



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: April 4, 2007 REPORT NO: 07-056
ATTENTION: Council President and City Council
Docket of April 9, 2007
SUBJECT: Wastewater System Financing
REFERENCE: Companion Report – Metropolitan Wastewater Improvements Report

REQUESTED ACTIONS

Authorize the issuance of 2 year Subordinated Sewer Revenue Notes, Series 2007 (the "2007 Notes") in the principal amount not to exceed \$225 million by the Public Facilities Financing Authority ("Authority") of the City of San Diego ("City") and the execution of related financing documents to currently refund the outstanding Bank of America Loan (described herein); to borrow additional amounts to finance components of the Wastewater System including reimbursement for eligible CIP expenditures for past projects; and to pay costs of issuance. The related financing documents include a Subordinate Indenture of Trust between Wells Fargo Bank, National Association ("Trustee") and the Authority; a Subordinate Installment Purchase Agreement between the Authority and the City; and a Note Purchase Agreement among the Authority, the City and Citigroup Global Markets Inc. ("Citigroup"/"Purchaser").

Authorize the City Attorney to appoint Nixon Peabody LLP and Robinson & Pearman LLP as Co-Bond Counsel for the City in connection with the issuance of the 2007 Notes, and pay Co-Bond Counsel amounts not to exceed \$150,000 and \$60,000 respectively, plus reasonable out-of-pocket expenses, in each case not to exceed \$5,000.

Authorize the First Amendment to an Agreement (C-13460, October, 2005) between the City and Montague DeRose and Associates in the amount of \$15,000 for as needed financial advisory services related to wastewater financings.

STAFF RECOMMENDATIONS: Approve the requested actions

SUMMARY:

I. BACKGROUND

In June 1990, the City Council approved the increase of sewer service charges by 6% in each of Fiscal Years 1991 through 1995. Subsequently, in 1996, Council again approved 6% increases for Fiscal Years 1997 and 1998. In January 1999 and 2001, the Council approved increasing all sewer service charges by 5% for each of Fiscal Years 1999 - 2001, and by 7.5% for four consecutive years, Fiscal Years 2002 - 2005, commencing on May 1 of each year. Due to the rate increases mentioned above and bond financings which occurred in 1993, 1995, 1997, 1999, and more recently in 2004, the Metropolitan Wastewater Department ("MWWD") was able to upgrade the sewer treatment system and implement other capital improvement projects to ensure compliance with State and Federal requirements and generally maintain the existing wastewater system. However, since the Wastewater Department has fully drawn the bond proceeds from the last borrowing in 2004 (see below), additional financing is needed to continue system improvements consistent with funding required by regulatory agencies.

The Authority issued \$152 million of Non-Transferable Subordinated Sewer Revenue Bonds in June of 2004 (the "Series 2004 Bonds") to finance the construction and renovation of wastewater facilities required by regulatory agencies. The Series 2004 Bonds were purchased by Bank of America, N.A. (the "Bank"). Principal amortization was scheduled to begin on March 15, 2006, and conclude on December 15, 2007. The Bank imposed a condition prohibiting MWWD from incurring any additional wastewater system debt without either 1) paying off the Series 2004 Bonds or, 2) receiving Bank approval for the additional debt. In 2005, the Wastewater Department had an opportunity to obtain a \$12.1 million twenty-year fixed rate loan (at an effective rate of approximately 1.8%) from the State Water Resources Control Board ("SWRCB"). The Bank subsequently agreed to the City's request to accept the \$12.1 million loan and waived the restriction on additional debt for that loan only. This waiver was documented through certain amendments to the Series 2004 Bonds through the First Amendment to the 2004 Supplement to the Master Installment Purchase Agreement dated January 1, 2006. The amendments also restructured the amortization of the Series 2004 Bonds. The original maturity of December 15, 2007 was modified to a new amortization period running from March 15, 2007 through December 15, 2011.

Subsequently, MWWD learned that it could obtain two additional SWRCB loans for approximately \$18 million. The City Council had previously adopted ordinances (O-19106 on September 9, 2002 and O-19139 on January 7, 2003) authorizing MWWD to enter into SWRCB loans for these projects. The City again solicited the Bank's approval to acquire the two new SWRCB loans and to allow for the possibility of obtaining additional, inexpensive fixed rate financing from the SWRCB. The Bank agreed to allow MWWD to obtain the two new loans and additional SWRCB loans subject to certain conditions. The second set of amendments to the Series 2004 Bond documents were approved through the Second Amendment to the 2004 Supplement to the Master Installment Purchase Agreement dated September 1, 2006.

MWWD has been paying interest only payments on the Series 2004 Bonds, on a variable rate mode indexed to LIBOR with the first principal payment occurring on March 15, 2007. On February 5, 2007, the Series 2004 Bonds were re-indexed for a two month period at an effective interest rate of 4.33% through April 4, 2007. When the 2007 Notes are issued, the remaining principal balance on the Series 2004 Bonds, estimated at \$144.4 million (\$152M total borrowing less \$7.6M principal paid on March 15, 2007) will be retired. In addition, additional monies will be available under the proposed 2007 Notes to fund crucial Capital Improvement Projects through April, 2008.

II. DISCUSSION

In addition to retiring the Series 2004 Bonds (\$144.4M), the proposed financing is intended to reimburse the department (approximately \$42M) for previously expended "pay go" funds used for Capital Improvement Projects and to provide for (approximately \$24M) in new money to fund the MWWD's current Capital Improvement needs until April 2008, as detailed in the companion Wastewater System improvement report. Financing for these projects is dependent on the new rate increases authorized by the City Council on February 26, 2007 and driven by the requirement to sign a final EPA Consent Decree by June 30, 2007. Consistent with the updated rate model, the rate increase through FY 2010 will allow MWWD to meet the continuing consent decree commitments through 2011 and other Federal and State requirements. Under the approved rate case and MWWD's capital improvement plans, MWWD is expected to require additional new financing of approximately \$62 million in the 2nd quarter of 2008 and approximately \$95 million in FY 09.

The Series 2004 Bond documents prohibit any new debt (other than the approved State Revolving Fund Loans). Repayment of the Series 2004 Bonds is necessary to access additional proceeds to fund Wastewater system CIP. The Department of Finance and the financial advisor for the proposed financing recommend the issuance of Series 2007 Notes which permit additional limited borrowing. Under the present circumstances, implementing the proposed short term option is the best method to ensure that the City is able to borrow funds for the ongoing EPA consent decree requirements and other time critical CIP projects scheduled in 2007.

In early 2006, Debt Management issued a Request for Proposals ("RFP") to assess interest and solicit proposals from financial institutions for a direct purchase or a private placement borrowing for the Wastewater system. This RFP emphasized the City's desire to borrow on a direct purchase basis, at competitive fixed rates. A total of 11 responses were received for this Request for Proposals. After a careful review of all the proposals received, staff requested two proposers, Citigroup and Goldman Sachs & Co., to submit supplemental proposals specifically addressing the City's questions on additional topics, including structuring, transfer limitations, and pricing. Upon review of the supplemental proposals received from the two firms in June 2006, staff recommended that both firms serve as direct purchasers on the proposed borrowing. The due diligence process conducted in January, 2007 for both firms included a review of materials approved by the Disclosure Practices Working Group (DPWG). In March 2007, due to inability of Goldman Sachs to commit to holding its portion of the Series 2007 Notes for its own account for the duration laid out in the Note Purchase Agreement, staff inquired of Citigroup if the firm was willing and able to purchase the entire 2007 Notes issue under the same terms and conditions negotiated when both firms were asked to serve as the Purchasers. The Term Sheet

on the proposed transaction is attached (Attachment 1). A firm bid on the financing from Citigroup was received on March 13, 2007, and will remain valid until May 15, 2007.

Per Council Policy 900-09, Citigroup has submitted Community Reinvestment Activities (“CRA”) of its community banking operations in the San Diego region. Specific information related to CRA is provided to the City Council under separate cover.

Transaction Time Line

March 19	DPWG performed disclosure assessment
April 9/10	City Council approval of the financing documents via Resolution
Week of April 9	PFPA to approve financing documents
Week of April 23	Purchaser performs bring down due diligence, interest rate setting and signing of Note Purchase Agreement
Week of April 30	Note closing, receipt of Note proceeds and repayment of 2004 Bonds

Fiscal Impact

The principal amount on the 2 year notes is currently estimated at \$209.3 million. Council authorization to issue up to \$225 million (which is 7.5% above the expected borrowing) is requested as a cushion in case market conditions change. The Purchaser is Citigroup Global Markets Inc. (“Citigroup”). The amortization period will be interest only until maturity or prior redemption; interest payable semi-annually, on May 15 and November 15 of each year; principal due at maturity. The estimated coupon on the 2007 Notes is estimated at 5% with annual interest payments of approximately \$10.5M.

Estimated Sources and Uses of Funds *

Sources:

Par Amount of Subordinated Series 2007 Notes	\$209,250,000
Original Issue Premium	\$ 1,250,000
TOTAL:	\$210,500,000

Uses:

Series 2004 Bonds Repayment	\$144,400,000
CIP Reimbursement of eligible expenditures	\$ 41,900,000
New money for capital projects	\$ 23,700,000
Estimated Costs of Issuance**	\$ 500,000
Total	\$210,500,000

* Preliminary, subject to change

** Costs of Issuance (“COI”) include purchaser’s fee, co-bond counsel, purchaser’s counsel, trustee fee and other related expenses.

Financing Team

The City's Financing Team for the 2007 Notes consists of staff of the Department of Finance, including the Chief Financial Officer, the Debt Management Department, and the Auditor & Comptroller's Office, the Wastewater Department, the City Attorney's Office, and outside consultants, including a financial advisor Montague DeRose and Associates, co-bond counsel (Nixon Peabody LLP and Robinson and Pearman LLP), and the Trustee (Wells Fargo Bank, Inc.).

Montague DeRose and Associates (the "Financial Advisor") was appointed in October 2005 to provide financial advisory services for wastewater financings and financial advisory services on rate model and wastewater related financial analyses on an as needed basis. The selection of the Financial Advisor was based on the as needed list of financial advisory firms generated by a Request for Proposals process in 2005. The current agreement (C-13460) with the Financial Advisor is authorized to provide for ongoing financial advisory services for an amount not to exceed \$250,000 for their services covering the period October 2005 through the closing of the proposed financing. As of March 2007, approximately \$5,700 is remaining under the \$250,000 encumbrance established in October 2005. It is anticipated that up to an additional \$15,000 will be necessary to complete the work related to the proposed financing.

The City Attorney's Office identified Nixon Peabody LLP and Robinson and Pearman LLP to serve as co-bond counsel through a competitive selection process. The compensation to Nixon Peabody will be capped at \$150,000 and the compensation to Robinson and Pearman LLP will be capped at \$60,000. Out-of-pocket expenses for each firm will not exceed \$5,000. The fees of both co-bond counsel are contingent upon the successful closing of the 2007 Notes.

Financing Documents

The documents submitted for the City Council approval will enable the Authority to issue the 2007 Notes in the aggregate principal amount of not to exceed \$225 million. The City Resolution approves the form, execution and delivery of the financing documents and certain other actions, with such changes as the Mayor or the Chief Financial Officer deem, after consultation with the City Attorney and co-bond counsel, are necessary and in the best interests of the City (provided no material terms of the transaction are changed). A brief description of the major financing documents follows:

The 2007 Subordinate Installment Purchase Agreement between the City and the Authority provides for installment payments by the City to pay the debt service on the 2007 Notes.

The 2007 Subordinate Indenture of Trust between Well Fargo Bank (Trustee) and the Public Facilities Financing Authority provides for the issuance of the 2007 Notes and sets forth their terms, including the specific rights, responsibilities, and obligations of each party with respect to the issuance of the 2007 Notes.

The Subordinated Sewer Revenue Notes, Series 2007 Note Purchase Agreement between the City, Authority and Purchaser defines the terms under which the Purchaser will agree to

Purchase the 2007 Notes from the City and the Authority. In addition to certain City and Authority representations, the Purchaser will represent and/or acknowledge the following:

- the Purchaser has sufficient experience to evaluate the risks associated with the 2007 Notes;
- the City has supplied sufficient information to enable the Purchaser to make an informed investment decision regarding the 2007 Notes;
- the Purchaser has undertaken their own evaluation and analysis regarding the security of the 2007 Notes;
- the City has not filed audited financial statements for [FY 2003] ¹ through FY 2006, and is subject to ongoing investigations by law enforcement and regulatory bodies;
- the Purchaser will limit the distribution of the 2007 Notes to a parent, affiliate or subsidiary. The Purchaser may place the 2007 Notes in a trust or custodial arrangement for which the Purchaser is the sponsor and trustor if the Purchaser or its parent, subsidiary or affiliate agrees to guarantee or provide credit enhancement for the 2007 Notes.
- After the first year, upon the occurrence and continuance of a "Transfer Event" described in the Note Purchase Agreement the Purchaser shall have the additional right to sell or transfer its 2007 Notes to one or more Qualified Institutional Buyers (as defined in Rule 144A promulgated under the Securities Act of 1993) providing that the 2007 Notes shall be held by twelve or fewer such Qualified Institutional Buyers and that each buyer shall execute an Investor Letter provided in the Note Purchase Agreement.
- Under the Note Purchase Agreement, the Purchaser will have certain limited rights to terminate its obligations to purchase the 2007 Notes, including the declaration of war, banking moratorium and other adverse events that would affect the market price of the 2007 Notes. In the event the Purchaser triggered one of its "outs," the City would be free to sell the 2007 Notes to another purchaser.

III. PRICING STRUCTURE

The yield on the 2007 Notes will be on a fixed basis as 87 basis point spread (.87%) to the two-year natural "AAA" Municipal Market Data Index ("MMD"). MMD is an industry standard bond index associated with long term municipal debt. The spread has been fixed prior to submitting the financing documents to the City Council for approval, but the yield will be established on the day of the signing of the Note Purchase Agreement based on the MMD scale on the day the Note Purchase Agreement is executed. For reference, the indicative yield as of March 19, 2007, would be 4.40% based on the MMD index of 3.53% as of March 19, 2007. The estimated True Interest Cost (TIC) would be 4.80%. It is expected that the coupon rate on the

(1) As of the date of this report, the City has not filed FY 2003 audited financial statement or the Wastewater Utility audited financial statement which are to be reviewed and accepted by the City Council.

Note issued will be 5%, creating an issue premium (the amount by which the price paid for the notes exceeds the par value of the notes). This results in the purchaser paying an original issue premium to the City. An original issue premium is the amount by which the price paid for the notes exceeds the par value of the bonds, and is generally paid in exchange for a higher note coupon rate. Staff has been advised that the structuring of the 2007 Notes in this fashion will offer better pricing and generate more proceeds to the City.

For comparison purposes, a "BBB" rated utility issuing notes with a similar structure in the public market today would be charged a spread of approximately 40 basis points, resulting in a rate of 3.93% (MMD index of 3.53% plus 40 basis points). The 47 basis points interest rate penalty reflects, among other things, the one-year call feature, the illiquidity feature (the fact that the 2007 Notes will be issued in the private market with resale restrictions), lack of ratings, and the fact that when the 2007 Notes are issued current audited financials will not be available to the Purchaser.

The 2007 Notes are estimated to result in interest payments of approximately \$21.0 million over the two-year term, with the principal to be repaid at final maturity. Interest is paid semi-annually, on May 15 and November 15 of each year until the 2007 Notes are paid off. The City intends to refund the 2007 Notes at or prior to the maturity date by issuing long term obligations payable from Wastewater Net System Revenues. MWWDC anticipates issuing additional debt for CIP needs in FY 2008 and 2009. It is currently expected that the City will be able to refinance the 2007 Notes in FY 2008, concurrent with the issuance of the new money tranche.

IV. TRANSFER AND RESALE RESTRICTIONS

Within the first year, the 2007 Notes may only be held by the Purchaser ("Citigroup") or transferred to a parent, subsidiary or affiliate of the Purchaser or held in a TOB of which the purchaser is the sponsor and trustor if the shares of said trust are held by twelve or fewer Qualified Institutional Buyers (as defined in Rule 144A promulgated under the Securities Act of 1933). After one year, upon the occurrence and continuance of a "Transfer Event" described in the Note Purchase Agreement, the Purchaser shall have the additional right to sell or transfer its Notes to one or more Qualified Institutional Buyers interested in the Notes during the term of the Notes. The intent of this restriction is to limit the sale of the 2007 Notes to only sophisticated investors whose intent is to own and hold the 2007 Notes through maturity. There is no offering statement for this offering.

Over the term of the 2007 Notes, nothing shall prevent the Purchaser from obtaining publicly available information concerning the City or the Wastewater System. The City will covenant to provide the Purchaser during the term of the Series 2007 Notes with notice of the occurrence of any "Listed Event" set forth in the Note Purchase Agreement and any relevant information related thereto. The City also covenants to use its best efforts to obtain and make public its audited financial statements for the Fiscal Years ended June 30, 2003 through 2006.

Outstanding Long Term Debt of the Wastewater Department

As of April 1, 2007, MWWD's outstanding principal on long term debt obligations was \$952.6 million and comprised of Sewer Revenue Bonds, Series 1993 (\$182.3 million Principal Outstanding), Sewer Revenue Bonds, Series 1995 (\$284.5 million Principal Outstanding), Sewer Revenue Bonds, Series 1997A and Series 1997B (\$208.5 million Principal Outstanding), and Sewer Revenue Bonds, Series 1999A and Series 1999B (\$277.3 million Principal Outstanding).

The annual debt service payments on these issuances are estimated at \$77 million in FY 07. The Series 2004 Bonds (\$144.4 million principal outstanding) will be retired with the proceeds from the proposed 2007 Notes.

Since March 2000, MWWD has entered into approximately 10 loans from the State of California. These State Revolving Fund ("SRF") loans are issued at low interest rates (approximately 2%) and are amortized over 20 years. To date, the Wastewater Department has received proceeds totaling \$100.8 million. In FY 07, annual loan payments on outstanding SRF Loans are estimated at approximately \$6 million. Additionally, on November 9, 2006, MWWD executed another loan for \$4.7 million for the Point Loma Digesters (4th Pump). Another loan for approximately \$13.3 million (Point Loma Digesters S1 & S2 Upgrades) is pending.

Proposed Financing Structure

The 2007 Notes will be paid through subordinate installment payments made by the City exclusively from net system revenues of the Wastewater System (revenues less operating and maintenance expenses) and secured by a junior lien on net system revenues. The City will have the right to prepay the 2007 Notes, without premium or penalty, in whole or in part at any time after the one year anniversary of the issuance of the 2007 Notes. It is anticipated that the transaction will close the week of April 30, 2007.

As noted above, the principal of the 2007 Notes is expected to be repaid with proceeds from an anticipated long term issuance of bonds in FY 08 when additional funds need to be borrowed for the continuation of the Capital Improvement Program. In the event that the City is unable to issue additional debt to repay the principal on the 2007 Notes prior to the expiration of their payment term, City staff will take necessary actions to seek Council authorization to restructure or convert the 2007 Notes to a long term bond.

V. ALTERNATIVES

Do not approve the requested actions necessary to issue the 2007 Notes for the upgrade and expansion of the Wastewater System as required by regulatory bodies.

VI. COMMUNITY PARTICIPATING AND OUTREACH EFFORTS

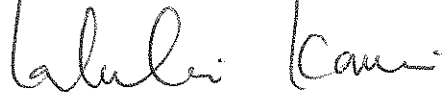
Late November and early December 2006, MWWD had several town hall meetings to discuss rate increases and financing needs.

VII. KEY STAKEHOLDERS & PROJECTED IMPACTS

Business entities involved in this transaction are: Citigroup Global Markets Inc. (Purchaser), Nixon Peabody LLP (co-bond counsel), Robinson and Pearman LLP (co-bond counsel), Wells Fargo Bank, National Association (Bond Trustee) and Montague DeRose and Associates (financial advisor).

Attachment

Respectfully submitted,



Lakshmi Kommi
Director of Debt Management



Jay M. Goldstone
Chief Financial Officer

ATTACHMENT

**Public Facilities Financing Authority of the City of San Diego (the "Authority")
Subordinated Sewer Revenue Notes, Series 2007
For the Wastewater System of The City of San Diego (the "City")
Private Placement Term Sheet**

Amount Requested:	Council Authorization not to exceed \$225,000,000 (tax-exempt)
Financing Instrument:	Subordinated Sewer Revenue Notes, Series 2007 (the "Series 2007 Notes")
Term of the Notes:	24 months from the date of issuance of the Notes.
Amortization:	Interest only until maturity or prior redemption; interest payable semi-annually, on May 15 and November 15 of each year; principal due at maturity.
Interest Rates:	<p>Fixed Rate for the term of the Notes. Rate will be set upon signing a Note Purchase Agreement after City Council approval of financing and will be based on a spread above the two-year, natural AAA Municipal Market Data index ("MMD").</p> <p>The spread will be determined prior to submitting the financing documents to the City Council for approval.</p>
Ratings/Insurance:	The Notes will not be rated and the Authority will not purchase credit enhancement for the Notes.
Purchasers:	The Purchaser is expected to be Citigroup Global Markets Inc. ("Citigroup"). The Series 2007 Notes, expected to be purchased by Citigroup, is structured jointly by the Purchaser and the City.
Purpose of Financing:	The Notes are to be issued to i) reimburse the City for approximately \$41.9 million of capital improvements to the City's Wastewater System; ii) fund approximately \$23.7 million of new capital improvements to the City's Wastewater System, iii) to refund \$144.4 million of the Authority's outstanding principal amount of Non-Transferable Subordinated Sewer Revenue Bonds, Series 2004, and iv) to pay the costs of issuance of the Notes, including fee compensation to the Purchaser.
Closing:	Closing currently estimated for the week of April 30, 2007*

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Security/Lien Structure: : The Notes will be issued under an Indenture (Subordinated Notes) between the Public Facilities Financing Authority of the City of San Diego and Wells Fargo Bank, as Trustee. The Notes will be payable from, and have a lien on, Net System Revenues payable under an Installment Purchase Agreement on the "new subordinated" lien level described below. The existing senior lien for Parity Obligations under the Master Installment Purchase Agreement ("MIPA") will be closed to new money issuances. The existing subordinated lien under the MIPA will be closed to all future issuances.

The City will prepare the forms of two new Installment Purchase Agreements (each an "IPA") payable from Net System Revenues, consisting of a "new senior" IPA with payments subordinate to the Parity Obligations under the MIPA and a "new subordinate" IPA under which the Notes will be issued with payments subordinate to any future "new senior" obligations. The Notes are assumed to be payable from Net System Revenues of the Wastewater System on a basis subordinate to the State Revolving Fund Loans ("SRF Loans") payable from Net System Revenues of the Wastewater System.

Additional Bonds: Until the Notes are paid, redeemed or defeased, neither the City nor the Authority shall, without the prior written consent of the Purchasers, offer, issue or sell any additional bonds, notes or other obligations secured by a lien on Net System Revenues senior to or on a parity with the Notes *other than* the (i) bonds the proceeds of which are applied to the refunding of the Parity Obligations under the MIPA, or otherwise, and the costs related thereto or (ii) notes or bonds in an aggregate principal amount of not more than \$75,000,000 all of the proceeds of which are applied by the City to the Wastewater System capital improvement program and costs related thereto

Takeout/Rollover: The City intends to refund the Notes prior to the maturity date by issuing long term or short term obligations (the "Takeout Obligations") payable from Net System Revenues. The City retains the right to select underwriters or purchasers for the Takeout Obligations as well as for the refunding of the Parity Obligations and/or the sale of the new money bonds described under Additional Bonds in this term sheet.

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Transfer Restrictions:

Except as set forth in this paragraph, the Notes may only be held by the Purchaser or transferred to a parent, subsidiary or affiliate of the applicable Purchaser or held in a tender option bond trust of which the Purchaser is the sponsor and trustor if the shares of said trust are held by twelve or fewer Qualified Institutional Buyers (as defined in Rule 144A promulgated under the Securities Act of 1933) and each such transferee shall execute an Investor Letter. After the first year, upon the occurrence and continuance of a "Transfer Event" described in Exhibit A attached hereto, the Purchaser shall have the additional right to sell or transfer its Notes to one or more Qualified Institutional Buyers (as defined in Rule 144A promulgated under the Securities Act of 1933) providing that the Notes of each series shall be held by twelve or fewer such Qualified Institutional Buyers and that each such purchaser shall execute an Investor Letter.

Notice/Disclosure Obligations:

The City will covenant to provide that the Purchaser during the term of the Notes with notice of the occurrence, if any, of each "Listed Event" set forth in Exhibit A attached hereto and any relevant information related thereto. The City will also covenant to use its best efforts to obtain and make public its audited financial statements for the Fiscal Years ended June 30, 2003 through 2006. Except as set forth in this paragraph, the City shall not be obligated to provide additional information to or provide diligence sessions for the Purchaser or for any Qualified Institutional Buyers (as defined in Rule 144A promulgated under the Securities Act of 1933) interested in the Notes during the term of the Notes. Nothing in this paragraph shall prevent the Purchaser from obtaining publicly available information concerning the City or the Wastewater System.

Debt Service Reserve:

None

Rate Covenant:

The City will fix, prescribe and collect rates and charges for the Wastewater Service which will be at least sufficient (1) to pay during each Fiscal Year the Notes and all other indebtedness payable in such Fiscal Year from Net System Revenues, and (2) to yield during each Fiscal Year Net System Revenues equal to 115% of the Debt Service for such Fiscal Year on obligations payable on a parity with or senior to bonds issued under the new senior IPA.

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Call Feature:

City shall have the right to prepay the Notes, without premium or penalty, in whole or in part at any time after the one year anniversary of the issuance of the Notes.

Defeasance:

The City may defease the Notes at any time.

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EXHIBIT A To Wastewater Term Sheet

A. LISTED EVENTS

The City will promptly notify the Purchaser of the occurrence of any of the following "Listed Events" within five business days of the occurrence of each such event:

1. a principal or interest payment delinquency under any Obligations (defined in the 2007 Agreement) or on any City bonded indebtedness;
2. any non-payment related default with respect to any Obligations;
3. any unscheduled draws on trustee held debt service reserves for any Obligations reflecting financial difficulties;
4. any unscheduled draws on credit enhancements reflecting financial difficulties for any Obligations;
5. a substitution of credit providers or their failure to perform for any Obligations;
6. an adverse tax opinion or event affecting the tax-exempt status of the Notes;
7. any material modifications to rights of security holders of any Obligations;
8. any redemption (other than scheduled sinking fund redemptions) or any defeasance of Obligations;
9. any sale or transfer of ownership or control by the City of more than 10% of the Metropolitan or Municipal Wastewater System;
10. a rating change for any Obligations;
11. any approval of a substantial reduction in the rates and charges related to the Wastewater System by the City Council or by initiative;
12. a filing of voluntary or involuntary petition in bankruptcy, insolvency or similar reorganization by or against City relating to the City, the Wastewater System or any City investment pool containing the funds of the Wastewater System or the proceeds of any Obligations;
13. a filing of litigation against the City or the Authority challenging the validity of the Notes, the Legal Documents, the New Rate Schedule or the pledge of Net System Revenues related thereto;

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14. a reduction of more than 50% of the moneys in Wastewater System rate stabilization and emergency reserve funds below the level set out in the unaudited balances at June 30, 2006 as reported in the Summary Financial Statements prepared by the City Auditor titled "Changes in Funds Available for Appropriation for Fiscal Year ending June 30, 2006.

15. any release of financial statements for the City or the Wastewater System whether such statements are unaudited or are accompanied by a qualified or unqualified audit letter; or

16. any issuance of additional Obligations.

B. TRANSFER EVENTS

1. a principal or interest payment delinquency on any Obligations or on City bonded indebtedness;

2. any rate covenant default with respect to any Obligations;

3. an adverse tax opinion or event affecting the tax-exempt status of the Notes;

4. any sale or transfer of ownership or control by the City of more than 10% of the Metropolitan or Municipal Wastewater System;

5. a rating downgrade or an additional suspension of rating for any Obligations;

6. a voluntary or involuntary petition in bankruptcy, insolvency or related reorganization is filed by the City or otherwise filed relating to the City, the Wastewater System or any City investment pool containing a material amount of funds of the Wastewater System or a material amount of unspent proceeds of any Obligations;

7. a written opinion, order or decision, whether final or not, is given by an court of competent jurisdiction impugning the validity of the Notes, the Legal Documents, the New Rate Schedule or the pledge of Net System Revenues related thereto;

8. a reduction or divestiture of 50% or more of the municipal bond portfolio of the Purchaser occurs due to a change in business direction, a change in market conditions or otherwise or a material reduction of the municipal bond portfolio of the Purchaser occurs due to a change in regulatory requirement or change in ownership.

9. any unscheduled draws on trustee held debt service reserves for any Obligations reflecting financial difficulties