the City's General Fund, all of which are not considered a Cost of Operations and Maintenance in accordance with the provisions of the Bond Resolution.
- (6) Based on estimated Expansion Percentage of 59.73% for Fiscal Years 2013 and 2014, and 54.34% for the remainder of the Forecast Period in order to estimate Pledged Capital Facilities Fees.
- (7) The Series 2003 Bonds will be refunded by the issuance of the Series 2013 Bonds and will no longer be an obligation payable from System Pledged Revenues. Amounts shown reflect the interest expense on such bonds until the date of refunding which is assumed to be July 1, 2013.
- (8) Amounts shown are preliminary estimates as provided by the City's Financial Advisor and subject to change based on the actual terms of the Series 2013 Bonds.
- (9) Amounts represent additional parity bonds issued in accordance with the terms of the Bond Resolution in order to provide funds for capital project financing during the Forecast Period; the Additional Bonds are assumed to be issued on October 1, 2014.
- (10) Pursuant to the Bond Resolution, the debt service coverage test (rate covenant) includes a two-part calculation. The debt service coverage test includes the following:
 Test 1 - Net Revenue Test: Net Revenues must be 110% of the Bond Service Requirement; OR
 Test 2 - Pledged Revenue Test: Net Revenues must be 105% of the Bond Service Requirement and Pledged Revenues being 120% of the Bond Service Requirement.
- (11) Amounts shown reflect indebtedness associated with State Revolving Fund Loans secured by the City to fund improvements to the City's Wastewater System; no other subordinated indebtedness is outstanding at this time.
- (12) Pursuant to the SRF Loan Agreement, Pledged revenues for SRF Loan repayment is after the recognition of payment of Senior Lien Bonds, including coverage. For purposes of this Report a 10% coverage allowance on the Senior Lien Bonds was recognized because the City is projected to meet Test 1 of the Senior Lien Coverage Test.
- (13) Utility System Reserve Requirement is assumed to be fully funded or secured by a Reserve Fund Insurance Policy throughout the Forecast Period; therefore no deposits are recognized as being required.
- (14) Amount shown reflects the annual funding requirement of the Renewal, Replacement, and Improvement Fund in the amount equal to 5% of the Water and Wastewater System's Gross Revenues for the immediately preceding Fiscal Year consistent with the provisions of the Bond Resolution.
- (15) Amounts shown reflect additional rate covenant requirement whereby the Net Revenues of the System must fund the payment of all required transfers to the Utility System Reserve Fund, the Subordinated Debt Service Fund, and the Renewal, Replacement, and Improvement Fund.
- (16) Amounts shown represent sum of the Net Revenues available after payment of all required transfers plus the Water and Wastewater System Capital Facilities Fees and represent funds available for capital expenditures and other requirements of the System.

Findings and Conclusions

Based upon the principal considerations and assumptions and the results of the studies and analyses of the Utility Consultants, as summarized in "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto, which should be read in its entirety in conjunction with the following, the Utility Consultants are of the opinion that:

1. Based upon general observations of the facilities, discussions with City staff, and a review of documents and reports filed with regulatory agencies, the existing facilities of the Utility System appear to be in good condition. The Utility System is adequately operated and maintained in accordance with prudent utility practice, is complying with all permitting and regulatory requirements, and can reasonably be expected to provide sufficient and reliable services to meet the existing requirements of the utility.

2. We see no impediments to the City's ability to secure and retain all permits necessary to operate and expand the Utility System in the normal course of business.

3. The existing facilities of the Utility System, together with planned renewals, replacements, and additions and improvements, can reasonably be expected to meet the projected requirements of the Utility System, beyond the Fiscal Year ending September 30, 2017.

4. The Utility System, taking into account expansion related improvements as discussed in the Report, will provide sufficient capacity to comply with the regulatory requirements and to meet the anticipated service area needs beyond the five fiscal year period ending September 30, 2017 based on the customer forecast assumed for the purposes of the Report.

5. The City's financial, administrative, and utility staff is capable of managing, operating, maintaining, and expanding the Utility System as scheduled, needed, and required with the assistance of their Consulting Engineers.

6. The City's Capital Improvement Plan ("CIP") and the cost estimates recognized therein are reasonable, necessary and adequate to meet current regulatory and legal requirements, to provide reliable water and wastewater service to the City's customers, and to provide adequate reserve capacity for anticipated growth in customer connections reflected in the Report.

7. Assuming that the City continues to perform the necessary renewals and replacements to the Utility System and continues to operate the Utility System under prudent utility practices, it is anticipated that major improvements constructed from

proceeds of the Series 2013 Bonds are expected to have a useful life in excess of the term of the Series 2013 Bonds.

8. Based on the Consulting Engineer's routine observations and investigations, nothing has come to the attention of the Consulting Engineer that lead them to believe that significant funds will be required for Utility System improvements beyond that identified herein through Fiscal Year 2017. The financial forecast does recognize the need for the issuance of Additional Parity Obligations in the Fiscal Year 2015 to finance a portion of the identified Utility System capital improvement program. Subsequent to closing, should the City discover any additional capital needs, funding can be provided by increasing the Renewal, Replacement and Improvement Fund deposits, issuance of Additional Parity Bonds, through developer contributions, or by increasing rates for monthly service.

9. The funds on deposit in the Series 2003 Bond Service Reserve Fund will be deposited into the Series 2013 Bonds Construction Fund and will be used to finance Utility System capital improvements during the Forecast Period (as defined in the Report).

10. The projected growth in customers and usage of the Utility System for the Forecast Period represents reasonable and attainable projections for the purposes of the Report and the corresponding revenues derived from such customers and usage are also considered to be reasonable and attainable.

11. The Utility System Revenues for the Fiscal Years ending September 30, 2013 through 2017 under the City approved rates, coupled with the recognition of identified additional rate increases and cost of living (price) index adjustments, should be sufficient to: (a) pay the Cost of Operation and Maintenance of the Utility System; (b) pay the estimated debt service on the Bonds Outstanding, Series 2013 Bonds, the anticipated Additional Parity Obligations, and the existing subordinate lien debt coming due in such years; (c) make the projected deposits necessary to meet the Renewal, Replacement and Improvement Fund Requirement which is available for additions, extensions, and improvements to the System; and (d) meet the rate covenants of the Bond Resolution.

12. The projected growth in the Cost of Operation and Maintenance represent reasonable projections for the purposes of the Report.

13. The existing rates for water and wastewater service are generally comparable to charges for similar service provided by other neighboring and coastal utilities located in Central and Northeast Florida. The anticipated rate adjustments as represented in the Report are not expected by the City to negatively affect the competitiveness of the City's monthly user rates over the Forecast Period.

14. The existing Water and Wastewater System Capital Facilities Fees are higher than the current comparable fees charged by neighboring utilities located in central and northeast Florida. The Feasibility Consultant considers the adopted Capital Facilities Fees to be cost-based, reasonable, and representative of the identified capital expenditures needs of the Utility System as contained in the Utility System's adopted capital improvement plan. Based on discussions with Utility Department staff, the application of the Water and Wastewater System Capital Facilities Fees is not expected to negatively affect System growth.

For more information relating to the Utility System, see "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto.

LITIGATION

[TO BE REVIEWED BY THE CITY ATTORNEY]

Except as described below, there is no litigation pending or, to the knowledge of the City, threatened, seeking to restrain or enjoin the issuance or delivery of the Series 2013 Bonds or questioning or affecting the validity of the Series 2013 Bonds or the proceedings and authority under which they are to be issued. Neither the creation, organization or existence, nor the title of the present council members or other officers of the City to their respective offices is being contested. There is no litigation pending which in any manner questions the imposition or collection of any component of the Pledged Revenues or the use thereof for the payment of debt service on the Series 2013 Bonds.

The City is currently involved in several litigation matters. The City is not in a position at this time to predict the final outcome of these matters and claims or the exact amount of costs and/or potential recovery. The City, however, plans to contest these matters and there is a likelihood it will ultimately prevail in the proceedings. It is unlikely any final adverse judgments against the City would have a material adverse effect on the financial operation of the City or on the City's ability to comply with the requirements of the Bond Resolution, or on the imposition or collection of Pledged Revenues in amounts sufficient to pay principal, premium, if any, and interest on the Series 2013 Bonds.

LEGAL MATTERS

Certain legal matters in connection with the authorization, issuance, sale, execution, and delivery of the Series 2013 Bonds are subject to the approval of Bryant Miller Olive P.A., Orlando, Florida, in its capacity as Bond Counsel, whose approving opinion (in the form attached hereto as APPENDIX E) will be delivered on the delivery

date of the Series 2013 Bonds. Certain legal matters will be passed on for the City by Brown, Garganese, Weiss & D'Agresta, P.A., City Attorney. Nabors, Giblin & Nickerson, P.A., Tampa, Florida has served as Disclosure Counsel.

The proposed text of the opinion of Bond Counsel is attached hereto as APPENDIX E. The actual legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery of the Series 2013 Bonds. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referenced in the opinion subsequent to its date.

Bond Counsel has not been engaged to, nor has it undertaken to, review (a) the accuracy, completeness or sufficiency of this Official Statement or any other offering material relating to the Series 2013 Bonds; however, Bond Counsel will render an opinion to the Underwriter and the City (upon which only the Underwriter and the City may rely) relating to the accuracy of certain statements contained herein under the heading "TAX MATTERS" and certain statements which summarize provisions of the Bond Resolution and the Series 2013 Bonds, and (b) the compliance with any federal or state law with regard to the sale or distribution of the Series 2013 Bonds.

TAX MATTERS

General

The Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements which must be met subsequent to the issuance of the Series 2013 Bonds in order that interest on the Series 2013 Bonds be and remain excluded from gross income for purposes of federal income taxation. Non-compliance may cause interest on the Series 2013 Bonds to be included in federal gross income retroactive to the date of issuance of the Series 2013 Bonds, regardless of the date on which such non-compliance occurs or is ascertained. These requirements include, but are not limited to, provisions which prescribe yield and other limits within which the proceeds of the Series 2013 Bonds and the other amounts are to be invested and require that certain investment earnings on the foregoing must be rebated on a periodic basis to the Treasury Department of the United States. The City has covenanted in the Bond Resolution to comply with such requirements in order to maintain the exclusion from federal gross income of the interest on the Series 2013 Bonds.

In the opinion of Bond Counsel, assuming compliance with certain covenants, under existing laws, regulations, judicial decisions and rulings, interest on the Series 2013 Bonds is excluded from gross income for purposes of federal income taxation. Interest on the Series 2013 Bonds is not an item of tax preference for purposes of the

federal alternative minimum tax imposed on individuals or corporations; however, interest on the Series 2013 Bonds may be subject to the federal alternative minimum tax when any Series 2013 Bond is held by a corporation. The federal alternative minimum taxable income of a corporation must be increased by seventy-five percent (75%) of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (before this adjustment and the alternative tax net operating loss deduction). "Adjusted Current Earnings" will include interest on the Series 2013 Bonds.

Except as described above, Bond Counsel will express no opinion regarding other federal income tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of Series 2013 Bonds. Prospective purchasers of Series 2013 Bonds should be aware that the ownership of Series 2013 Bonds may result in collateral federal income tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry Series 2013 Bonds; (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by fifteen percent (15%) of certain items, including interest on Series 2013 Bonds; (iii) the inclusion of interest on Series 2013 Bonds in earnings of certain foreign corporations doing business in the United States for purposes of the branch profits tax; (iv) the inclusion of interest on Series 2013 Bonds in passive income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year; and (v) the inclusion of interest on Series 2013 Bonds in "modified adjusted gross income" by recipients of certain Social Security and Railroad Retirement benefits for the purposes of determining whether such benefits are included in gross income for federal income tax purposes.

As to questions of fact material to the opinion of Bond Counsel, Bond Counsel will rely upon representations and covenants made on behalf of the City, certificates of appropriate officers and certificates of public officials (including certifications as to the use of proceeds of the Series 2013 Bonds and of the property financed or refinanced thereby), without undertaking to verify the same by independent investigation.

PURCHASE, OWNERSHIP, SALE OR DISPOSITION OF THE SERIES 2013 BONDS AND THE RECEIPT OR ACCRUAL OF THE INTEREST THEREON MAY HAVE ADVERSE FEDERAL TAX CONSEQUENCES FOR CERTAIN INDIVIDUAL AND CORPORATE BONDHOLDERS, INCLUDING, BUT NOT LIMITED TO, THE CONSEQUENCES DESCRIBED ABOVE. PROSPECTIVE BONDHOLDERS SHOULD CONSULT WITH THEIR TAX SPECIALISTS FOR INFORMATION IN THAT REGARD.

Information Reporting and Backup Withholding

Interest paid on tax-exempt bonds such as the Series 2013 Bonds is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of

interest on the Series 2013 Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Series 2013 Bonds, under certain circumstances, to "backup withholding" at the rate specified in the Code with respect to payments on the Series 2013 Bonds and proceeds from the sale of Series 2013 Bonds. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Series 2013 Bonds. This withholding generally applies if the owner of Series 2013 Bonds (i) fails to furnish the payor such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnished the payor an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the payor or such owner's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Series 2013 Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

Other Tax Matters

During recent years, legislative proposals have been introduced in Congress, and in some cases enacted, that altered certain federal tax consequences resulting from the ownership of obligations that are similar to the Series 2013 Bonds. In some cases, these proposals have contained provisions that altered these consequences on a retroactive basis. Such alteration of federal tax consequences may have affected the market value of obligations similar to the Series 2013 Bonds. From time to time, legislative proposals are pending which could have an effect on both the federal tax consequences resulting from ownership of the Series 2013 Bonds and their market value. No assurance can be given that legislative proposals will not be enacted that would apply to, or have an adverse effect upon, the Series 2013 Bonds. For example, in connection with federal deficit reduction, job creation and tax law reform efforts, proposals have been and others are likely to be made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Series 2013 Bonds. There can be no assurance that any such legislation or proposal will be enacted, and if enacted, what form it may take. The introduction or enactment of any such legislative proposals may affect, perhaps significantly, the market price for, or marketability of, the Series 2013 Bonds.

Prospective purchasers of the Series 2013 Bonds should consult their own tax advisors as to the tax consequences of owning the Series 2013 Bonds in their particular state or local jurisdiction and regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Tax Treatment of Original Issue Discount

Under the Code, the difference between the maturity amount of the Series 2013 Bonds maturing on _____ (collectively, the "Discount Bonds"), and the initial offering price to the public, excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers, at which price a substantial amount of the Discount Bonds of the same maturity and, if applicable, interest rate, was sold is "original issue discount." Original issue discount will accrue over the term of the Discount Bonds at a constant interest rate compounded periodically. A purchaser who acquires the Discount Bonds in the initial offering at a price equal to the initial offering price thereof to the public will be treated as receiving an amount of interest excludable from gross income for federal income tax purposes equal to the original issue discount accruing during the period he or she holds the Discount Bonds, and will increase his or her adjusted basis in the Discount Bonds by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or disposition of the Discount Bonds. The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of the Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those above. Bondholders of the Discount Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale, redemption or other disposition of the Discount Bonds and with respect to the state and local tax consequences of owning and disposing of the Discount Bonds.

Tax Treatment of Bond Premium

The difference between the principal amount of the Series 2013 Bonds maturing on _____ (collectively, the "Premium Bonds"), and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Premium Bonds of the same maturity and, if applicable, interest rate, was sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each of the Premium Bonds, which ends on the earlier of the maturity or call date for each of the Premium Bonds which minimizes the yield on such Premium Bonds to the purchaser. For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation in the initial offering is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Premium Bonds. Bondholders of the Premium Bonds are advised that they

should consult with their own tax advisors with respect to the state and local tax consequences of owning such Premium Bonds.

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the City of Palm Coast, Florida for Fiscal Year Ended September 30, 2012, attached hereto as APPENDIX C, have been audited by James Moore & Co., P.L., independent accountants, as set forth in their report dated February 7, 2013, which report is also attached hereto as APPENDIX C. The consent of the City's auditor to include in this Official Statement the aforementioned report was not requested and the general purpose financial statements of the City are provided only as publicly available documents. James Moore & Co., P.L. has not participated in the preparation or review of this Official Statement.

UTILITY CONSULTANTS

Certain assumptions contained herein and relating to projected revenues and debt service coverage and certain decisions of the City relating to the establishment of rates and charges for water and wastewater services were based, in part, on the reports of outside consultants retained by the City. These include, among others, the Feasibility Consultant and the Consulting Engineers, whose Consulting Engineering and Bond Feasibility Report is attached hereto as APPENDIX B.

In addition to the Feasibility Consultant, the report of the Consulting Engineers has been combined with that of the Feasibility Consultant and is also contained in APPENDIX B hereto. Such report is an integral part of this Official Statement and should be read in its entirety for complete information with respect to the subjects discussed herein.

UNDERWRITING

The Series 2013 Bonds are being purchased by _____ (the "Underwriter"), at an aggregate purchase price of \$_____ (representing the principal amount of \$_____, less an underwriters' discount of \$_____, plus/minus a net original issue premium/discount of \$_____). The Series 2013 Bonds are offered for sale to the public at the prices set forth on the inside cover page of this Official Statement. The Series 2013 Bonds may be offered and sold to certain dealers at prices lower than such offering prices and such public offering prices may be changed from time to time by the Underwriter.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's, a division of the McGraw-Hill Companies, Inc. ("S&P") and Fitch Ratings ("Fitch") are expected to assign their municipal bond ratings of "___," "___" and "___," respectively[, with the understanding that upon delivery of the Series 2013 Bonds, the 2013 Bond Insurance Policy insuring the scheduled payment of the principal of and interest on the Series 2013 Bonds will be issued by the Insurer. The City has also applied to Moody's, S&P and Fitch for ratings without giving effect to the 2013 Bond Insurance Policy. Moody's, S&P and Fitch have assigned underlying ratings of "___," "___" and "___," respectively, to the Series 2013 Bonds].

The ratings reflect only the views of said rating agencies and an explanation of the significance of the ratings may be obtained only from said rating agencies. There is no assurance that the ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by said rating agencies if, in their judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the market price of the Series 2013 Bonds. The City does not have any obligation or duty to oppose any proposed downward revision or withdrawal or to inform Holders of Series 2013 Bonds of any such downward revision or withdrawal of such ratings.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the holders of the Series 2013 Bonds to provide certain financial information and operating data relating to the City and the Series 2013 Bonds in each year (the "Annual Information"), and to provide notices of the occurrence of certain enumerated material events. Such covenant shall only apply so long as the Series 2013 Bonds remain outstanding under the Bond Resolution. The covenant shall also cease upon the termination of the continuing disclosure requirements of SEC Rule 15c2-12(b)(5) (the "Rule") by legislative, judicial or administration action. The Annual Information will be filed by or on behalf of the City to the Municipal Securities Rulemaking Board (the "MSRB") via its Electronic Municipal Market Access System ("EMMA"), or with such other repository as designated from time to time by the SEC. See "APPENDIX F - FORM OF DISCLOSURE DISSEMINATION AGENT AGREEMENT" attached hereto, as to the nature of the information to be provided in the Annual Information and the notices of such enumerated events. Failure of the City to comply with the provisions of the Disclosure Dissemination Agent Agreement shall not constitute an event of default under the Bond Resolution. It is the position of the City that the sole and exclusive remedy of the Holder of any Series 2013 Bond for enforcement of the provisions of the Disclosure Dissemination Agent Agreement shall be an action of mandamus or specific performance to cause the City to comply with its obligations thereunder. With respect to the Series 2013 Bonds, no party other than the

City is obligated to provide, nor is expected to provide, any continuing disclosure information with respect to the aforementioned Rule.

[The City has not failed to comply with any previous continuing disclosure undertaking in the past five years pursuant to the Rule.]

The City has contracted with Digital Assurance Certification LLC ("DAC") to be a supplemental source of information for the City's bond issuances. Such services may be discontinued at any time.

FINANCIAL ADVISOR

First Southwest Company, Orlando, Florida is serving as Financial Advisor to the City with respect to the issuance and sale of the Series 2013 Bonds. The Financial Advisor has assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring and issuance of the Series 2013 Bonds and provided other advice. The Financial Advisor will not engage in any underwriting activities with regard to the issuance and sale of the Series 2013 Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement and is not obligated to review or ensure compliance with continuing disclosure undertakings.

EXPERTS AND CONSULTANTS

The references herein to Public Resources Management Group, Inc. as the Feasibility Consultant and CPH Engineers, Inc. as the Consulting Engineers have been approved by said firms. The Consulting Engineering and Bond Feasibility Report prepared by such firms relating to the Utility System has been included as APPENDIX B attached to this Official Statement in reliance upon such firms as experts in engineering and feasibility analysis. References to and excerpts herein from such report do not purport to be adequate summaries of such report or complete in all respects. Such report is an integral part of this Official Statement and should be read in its entirety for complete information with respect to the subjects discussed therein.

CONTINGENT FEES

The City has retained Bond Counsel, Disclosure Counsel, the Financial Advisor, and the Paying Agent and Registrar with respect to the authorization, sale, execution and delivery of the Series 2013 Bonds. Payment of the fees of such professionals are contingent upon the issuance of the Series 2013 Bonds.

DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS

Florida law requires the City to make a full and fair disclosure of any bonds or other debt obligations which it has issued or guaranteed and which are or have been in default as to principal or interest at any time after December 31, 1975 (including bonds or other debt obligations for which it has served as a conduit issuer). The City is not and has not since its formation in 1999 been in default as to principal or interest on bonds or other debt obligations which revenues of the City are pledged.

MISCELLANEOUS

All information included herein has been provided by the City, except where attributed to other sources. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such reference or summary is qualified in its entirety by reference to each such document, statute, report or other instrument. Copies of such documents, reports or other instruments may be obtained from the City.

The information herein has been compiled from official and other sources and, while not guaranteed by the City, is believed to be correct. So far as any statements made in this Official Statement and the appendices attached hereto involve matters of opinion or of estimates, whether or not expressly stated, they are set forth as such and not as representation of fact, and no representation is made that any of the estimates will be realized.

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CERTIFICATE CONCERNING OFFICIAL STATEMENT

The undersigned Mayor and City Manager of the City do hereby certify that (a) the delivery of this Official Statement has been duly authorized by the City Council; (b) they have reviewed this Official Statement and that to the best of their knowledge and belief, the statements herein are true and correct; and (c) nothing has come to their attention which would lead them to believe that this Official Statement (other than information herein related to the Paying Agent and Registrar, DTC, the book-entry only system of registration and information contained under the caption "TAX MATTERS" as to which no opinion is expressed) contains an untrue statement of a material fact or omits to state a material fact which should be included herein for the purposes for which this Official Statement is intended to be used, or which is necessary to make the statements contained herein, in light of the circumstances under which they were made, not misleading.

CITY OF PALM COAST, FLORIDA

By: _____
Jon Netts, Mayor

By: _____
Jim Landon, City Manager

APPENDIX A

**GENERAL INFORMATION REGARDING
THE CITY OF PALM COAST AND FLAGLER COUNTY, FLORIDA**

APPENDIX B

CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT

APPENDIX C

**AUDITED BASIC FINANCIAL STATEMENTS
OF THE CITY OF PALM COAST, FLORIDA
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2012**

APPENDIX D

FORM OF BOND RESOLUTION

APPENDIX E

FORM OF BOND COUNSEL OPINION

APPENDIX F

FORM OF DISCLOSURE DISSEMINATION AGENT AGREEMENT