

PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 22, 2006

NEW ISSUE – Book-Entry Only

RATINGS: See "RATINGS" herein

In the opinion of Bond Counsel, assuming compliance with certain arbitrage rebate and other tax requirements referred to herein, under existing law, interest on the Series 2007 Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations. See "TAX MATTERS" herein for a description of alternative minimum tax treatment and certain other tax consequences to holders of the Series 2007 Bonds.

[CITY LOGO]

\$50,765,000*
CITY OF PALM COAST, FLORIDA
Utility System Revenue Bonds,
Series 2007

Dated: Date of Delivery

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

The Utility System Revenue Bonds, Series 2007 (the "Series 2007 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 2007 Bonds will not receive physical delivery of certificates. Transfers of ownership interest in the Series 2007 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 2007 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 2007 Bond. See "DESCRIPTION OF THE SERIES 2007 BONDS – Book-Entry Only System" herein. Interest on the Series 2007 Bonds will be payable semiannually on each April 1 and October 1 of each year, commencing on April 1, 2007. Wells Fargo Bank, N.A., Jacksonville, Florida, shall serve as Paying Agent and Registrar for the Series 2007 Bonds.

* Preliminary, subject to change.

The Series 2007 Bonds are subject to optional and mandatory redemption prior to their stated maturities as described herein. See "DESCRIPTION OF THE SERIES 2007 BONDS - Optional Redemption" and "DESCRIPTION OF THE SERIES 2007 BONDS - Mandatory Redemption" herein.

The Series 2007 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, 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 supplemented, and particularly as supplemented by Resolution No. 2006-__ adopted by the City Council on December 19, 2006 (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 2007 Bonds are being issued to provide funds sufficient to (a) finance a portion of the cost of construction of the planned capital improvements to the City's water and wastewater utility system (the "Utility System"), (b) pay interest expenses on the Series 2007 Bonds through the period ending September 30, 2008, and (c) pay certain costs and expenses relating to the issuance of the Series 2007 Bonds, including the premium for a financial guaranty insurance policy and a debt service reserve fund surety policy.

The Series 2007 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 2007 BONDS" herein.

THE SERIES 2007 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 2007 BONDS AND NO HOLDER OF ANY SERIES 2007 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 2007 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 2007 Bonds will be received by the City via the Parity Competitive Bidding System until 11:00 a.m. Eastern Standard Time, on January 9, 2007 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.

The payment of the principal of and interest on the Series 2007 Bonds will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the Series 2007 Bonds. For a discussion of the terms and provisions of such policy, including the limitations thereof, see "MUNICIPAL BOND INSURANCE" herein.

[INSERT INSURER LOGO]

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 2007 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 Lonnie N. Groot, City Attorney. Nabors, Giblin & Nickerson, P.A., Tampa, Florida is serving as Disclosure Counsel. First Southwest Company, Orlando, Florida is serving as Financial Advisor to the City. It is expected that the Series 2007 Bonds will be available for delivery through the facilities of DTC on or about January 25, 2007.

Dated: January __, 2007.

MATURITY SCHEDULE

\$50,765,000*
CITY OF PALM COAST, FLORIDA
Utility System Revenue Bonds,
Series 2007

\$50,765,000* 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.

CITY OF PALM COAST, FLORIDA
2 Commerce Boulevard
Palm Coast, Florida 32164

CITY COUNCIL

James V. Canfield, Ph.D., Mayor
William Venne, Vice-Mayor
Mary DiStefano, Council Member
Jon Netts, Council Member
Alan Peterson, Council Member

CITY MANAGER

Richard M. Kelton

GENERAL SERVICES DIRECTOR

Ray W. Britt, Jr.

CITY CLERK

Clare Hoeni

CITY ATTORNEY

Lonnie N. Groot

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

First Southwest 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 2007 BONDS AND THERE SHALL BE NO SALE OF THE SERIES 2007 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, the Insurer, if any, 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.

THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE SERIES 2007 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 2007 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 2007 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES, IF

ANY, IN WHICH THE SERIES 2007 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 2007 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 2007 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007 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

\$50,765,000*

CITY OF PALM COAST, FLORIDA

Utility System Revenue Bonds,

Series 2007

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 Revenue Bonds, Series 2007, being issued in the aggregate principal amount of \$50,765,000* (the "Series 2007 Bonds"). There follows in this Official Statement a brief description of the Series 2007 Bonds, the Utility System, the security and sources of payment for the Series 2007 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 2007 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, as supplemented, and particularly as supplemented by Resolution No. 2006-__ adopted by the City Council on December 19, 2006 (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 2007 Bonds are being issued on parity with bonds issued by the City under the Bond Resolution, including its Utility System Revenue Bonds, Series 2003 (the "Series 2003 Bonds"), currently outstanding in the aggregate principal amount of \$92,925,000, issued for the primary purpose of financing the acquisition of the Utility System.

A description of certain of the terms and conditions of the Series 2007 Bonds is set forth in "APPENDIX D – FORM OF THE BOND RESOLUTION" attached hereto. The description of the Series 2007 Bonds, the documents authorizing and securing the same, and the information from various reports and statements contained herein are not

* Preliminary, subject to change.

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 2007 Bonds, other than the Bond Resolution, is to be construed as a contract with the Holders of the Series 2007 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 the Insurer, the 2007 Bond Insurance Policy and the 2007 Reserve Fund Insurance Policy (each as defined herein) with respect to the Series 2007 Bonds, and 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 67,832 as of April 1, 2006 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.

In September 1999, the citizenry voted to incorporate as a municipality with a "Council/Manager" form of government. On December 31, 1999, the City was officially incorporated. On October 1, 2000, all services were officially transferred from the County to 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 City hired its first City Manager on April 17, 2000.

THE 2007 PROJECT

General

The Series 2007 Bonds are being issued for the primary purpose of (a) financing a portion of the cost of construction of the planned capital improvements (the "2007 Project") to the City's water and wastewater utility system (the "Utility System") over the next five years (the "Five Year Capital Improvement Program"), (b) paying interest expenses on the Series 2007 Bonds through the period ending September 30, 2008, and (c) paying certain costs and expenses relating to the issuance of the Series 2007 Bonds, including the premium for a financial guaranty insurance policy (the "2007 Bond Insurance Policy") and a debt service reserve fund surety policy (the "2007 Reserve Fund Insurance Policy"), each issued by MBIA Insurance Corporation (the "Insurer").

See "THE UTILITY SYSTEM – Five Year Capital Improvement Program" herein and "APPENDIX B – CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto for a more detailed description of the 2007 Project.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2007 Bonds, including accrued interest, are expected to be applied as follows:

SOURCES:

Principal Amount of Series 2007 Bonds	\$ _____
Plus Accrued Interest	_____
[Plus Net Original Issue Premium]	_____
Total Sources	\$ <u> </u>

USES:

Deposit to Project Fund ⁽¹⁾	_____
Deposit to Interest Account	_____
Costs of Issuance ⁽²⁾	_____
Total Uses	\$ <u> </u>

⁽¹⁾ To fund a portion of the costs associated with the 2007 Project.

⁽²⁾ Includes, among other things, Underwriters' discount, legal, financial and administrative expenses incurred with respect to the issuance of the Series 2007 Bonds

and the premiums for the 2007 Bond Insurance Policy and the 2007 Reserve Fund Insurance Policy.

DESCRIPTION OF THE SERIES 2007 BONDS

General

The Series 2007 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 2007 BONDS – Book-Entry Only System" below. Wells Fargo Bank, N.A., Jacksonville, Florida, shall serve as Paying Agent and Registrar for the Series 2007 Bonds.

The Series 2007 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 April 1, 2007, 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 2007 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 2007 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 2007 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.

The Depository Trust Company ("DTC") will act as securities depository for the Series 2007 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 2007 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 2007 Bonds. The Series 2007 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 2007 Bonds and will be deposited with DTC.

DTC 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 2.2 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 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 and Clearing Corporation ("DTCC"). DTCC, in turn is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers, 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 Standard and Poor's highest rating: AAA. The DTC rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Series 2007 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 Bond 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 2007 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 beneficial interests in the Series 2007 Bonds, except in the event that use of the book-entry system for the Series 2007 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007 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 2007 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 2007 Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 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 2007 Bonds of a Series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such 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 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2007 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2007 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 2007 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 2007 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 2007 Bond certificates will be printed and delivered.

Transfer or Exchange of Series 2007 Bonds

So long as the Series 2007 Bonds are registered in the name of Cede & Co., as the nominee of DTC, the transfer and exchange of any Series 2007 Bonds shall be governed by rules established between DTC and its Direct and Indirect Participants. See "DESCRIPTION OF THE SERIES 2007 BONDS – Book-Entry Only System" above. Upon the discontinuance of the book-entry only registration system for the Series 2007 Bonds, the following provisions described under this subheading shall apply for Beneficial Owners.

Any Series 2007 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 2007 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 2007 Bonds equal to the principal amount of the Series 2007 Bond or Series 2007 Bonds so surrendered.

The Registrar shall keep books for the registration of and for the registration of transfers of Series 2007 Bonds as provided in the Bond Resolution. The transfer of any Series 2007 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 2007 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 2007 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.

In all cases in which Series 2007 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 2007 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 2007 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 2007 Bonds for the privilege of exchanging or registering the transfer of Series 2007 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 2007 Bonds after the Record Date.

Optional Redemption

The Series 2007 Bonds maturing on or prior to October 1, 20__ are not subject to redemption prior to their stated maturities. The Series 2007 Bonds maturing on or after October 1, 20__ 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, 20__ (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 2007 Bonds to be redeemed plus interest accrued to the date of redemption.

Mandatory Redemption

The Series 2007 Bonds maturing on October 1, 20__ 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, 20__, 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 2007 Bonds maturing on October 1, 20__ 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, 20__, 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>	Amortization <u>Installments</u>
	\$

*Maturity

The Series 2007 Bonds maturing on October 1, 20__ 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, 20__, 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>	Amortization <u>Installments</u>
	\$

*Maturity

Notice of Redemption

Notices of redemption shall, at least 30 days prior to the proposed 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 2007 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 2007 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 2007 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 2007 Bonds of one maturity are to be called, the distinctive numbers of such Series 2007 Bonds to be redeemed and, in the case of Series 2007 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 2007 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 2007 Bonds pursuant to DTC's book-entry only system of registration, notice of redemption required to be mailed to holders of Series 2007 Bonds shall only be sent to Cede & Co.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2007 BONDS

General

The payment of the principal of and interest and premium, if any, on the Series 2007 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 2007 Bonds.

THE SERIES 2007 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 2007 BONDS AND NO HOLDER OF ANY SERIES 2007 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 2007 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 THE 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 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 2007 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 2007 Bonds is limited by Florida law. Although the City has had substantial 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 2007 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.

Reserve Fund

The Bond Resolution requires the City to fund the Reserve Fund in an amount equal to the Reserve Requirement for all Bonds outstanding under the Bond Resolution. Upon the issuance of the Series 2007 Bonds, a portion of the proceeds thereof will be used to pay the premium for the 2007 Reserve Fund Insurance Policy from the Insurer, the face amount of which equals \$ _____, which combined with a reserve fund insurance policy issued by the Insurer in the face amount of \$6,289,612.50, is equal to the Reserve Requirement for the Series 2003 Bonds and Series 2007 Bonds, the only Bonds currently outstanding under the Bond Resolution. Moneys in the Reserve Fund and any subaccounts 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. See "2007 RESERVE FUND INSURANCE POLICY" herein.

Upon the issuance of Additional Parity Obligations, the City may, 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. The Bond Resolution permits the City to fund such required sum in full or in part from the proceeds of such Additional Parity Obligations or 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) 12 months, or (b) the number of months for which interest on such Additional Parity Obligations has been capitalized. In lieu of or in addition to any such cash deposits into the Reserve Fund, the City may fund all or a portion of the Reserve Requirement with a Reserve Fund Insurance Policy or Reserve Fund Letter of Credit if certain requirements set forth in the Bond Resolution are satisfied.

The City 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 described above. 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 City deems appropriate. See "APPENDIX D – FORM OF THE BOND RESOLUTION" attached hereto.

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 Financial Services 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 Financial Services 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 twelve 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 Financial Services 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 Financial Services 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 Clean Water State Revolving Fund Construction Loan Agreements, dated December 30, 2004, and January 12, 2005, each between the Florida Department of Environmental Protection ("FDEP") and the City (collectively, the "SRF Loan Agreements"), the City has obtained loans from FDEP in the principal amount of \$2,801,006 and \$13,430,817, respectively, as of September 30, 2006 (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 both FDEP Loans is approximately 2.65% per annum.

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 2007 Bonds and might adversely affect the City's ability to pay debt service on the Series 2007 Bonds, the SRF Loan Agreements contains a separate rate covenant to help ensure the availability of revenues for the payment of such obligations.

In addition to the above-described FDEP Loans, the City expects to request additional funding from the FDEP State Revolving Loan Program in 2007 and 2009 for a total estimated amount of \$39,665,093 to finance a portion of the capital construction of (1) upgrades to Wastewater Treatment Plant No. 1 (primary sludge management facility, reclaimed water pump station, and digester addition); (2) the construction of reclaimed water mains; and (3) the design and construction of Wastewater Treatment Plant No. 2. See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - PROJECTED OPERATING RESULTS - Principal Considerations and Assumptions Regarding Projected Operating Results" attached hereto for a summary of financial assumptions regarding future operations of the Utility System, including future subordinated indebtedness.

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 THE BOND RESOLUTION" attached hereto for a complete list of the covenants of the City.

FLOW OF FUNDS

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 2007 Project Account and the 2007 Capitalized Interest 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.

MUNICIPAL BOND INSURANCE

Payment of the principal and interest on the Series 2007 Bonds when due will be insured by the financial guaranty insurance policy to be issued by the Insurer (the "2007 Bond Insurance Policy") simultaneously with the delivery of the Series 2007 Bonds. The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to Appendix G for a specimen of the 2007 Bond Insurance Policy. The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the 2007 Bond Insurance Policy and the Insurer set forth under this heading "MUNICIPAL BOND INSURANCE." Additionally, the Insurer makes no representation regarding the Series 2007 Bonds or the advisability of investing in the Series 2007 Bonds.

The 2007 Bond Insurance Policy

The 2007 Bond Insurance Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the City to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 2007 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the 2007 Bond Insurance Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 2007 Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The 2007 Bond Insurance Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 2007 Bonds. The 2007 Bond Insurance Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Series 2007 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The 2007 Bond Insurance Policy also does not insure against nonpayment of principal of or interest on the Series 2007 Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the Series 2007 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of a Series 2007 Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 2007 Bonds or presentment of such other proof of ownership of the Series 2007 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 2007 Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Series

2007 Bonds in any legal proceeding related to payment of insured amounts on the Series 2007 Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such Series 2007 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation

MBIA Insurance Corporation ("MBIA" or "Insurer") is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions.

The principal executive offices of MBIA are located at 113 King Street, Armonk, New York 10504 and the main telephone number at that address is (914) 273-4545.

Regulation

As a financial guaranty insurance company licensed to do business in the State of New York, MBIA is subject to the New York Insurance Law which, among other things, prescribes minimum capital requirements and contingency reserves against liabilities for MBIA, limits the classes and concentrations of investments that are made by MBIA and requires the approval of policy rates and forms that are employed by MBIA. State law also regulates the amount of both the aggregate and individual risks that may be insured by MBIA, the payment of dividends by MBIA, changes in control with respect to MBIA and transactions among MBIA and its affiliates.

The insurance provided by this policy is not covered by the Florida Insurance Guaranty Association created under chapter 631, Florida Statutes.

Financial Strength Ratings of MBIA

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 2007 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2007 Bonds. MBIA does not guaranty the market price of the Series 2007 Bonds nor does it guaranty that the ratings on the Series 2007 Bonds will not be revised or withdrawn.

MBIA Financial Information

As of December 31, 2005, MBIA had admitted assets of \$11.0 billion (audited), total liabilities of \$7.2 billion (audited), and total capital and surplus of \$3.8 billion (audited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 2006, MBIA had admitted assets of \$11.5 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$4.4 billion (unaudited), each as determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2005 and December 31, 2004 and for each of the three years in the period ended December 31, 2005, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2005 and the consolidated financial statements of MBIA and its subsidiaries as of September 30, 2006 and for the nine month periods ended September 30, 2006 and September 30, 2005 included in the Quarterly Report on Form 10-Q of the Company for the period ended September 30, 2006, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

Copies of the statutory financial statements filed by MBIA with the State of New York Insurance Department are available over the Internet at the Company's web site at <http://www.mbia.com> and at no cost, upon request to MBIA at its principal executive offices.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated by reference into this Official Statement:

1. The Company's Annual Report on Form 10-K for the year ended December 31, 2005; and

2. The Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006.

Any documents, including any financial statements of MBIA and its subsidiaries that are included therein or attached as exhibits thereto, filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the Company's most recent Quarterly Report on Form 10-Q or Annual Report on Form 10-K, and prior to the termination of the offering of the Series 2007 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2005, and (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006, June 30, 2006 and September 30, 2006 are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington, D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

2007 RESERVE FUND INSURANCE POLICY

The following information under this heading has been furnished by the Insurer for use in this Official Statement relating to the Insurer's commitment to issue a surety bond with respect to the Series 2007 Bonds (the "2007 Reserve Fund Insurance Policy").

Application has been made to the Insurer for a commitment to issue the 2007 Reserve Fund Insurance Policy. The 2007 Reserve Fund Insurance Policy will provide that upon notice from the Paying Agent to the Insurer to the effect that insufficient amounts are on deposit in the Reserve Fund to pay the principal of (at maturity or pursuant to mandatory redemption requirements) and interest on the Series 2007 Bonds, the Insurer will promptly deposit with the Paying Agent an amount sufficient to pay the

principal of and interest on the Series 2007 Bonds or the available amount of the 2007 Reserve Fund Insurance Policy, whichever is less. Upon the later of: (i) three (3) days after receipt by the Insurer of a Demand for Payment in the form attached to the 2007 Reserve Fund Insurance Policy, duly executed by the Paying Agent; or (ii) the payment date of the Series 2007 Bonds as specified in the Demand for Payment presented by the Paying Agent to the Insurer, the Insurer will make a deposit of funds in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment to the Paying Agent, of amounts which are then due to the Paying Agent (as specified in the Demand for Payment) subject to the Surety Bond Coverage (as defined in the 2007 Reserve Fund Insurance Policy).

The available amount of the 2007 Reserve Fund Insurance Policy is the initial face amount of the 2007 Reserve Fund Insurance Policy less the amount of any previous deposits by the Insurer with the Paying Agent which have not been reimbursed by the City. The City and the Insurer have entered into a Financial Guaranty Agreement dated as of the delivery date of the Series 2007 Bonds (the "Agreement"). Pursuant to the Agreement, the City is required to reimburse the Insurer, within one year of any deposit, the amount of such deposit made by the Insurer with the Paying Agent under the 2007 Reserve Fund Insurance Policy. Such reimbursement shall be made only after payment of the Cost of Operation and Maintenance of the Utility System and all current applications and allocations to the Bond Service Fund, including all deficiencies for prior payments have been made in full. Reimbursement obligations for any fees, expenses, claims or draws upon the 2007 Reserve Fund Insurance Policy are subordinate to the payment of debt service on the Series 2007 Bonds.

Under the terms of the Agreement, the Paying Agent is required to reimburse the Insurer, with interest, until the face amount of the 2007 Reserve Fund Insurance Policy is reinstated before any transfer is made out of the Surplus Fund. No optional redemption of Series 2007 Bonds may be made until the Insurer's 2007 Reserve Fund Insurance Policy is reinstated. The 2007 Reserve Fund Insurance Policy will be held by the Paying Agent in the Reserve Fund and is provided as an alternative to the City depositing funds equal to the Reserve Requirement for outstanding Series 2007 Bonds. The 2007 Reserve Fund Insurance Policy will be issued in the face amount equal to the Reserve Requirement for the Series 2007 Bonds and the premium therefor will be fully paid by the City at the time of delivery of the Series 2007 Bonds.

DEBT SERVICE SCHEDULE

The following table sets forth the debt service for the Series 2003 and Series 2007 Bonds, inclusive of accrued interest.

Year Ending <u>October 1</u>	Series 2003 Bonds <u>Debt Service</u>	Series 2007 Bonds		Total <u>Debt Service</u>
		<u>Principal</u>	<u>Interest</u>	
2007	\$6,288,272.50	\$	\$	\$
2008	6,284,872.50			
2009	6,284,907.50			
2010	6,285,907.50			
2011	6,287,202.50			
2012	6,287,242.50			
2013	6,288,402.50			
2014	6,289,412.50			
2015	6,286,662.50			
2016	6,288,162.50			
2017	6,288,412.50			
2018	6,285,350.00			
2019	6,284,937.50			
2020	6,286,650.00			
2021	6,284,962.50			
2022	6,289,612.50			
2023	6,288,612.50			
2024	6,288,862.50			
2025	6,284,862.50			
2026	6,286,362.50			
2027	6,287,612.50			
2028	6,288,112.50			
2029	6,289,150.00			
2030	6,284,500.00			
2031	6,286,000.00			
2032	6,284,500.00			
2033	<u>6,289,500.00</u>			
	\$169,749,045.00			

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 two 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 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	29
Danny Ashburn	Manager, Wastewater Operations	25
Patrick Henderson	Chief Operator (Wastewater Treatment Plant)	16
James Hogan	Manager, Water Operations	26
Dan Tomlinson	Chief Operator (WTP #1)	9
Peter Roussell	Chief Operator (WTP #2)	13
Randy Zaleski	Utility Systems Manager	33

In addition to the operations personnel of the Utilities Department, members of the City staff are well-qualified and experienced in the management of public utility systems. The City Manager of the City, Richard M. Kelton, has 41 years of local government administration and management experience. Mr. Kelton served 15 years with Volusia County, as Director of Development, Assistant County Manager, Acting County Manager and Chief Financial Officer. Mr. Kelton will be retiring effective January 31, 2007. Mr. Kelton will be retained by the City on a consulting basis for 90 days to assist in the transition of the new City Manager.

The General Services Director of the City, Ray W. Britt, Jr., has worked 22 years for municipal governments as a financial officer, including the City of Lakeland (11 years) and the City of Port Orange (6 years), both of which had water and wastewater utilities. Mr. Britt has supervised customer service and has been responsible for, among other things, meter reading, accounts payable, payroll, financial statements, budgets, for these utilities. The City utilizes MUNIS software for all City accounting and utility

billing functions and has integrated the utility enterprise fund accounting and utility billing into the City's overall accounting and financial reporting system.

Water System

General. The Water System is comprised of a water supply, treatment, transmission and distribution system (the "Water System"). During the Fiscal Year 2006, the Water System provided service to a total of 38,796 average active accounts and 40,767 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 271 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 37 wells, two 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 increased from 4.947 million gallons per day ("MGD") and 6.225 MGD, respectively, in Fiscal Year 2001 to 8.174 MGD and 10.182 MGD, respectively, in Fiscal Year 2006. The ADD and MDD are projected to increase to 11.727 MGD and 16.390 MGD, respectively, in Fiscal Year 2011. 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 December 13, 2005 and expires on December 13, 2015 (the "CUP"). The Dunes Community Development District (the "Dunes CDD") is currently served by the City's Water System. The Dunes CDD has requested and been issued a separate Consumptive Use Permit by the Water Management District. However, the proposed water supply and water treatment facilities for the Dunes CDD are not complete yet and the City's CUP lists separate allowable withdrawals depending on whether the Dunes CDD water supply and treatment facility is completed and operable. 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 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 six 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 300 gpm to 800 gpm.

See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT WATER SYSTEM – 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 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 6.834 MGD. The treatment units at Water Treatment Plant No. 2 include four cartridge filters, two nano-filtration skids, chemical feeders, two degasifiers, one chlorine contact tank, and a 2.00 MG pre-stressed ground storage tank. High service pumps 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.

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. 2 is compatible with the finished treated water quality of Water Treatment Plant No. 1. Finished water from both water treatment plants is pumped to the distribution system. Since the finished water of both plants is similar, no adverse effects have been observed. See "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT - WATER SYSTEM - Water Treatment Plants and Ground Storage" 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 3,278,714 feet of water main ranging in size from 1 inch to 20 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. The water use currently permitted by the CUP is insufficient for the projected water usage of the growing service area. Documentation of the Water System requirements is being prepared and will be submitted to the Water Management District with a request for a modification to the CUP. The City anticipates that it will be able to demonstrate a beneficial use requirement for such increased raw water supply as a result of the anticipated growth of the Water System service area.

A full scale pilot study is underway to document that Water Treatment Plant No. 1 can be re-rated to 7.8 MGD of blended water with 6.0 MGD of filtered water and 30% (1.8 MGD) of raw water bypass. It is expected the full scale pilot study will document that Water Treatment Plant No. 1 can be re-rated to a total of 7.8 MGD of filtered and raw water bypass.

The Water System has an Industrial Waste Concentrate Disposal Permit which permits a total of up to 2.65 MGD of a blend of concentrate and Iroquois Canal water to be discharged to the Royal Palms Canal. Compliance with the Chronic Whole Effluent Monitoring Program is required every three months to allow continued discharge. Currently blending is not required under the permit but failure to comply may result in the need for blending from Iroquois Canal or alternate disposal. This permit expires on November 4, 2007. The City applied for permit renewal and it is expected that this permit will be renewed prior to the expiration date.

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 treatment facilities was conducted during calendar year 2003, and vulnerability was not considered to be a problem.

Condition of Water System. Both Water Treatment Plant No. 1 and Water Treatment Plant No. 2 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 2006 was 29,910, which equated to approximately 30,694 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 163 gpd of wastewater flow. The Wastewater System currently includes a wastewater collection system, 140 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 3.008 MGD and 3.455 MGD, respectively, in Fiscal Year 2001. The AADF and 3MADF are projected to increase to 6.724 MGD and 8.074 MGD, respectively, in Fiscal Year 2011. 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.

A comparison of wastewater flows was made during dry periods and during wet weather periods and the wastewater system flow did not significantly increase. While there is some Infiltration/Inflow ("I/I") tributary to the Wastewater System, the I/I is not

considered by the City as being significant. City utility personnel report that repairs are made whenever I/I is observed in manholes and/or sanitary sewers. The I/I tributary to the Wastewater 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 1,415,918 feet of sanitary sewer mains ranging in size from 6 to 16 inch. The pressure sewer system contains 1,091,645 feet of pressure sewer ranging from 2 to 6 inch and [5,068] PEP tanks and pumps.

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.

Lift Stations. The 140 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 6 privately owned lift stations that convey wastewater to the City sewage force main system. The City operates and maintains three 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 433,292 feet of sewage forcemains ranging in size from 2 to 16 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.

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 a 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.

Reclaimed water irrigation in the Grand Haven CDD and the Dunes CDD developments are the primary methods of disposal. A tertiary filter and high-level disinfection facility (owned by Grand Haven CDD) at the wastewater treatment plant provides advanced secondary treatment, so the effluent can be used for irrigation of public access areas. Grand Haven CDD pays the utility for operation of the on-site tertiary filters and high-level disinfection facilities. Secondary effluent is also conveyed to the Dunes CDD, where the Dunes CDD provides tertiary filtration and high-level disinfection, so the reclaimed water can be used to irrigate areas with public access.

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 9,000-feet 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. After decanting, the solids content of the wastewater sludge is stored in a holding tank and is periodically collected and transported by an independent

contractor to one of its facilities for stabilization and disposal. An independent contractor is responsible to provide the necessary sludge treatment to Class B Standards suitable for restricted access land application.

Regulatory Compliance Issues. The Wastewater Treatment Facility Permit allows treatment and disposal of 6.83 MGD. This permit expires on January 2, 2007. A timely application has been made by the City to the Florida Department of Environmental Protection ("FDEP") for a renewal of this permit, and a 5-year permit is expected to be issued prior to the current expiration date of January 2, 2007.

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 operating condition and are well maintained. The wastewater treatment plant, the rapid infiltration basins and the sprayfield are in average 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 send written notice to water customers that service will be terminated to the extent permitted by law unless payment is made within the next succeeding fifteen-day period. If payment is not forthcoming at the end of that period, water service to the delinquent customer may be disconnected and the matter is subsequently given by the City to a collection agency.

At the end of Fiscal Years, 2005 and 2004, the over-60-day delinquent accounts receivable of the Utility System as a percentage of operating revenue was ___% and ___% respectively. Historically, the City has collected over ___% of such delinquencies. 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. The City continues to experience significant growth within the City limits and in surrounding areas served by the Utility System. As a result of such growth,

upgrades and expansions to the Water System and the Wastewater System are necessary to provide adequate service. 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 2007 Bonds. The projected cost of the Five Year Capital Improvement Program, including an allowance for contingencies, is anticipated by the City to be \$151,290,849. This amount will be funded from a portion of the proceeds of the Series 2007 Bonds, anticipated future bond issuances and other sources anticipated to be available to the City. Of the \$151,290,849, a total of \$45,635,000 is expected to be funded from the proceeds of the Series 2007 Bonds to cover a portion of the costs of the additions, extensions and improvements to the Utility System included as part of the 2007 Project.

2007 Project Capital Improvements. At closing, a portion of the proceeds of the Series 2007 Bonds in the amount of \$45,635,000 will be deposited into the 2007 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 2007 Project. The following is a summary of the capital improvements and the estimated cost thereof.

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

Description	Estimated Project Costs
Water Supply Planning and Well Field Monitoring	\$ 772,000
Water Treatment Plant No. 1 Well Improvements	400,000
Water Treatment Plant No. 1 Miscellaneous Improvements	700,000
Water Treatment Plant No. 2 Well and Raw Water Main Improvements	2,735,000
Water Treatment Plant No. 2 Miscellaneous Improvements	325,000
Water Treatment Plant No. 3 Well and Raw Water Main Improvements	17,150,000
Water Treatment Plant No. 3 Improvements	19,450,000
Water Treatment Plant No. 3 Concentrate Line Improvements	4,700,000
Water Main Improvements	9,279,000
Water Main Hydraulic Modeling	100,000
Elevated Tank Control Improvements	220,000
Blanket Projects: Meters and Services	5,797,080
Department Capital	2,500,000
Land Acquisition	<u>8,000,000</u>
Total Water System Improvements	<u>\$72,128,080</u>

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

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

Description	Estimated Project Costs
Wastewater System Planning	\$ 132,000
WWTF No. 1 Improvements	6,635,000
WWTF No. 1 Reclaimed Water ASR Test Well	2,450,000
WWTF No. 1 Reclaimed Water Mains and Pumping Stations	11,532,000
WWTF No. 2 Design and Improvements	19,000,000
WWTF No. 2 Reclaimed Water Mains and Disposal	5,000,000
WWTF No. 3 Design	800,000
WWTF No. 3 Reclaimed Water Main and Disposal Design	500,000
Wastewater Collection System Hydraulic Modeling	100,000
Wastewater Pumping Station and Force Main Improvements	8,658,000
Wastewater Pumping Station Generator Improvements	1,195,000
Wastewater Pumping Station Odor Control Improvements	150,000
Pretreatment Effluent Pumping (PEP) System Improvements	1,100,000
Beachside Pumping Station and Force Main Improvements	5,200,000
Blanket Projects: PEP Tanks	14,210,768
Department Capital	<u>2,500,000</u>
Total Wastewater System Improvements	<u>\$79,162,768</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

	Fiscal Year Ending September 30 ⁽¹⁾					
	2007	2008	2009	2010	2011	Total
Capital Projects:						
Water System	\$44,097,698	\$12,982,112	\$ 1,961,555	\$4,361,555	\$ 8,725,161	\$ 72,128,080
Wastewater System	<u>32,498,216</u>	<u>10,165,282</u>	<u>27,339,832</u>	<u>3,756,832</u>	<u>5,402,606</u>	<u>\$ 79,162,768</u>
Total System Capital Projects	<u>\$76,595,914</u>	<u>\$23,147,394</u>	<u>\$29,301,386</u>	<u>\$8,118,386</u>	<u>\$14,127,768</u>	<u>\$151,290,849</u>
Funding Sources:						
Operating Reserves	1,735,000	1,000,000	500,000	0	200,000	3,435,000
Rate Revenues	1,608,698	1,159,112	1,038,555	1,038,555	952,161	5,797,080
RR&I Fund	1,105,000	845,000	1,345,000	1,845,000	1,845,000	6,985,000
Capital Facilities Fees	15,495,216	9,943,282	9,617,832	5,234,832	11,130,606	51,421,768
Series 2007 Bonds	39,535,000	6,100,000	0	0	0	45,635,000
2007 SRF Loan	16,517,000	0	0	0	0	16,517,000
2009 SRF Loan	<u>600,000</u>	<u>4,100,000</u>	<u>16,800,000</u>	<u>0</u>	<u>0</u>	<u>21,500,000</u>
Total Funding Sources	<u>\$76,595,914</u>	<u>\$23,147,394</u>	<u>\$29,301,386</u>	<u>\$8,118,386</u>	<u>\$14,127,768</u>	<u>\$151,290,849</u>

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

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

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.

It is the experience of the Acquisition Consultants that allocating 5% of Gross Revenues is generally adequate to fund routine renewal and replacement needs of similar water and wastewater utility systems.

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. 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 83% of the total estimated accounts and 79% of the estimated ERCs served by the Water System during the Fiscal Year 2006.

In addition to the retail customers served by the Water System, FWS had originally entered into two wholesale or bulk water agreements (total of 3 meters) with certain customers. These agreements were subsequently assigned to the City upon transfer of Utility System assets and facilities to the City coincident with the utility acquisition from FWS in 2003. The customers served include Flagler County (previously, Ocean City Utilities, Inc.) (consisting of 1 meter) and the Dunes CDD (consisting of 2 meters).

The Dunes CDD and FWS originally entered into a Bulk Water Service Agreement on April 8, 1988 (the "Dunes Bulk Agreement"). The Dunes Bulk Agreement provides, among other things, for the ability to purchase reserved capacity for the rates charged for service, and the responsibilities of the parties to the agreement. The Dunes CDD is an affluent, barrier island community that relies upon the Utility System for both its potable and irrigation water needs. Pursuant to the Dunes Bulk Agreement, the Dunes CDD purchases 100,000 gpd of maximum average daily water demand. After providing a minimum of six (6) months notice, the Dunes CDD may cancel the Dunes Bulk Agreement in its entirety, disconnect from the Water System and the purchased capacity serviced by the Dunes CDD would no longer be reserved and the City can reallocate such capacity to new water users or development. The Dunes CDD has provided notification to disconnect from the City's Water System and it is anticipated that the Dunes CDD will no longer receive bulk water service from the City beginning October 1, 2007. The net effect of the termination of this service agreement results in an estimated reduction in Gross Revenues of approximately \$133,000 annually.

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 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 agreements 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 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.

Fiscal Year Ending September 30	Projected Water Production (Finished Water)				
	Thousands of Gallons ⁽¹⁾	Average Daily Flow (MGD) ⁽¹⁾	Maximum Daily Flow (MGD) ⁽²⁾	Permitted Capacity (MGD-PDF)	Percent Capacity Utilized
2007	2,929,197	8.025	10.834	14.634 ⁽³⁾	74.03%
2008	3,007,150	8.239	11.122	17.634 ⁽⁴⁾	63.07%
2009	3,153,213	8.639	11.663	17.634	66.14%
2010	3,296,370	9.031	12.192	17.634	69.14%
2011	3,422,096	9.376	12.657	17.634	71.78%

MGD = Million Gallons per Day

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

⁽¹⁾ Amounts shown based on the forecast of total System water sales as shown on Table 2, adjusted for an unaccounted for or unbilled water factor of 20.1% based on recent historical trends, as shown on Table 2 of "APPENDIX B - CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto.

⁽²⁾ Amounts shown based on application of a maximum day peaking factor of 1.45 applied to anticipated average daily flows.

⁽³⁾ Amount shown includes anticipated re-rating at water treatment plant from current rate capacity of 6.00 MGD-ADF to 7.80 MGD-ADF (prior to peak usage period of February to April) based on information provided by the City's Consulting Engineers.

⁽⁴⁾ Reflects addition of 3.00 MGD-ADF capacity attributable to construction of Water Treatment Plant No. 3.

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 [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 77% of the number of water customers during the most recently completed Fiscal Year 2006. 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 and Palm Coast, Inc. 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 1.20 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
2007	5.927	6.830	86.78%
2008	6.281	6.830	91.96%
2009	6.598	8.830 ⁽²⁾	74.72%
2010	6.914	8.830	78.30%
2011	7.204	8.830	81.59%

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

⁽²⁾ Amount shown reflects construction of Wastewater Treatment Plant No. 2 of 2.0 MGD-ADF anticipated being available in the beginning of Fiscal Year 2009.

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 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) ⁽¹⁾				
Account	Service Class	Type of Service	Total Billed Revenues	% of Total System Rate Revenues
Flagler County School Board	Commercial	W&S	\$ 398,952	1.850%
Memorial Health Systems	Commercial	W&S	154,657	0.717%
Dunes CDD ⁽²⁾	Bulk	W	133,178	0.618%
Fairways Condominium Association	Multi-Family	W&S	72,195	0.335%
Grand Oaks Health & Rehab Center	Commercial	W&S	72,127	0.334%
Woodhaven Condominium Association	Multi-Family	W&S	71,104	0.330%
[Hammock Dunes CDD]	Bulk	W	71,096	0.330%
Harbor Club Condominium Association	Multi-Family	W&S	62,534	0.290%
Old Kings Highway Association	Commercial	W&S	60,996	0.283%
Flagler County BCC - Ocean City	Bulk	W	<u>59,442</u>	<u>0.276%</u>
Total			<u>\$1,156,282</u>	<u>5.361%</u>

Service: W=Water; S=Sewer

⁽¹⁾ Based on information provided by the city; reflects amounts for the twelve (12) months ended September 30, 2006.

⁽²⁾ This customer plans to discontinue receiving bulk water service from the City effective October 1, 2007.

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 2007 BONDS – Rate Covenant" herein. The sales revenues derived from the monthly rates or user charges, are reflected on Table

6 of "APPENDIX B – CONSULTING ENGINEERING AND BOND FEASIBILITY REPORT" attached hereto. The Utility System rates were approved by the City Council pursuant to the adoption of Resolution No. 2005-07, on April 5, 2005 (the "Rate Resolution"). Projected revenues from rates for the Consulting Engineering and Bond Feasibility Report also recognize: (1) additional rate revenues associated with a twelve and a half percent (12.50%) increase to become effective on November 1, 2008; and (2) the anticipated implementation of an annual price index rate adjustment for Fiscal Year 2010 and 2011, both of which were adopted by the City Council on December 19, 2006.

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.

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			Sewer System		
Monthly Service Charge			Monthly Service Charge		
Residential Single-Family Service			Residential Service		
Meter Size	5/8 x 3/4", 3/4"	\$ 12.00	Meter Size	5/8 x 3/4", 3/4"	\$ 10.07
	1"	30.03		1"	25.20
	1-1/2"	60.05		1-1/2"	50.39
	2"	96.09		2"	80.63
Commercial and Multi-Family Service			Commercial and Multi-Family Service		
Meter Size	5/8 x 3/4", 3/4"	\$ 12.00	Meter Size	5/8 x 3/4", 3/4"	\$ 10.07
	1"	30.03		1"	25.20
	1-1/2"	60.05		1-1/2"	50.39
	2"	96.09		2"	80.63
	3"	192.16		3"	160.97
	4"	300.25		4"	251.97
	6"	600.50		6"	503.95
	8"	960.00		8"	805.60
	10"	1,380.00		10"	1,158.05
Irrigation Service (Water-Only)					
Meter Size	5/8 x 3/4", 3/4"	\$6.01			
	1"	30.03			
	1-1/2"	60.05			
	2"	96.09			
	3"	192.16			
	4"	300.25			
	6"	600.50			
	8"	960.00			
	10"	1,380.00			
Consumption Charge (per 1,000 gallons of metered water)			Consumption Charge (per 1,000 gallons of metered water)		
All Classes of Service			Residential Service ⁽²⁾		
	0-5,000 Gallons	\$ 3.25	\$ 2.79		
	5,001-10,000 Gallons	3.58	All Other classes of Service		
	10,001-20,000 Gallons	4.88	\$ 3.35		
	Above 20,000 Gallons	5.85			
Commercial and Multi-Family Service					
	All Gallons	\$ 3.33			
Irrigation Service					
	0-5,000 Gallons	\$ 3.33			
	5,001-10,000 Gallons	3.58			
	10,001-20,000 Gallons	4.88			
	Above 20,000 Gallons	5.85			

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

⁽¹⁾ Rates currently in effect as approved and adopted by the City pursuant to the Rate Resolution and reflect rates for services rendered inside 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 and Ocean City Utilities. The rate for service currently in effect is \$1.86 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 Meters Consumption (Per 1,000 Gallon)
Dunes CDD	\$0.20
Grand Haven CDD	0.30
All Other Wholesale Customers	0.48

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.

Monthly Base Charge	\$5.00
Usage Charge (per 1,000 Gallons)	
0-10,000 Gallons	0.75
10,001-20,000 Gallons	1.13
Over 20,000 Gallons	1.50

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 May 1, 2005.

	<u>Capital Facilities Fees</u>
Water System - \$ per ERC	\$1,660
Wastewater System - \$ per ERC	1,770

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 2007 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 2007 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>Water Service</u>	
<u>Meter Size</u>	<u>Meter Connection Fee</u>	<u>Tap-in charge</u>
5/8" x 3/4"	\$325.00	\$425.00
Any Other Meter Size	Actual Cost	Actual Cost

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.

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	Residential Service Assuming 5,000 Gallons of Utility Service ⁽¹⁾		
	Water	Wastewater	Total
<u>City of Palm Coast</u>			
Existing Rates	\$28.25	\$24.02	\$52.27
<u>Other Neighboring/Surveyed Utilities</u>			
Brevard County	\$18.01	\$29.35	\$47.36
City of Daytona Beach ⁽⁴⁾	21.11	31.11	52.22
City of Edgewater	21.51	26.81	48.32
JEA ⁽²⁾	14.59	33.57	48.16
City of Melbourne ⁽⁴⁾	21.14	33.04	54.18
City of Ormond Beach	18.03	24.23	42.26
City of Palm Bay ⁽³⁾	26.73	32.91	59.64
City of Port Orange	18.15	24.05	42.20
City of Port St. Lucie ⁽³⁾	23.15	44.65	67.80
City of St. Augustine	22.41	30.03	52.44
City of South Daytona	22.95	29.49	52.44
St. Johns County	23.85	25.92	49.77
City of Titusville ⁽⁴⁾	16.80	39.22	56.02
New Smyrna Beach Utilities Commission	16.92	34.77	51.69
Volusia County – Softened	24.95	30.48	55.43
City of West Melbourne	27.06	32.22	59.28
Other Florida Utilities Average	\$21.08	\$31.37	\$52.45

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

- (1) Reflects inside-City service rates for municipal utility systems.
- (2) Reflects utility serving the City of Jacksonville/Duval County.
- (3) Reflects utilities with large platted service areas where service is available at generally low service densities.
- (4) Utilities are currently involved in or contemplating a rate study and the proposed rate adjustments 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 during the period of City ownership are presented for the fiscal years ended September 30, 2004 through 2006. The historical operating results for Fiscal Years 2004 (represents eleven months of operations) and 2005 were prepared based on financial information compiled and provided by the City and information included in the Comprehensive Annual Financial Report (Annual Audit) of the City for the respective fiscal years shown. The historical operating results for Fiscal Year 2006 were based on unaudited 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 Ending September 30, ⁽¹⁾		
	2004 ⁽²⁾	2005	2006 ⁽³⁾
Gross Revenues:			
Total Sales Revenues	14,841,593	19,275,462	21,567,339
Other Total Other Revenues	1,202,968	2,085,229	2,520,658
Transfer (To)/From Rate Stabilization ⁽⁴⁾	<u>(1,765,000)</u>	<u>(2,340,000)</u>	<u>0</u>
Total Gross Revenues	14,279,562	19,020,691	24,087,997
Total Cost of Operations and Maintenance ⁽⁵⁾	<u>9,149,504</u>	<u>11,451,648</u>	<u>13,053,741</u>
Net Revenues	5,130,058	7,569,044	11,034,257
Pledged Capital Facilities Fees ⁽⁶⁾	<u>4,442,773</u>	<u>6,287,773</u>	<u>4,442,362</u>
Net Revenues with Pledged Capital Facilities Fees	9,572,830	13,856,816	15,476,619
Senior Lien Bond Service Requirement			
Series 2003 Bonds	<u>4,442,773</u>	<u>6,287,773</u>	<u>6,285,873</u>
Total Bond Service	4,442,773	6,287,773	6,285,873
Senior Lien Bond Service Coverage:			
Net Revenue Bond Service Coverage:			
Net Revenues Available for Bond Service	5,130,058	7,569,044	11,034,257
Total Bond Service	4,442,773	6,287,773	6,285,873
Bond Service Coverage (110% Required)	1.15	1.20	1.76
OR			
Pledged Funds Bond Service Coverage: ⁽⁷⁾			
Net Revenues with Pledged Capital Facilities Fees Available for Bond Service	9,572,830	13,856,816	15,476,619
Total Bond Service	4,442,773	6,287,773	6,285,873
Bond Service Coverage (120% Required)	2.15	2.20	2.46
Subordinate Bond Service Requirement:			
State Revolving Loan Requirement I ⁽⁸⁾	0	0	417,880
Total Subordinate Bond Service	0	0	417,880
Subordinate Debt (SRF Loan) Bond Service Coverage: ⁽⁹⁾			
Net Revenues Available After Payment of Senior Lien Bond Service	687,285	1,281,271	4,748,384
Total Capital Facilities Fees	9,998,143	15,350,969	8,795,396
(Less) Senior Lien Bond Service Coverage (@ 20%)	<u>(888,555)</u>	<u>(1,257,555)</u>	<u>(1,257,175)</u>
Adjusted Pledged Revenues Available for Subordinate Bond Service After Payment of Senior Lien Bonds	9,796,874	15,374,686	12,286,606
SRF Loan Bond Service Coverage (115% Required)	-	-	290%

Table continued on following page.

Utility System Historical Operating Results and Bond Service Coverage Results (cont'd.)

Description	Fiscal Year Ending September 30, ⁽¹⁾		
	2004 ⁽²⁾	2005	2006 ⁽³⁾
Less Other Required Transfers ⁽¹⁰⁾			
Bond Service Reserve Account	0	0	0
Renewal, Replacement and Improvement Fund	<u>0</u>	<u>713,978</u>	<u>951,035</u>
Total Other Required Transfers	0	713,978	951,035
Excess of Net Revenues Above Required Transfers			
Without Capital Facilities Fees	687,285	567,293	3,379,470
Total System Capital Facilities Fees	<u>9,998,143</u>	<u>15,350,969</u>	<u>8,795,396</u>
Total Amount Available for Capital Expenditures and Other Purposes (Includes Capital Facilities Fees) ⁽¹¹⁾	<u>\$10,685,428</u>	<u>\$15,918,262</u>	<u>\$12,174,866</u>

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

- ⁽¹⁾ Amounts derived from Comprehensive Annual Financial Reports (2004 and 2005) and other System information as provided by the City.
- ⁽²⁾ Amounts shown reflect approximately eleven (11) months actual operating results commensurate with the acquisition of the utility system by the City.
- ⁽³⁾ Amounts shown reflect unaudited based on financial information as provided by the City.
- ⁽⁴⁾ Amounts shown reflect adjusted amounts transferred to the Rate Stabilization Fund from those reported in the City's Fiscal Years 2004 and 2005 Consolidated Annual Financial Reports (CAFRs), to reflect assumed use of funds due to the financing of capital expenditures and an allowance for transfers to the Renewal, Replacement and Improvement Fund.
- ⁽⁵⁾ Amounts shown do not include depreciation or amortization expenses which are non-cash expense of the utility and not considered as a Cost of Operation and Maintenance, as provided by the Bond Resolution.
- ⁽⁶⁾ Amounts shown based on estimated Expansion Percentage of 50.51% to determine the Water and Sewer System Capital Facilities Fees Bond Service Component.
- ⁽⁷⁾ Pursuant to the Bond Resolution, the Pledged Revenue Coverage Test is a two-part test that includes coverage based only on Net Revenues being 105% and Pledged Revenues being 120%; since the Net Revenue Only Test is shown, the first component of the second Test is not shown for simplicity sake.
- ⁽⁸⁾ 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 20% coverage allowance on the Senior Lien Bonds has been recognized since the Test recognizes the inclusion of Capital Facilities Fees (equivalent to second coverage test for the Senior Lien Bonds as reflection in the Bond Resolution).
- ⁽⁹⁾ Amount shown reflects indebtedness associated with a State Revolving Fund loan undertaken by the City to fund improvements to the City's wastewater system infrastructure.
- ⁽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 defined. For the Fiscal Year 2004, no deposits to such funds were required since: i) the Bond Service Reserve Account was fully secured in an amount equal to the Reserve Fund Requirement through the purchase of a Reserve Fund Insurance Policy at the time of issuance of the Series 2003 bonds (and such policy has not been drawn upon to cure any deficiencies in the Reserve fund since the issuance of such Bonds); and ii) Fiscal Year 2004 represented the first year of operations and no RR&I fund deposit was assumed as being required (based on the funding requirement as defined in the Bond Resolution which references prior period Gross Revenues as a basis of determination and since a portion of the Series 2003 Bonds was deposited into the Project Fund to finance capital improvements for the System). The required deposits for the remainder of the historical period shown represents only the annual funding of the RR&I Fund equal to the RR&I Fund Requirement as defined in the Bond Resolution; the Bond Service Reserve Fund was fully secured (funded) for the historical period so no deposits from operations were required.
- ⁽¹¹⁾ Amounts shown 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 46% 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) 2007 through 2011 (the "Forecast Period") were based on: (a) the Fiscal Year 2006 actual (unaudited) operating results and other financial information as provided by the City; (b) the adopted Fiscal Year 2007 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 2007 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.

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⁾				
	2007	2008	2009	2010	2011
Total Sales Revenue	22,984,831	24,176,685	28,518,812	30,479,377	32,373,568
Other Operating Revenues ⁽²⁾	3,203,718	2,713,885	2,633,623	2,614,533	2,530,198
Transfer To and (From) Rate Stabilization Fund ⁽³⁾	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,500,000</u>	<u>1,000,000</u>
Total Revenues	26,188,549	26,890,569	31,152,435	34,593,910	35,903,765
Total Operating Expenses ⁽⁴⁾	15,043,328	16,389,074	17,812,982	19,193,553	20,246,996
Net Revenues	11,145,222	10,501,495	13,339,453	15,400,357	15,656,770
Percent to Total Revenue	42.56%	39.05%	42.82%	44.52%	43.61%
Pledged Capital Facilities Fees ⁽⁵⁾	<u>3,176,069</u>	<u>3,174,351</u>	<u>6,368,617</u>	<u>6,366,859</u>	<u>6,370,720</u>
Net Revenue with Pledged Capital Facilities Fees	14,321,290	13,675,846	19,708,069	21,767,215	22,027,490
SENIOR LIEN DEBT SERVICE REQUIREMENT					
Existing Outstanding Bonds:					
Series 2003 Bonds	6,288,273	6,284,873	6,284,908	6,285,908	6,287,203
Additional Parity Bonds:					
Series 2007 Bonds ⁽⁶⁾	<u>0</u>	<u>0</u>	<u>3,315,882</u>	<u>3,312,232</u>	<u>3,316,758</u>
Total Debt Service - Senior Lien Bonds	6,288,273	6,284,873	9,600,790	9,598,139	9,603,960
Net Revenue Bond Service Coverage:					
Net Revenues Available for Bond Service	11,145,222	10,501,495	13,339,453	15,400,357	15,656,770
Total Bond Service	<u>6,288,273</u>	<u>6,284,873</u>	<u>9,600,790</u>	<u>9,598,139</u>	<u>9,603,960</u>
Bond Service Coverage (110% Required)	177.24%	167.09%	138.94%	160.45%	163.02%
OR					
Pledged Funds Bond Service Coverage: ⁽⁷⁾					
Net Revenues and Pledged Capital Facilities Fees Available for Bond Service	14,321,290	13,675,846	19,708,069	21,767,215	22,027,490
Total Bond Service	<u>6,228,273</u>	<u>6,284,873</u>	<u>9,600,790</u>	<u>9,598,139</u>	<u>9,603,960</u>
Bond Service Coverage (120% Required)	227.75%	217.60%	205.28%	226.79%	229.36%
SUBORDINATE DEBT (SRF LOAN) BOND SERVICE COVERAGE: ⁽⁸⁾					
Net Revenues Available After Payment of					
Senior Lien Bond Service	4,856,949	4,216,623	3,738,663	5,802,218	6,052,810
Total Capital Facilities Fees	13,324,734	9,758,764	8,687,228	8,678,859	7,924,606
(Less) Senior Lien Bond Service Coverage (20%)	<u>(1,257,655)</u>	<u>(1,256,975)</u>	<u>(1,920,158)</u>	<u>(1,919,628)</u>	<u>(1,920,792)</u>
Adjusted Pledged Revenues Available for Bond Service After Payment of Senior Lien Bonds	16,924,028	12,718,412	10,505,733	12,561,449	12,056,623

Table continues on following page.

Summary of Projected Operating Results and Debt Service Coverage (cont'd.)

	Fiscal Year Ending September 30, ⁽¹⁾				
	2007	2008	2009	2010	2011
Subordinate Bond Service Requirement:					
Existing SRF Bond Service	1,049,678	1,049,678	1,049,678	1,049,678	1,049,678
Proposed SRF Bond Service ⁽⁹⁾	<u>0</u>	<u>602,359</u>	<u>1,199,567</u>	<u>2,774,438</u>	<u>2,774,442</u>
Total Subordinate Bond Service	1,049,678	1,652,037	2,249,245	3,824,117	3,824,120
SRF Loan Bond Service Coverage (115% Required)	1612.31%	769.86%	467.08%	328.48%	315.28%
Less Other Required Transfers					
Bond Service Reserve Account ⁽¹⁰⁾	0	0	0	0	0
Renewal, Replacement and Improvement Fund ⁽¹¹⁾	1,204,400	1,309,427	1,344,528	1,557,622	1,654,695
Other	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Required Transfers	1,204,400	1,309,427	1,344,528	1,557,622	1,654,695
Excess of Net Revenues Above Required Transfers					
Without Capital Facilities Fees ⁽¹²⁾	2,602,871	1,255,158	144,890	420,479	573,995
Total System Capital Facilities Fees	13,324,734	9,758,764	8,687,228	8,678,859	7,924,606
Total Amount Available for Capital Expenditures and Other Purposes (Includes Capital Facilities Fees) ⁽¹³⁾	\$15,927,605	\$11,013,922	\$8,832,117	\$9,099,338	\$8,498,600

⁽¹⁾ Amounts derived from Table 6.

⁽²⁾ 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 Sewer Capital Facilities Fee (Impact Fee) Funds and the Project Fund have not been recognized since such earnings are restricted to such funds.

⁽³⁾ Represents amounts anticipated to be transferred from the City's Rate Stabilization Fund for Fiscal Year 2010 and Fiscal Year 2011.

⁽⁴⁾ Amounts shown do not include depreciation and amortization expenses which are a non-cash expense and not considered a Cost of Operations and Maintenance in accordance with the provisions of the Bond Resolution.

⁽⁵⁾ Amounts based on estimated Expansion Percentage of 50.51% through the Fiscal Year 2008 and an estimated Expansion Percentage of 66.33% for the remaining period to determine the Water and Sewer System Capital Facilities Fees Bond Service Component.

⁽⁶⁾ 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 2007 Bonds.

⁽⁷⁾ Pursuant to the Bond Resolution, the Pledged Revenue Coverage Test is a two-point test that includes coverage based only on Net Revenues being 105% and Pledged Revenues being 120%; since the Net Revenue-Only Test is shown, the first component of the second Test is not shown.

⁽⁸⁾ 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 recognizing a 20% coverage allowance on the Senior Lien Bonds since the Test recognizes the inclusion of Capital Facilities Fees (equivalent to second coverage test in the Bond Resolution).

⁽⁹⁾ Represents anticipated future debt service from the State Revolving Loan Fund (SRF) administered by the Florida Department of Environmental Protection (FDEP).

⁽¹⁰⁾ Bond Service 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.

⁽¹¹⁾ 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.

⁽¹²⁾ Amounts shown reflect additional rate covenant test whereby the Net Revenues of the System must fund the payment of the Bond Service required transfer to the Reserve Fund and the Renewal, Replacement, and Improvement Fund, and subordinated debt.

⁽¹³⁾ Amounts shown represent sum of excess Net Revenues above required transfers and Water and Sewer System Capital Facilities Fees.

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 field observations of the aboveground 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 average to good condition. The Utility System appears to be adequately operated and maintained in accordance with prudent utility practice, and can reasonably be expected to provide sufficient and reliable service to meet the existing requirements of the utility.

2. The City should be able 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, can reasonably be expected to meet the projected requirements of the Utility System, through the Fiscal Year ending September 30, 2011.

4. The Utility System, taking into account expansion related improvements as discussed earlier in this Report, will provide sufficient capacity to meet the anticipated service area needs for the five fiscal year period ending September 30, 2011 based on the customer forecast assumed for the purposes of this Report.

5. The City's financial, administrative and operating staff is capable of operating, maintaining and expanding the Utility System as scheduled, needed and required.

6. The City's Capital Improvement Plan is 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 this 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 facilities constructed from proceeds of the Series 2007 Bonds are expected to have a useful life in excess of the term of the Series 2007 Bonds.

8. During the course of the engineering due diligence investigations, nothing has come to the attention of the Consulting Engineer that lead them to believe that significant funds will be required for System improvements beyond that identified herein

through Fiscal Year 2011. 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 bonds, through developer contributions, or by increasing rates for monthly service.

9. The projected growth in customers and usage of the Utility System represent reasonable and attainable projections for the purposes of this Report.

10. The System Revenues for the Fiscal Years ending September 30, 2007 through 2011 under the City approved rates, coupled with the recognition of identified additional cost of living adjustments, should be sufficient to: (i) pay all of the Cost of Operation and Maintenance of the System; (ii) pay the estimated debt service on the Outstanding Series 2003 Bonds and the additional Series 2007 Bonds and existing and anticipated subordinate lien debt coming due in such years; (iii) make the projected deposits necessary to meet the Renewal, Replacement and Improvement Fund Requirement which is available for additions, extensions, and improvements to the Utility System; and (iv) meet the rate covenants of the Bond Resolution.

11. Projections of revenue, expenses and cost estimates for the Five Year Capital Improvement Program are reasonable.

12. The projected growth in Operating expenses, customers and usage of the Utility System, represent reasonable projections of the purposes of this report. It is anticipated by the City that the current rates for water and wastewater service will need to be further adjusted during the Forecast Period reflected in this Report. To the extent such future adjustments are not approved, the City will need to adjust the expenditures identified in this Report. Based on the assumptions developed herein, such adjustments would focus primarily on the funding of the ongoing capital needs of the Utility System. No assurance can be given that such rate increases will be adopted by the City. To the extent that the rate adjustments are not made nor are delayed from what is assumed herein, it is anticipated based on the assumptions developed herein that sufficient Net Revenues and Fees will not be generated to be in compliance with the rate covenant described in the Bond Resolution.

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 this Report are not expected to negatively affect the competitiveness of the City's monthly user rates over the Forecast Period.

14. The existing Utility System Capital Facilities Fees are comparable to the fees charged by neighboring utilities but the anticipated fees are higher than the current comparable fees charged by neighboring utilities located in Central and Northeast Florida. The Feasibility Consultant considers the adopted and anticipated 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 implementation of the anticipated Capital Facilities Fees is not expected to negatively affect Utility System growth.

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

LITIGATION

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 2007 Bonds or questioning or affecting the validity of the Series 2007 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 2007 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 2007 Bonds.

LEGAL MATTERS

Certain legal matters in connection with the authorization, issuance, sale, execution, and delivery of the Series 2007 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 2007 Bonds. Certain legal matters will be passed on for the City by Lonnie N. Groot, 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 2007 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 2007 Bonds; however, Bond Counsel will render an opinion to the Underwriters 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 2007 Bonds, and (b) the compliance with any federal or state law with regard to the sale or distribution of the Series 2007 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 and delivery of the Series 2007 Bonds in order that interest on the Series 2007 Bonds will be and remain excluded from gross income for purposes of federal income taxation. Non-compliance may cause interest on the Series 2007 Bonds to be included in federal gross income retroactive to the date of issuance of the Series 2007 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 2007 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 County 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 2007 Bonds.

In the opinion of Bond Counsel, assuming compliance with the aforementioned covenants, under existing statutes, regulations and judicial decisions, interest on the Series 2007 Bonds is excluded from gross income for purposes of federal income taxation, interest on the Series 2007 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2007 Bonds may be subject to the alternative minimum tax when any Series 2007 Bond is held by a corporation. The alternative minimum taxable income of a corporation must be increased by 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 2007 Bonds.

Except as described above, Bond Counsel expresses no opinion regarding other federal tax consequences resulting from ownership of, receipt or accrual of interest on, or disposition of the Series 2007 Bonds. Prospective purchasers of the Series 2007 Bonds should be aware that ownership of the Series 2007 Bonds may result in a collateral Federal Income Tax consequence, including (a) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry Series 2007 Bonds, (b) the reduction of the loss reserve deduction for property and casualty insurance companies by fifteen percent (15%) of certain items, including interest on the Series 2007 Bonds, (c) the inclusion of interest on the Series 2007 Bonds in earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (d) the inclusion of interest on the Series 2007 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 (e) the inclusion of interest on the Series 2007 Bonds in "modified adjusted gross income" by recipients of certain Social Security and Railroad Retirement benefits for purposes of determining whether such benefits are included in gross income for Federal income tax purposes.

PURCHASE, OWNERSHIP, SALE OR DISPOSITION OF THE SERIES 2007 BONDS AND THE RECEIPT OR ACCRUAL OF THE INTEREST THEREON MAY HAVE ADVERSE FEDERAL TAX CONSEQUENCES FOR CERTAIN INDIVIDUAL AND CORPORATE BONDHOLDERS. PROSPECTIVE SERIES 2007 BONDHOLDERS SHOULD CONSULT WITH THEIR TAX SPECIALISTS FOR INFORMATION IN THAT REGARD.

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 2007 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 2007 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 2007 Bonds and their market value. No assurance can be given that additional legislative proposals will not be introduced or enacted that would or might apply to, or have an adverse effect upon, the Series 2007 Bonds.

Tax Treatment of Original Issue Discount

Under the Code, the difference between the maturity amounts of the Series 2007 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 Underwriter or wholesalers) at which price a

substantial amount of such Discount Bonds of the same maturity were sold is "original issue discount." Original issue discount will accrue over the term of such Discount Bonds at a constant interest rate compounded periodically. A purchaser who acquires such Discount Bonds in the initial public 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 such Discount Bonds, and will increase his or her adjusted basis in such Discount Bonds by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or disposition of such Discount Bonds. The federal income tax consequences of the purchase, ownership, sale or other disposition of such Discount Bonds which are not purchased at the initial offering price may be determined according to rules which differ from those above. Owners of such Discount Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale or other disposition of Discount Bonds and with respect to the state and local tax consequences of owning and disposing of Discount Bonds.

Tax Treatment of Bond Premium

The difference between the principal amount of the Series 2007 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 Underwriter or wholesalers) at which price a substantial amount of such Premium Bonds of the same maturity 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 such Premium Bonds, which term 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 Premium Bonds, an initial purchaser who acquires such obligation in the initial offering to the public at the initial offering price 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. Owners of Premium Bonds are advised that they should consult with their own 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, 2005, attached hereto as APPENDIX C, have been

audited by James Moore & Co., P.L., independent accountants, as set forth in their report dated December 22, 2005, 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 2007 Bonds are being purchased by _____ (the "Underwriter"), at an aggregate purchase price of \$_____ (representing the principal amount of \$_____, less an underwriters' discount of \$_____, plus a net original issue premium of \$_____), subject to certain terms and conditions set forth in a Bond Purchase Contract between the City and the Underwriter, including the approval of certain legal matters by Bond Counsel and the existence of no material adverse change in the condition of the City from that set forth in this Official Statement. The Series 2007 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 "Aaa," "AAA" and "AAA," respectively, with the understanding that upon delivery of the Series 2007 Bonds, the 2007 Bond Insurance Policy insuring the scheduled payment of the principal of and interest on the Series 2007

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 2007 Bond Insurance Policy. Moody's, S&P and Fitch have assigned underlying ratings of "A2," "A" and "A," respectively, to the Series 2007 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 2007 Bonds. The City does not have any obligation or duty to oppose any proposed downward revision or withdrawal or to inform Holders of Series 2007 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 2007 Bonds to provide certain financial information and operating data relating to the City and the Series 2007 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 2007 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 the City with each Nationally Recognized Municipal Securities Information Repository (the "NRMSIRs") described in "APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto, as well as any state information depository that is subsequently established in the State of Florida (the "SID"). The notices of material events will be filed by the City with the NRMSIRs or the Municipal Securities Rulemaking Board, and with the SID. The specific nature of the information to be contained in the Annual Information and the notices of material events are described in "APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto, which shall be executed by the City at the time of issuance of the Series 2007 Bonds. Failure of the City to comply with the provisions of the Continuing Disclosure Certificate 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 2007 Bond for enforcement of the provisions of the Continuing Disclosure Certificate shall be an action of mandamus or specific performance to cause the City to comply with its obligations thereunder.

With respect to the Series 2007 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. To date, the City has not failed to comply with any prior continuing disclosure undertakings with respect to the Rule.

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 2007 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 2007 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 2007 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 2007 Bonds. Payment of the fees of such professionals are contingent upon the issuance of the Series 2007 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 Insurer, 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: _____
James V. Canfield, Ph.D., Mayor

By: _____
Richard M. Kelton, City Manager

APPENDIX A

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

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

Location, Area and Climate

On December 31, 1999, the City of Palm Coast, Florida (the "City") was officially incorporated. 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 is situated in the eastern portion of the County in the heart of Northeast Florida, equidistant between the cities of Jacksonville and Orlando. The City has a permanent population of approximately 67,832 as of April 2006, is the largest municipality in the County and covers an area of approximately 64 square miles. The City has a humid, sub-tropical climate with average summer high temperatures of 90°F, average winter temperatures of 50°F and average annual rainfall of 58".

City Government

In 1975, the Board of County Commissioners of the County established Palm Coast Service District (the "Service District") which included almost 40,000 acres. Funds for the Service District were derived primarily from ad valorem taxes and were utilized to provide fire services, fire hydrants, street lighting, animal control and emergency services.

In September 1999, the citizenry of the Service District voted overwhelmingly by a margin of two to one to incorporate as a "Council/Manager" form of government. On December 31, 1999, the City was officially incorporated. On October 1, 2000, all services were officially transferred from the Service District to 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 City hired its first City Manager on April 17, 2000. The City Manager is the chief administrative officer and the head of the administrative branch of the City's government. The City Manager position is responsible to the City Council for the proper administration of all affairs of the City.

The City provides a wide range of services including development services, fire services, street construction and maintenance, parks and recreational activities. The City contracts with the Flagler County Sheriff Department for law enforcement services.

The present City Council members and the years in which their term expires are listed below:

<u>Council Member</u>	<u>Term Expires</u>
James V. Canfield, Ph.D.	2007
William Venne	2007
Jon Netts	2009
Mary DiStefano	2007
Alan Peterson	2009

Demographic and Economic Information

Industrial parks within the City currently house more than 30 mid to large size businesses with the largest corporation, Palm Coast Data, employing close to 1,000 people. The County was the nation's fastest-growing county between July 1, 2003 and July 1, 2004, experiencing a 10.1 percent population increase, according to estimates of the U.S. Bureau of the Census.

Developed by ITT Corporation ("ITT") in 1969, the original development plan encompasses 48,000 home sites on approximately 42,000 acres (65.62 square miles) of the 68,000 acres owned by ITT. Paved street and central water and sewer serve all lots developed within the plan. An extensive water management system was designed to replenish the area's water table, which includes 26 miles of freshwater canals and 23 miles of saltwater canals.

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Population

The County's population increased 145.0 percent in the 1970-1980 decade, and 163.0 percent in the 1980-1990 decade. For the decade of 1990-2000, the increase was 73.6 percent. The population growth in the City and the County is significantly greater than both the State and the United States.

Population Growth 1950-2000

<u>Flagler County</u>			<u>Florida</u>	
<u>Year</u>	<u>Population</u>	<u>Percent Change</u>	<u>Population</u>	<u>Percent Change</u>
1950	3,367	-	2,771,305	-
1960	4,566	35.6%	4,951,560	78.7%
1970	4,454	(2.5)	6,791,418	37.2
1980	10,913	145.0	9,746,961	43.5
1990	28,701	163.0	12,938,071	32.7
2000	49,832	73.6	15,982,378	23.5

Source: Florida Statistical Abstract 2005.

[Remainder of page intentionally left blank]

**Population Growth
1999-2005**

<u>Year</u>	<u>City of Palm Coast⁽¹⁾</u>	<u>Percent Change</u>	<u>Flagler County⁽²⁾</u>	<u>Percent Change</u>
1999	30,767	-	46,855	-
2000	32,732	6.4%	49,832 ⁽³⁾	8.8%
2001	35,443	8.3	53,061	6.5
2002	38,348	8.2	56,785	7.0
2003	42,850	11.7	61,541	8.3
2004	50,484	17.8	69,683	13.2
2005	57,885	14.7	78,617	12.8

<u>Year</u>	<u>Florida⁽²⁾</u>	<u>Percent Change</u>	<u>United States⁽³⁾</u>	<u>Percent Change</u>
1999	15,759,421	-	279,040,168	-
2000	15,982,378	1.4%	280,421,906	0.50%
2001	16,350,565	2.3	285,107,923	1.70
2002	16,677,860	2.0	287,984,799	1.00
2003	16,993,369	1.9	290,850,005	1.00
2004	17,385,430	2.3	293,656,842	1.00
2005	17,789,864	2.3	296,410,404	0.94

⁽¹⁾ Source: City of Palm Coast, Florida Comprehensive Annual Financial Information Report for the Year Ended September 30, 2005.

⁽²⁾ Source: Florida Research Economic Database.

⁽³⁾ Source: Florida Statistical Abstract 2005.

**Population Projections
2000-2020**

<u>Year</u>	<u>City of Palm Coast</u>	<u>Flagler County</u>	<u>City of Palm Coast Share</u>
2000	32,732	49,832	65.7%
2005	57,885	73,500	79.0
2010	72,848	92,500	79.0
2020	88,282	119,300	74.0

Source: City of Palm Coast, Florida, Comprehensive Annual Financial Report, 2005.

The age distribution in the City is similar to that of the County, but differs significantly with that of the State. Both the City and the County have a considerable larger proportion of persons 65 years and older than the rest of the State.

Population Distribution by Age Group

<u>Age Group</u>	<u>City of Palm Coast</u>	<u>Percent of Population</u>	<u>Flagler County</u>	<u>Percent of Population</u>
Under 18 years	6,055.42	18.5%	8,919.93	17.9%
18 to 24 years	1,505.67	4.6	2,391.94	4.8
25 to 44 years	6,448.20	19.7	10,115.90	20.3
45 to 64 years	8,804.91	26.9	14,102.46	28.5
65 years or older	8,885.06	30.2	14,251.95	28.6

<u>Age Group</u>	<u>Florida</u>	<u>Percent of Population</u>
Under 18 years	3,643,982.18	22.8%
18 to 24 years	1,326,537.37	8.3
25 to 44 years	4,570,960.11	28.6
45 to 64 years	3,627,999.81	22.7
65 years or older	2,812,898.53	17.6

Source: U.S. Census Bureau, Census 2000.

Transportation

The City is served by highways, railroads, and waterways. The City is traversed by State Road A1A, US 1, State Road 100, and Interstate 95 with two interchanges. The City has relatively ample capacity and minimal problems with road concurrency compared to many other areas. The City is only 30 miles from Interstate 4 and is approximately equi-distant between the Orlando and Jacksonville metropolitan areas. The Port of Jacksonville (Jaxport) is located only 65 miles from the City and offers roll-on/roll-off and container cargo, import and export facilities, warehousing and stevedoring and barge access through the Intracoastal Waterway which extends from New York to Miami. Railway freight service is provided by Florida East Coast Railway Piggyback Service to and from Jacksonville which covers both short and long haul capabilities.

The Flagler County Airport (the "Airport") is the nearest local airport and is a general aviation airport which offers, among other things, seven flight schools, jet fuel, private aircraft maintenance, sea plane base, and car rental. Commercial air service is provided at the Daytona International Airport which is the nearest regional airport located 30 minutes to the south; Jacksonville International Airport which is located one hour to the north and Orlando International Airport which is located one and one-half hours to the southwest.

Health Facilities

The City is served by Florida Hospital-Flagler, a 300,000 square foot facility which includes a Heart Institute, Cancer Care Center, Women's Health Care Center and the latest equipment and technology. The four county area (Flagler, Volusia, St. Johns and Putnam) is also served by nine other area hospitals.

Educational Facilities

The public school system in the City is part of the School District of Flagler County. Students are housed in seven schools, two middle school, three elementary schools and two high schools which serve approximately 11,100 students.

Higher education facilities available in the area include Flagler College (St. Augustine), University of North Florida (Jacksonville), University of Central Florida (Orlando/Daytona Beach), Embry-Riddle (Daytona Beach), Stetson University (Deland), Bethune Cookman College (Daytona Beach), Jacksonville University (Jacksonville), Daytona Beach Community College (Palm Coast/Daytona Beach), St. Johns River Community College (Palatka), Florida Community College (Jacksonville), University of Phoenix (Jacksonville), and Keiser College (Daytona Beach).

Recreation

The City and the surrounding area offer a variety of recreational facilities including the beach, golf courses, hiking, camping, boating, canoeing and fishing.

Other area attractions include numerous state parks, Castillo De San Marcos National Monument, Fort Matanzas National Monument, Marineland of Florida and the St. Augustine Lighthouse.

Other City Facilities

The City has three fire stations and one police station. Four parks are located throughout the City offering amenities such as basketball courts, baseball/softball fields, tennis courts, volleyball courts, handball/racquetball courts, shuffleboard courts, bocce ball courts and children's playgrounds.

Utilities

Public water supply and public sewer service is provided by the City. Electricity is provided to the City and the County by Florida Power and Light Company and local telephone service is provided by Bell South.

Income

According to the U.S. Department of Commerce Bureau of Economic Analysis, the County had a per capita personal income of \$25,109 in 2004. This per capita personal income was 80 percent of the State average, \$31,469, and 76 percent of the United States average, \$33,050. The following table shows the per capita personal income reported for the County, the State and the United States.

Per Capita Personal Income 1996-2005

<u>Year</u>	<u>Flagler County</u>	<u>Florida</u>	<u>United States</u>
1996	20,493	23,655	24,175
1997	21,454	24,502	25,334
1998	22,450	25,987	26,883
1999	23,240	25,894	27,939
2000	23,610	28,509	25,472
2001	23,889	29,268	26,235
2002	24,113	29,700	27,164
2003	24,704	30,116	28,062
2004	25,109	31,469	29,477
2005	N/A	33,219	30,466

Source: Florida Research and Economic Database.

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Employment

Services, retail trade and manufacturing are the leading sources of employment for the County. The following table shows employment for the County by major industry group.

Average Monthly Private Employment by Major Industry Group 2001-2005

<u>Industry Group</u>	<u>2001⁽¹⁾</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Agriculture, forestry and fishing	401	325	200	200	185
Mining	21	17	N/A	N/A	N/A
Utilities		N/A	84	84	86
Construction	792	719	976	976	1,247
Manufacturing	1,418	1,458	1,366	1,366	1,149
Transportation, communications and public utilities	146	183	N/A	N/A	N/A
Transportation		N/A	60	60	55
Information		N/A	N/A	N/A	N/A
Wholesale trade	125	116	133	133	149
Retail trade	3,041	2,839	2,015	2,015	2,109
Finance insurance and real estate	552	487	286	286	378
Services	3,889	3,672	419	419	412
Other	13	31	18	18	16

Source: Florida Statistical Abstract 2002, 2003, 2004, 2005.

⁽¹⁾ University of Florida Bureau of Economic and Business Research.

The following table shows labor force and employment data for the County, as well as, unemployment rates for the County, the State and the United States.

**Labor Force and Unemployment Estimates
1997-2005**

<u>Year</u>	<u>Flagler County</u>		<u>Unemployment Rates</u>		
	<u>Labor Force</u>	<u>Employment</u>	<u>Flagler</u>	<u>Florida</u>	<u>United States</u>
1997	16,762	16,210	3.3%	5.0%	4.9%
1998	17,661	17,107	3.1	4.5	4.5
1999	18,360	17,745	3.3	4.0	4.2
2000	21,008	20,255	3.6	3.8	4.0
2001	22,048	21,034	4.6	4.7	4.7
2002	23,370	22,100	5.4	5.7	5.8
2003	24,742	23,496	5.0	5.3	6.0
2004	27,092	25,893	4.4	4.7	5.5
2005	29,649	28,607	3.5	3.8	5.1

Source: Florida Research and Economic Database.

The following table shows employers in the County with 100 or more employees.

Flagler County Employers

<u>Employer</u>	<u>Approximate Employment</u>
Flagler County Schools	1,500
Palm Coast Data	900
Wal-Mart Stores	600
Florida Hospital-Flagler	532
City of Palm Coast	283
Publix Supermarket	175
Albertson's	165
Winn-Dixie Stores	160
Grand Oaks Health & Rehabilitation	120
FAA – Center for Management Development	115

Source: City of Palm Coast, Florida, Comprehensive Annual Financial Report 2005

Tax Data

The following table shows assessed property valuation and millage rates for the County and the City.

Assessed Property Valuation and Millage Rates 1999-2007

Flagler County

Fiscal Year	General Fund		Environmentally Sensitive Lands ⁽¹⁾		Palm Coast Service District ⁽¹⁾		City of Palm Coast ⁽²⁾	
	Assessed Value Nonexempt	Millage Rate	Millage Rate	Assessed Value Nonexempt	Millage Rate	Assessed Value Nonexempt	Millage Rate	
1999	2,448,517,712	5.5953	0.2667	1,443,174,965	1.3490			
2000	2,573,102,842	5.2500	0.2667	1,512,480,671	1.5302			
2001	2,722,844,658	4.9612	0.1479			1,594,214,203	3.15	
2002	3,174,890,887	4.9612	0.3300			1,773,378,865	3.50	
2003	3,704,460,418	5.1000	0.1670			1,983,740,628	3.40	
2004	4,502,035,225	5.1000	0.2938			2,404,239,111	3.40	
2005	5,719,457,619	5.1830	0.2108			3,107,581,090	3.40	
2006	7,887,331,258	4.8361	0.1477			4,444,854,928	3.40	
2007 ⁽³⁾	10,832,881,670	4.6655	0.1061			6,197,476,311	3.25	

⁽¹⁾ Source: Fiscal Year 2006-2007 Flagler County Budget Workbook.

⁽²⁾ Source: Proposed Annual Operating and Capital Improvements Budget for the City of Palm Coast for Fiscal Year 2007.

⁽³⁾ Preliminary.

Construction

The following table shows residential building permit activity in the City.

Residential Building Permits Issued by the City of Palm Coast 2002-2006

	<u>One-Family Houses</u>	<u>In Multi-Family Buildings</u>
2002	1524	86
2003	3481	496
2004	3951	632
2005	3043	300
2006 ⁽¹⁾	2024	520

Source: University of Florida Bureau of Economic and Business Research, Building Permit Activity in Florida, Annual Reports for years 2002, 2003, 2004 and 2005.

⁽¹⁾ University of Florida Bureau of Economic and Business Research, Building Permit Activity in Florida, Report through September 2006.

Other Post Employment Benefit Liability

The City currently does not provide any post employment benefits.

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, 2005**

APPENDIX D

FORM OF THE BOND RESOLUTION

APPENDIX E

FORM OF BOND COUNSEL OPINION

APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

CONTINUING DISCLOSURE CERTIFICATE

This **CONTINUING DISCLOSURE CERTIFICATE** (this "Disclosure Certificate") dated as of January ___, 2007 is executed and delivered by the **CITY OF PALM COAST, FLORIDA**, a political subdivision of the State of Florida and a public body corporate and politic (the "City") in connection with the issuance of its \$_____ City of Palm Coast, Florida Utility System Revenue Bonds, Series 2007 (the "Series 2007 Bonds"). Each capitalized term used but not otherwise defined herein shall have the meaning assigned to it in Section 2 below or in the hereinafter defined Bond Resolution.

SECTION 1. PURPOSE OF DISCLOSURE CERTIFICATE. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders (as defined herein) of the Series 2007 Bonds and in order to assist the original underwriters of the Series 2007 Bonds in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission ("SEC") pursuant to the Securities Exchange Act of 1934 (the "Rule").

SECTION 2. DEFINITIONS AND INTERPRETATION. In addition to the words and terms defined elsewhere in this Disclosure Certificate or by reference to the Bond Resolution, the following terms shall have the meanings set forth below, unless the context or use clearly indicates another or different meaning or intent:

"Accounting Principles" means the accounting principles applied from time to time in the preparation of the Financial Statements, initially generally accepted accounting principles as recommended from time to time by the Governmental Accounting Standards Board of the Financial Accounting Foundation, as modified by applicable State of Florida requirements.

"Annual Information" means the historical (not projected) financial information and operating data presented in tabular form in the final Official Statement under the heading "THE UTILITY SYSTEM," including "Water and Wastewater Top Ten Utility Customers (Based on Revenue)," "Water and Wastewater Rates - Monthly Rate Schedule," "Capital Facilities Fees," "Water Service Meter Connection Fee and Tap-In Charge," "Comparative Rates," "Utility System Historical Operating Results and Bond Service Coverage Results" and a description of any additional indebtedness payable in whole or in part from the Pledged Revenues.

"Bond Resolution" means Resolution No. 2003-22 adopted by the City Council of the City (the "City Council") on September 30, 2003, as supplemented by Resolution No. 2006-___ adopted by the City Council on December 19, 2006.

"Business Day" means any day other than a Saturday, Sunday or a day on which the City is required, or authorized or not prohibited by law (including executive orders), to close and is closed.

"Cover Sheet" means the Municipal Secondary Market Disclosure Information Cover Sheet in the form attached hereto as Exhibit A.

"Filing Date" means the 180th day following the end of each Fiscal Year (or the next preceding Business Day if that day is not a Business Day).

"Financial Statements" means the audited basic financial statements of the City with respect to the Utility System for the applicable Fiscal Year.

"Fiscal Year" means the twelve month period commencing on October 1 of each year and continuing through the next succeeding September 30, or such other period as may be prescribed by law.

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means each nationally recognized municipal securities information repository designated from time to time by the SEC in accordance with the Rule. For a list of the names and addresses of all designated NRMSIRs as of any date may currently be obtained by visiting the SEC's website at www.sec.gov/info/municipal/nrmsir.htm.

"Official Statement" means the Official Statement with respect to the Series 2007 Bonds dated January ___, 2007.

"Original Purchaser" means _____.

"Specified Events" means the occurrence of any of the following events, within the meaning of the Rule, with respect to the Series 2007 Bonds: (a) principal and interest payment delinquencies; (b) non-payment related defaults; (c) unscheduled draws on any debt service reserve account reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions or events affecting the tax-exempt status of the Series 2007 Bonds; (g) modifications to rights of Holders or beneficial owners; (h) bond calls; (i) defeasances; (j) release, substitution, or sale of property securing repayment of the Series 2007 Bonds; and (k) rating changes.

"SID" means the state information depository, if any, designated by the State of Florida and with which filings are required to be made by the City in accordance with the Rule.

The captions and headings in this Disclosure Certificate are solely for convenience of reference and in no way define, limit or describe the scope or intent of any Sections,

subsections, paragraphs, subparagraphs or clauses hereof. Reference to a Section means a section of this Disclosure Certificate, unless otherwise indicated.

SECTION 3. PROVISION OF ANNUAL INFORMATION; AUDITED FINANCIAL STATEMENTS. The City hereby agrees to provide or cause to be provided to each NRMSIR, and to any SID, commencing with the Fiscal Year ending September 30, 2007:

(a) its Annual Information for the preceding Fiscal Year not later than the Filing Date for each such Fiscal Year; and

(b) when and if available, the Financial Statements for each Fiscal Year prepared in accordance with the Accounting Principles.

Each of the foregoing, when filed with each NRMSIR and any SID shall be accompanied by a Cover Sheet.

The City expects that the Financial Statements will be prepared and will be available together with its Annual Information. The requirements of the foregoing clauses (a) and (b) shall be satisfied if the required Annual Information is submitted as part of the Financial Statements by the Filing Date.

SECTION 4. NOTICE OF SPECIFIED EVENTS; CHANGES IN ACCOUNTING PRINCIPLES OR FISCAL YEAR. The City agrees to provide or cause to be provided to each NRMSIR or to the MSRB, and to any SID, accompanied by a Cover Sheet in a timely manner, (a) notice of any Specified Event (if such event would be material under applicable federal securities law), (b) notice of its failure to provide or cause to be provided the Annual Information on or prior to the Filing Date, and (c) notice of any change in the Accounting Principles applied in the preparation of the Financial Statements or any change in the dates on which the Fiscal Year of the City begins and ends. Each such notice shall be accompanied by a Cover Sheet.

SECTION 5. INCORPORATION BY REFERENCE. Any or all of the information required herein to be disclosed may be incorporated by reference from other documents, including official statements or debt issues of the City or related public entities, which have been submitted to each of the NRMSIRs and the SID, if any, or the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each document incorporated by reference.

SECTION 6. FILING THROUGH A CENTRAL POST OFFICE. Any filing made or notice provided by the City in accordance with this Disclosure Certificate to a Central Post Office by electronic or other means shall satisfy the requirements of this Disclosure Certificate with respect to filings required to be made to each and every

NRMSIR and the City shall not be required to make separate filings with any of the NRMSIRs.

Any required filing with an NRMSIR as set forth in this Section may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

SECTION 7. DISSEMINATION AGENT. The City may, from time to time, appoint or engage an agent to act on its behalf in performing its obligations under this Disclosure Certificate and may discharge any such agent, with or without appointing a successor; provided, that the City shall provide any such party then acting as agent with written notice of such appointment or discharge and provided further, that the City shall not be relieved in any respect by appointment of an agent from primary liability for the performance of its obligations under this Disclosure Certificate.

SECTION 8. REMEDY FOR BREACH. This Disclosure Certificate shall be solely for the benefit of the Holders and beneficial owners from time to time of the Series 2007 Bonds. The exclusive remedy for any breach of this Disclosure Certificate by the City shall be limited, to the extent permitted by law, to a right of Holders and beneficial owners, to institute and maintain, or to cause to be instituted and maintained, such proceedings as may be authorized at law or in equity to obtain the specific performance by the City of its obligations under this Disclosure Certificate. Any Holder or beneficial owner may exercise any such right; provided that, except in the instance of an alleged failure of the City to provide or cause to be provided a pertinent filing if such a filing is due and has not been made, any such right shall be exercised in the same manner and subject to the same conditions and limitations that would apply under the Bond Resolution. Holders and beneficial owners shall not be entitled to institute or maintain any such proceedings individually that assert a breach of this Disclosure Certificate that is based on the alleged inadequacy of any pertinent filing that has been made. Notwithstanding any other provisions of the Bond Resolution or this Disclosure Certificate, any failure by the City to comply with any provisions of this Disclosure Certificate shall not constitute an "Event of Default" under the Bond Resolution.

SECTION 9. AMENDMENT; WAIVER. This Disclosure Certificate may be amended, and noncompliance with any provision of this Disclosure Certificate may be waived, as may be necessary or appropriate to achieve its compliance with any applicable federal securities law or rule, to cure any ambiguity, inconsistency or formal defect or omission, and to address any change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature, or status of the City, or type of business conducted by the City. Any such amendment or waiver shall not be effective unless this Disclosure Certificate (as amended or taking into account such waiver) would have complied with the requirements of the Rule at the time of the

primary offering of the Series 2007 Bonds, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances, and until the City shall have received either (a) a written opinion of bond or other qualified independent special counsel, selected by the City, that the amendment or waiver would not materially impair the interests of Holders or beneficial owners, or (b) the written consent to the amendment or waiver of the Holders of at least a majority of the principal amount of the Series 2007 Bonds then Outstanding. Annual Information containing any revised operating data or financial information shall explain, in narrative form, the reasons for any such amendment or waiver and the impact of the change on the type of operating data or financial information being provided.

SECTION 10. TERM. The obligation of the City under this Disclosure Certificate shall remain in effect only for such period that (a) the Series 2007 Bonds are Outstanding under the Bond Resolution in accordance with their terms and (b) the City remains an "obligated person" with respect to the Series 2007 Bonds within the meaning of the Rule. The City shall provide written notice of such termination to each NRMSIR, the MSRB, any SID.

SECTION 11. SOURCES OF PAYMENTS; EXTENT OF COVENANTS; NO PERSONAL LIABILITY. The City shall be required to use only the Pledged Revenues to pay any costs and expenses to be incurred in the performance of this Disclosure Certificate, and the performance of the obligations hereunder shall be subject to the availability of the Pledged Revenues for that purpose. This Disclosure Certificate does not and shall not constitute a general obligation of the City. All covenants, stipulations, obligations and agreements of the City contained in this Disclosure Certificate are and shall be deemed to be covenants, stipulations, obligations and agreements of the City to the full extent authorized by law. No covenant, stipulation, obligation or agreement of the City contained in this Disclosure Certificate shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future officer, agent or employee of the City in other than that person's official capacity.

SECTION 12. BENEFICIARIES. This Disclosure Certificate shall inure solely to the benefit of the City and the Holders and beneficial owners from time to time of the Series 2007 Bonds, and any official, employee or agent thereof acting for and on its behalf, and shall not create any rights in any other person or entity.

SECTION 13. SEVERABILITY. In case any section or provision of this Disclosure Certificate, or any covenant, stipulation, obligation, agreement, act or action, or part thereof made, assumed, entered into, or taken thereunder or any application thereof, is for any reason held to be illegal or invalid, such illegality or invalidity shall not affect the remainder thereof or any other section or provision thereof or any other covenant, stipulation, obligation, agreement, act or action, or part thereof made, assumed, entered into, or taken thereunder (except to the extent that such remainder or section or provision or other covenant, stipulation, obligation, agreement, act or action, or part

thereof is wholly dependent for its operation on the provision determined to be invalid), which shall be construed and enforced as if such illegal or invalid portion were not contained therein, nor shall such illegality or invalidity of any application thereof affect any legal and valid application thereof, and each such section, provision, covenant, stipulation, obligation, agreement, act or action, or part thereof shall be deemed to be effective, operative, made, entered into or taken in the manner and to the full extent permitted by law.

SECTION 14. OBLIGATED PERSONS. If any person, other than the City, becomes an "obligated person" with respect to the Series 2007 Bonds within the meaning of the Rule, the City shall use its best efforts to require such "obligated person" to comply with all provisions of the Rule applicable to such "obligated person."

SECTION 15. COUNTERPARTS. This Disclosure Certificate may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

SECTION 16. GOVERNING LAW; VENUE. This Disclosure Certificate shall be deemed to be an agreement made under the laws of the State of Florida and for all purposes shall be governed by and construed in accordance with the laws of the State of Florida. Venue of all proceedings in connection with this Disclosure Certificate shall be in the City of Palm Coast, Florida.

CITY OF PALM COAST, FLORIDA

(SEAL)

Attest:

By: _____
Richard M. Kelton, City Manager

By: _____
Clare Hoeni, City Clerk

EXHIBIT A

**FORM OF MUNICIPAL SECONDARY MARKET
DISCLOSURE INFORMATION COVER SHEET**

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement (please include name of state where issuer is located):

Provide nine-digit CUSIP* numbers if available, to which the information relates:

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located): _____

Other Obligated Person's Name (if any): _____
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP number(s), if available, of Issuer: _____

(Contact CUSIP's Municipal Disclosure Assistance Line at 212-438-6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

Electronic (number of pages attached) _____ Paper (number of pages attached) _____

If information is also available on the Internet, give URL: _____

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. Annual Financial Information and Operating Data pursuant to Rule 15c2-12

(Financial information and operating data should not be filed with the MSRB.)

Fiscal Period Covered: _____

B. Audited Financial Statements or CAFR pursuant to Rule 15c2-12

Fiscal Period Covered: _____

C. Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)

- | | |
|--|--|
| 1. <input type="checkbox"/> Principal and interest payment tax-delinquencies | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the exempt status of the security |
| 2. <input type="checkbox"/> Non-payment related defaults | 7. <input type="checkbox"/> Modifications to the rights of security holders |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties | 9. <input type="checkbox"/> Defeasances |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
| | 11. <input type="checkbox"/> Rating changes |

D. Notice of Failure to Provide Annual Financial Information as Required

E. Other Secondary Market Information (Specify): _____

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:

Issuer Contact:

Name: _____ Title: _____

Employer _____

Address _____ City _____ State _____ Zip Code _____

Telephone _____ Fax _____

Email Address _____ Issuer Web Site Address _____

Dissemination Agent Contact, if any:

Name: _____ Title: _____

Employer _____

Address _____ City _____ State _____ Zip Code _____

Telephone _____ Fax _____

Email Address _____ Issuer Web Site Address _____

Obligor Contact, if any:

Name: _____ Title: _____

Employer _____

Address _____ City _____ State _____ Zip Code _____

Telephone _____ Fax _____

Email Address _____ Issuer Web Site Address _____

Investor Relations Contact, if any:

Name _____ Title _____

Telephone _____ Email Address _____

NOTICE OF FAILURE TO FILE

Name of Issuer: _____ (the "Issuer")

Name of Bond Issue: _____ (the "Bonds"),
issued _____

NOTICE IS HEREBY GIVEN that for the fiscal years ended _____, _____ and _____ the Issuer inadvertently failed to provide its annual financial information updates as required by Section ___ of the Continuing Disclosure Certificate dated _____ consisting of its Comprehensive Annual Financial Report, updates to the following tables set forth in the Official Statement for the Bonds (the "Official Statement"): the table on page ___ of the Official Statement regarding _____, the table on page ___ regarding _____ and the _____; description of any indebtedness payable in whole or in part from the Pledged Fund (as defined in the Official Statement), and any other financial information or operating date of the type included in the Official Statement which would be material to a holder or prospective holders of the Bonds, all for each such fiscal year described above.

The Issuer is filing, together with this Notice, the referenced annual financial information updates that were due _____, _____ and _____, respectively.

Dated: _____

By: _____

Title: _____

APPENDIX G

SPECIMEN MUNICIPAL BOND INSURANCE POLICY