

\$66,700,000

**The Metropolitan Government of Nashville and Davidson County  
(Tennessee)  
District Energy System Revenue Bonds  
2002 Series A**



Dated: Date of Delivery

Due: October 1, as shown below

The 2002 Series A Bonds are being issued by The Metropolitan Government of Nashville and Davidson County (the "Metropolitan Government" or "Metro") to finance, in part, the construction of steam and chilled water generating facilities and improvements to an existing energy distribution system (the generating facilities and the distribution system are referred to herein as the "District Energy System" or the "System"), all to be owned by the Metropolitan Government. The 2002 Series A Bonds are issued pursuant to a District Energy System General Bond Resolution adopted by the Metropolitan Government on December 18, 2001, as amended and supplemented (the "Resolution"), and are payable solely from revenues derived by the Metropolitan Government from the operation of the District Energy System, and all other moneys legally available therefor, including, if necessary, annual appropriations by the Metropolitan Government to cover any deficiency between System revenues and System expenses, including debt service on the 2002 Series A Bonds (the "Metro Funding Amount").

The Metropolitan Government has covenanted in the Resolution to purchase energy from the System for certain designated premises and not from any other source, and to pay a price for such energy that includes the Metropolitan Funding Amount. The Metropolitan Government's payment obligations will be subject to annual appropriation.

SunTrust Bank has been appointed by the Metropolitan Government as Trustee (the "Trustee") under the Resolution.

The 2002 Series A Bonds are being issued in denominations of \$5,000, or any integral multiple thereof. The 2002 Series A Bonds are to be delivered as fully registered certificates without coupons, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the 2002 Series A Bonds. See "THE 2002 SERIES A BONDS - Book-Entry Only System" herein. Interest on the 2002 Series A Bonds is payable semiannually on October 1, and April 1, commencing April 1, 2003. The 2002 Series A Bonds will mature on October 1 in the years and in the principal amounts set forth below:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2005	\$1,180,000	3.000%	1.850%	2016	\$ 300,000	4.000%	4.020%
2006	1,215,000	3.000	2.240	2016	1,500,000	5.250	4.000
2007	1,255,000	3.000	2.550	2017	1,890,000	5.250	4.080
2008	1,290,000	3.000	2.860	2018	175,000	4.200	4.220
2009	1,330,000	3.000	3.080	2018	1,815,000	5.250	4.170
2010	1,370,000	3.250	3.280	2019	2,090,000	5.250	4.270
2011	50,000	3.300	3.380	2020	2,200,000	5.250	4.370
2011	1,200,000	5.000	3.380	2021	60,000	4.500	4.520
2012	550,000	3.400	3.480	2021	2,255,000	5.250	4.470
2012	1,000,000	5.125	3.500	2022	100,000	4.600	4.610
2013	1,545,000	5.125	3.610	2022	2,340,000	5.250	4.560
2014	1,625,000	5.250	3.720	2023	2,150,000	4.500	4.690
2015	1,710,000	5.250	3.860				

\$5,460,000 5.000% Term Bonds due October 1, 2025 - Yield 4.720%

\$6,900,000 4.625% Term Bonds due October 1, 2027 - Yield 4.750%

\$22,145,000 5.000% Term Bonds due October 1, 2033 - Yield 4.770%

**The 2002 Series A Bonds are subject to redemption prior to maturity as provided herein.**

Payment of the principal of and interest on the 2002 Series A Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the 2002 Series A Bonds.

**Ambac**

*In the opinion of Hawkins, Delafield & Wood, Bond Counsel, under existing statutes and court decisions, interest on the 2002 Series A Bonds is not included in the gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and under the Code, such interest is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations. In the opinion of Bond Counsel, under the existing laws of the State of Tennessee (the "State"), the 2002 Series A Bonds and the interest thereon are free from taxation by the State or any county, municipality or taxing district of the State, except for inheritance, transfer and estate taxes and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to the laws of the State. See "TAX MATTERS" herein.*

**The 2002 Series A Bonds are limited obligations of the Metropolitan Government and shall not be deemed to constitute a full faith and credit general obligation of the Metropolitan Government for which there is a right to compel the exercise of the ad valorem taxing power of the Metropolitan Government. THE METROPOLITAN GOVERNMENT'S OBLIGATION TO PAY FOR THE ENERGY SERVICES IT RECEIVES AS A CUSTOMER OF THE SYSTEM AND TO PAY THE METRO FUNDING AMOUNT ARE SUBJECT TO ANNUAL APPROPRIATION.**

The 2002 Series A Bonds are offered when, as and if issued, and subject to the approval of legality by Hawkins, Delafield & Wood, New York, New York, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Bass, Berry & Sims, PLC, Nashville, Tennessee. It is anticipated that the 2002 Series A Bonds in definitive form will be available for delivery in New York, New York on or about October 24, 2002.

**LEHMAN BROTHERS**

**M.R. BEAL & COMPANY**

**MORGAN KEEGAN & COMPANY, INC.**

## **REGARDING THE USE OF THIS OFFICIAL STATEMENT**

This Official Statement does not constitute an offer to sell beneficial interests in the 2002 Series A Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized by the Metropolitan Government or the Underwriters to give any information or to make representations with respect to the 2002 Series A Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Metropolitan Government or the Underwriters. Certain information contained herein has been obtained from sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of any party other than the party providing such information. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THE OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE LAW OR THE AFFAIRS OF THE PARTIES REFERRED TO ABOVE SINCE THE DATE HEREOF.

References to the statutes of the State of Tennessee and the Charter and all documents referred to herein are qualified in their entirety by reference to the complete terms and provisions of such statutes, charter and documents.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF BENEFICIAL INTERESTS IN THE 2002 SERIES A BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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## OFFICIAL STATEMENT

**\$66,700,000**

### THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

(Tennessee)

District Energy System Revenue Bonds

2002 Series A

## INTRODUCTION

This Official Statement, including the cover page, inside cover page, and the appendices attached hereto, is provided for the purpose of presenting certain information in connection with the offering and sale of \$66,700,000 District Energy System Revenue Bonds, 2002 Series A (the “2002 Series A Bonds”) of The Metropolitan Government of Nashville and Davidson County (the “Metropolitan Government” or “Metro”), a political subdivision of the State of Tennessee (the “State”). Capitalized terms used but not defined herein have the meaning set forth in *Appendix A* to this Official Statement.

### Authorization

The 2002 Series A Bonds are authorized and issued pursuant to the Energy Production Facilities Act, Title 7, Chapter 54 of the Tennessee Code Annotated, as amended (the “Act”), Resolution RS2002-1124, adopted by the Metropolitan Government on August 20, 2002 entitled “Amended and Restated District Energy System General Bond Resolution Authorizing the Redevelopment of a District Energy System, the Issuance of Revenue Bonds of the Metropolitan Government of Nashville and Davidson County and Providing for the Security Therefor” which amends and restates the District Energy System General Bond Resolution adopted by the Metropolitan Government on December 18, 2001 as Resolution RS2001-875 (the “General Resolution”), and Resolution No. RS2002-1144, the 2002 Series A District Energy System Supplemental Resolution outlining the terms of the sale of the 2002 Series A Bonds, adopted by the Metropolitan Government on September 17, 2002 (the “2002 Series A Supplemental Resolution”, and together with the General Resolution, the “Resolutions”). SunTrust Bank has been appointed as Trustee (the “Trustee”) by the Metropolitan Government under the General Resolution.

### Purpose

The proceeds of the 2002 Series A Bonds will be used, together with other moneys available therefor, (i) to finance the costs of certain capital improvements to be made to the Metropolitan Government’s district steam and chilled water generating energy distribution system (the “District Energy System” or the “System”), including, but not limited to, the costs of (a) the design, construction, start-up and acceptance testing of a new steam and chilled water generating facility, (b) improvements to and expansion of the Metropolitan Government’s existing energy distribution system, (c) land acquisitions related to (a) and (b), and (d) certain other improvements to the System; (ii) to reimburse the Metropolitan Government for certain amounts expended by it in developing the improved System; (iii) to pay capitalized interest; (iv) to fund the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement for the 2002 Series A Bonds; and (v) to pay costs of issuance for the 2002 Series A Bonds (collectively, the “Project”). For a more complete list of the capital improvements to be made to the System, see “**PLAN OF FINANCE**” – **The Project**” below.

## **The Metropolitan Government**

On April 1, 1963, the governments of the City of Nashville, Tennessee and Davidson County were consolidated to form The Metropolitan Government of Nashville and Davidson County under which the boundaries of the City of Nashville and Davidson County are coextensive. The executive and administrative powers of the Metropolitan Government are vested in the Metropolitan County Mayor and the Metropolitan County Council is the legislative body of the Metropolitan Government. See “**THE METROPOLITAN GOVERNMENT**” below and *Appendix D-I - “Yearly Information Statement of the Metropolitan Government”*. Under the Act, the Metropolitan Government is authorized to construct, own, operate and maintain energy production facilities within its corporate limits, enter into contracts for the same and issue bonds for the financing of such construction of energy production facilities.

## **The System**

The System is owned by the Metropolitan Government and is currently operated by Nashville Thermal Transfer Corporation (“NTTC”), a not-for-profit corporation, under an Acquisition and Operating Agreement (the “A&O Agreement”). The System includes an energy generating facility (the “Existing Facility”), which is located on approximately ten acres of land in downtown Nashville, Tennessee, and a steam and chilled water distribution system (the “Energy Distribution System” or the “EDS”) which is directly connected to the Existing Facility. The System was initially constructed in 1972 and placed in operation in 1974. NTTC currently has energy purchase contracts with 16 private customers, the State of Tennessee and the Metropolitan Government which in the aggregate provide for the delivery of energy services for 38 government and commercial buildings in downtown metropolitan Nashville. Until recently, the primary energy source for the Existing Facility was municipal solid waste which was combusted to generate steam and chilled water. On May 23, 2002, NTTC ceased operations as a waste-to-energy facility and started providing services solely through the use of four natural gas fired boilers when a fire in the waste receiving area caused an early closing of the waste facility which had been originally scheduled to occur by September 30, 2002. For a more detailed description of the existing System, see “**THE SYSTEM AND ITS OPERATIONS – Overview**” below and *Appendix C - “Project Feasibility Report”* attached hereto.

Pursuant to the A&O Agreement with NTTC, the Metropolitan Government is required to pay a fee each fiscal year calculated to meet costs of operating the System not covered by the rates charged to customers. Since 1975, the amount appropriated and contributed by the Metropolitan Government to the System to cover such costs has continuously escalated, especially in the last five fiscal years. See *Appendix C - “PROJECT FEASIBILITY REPORT”* for a history of the Metropolitan Government’s payments to the System. As a result of such increases in costs of operations and the age of the Existing Facility, in 2001 the Metropolitan Government decided to replace the existing waste-to-energy generating facilities with a more modern and efficient energy generating facility (the “New Energy Generating Facility” or the “New Facility”) and to make certain other System improvements (the “System Improvements”), including improvements to and expansion of the Energy Distribution System. The primary objective of the Project is to modernize the System, thus reducing and even eliminating the need for the Metropolitan Government to make subsidy payments in order to sustain the System. The New Energy Generating Facility will be located on an approximately 86,729 square foot site a short distance south of the Existing Facility. To that end, on January 16, 2002 the Metropolitan Government entered into a design, build and operate contract (the “Management Contract”) with Constellation Energy Source, Inc. (“CES”), a corporation organized and existing under the laws of the State of Delaware, pursuant to which CES is required to (i) design, construct and start-up the New Energy Generating Facility and the System Improvements, the costs of which will be financed from proceeds of the 2002 Series A Bonds, and (ii) assume the operation and management of the System. See “**PLAN OF FINANCE – The Project**” below and *Appendix B-II - “Summary of the Management Contract.”* For more information regarding CES, see “**CONSTELLATION ENERGY SOURCE, INC.**” below. The Metropolitan Government has adopted an ordinance that terminates NTTC’s right to operate the System effective on the Scheduled Service Commencement Date. NTTC has assigned its rights and obligations under the existing

customer contracts to the Metropolitan Government. The Metropolitan Government has adopted an ordinance that terminates NTTC's right to operate the System effective on the Service Commencement Date. NTTC has assigned its rights and obligations under the existing customer contracts to the Metropolitan Government.

### **Customers of the System**

The System has a long and stable sales history, with many of the existing customers having purchased services from NTTC since the System became operational in 1974. Over the past five fiscal years, System sales have averaged 319 million pounds of steam and 53.7 million ton-hours of chilled water.

Several customers of the System do not have back up heating or cooling facilities available and rely on the System and the Metropolitan Government as a provider of energy services. To continue meeting the need for heating and cooling services in the downtown Nashville area, the Metropolitan Government has entered into new customer contracts with (i) the State (the "State Customer Contract") and (ii) with 13 of the 16 private customers who were participants in the existing System who have elected to continue receiving energy services from the Metropolitan Government when the New Facility becomes operational (the "Commercial Customer Contracts"). The Metropolitan Government has agreed to purchase, for its own account, energy for 7 government buildings (the "Metropolitan Government Customer Contract"), and reserves for itself the right to sell excess System capacity. In addition, the Metropolitan Government intends to enter into a separate contract prior to the date that the New Facility is placed in service to purchase energy for an eighth Metro-owned building, which building is currently receiving services under contract with NTTC (such new contract when entered into, together with any new contracts with customers entered into subsequent to the delivery of the 2002 Series A Bonds are referred to herein as the "Additional Customer Contracts"). As of the date hereof, three existing private customers of the System have not entered into new contracts with the Metropolitan Government, two of whom will continue to receive energy services and pay fees for such services to the Metropolitan Government in accordance with and until the expiration of their existing contracts (the "Holdover Customer Contracts"). See "**SECURITY AND SOURCES OF PAYMENT FOR THE 2002 SERIES A BONDS – Sale of Energy - The Customer Contracts**" and "**THE SYSTEM AND ITS OPERATIONS – Production and Sale of Energy**" below. The State Customer Contract, the Metropolitan Government Customer Contract and the Commercial Customer Contracts are collectively referred to herein as the "Initial Customer Contracts", and the Initial Customer Contracts, the Holdover Customer Contracts and the Additional Customer Contracts are collectively referred to as the "Customer Contracts". All of the Initial Customer Contracts will become effective on the Service Commencement Date (hereinafter defined), while the Additional Customer Contracts will become effective in accordance with the terms of such contracts.

### **Security and Sources of Payment for the 2002 Series A Bonds**

#### ***Pledge of Trust Estate***

The 2002 Series A Bonds are secured generally by a pledge of: (i) the rates, fees, or other charges or income received by or on behalf of the Metropolitan Government in connection with the sale of steam or chilled water or other forms of energy for heating, cooling, manufacturing processes and other uses generated by the System net of operating expenses (the "Net Revenues"), (ii) proceeds of obligations issued under or pursuant to the General Resolution on a parity with the 2002 Series A Bonds, (iii) all moneys in the funds and accounts (other than any debt service reserve fund accounts established for bonds other than the 2002 Series A Bonds) established under the General Resolution net of amounts required to pay operating expenses, and (iv) the rights and interest of the Metropolitan Government in certain agreements. For a more detailed discussion of the pledge and certain limitations related thereto, see "**SECURITY AND SOURCES OF PAYMENT FOR THE 2002 SERIES A BONDS - The General Resolution**" below.

### *Customer Contracts*

The primary source of revenues from operation of the System are the payments required to be made to the Metropolitan Government for the delivery of steam and/or chilled water service pursuant to the Customer Contracts. For a detailed description of the terms of the Customer Contracts and the rates, fees and other charges payable thereunder, see **“THE SYSTEM AND ITS OPERATIONS – Production And Sale Of Energy”** herein and *Appendix B-III - “Summary of Certain Provisions of the Customer Contracts”*. Both the State’s and the Metropolitan Government’s obligations to purchase energy from the System under their respective contracts are subject to annual appropriation by their respective governing bodies.

### *Essentially of the System; Metro Obligations*

Very few customers of the System have alternative sources of heating and cooling available to them and rely on the System to meet these energy needs. Since becoming operational, the Metropolitan Government has subsidized NTTC’s operation of the Existing Facility by making annual, and sometimes supplemental, appropriations to cover costs in excess of customer revenues. In order to continue its support of the System and meet customer needs, in addition to its obligation to pay for energy services delivered to it from the System pursuant to the Metropolitan Government Customer Contract, the Metropolitan Government has obligated itself under the General Resolution, subject to annual appropriation, to pay an additional amount equal to any shortfall in revenues required to meet operating expenses of the System and debt service on all Parity Obligations issued or executed and delivered pursuant to the General Resolution, including the 2002 Series A Bonds (the “Metro Funding Amount”), and to pay any amounts necessary to maintain the balances on deposit in the Operating Reserve Fund and the Debt Service Reserve Fund at their required levels. See **“SECURITY AND SOURCES OF PAYMENT FOR THE 2002 SERIES A BONDS – Metropolitan Government’s Obligation to Purchase Energy and Pay Deficiencies in Revenues”** below.

### *Security During Construction and Operation of the New Facility*

The Metropolitan Government’s obligation to pay the Metro Funding Amount and maintain reserve fund balances begins on the date the New Facility is placed in service under the terms of the Management Contract. To provide security during construction of the New Facility, the Metropolitan Government has also covenanted in the General Resolution that prior to the Service Commitment Date, subject to annual appropriation, it shall pay all debt service expenses of the 2002 Series A Bonds to the extent proceeds available from the 2002 Series A Bonds and from other available sources are insufficient for such purpose. In addition to the revenues derived from the sale of energy pursuant to the Customer Contracts, the Metropolitan Government has pledged, for the benefit of the holders of the 2002 Series A Bonds, its rights under the Management Contract, including its right to receive certain damage payments and other amounts from CES for CES’s failure to meet certain deadlines or performance standards with respect to the construction, acceptance and operation of the New Energy Generating Facility or CES’s default under or termination of the Management Contract. See **“SECURITY AND SOURCES OF PAYMENT FOR THE 2002 SERIES A BONDS – Security During Construction of the Project”**, **“SECURITY AND SOURCES OF PAYMENT FOR THE 2002 SERIES A BONDS – Security During Operation and Management of the System”** below and *Appendix B-II – “Summary of Certain Provisions of the Management Contract”* attached hereto. CES’s obligations to perform under the Management Contract are secured by a guaranty from Constellation Energy Group (“CEG” or “the Parent”) to the Metropolitan Government (the “Guaranty”). The Parent’s payment obligations under the Guaranty, while absolute and unconditional, are capped at amounts stated therein. See **“SECURITY AND SOURCES OF PAYMENT FOR THE 2002 SERIES A BONDS - The Parent Guaranty”** herein. The Guaranty and any payments received thereunder are pledged as security for the 2002 Series A Bonds under the General Resolution.

## **Limited Obligations**

The 2002 Series A Bonds are limited obligations of the Metropolitan Government, payable solely from the moneys, funds, accounts and other security pledged under the General Resolution and any moneys, funds and accounts pledged pursuant to the terms of any Parity Obligation Agreement. The 2002 Series A Bonds shall not constitute a debt of the Metropolitan Government or any local government, nor a charge, lien or encumbrance on any property, income, receipts or revenues of the Metropolitan Government, other than the Net Revenues pledged therefor. Neither the full faith and credit nor taxing powers of the Metropolitan Government or any local government shall be deemed to be pledged to the payment of the 2002 Series A Bonds.

## **Additional Information**

Brief descriptions of the Metropolitan Government, CES, the Parent, the State, the System, and the 2002 Series A Bonds, are included in this Official Statement and brief summaries of certain terms of the General Resolution, the Management Contract, the Fuel Purchase Contract, the Customer Contracts, the Guaranty and the Project Feasibility Report are also included herein or attached hereto as Appendices. Such descriptions and summaries do not purport to be comprehensive or definitive. The summaries of such agreements and documents are qualified in their entirety by reference to such agreements and documents, and references herein to the 2002 Series A Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto included in the aforesaid agreements and documents. For further information, reference should be made to the complete documents, copies of which are on file at the offices of the Trustee. All document descriptions are further qualified in their entirety by reference to bankruptcy laws and laws relating to or affecting generally the enforcement of creditors' rights.

## **PLAN OF FINANCE**

### **The Project**

In an effort to provide long-term, cost effective and reliable service to customers of the System, the Metropolitan Government has decided it will make the following capital improvements to the System (such improvements are collectively referred to herein as the "Project"), to be financed with proceeds of the 2002 Series A Bonds:

#### ***Site Acquisition***

The Metropolitan Government has purchased from the Metropolitan Development and Housing Agency ("MDHA") an approximately 86,729.5 square foot parcel of land, approximately 1.99 acres, located just south of the Existing Facility on which the New Energy Generating Facility will be constructed (the "Facility Site"). The purchase price to acquire the Facility Site and related costs to lease the adjacent land for construction laydown is \$1,054,864. For a more complete description of the Facility Site, see ***Appendix C - "The Project Feasibility Report"*** attached hereto.

#### ***New Energy Generating Facility***

Pursuant to the Management Contract, CES will be responsible for (i) the development, design, construction, start-up and acceptance testing of the New Energy Generating Facility, and (ii) providing interconnections between the New Energy Generating Facility and the existing Energy Distribution System (collectively, the "Construction Work"), for a fixed price of \$46,904,737 (the "Fixed Construction Price"). CES will be paid from proceeds of the 2002 Series A Bonds deposited in the System Improvement Fund, and earnings thereon, based on a not-to-exceed drawdown schedule for the Construction Work. The fixed price

and drawdown schedule may be adjusted to compensate CES for the effects of Uncontrollable Circumstances, upfront costs charged by utilities for interconnection and change orders requested by the Metropolitan Government.

The New Energy Generating Facility will be housed in an approximately 43,450 square foot, two-story building on the Facility Site. Primary components of the New Energy Generating Facility include a new 69/13.8 kV substation, four 65,000 pounds per hour (“PPH”) forced draft, pressurized natural gas/#2 fuel oil boilers, and eight 2600-ton electric chillers with duplex compressors. The New Facility has been designed to produce 260,000 PPH of 150 PSIG saturated steam and 20,800 tons per hour of 42 degree Fahrenheit chilled water. For a more complete description of the New Energy Generating Facility, see *Appendix C - “Project Feasibility Report”* attached hereto.

#### ***Other System Improvements***

In addition to the Construction Work, CES will also be required, pursuant to change orders or by other agreement, to make the following System Improvements, for an estimated additional cost of approximately \$6,700,000, also to be financed from proceeds of the 2002 Series A Bonds:

- Improvements to and expansion of the existing Energy Distribution System, including rehabilitation of the State’s steam distribution system which will be acquired by the Metropolitan Government from the State on the Service Commencement Date;
- Replacement and upgrading of Customer meters and monitoring devices;
- Various energy conservation and de-coupling projects at several Customer buildings to improve System-wide efficiency; and
- Construction of a new electrical substation on the Facility Site with Nashville Electric Service.

#### ***Reimbursement of Metropolitan Government Development Costs***

In addition to providing funds for the costs of the Site Acquisition, Construction Work and other System Improvements, approximately \$2,800,000 in proceeds of the 2002 Series A Bonds may be used to reimburse the Metropolitan Government for its costs in developing the Project.

#### **Estimated Sources and Uses of Bond Proceeds and Other Funds**

The following table sets forth the estimated sources and uses of funds in connection with the issuance of the 2002 Series A Bonds.

**SOURCES OF FUNDS**

Principal Amount of 2002 Series A Bonds .....	\$ 66,700,000.00
Net Original Issue Premium.....	<u>2,386,748.00</u>
<b>TOTAL SOURCES OF FUNDS.....</b>	<b>\$ 69,086,748.00</b>

**USES OF FUNDS**

System Improvement Fund	
Capitalized Interest Account .....	\$ 5,957,330.16
Construction Account.....	58,821,962.07
Costs of Issuance <sup>(1)</sup> .....	1,699,268.27
Debt Service Reserve Fund.....	<u>2,608,187.50</u>
<b>TOTAL USES OF FUNDS.....</b>	<b>\$69,086,748.00</b>

<sup>(1)</sup> Cost of Issuance, includes, but is not limited to, legal, printing, feasibility report, etc. and underwriting discount (\$387,580.45), bond insurance premium (\$438,933.13) and surety bond premium (\$65,204.69). Furthermore, \$410,000.00 of the \$1,699,268.27 listed as Costs of Issuance are attributable to Project development costs.

**Projected Debt Service**

The following table shows the estimated debt service to be paid by the Metropolitan Government for the 2002 Series A Bonds.

<b>October 1</b>			
<b>Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Debt Service</b>
2003	\$ 0	\$2,977,764	\$2,977,764
2004	0	3,180,994	3,180,994
2005	1,180,000	3,180,994	4,360,994
2006	1,215,000	3,145,594	4,360,594
2007	1,255,000	3,109,144	4,364,144
2008	1,290,000	3,071,494	4,361,494
2009	1,330,000	3,032,794	4,362,794
2010	1,370,000	2,992,894	4,362,894
2011	1,250,000	2,948,369	4,198,369
2012	1,550,000	2,886,719	4,436,719
2013	1,545,000	2,816,769	4,361,769
2014	1,625,000	2,737,587	4,362,587
2015	1,710,000	2,652,275	4,362,275
2016	1,800,000	2,562,500	4,362,500
2017	1,890,000	2,471,750	4,361,750
2018	1,990,000	2,372,525	4,362,525
2019	2,090,000	2,269,887	4,359,887
2020	2,200,000	2,160,162	4,360,162
2021	2,315,000	2,044,662	4,359,662
2022	2,440,000	1,923,575	4,363,575
2023	2,150,000	1,796,125	3,946,125
2024	2,665,000	1,699,375	4,364,375
2025	2,795,000	1,566,125	4,361,125
2026	3,790,000	1,426,375	5,216,375
2027	3,110,000	1,251,087	4,361,087
2028	3,255,000	1,107,250	4,362,250
2029	3,420,000	944,500	4,364,500
2030	3,590,000	773,500	4,363,500
2031	3,770,000	594,000	4,364,000
2032	3,955,000	405,500	4,360,500
2033	4,155,000	207,750	4,362,750
	<u>\$66,700,000</u>	<u>\$66,310,039</u>	<u>\$133,010,039</u>

**SECURITY AND SOURCES OF PAYMENT FOR THE 2002 SERIES A BONDS**

**The General Resolution**

***Pledge for all Parity Obligations***

The 2002 Series A Bonds and any other Parity Obligations issued or executed and delivered under or pursuant to the General Resolution are limited obligations of the Metropolitan Government, payable solely from and secured by the trust estate created under the General Resolution (the "Trust Estate") and any moneys, funds and accounts pledged pursuant to the terms of any Parity Obligation Agreement. The Trust Estate consists of: (i) the proceeds of the sale of Parity Bond Obligations, (ii) the Net Revenues, (iii) all moneys and securities in the funds and accounts (provided any Debt Service Reserve Fund account is pledged only to the series of Bonds for which such account is established) established under the General Resolution (net of amounts required to pay Operating Expenses), (iv) the Customer Contracts, (v) the Management

Contract or any other replacement management contract, (vi) the Guaranty or any other replacement guaranty (vii) the Fuel Purchase Contract or other replacement fuel purchase contract. For a detailed description of the various funds, accounts and revenues securing the 2002 Series A Bonds, see *Appendix B-I - "Summary of Certain Provisions of the General Resolution"*.

The pledge and lien of the Trust Estate became effective upon the adoption of the General Resolution, *except* that the pledge of Revenues received from amounts payable under the original customer contracts with NTTC and assigned to the Metropolitan Government, and any other rights, title and interests of the Metropolitan Government under such contracts, becomes effective during the period commencing on January 1, 2004 and ending at such time as the Revenues collected under such contracts and deposited in the Operating Reserve Fund as required by the General Resolution, equal \$3,000,000 and thereafter become effective on the Service Commencement Date.

Amounts not considered Revenues under the General Resolution include: (i) any amount received or receivable from the United States or the State (or any agency thereof) or from any other source as or on account of a grant or contribution for or with respect to (a) the construction, acquisition, improvement, extension, renewal or other development of any part of the System or (b) the financing of any of the foregoing; (ii) the proceeds of any Parity Obligations or Subordinated Obligations; (iii) the proceeds of any liability insurance or indemnity; (iv) amounts received by the Metropolitan Government as reimbursement for System costs incurred or expenses paid by the Metropolitan Government from non-System funds; (v) distributions to the Metropolitan Government from the Surplus Fund; (vi) amounts paid by Initial Customers as an allowance for repairs and upgrades to the Energy Distribution System pursuant to the Initial Customer Contracts, which shall be deposited and held in the EDS Repair and Improvement Account established in the Operating Fund; (vii) Customer Reimbursable Amounts, which shall be deposited and held in the Resold System Capacity Account of the Operating Fund and applied at the direction of the Metropolitan Government to reimburse Customers for amounts paid to the Trustee upon early termination of a Customer Contract; (viii) except to the extent required to replenish a deficiency in a Debt Service Reserve Fund, 25% of New Customer Surplus Revenues, which shall be deposited and held in the Energy Conservation Fund for the payment of costs of energy conservation projects; (ix) delay liquidated damages paid pursuant to the Management Contract in excess of daily debt service; or (x) any amount received or receivable by the Metropolitan Government in a capacity other than as owner and operator of the System.

### ***Flow of Funds***

Payment of principal, redemption premium, if any, of and interest on the 2002 Series A Bonds is secured by moneys in various funds and accounts held by the Trustee. Except as otherwise described under this heading, all Revenues of the Metropolitan Government derived from its ownership and operation of the System, are to be deposited in the General Account of the Operating Fund established by the General Resolution. On the first business day of each month, after retaining amounts in the General Account to pay the Projected Net Operating Expense Amount (as defined in *Appendix A* hereto) for that month, the Trustee, if and to the extent sufficient funds are available, is required to make the following transfers, in order of priority:

First, to the Debt Service Fund an amount such that the balance in the Debt Service Fund shall be equal to the debt service due on all Parity Obligations through the first day of the following month;

Second, to the Debt Service Reserve Fund for each issue of Parity Obligations, an amount equal to the Debt Service Reserve Fund Deposit Requirement (as hereinafter defined);

Third, to the Operating Reserve Fund, (i) during the first twenty-four months following adoption of the General Resolution and issuance of the 2002 Series A Bonds, until such time as the balance in the Operating Reserve Fund equals the Operating Reserve Fund Requirement (as defined

in *Appendix A* hereto) , an amount equal to 1/24 of the Operating Reserve Fund Requirement and (ii) following such twenty-four month period the amount, if any, necessary to increase the balance in the Operating Reserve Fund to the Operating Reserve Fund Requirement;

Fourth, to the Renewal and Replacement Fund, an amount equal to the Renewal and Replacement Fund Requirement (as defined in *Appendix A* hereto);

Fifth, to the System Improvement Fund, an amount equal to the System Improvement Fund Requirement (as defined in *Appendix A* hereto) for the applicable month;

Sixth, the Metropolitan Government may, but shall not be required to, during each month, after making all transfers required in paragraphs First through Fifth transfer any surpluses in the General Account to the Surplus Fund; provided such transfer may be made only if (a) there is reserved in the General Account an amount sufficient to pay Operating Expenses during the six-month period immediately following such transfer, and (b) there is reserved in the Debt Service Fund an amount sufficient to pay (1) debt service expenses on all Parity Obligations coming due during the six-month period immediately following such transfer and (2) all other funds at their required levels.

Notwithstanding the foregoing provisions, if on the first business day of each month it is determined that after payment of all amounts required to be deposited in the General Account of the Operating Fund, there are insufficient amounts available to pay debt service expenses on the Parity Obligations when due, the Metropolitan Government shall not reimburse itself as an Operating Expense for its Incremental Costs (as defined in *Appendix A* hereto) then due and payable and shall delay payment of such Incremental Costs until sufficient Revenues become available under the General Resolution. For a complete discussion of the flow of funds, see *Appendix B-I - "Summary of Certain Provisions of the General Resolution"* attached hereto.

The General Resolution also provides that certain Revenues shall not be deposited into the General Account of the Operating Fund for transfer in accordance with the above provisions, but instead shall be deposited directly into a specified fund or account and used only for the purposes provided therein. Such Revenues include:

(i) amounts received by the Metropolitan Government pursuant to the original customer contracts with NTTC and assigned to the Metropolitan Government during the period beginning on January 1, 2004 and ending at such time as the Revenues received thereunder and deposited into the Operating Reserve Fund equal \$3,000,000, which shall be deposited in the Operating Reserve Fund;

(ii) amounts paid as interconnection charges by a Customer pursuant to an Additional Customer Contract, which shall be deposited in Construction Account of the System Improvement Fund and applied to the costs of such interconnections;

(iii) amounts received as prepayments under an Additional Customer Contract allocable to interconnection or line extension costs, which shall be deposited at the direction of the Project administrator in either the General Account of the Operating Fund or the System Improvement Fund;

(iv) payments made by Customers as a condition of terminating a Customer Contract, which shall be deposited in either (a) the Debt Service Fund and applied to the prepayment of Parity Obligations or (b) in the Contract Termination Account of the Operating Fund and applied at the direction of the Metropolitan Government to the payment of Operating Expenses, in each case to the extent allocable to debt service and operating expenses, respectively, based on the Customer's contract capacity as set forth in the Customer Contract;

(v) proceeds of casualty insurance or condemnation received in connection with the System, which shall be deposited either in the System Improvement Fund or applied towards the

prepayment of Parity Obligations, as the Metropolitan Government elects in accordance with the General Resolution;

(vi) damage payments received by the Metropolitan Government in accordance with the Management Contract for a delay in Scheduled Service Commencement (hereinafter defined) equal to daily debt service, which shall be deposited in the Debt Service Fund;

(vii) damage payments received by the Metropolitan Government as a result of a failure to achieve acceptance or a shortfall in output or fuel usage acceptance guarantees pursuant to the Management Contract, which shall be deposited in the Debt Service Fund and applied to the prepayment of the Parity Obligations; and

(viii) damage payments paid by an operator of the System as a result of the early termination of any management contract for operator default, which shall be deposited in the Contract Termination Account of the Operating Fund or payments corresponding to the foregoing with respect to any System improvements financed with proceeds of Parity Obligations.

While such Revenues are not available for the payment of debt service in the monthly transfers from the General Account of the Operating Fund, following an event of default under the General Resolution, all Revenues pledged thereunder shall be applied to the payment of Parity Obligations, including the 2002 Series A Bonds. For a detailed discussion of the flow of funds and the priority of Revenue disbursements, see *Appendix B-I - "Summary of Certain Provisions of the General Resolution"* attached hereto.

#### ***Debt Service Reserve Fund***

As security for the payment of the 2002 Series A Bonds, the General Resolution establishes a Debt Service Reserve Fund to be maintained at the Debt Service Reserve Fund Requirement, which for the 2002 Series A Bonds is an amount equal to the lesser of (i) maximum annual debt service becoming due of the 2002 Series A Bonds in any year, (ii) 125% of average annual debt service becoming due of the 2002 Series A Bonds and (iii) 10% of the proceeds of the 2002 Series A Bonds (the "Debt Service Reserve Fund Requirement").

In lieu of the required deposit of Revenues in the Debt Service Reserve Fund, the General Resolution permits the Metropolitan Government to cause to be deposited therein, a reserve fund insurance policy, surety bond, or reserve fund letter of credit for the benefit of the owners of the 2002 Series A Bonds in an amount equal to the difference between the Debt Service Reserve Fund Requirement and the sum then on deposit in the Debt Service Reserve Fund. See *Appendix B-I - "Summary of Certain Provisions of the General Resolution"* attached hereto. Accordingly, Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a surety bond (the "Surety Bond") for the purpose of funding fifty percent (50%) of the Debt Service Reserve Fund Requirement for the 2002 Series A Bonds. The Surety Bond provides that upon the later of (i) one (1) day after receipt by Ambac Assurance of a demand for payment executed by the Trustee or Paying Agent certifying that provision for the payment of principal of or interest on the 2002 Series A Bonds when due has not been made or (ii) the interest payment date specified in the Demand for Payment submitted to Ambac Assurance, Ambac Assurance will promptly deposit funds with the Paying Agent sufficient to enable the Paying Agent to make such payments due on the 2002 Series A Bonds, but in no event exceeding the Surety Bond Coverage, as defined in the Surety Bond.

Pursuant to the terms of the Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by Ambac Assurance under the terms of the Surety Bond and the Metropolitan Government is required to reimburse Ambac Assurance for any draws under the Surety Bond with interest at a market rate. Upon such reimbursement, the Surety Bond is reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the

Metropolitan Government is subordinate to the Metropolitan Government's obligations with respect to the 2002 Series A Bonds and other Parity Obligations issued under the General Resolution. In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the Surety Bond, any draw on the Surety Bond shall be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Debt Service Reserve Fund, in addition to the amount available under the Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee or the Paying Agent. For information about Ambac Assurance, see "**BOND INSURANCE - Ambac Assurance Corporation**" below.

### ***Limited Obligations***

The 2002 Series A Bonds are limited obligations of the Metropolitan Government, payable solely from the Trust Estate created under the General Resolution and any moneys, funds and accounts pledged pursuant to the terms of any Parity Obligation Agreement. The 2002 Series A Bonds shall not constitute a debt of the Metropolitan Government or any local government, nor a charge, lien or encumbrance on any property, income, receipts or revenues of the Metropolitan Government, other than the Net Revenues pledged therefor. Neither the full faith and credit nor taxing powers of the Metropolitan Government or any local government shall be deemed to be pledged to the payment of the 2002 Series A Bonds.

### **Metropolitan Government Obligation to Purchase Energy and Pay Metro Funding Amount**

In addition to being the owner of the System, the Metropolitan Government is a significant purchaser of energy generated by the System. As such, the Metropolitan Government has entered into the Metropolitan Government Customer Contract, pursuant to which it is obligated to purchase, subject to annual appropriation, 72,715 PPH of saturated steam capacity and 8,600 tons of chilled water capacity generated by the System for the Metropolitan Government Premises at rates and upon terms specified in the Metropolitan Government Customer Contract.<sup>1</sup> The Metropolitan Government has also independently covenanted in the General Resolution, for the benefit of the owners of any Parity Obligations, that on or after the date the New Energy Generating Facility is placed in service (the "Service Commencement Date"), which is expected to occur on or before July 1, 2004, and as long as any Parity Obligations remain Outstanding under the General Resolution, it shall obtain all of its heating and cooling requirements for the Metro-owned buildings specified in the General Resolution (the "Metropolitan Government Premises") from the System and not from any other source and to pay for all such energy services, subject to annual appropriation, at the rates set forth in the Metropolitan Government Customer Contract. Also, in order to insure adequate revenues to pay Operating Expenses and outstanding debt service on Parity Obligations, including the 2002 Series A Bonds, the Metropolitan Government has agreed in the Metropolitan Government Customer Contract and has covenanted in the General Resolution that it shall, subject to annual appropriation, pay the Metro Funding Amount and to replenish the Operating Reserve Fund and the Debt Service Reserve Fund to their stated requirements. See ***Appendix B-I - "Summary of Certain Provisions of the General Resolution"*** and ***Appendix B-II - "Summary of Certain Provisions of the Customer Contracts."***

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<sup>1</sup> The capacities listed refer only to the Metropolitan Government's commitment pursuant to the Metropolitan Government Customer Contract and doesn't include any committed capacity as an Additional Customer of the System.

For a description of the Metropolitan Government budget and appropriation procedures, see “**METROPOLITAN GOVERNMENT BUDGET AND APPROPRIATION SYSTEM**” herein.

### **Sale of Energy – The Customer Contracts**

The most significant source of revenue for the District Energy System comes from the fees payable under the Customer Contracts to the Metropolitan Government (the “Energy Fees”) for steam and chilled water services. Collectively, as of the date hereof, Customer Contracts (including Holdover Customer Contracts) account for the sale of approximately 93.80% of the total available capacity of steam and 90.17% of the total available capacity of chilled water. Additionally, the Metropolitan Government and CES are actively marketing the remaining excess capacity and will continue to market any capacity that becomes available as a result of future improvements and expansions to the System. For a more detailed account of the historical and projected Revenues generated from the sale of energy produced by the System, see “**THE SYSTEM AND ITS OPERATIONS – Production and Sale of Energy**” below. The Metropolitan Government has entered into three categories of Customer Contracts, each of which is briefly described below.

#### ***The Initial Customer Contracts***

The Initial Customer Contracts include the State Customer Contract, the Commercial Customer Contracts and the Metropolitan Government Customer Contract, which collectively will account for the sale of 89.02% of the total available capacity of steam from the New Facility and 85.65% of the total available capacity of chilled water from the New Facility. Each of the customers under the Initial Customer Contracts (the “Initial Customers”) are customers of the existing System under contracts with NTTC who have opted prior to the issuance of the 2002 Series A Bonds to execute new contracts with the Metropolitan Government to receive energy services from the New Facility for terms beginning on the Service Commencement Date and ending on the thirtieth anniversary of that date. At the end of the initial thirty year term, and at the end of each renewal term, the Initial Customer Contracts will be extended for an additional five year term unless, at least one year prior to the expiration of the initial term or the then-current renewal term, either party to an Initial Customer Contract gives notice of termination (upon the terms set forth in such contract). Excluding the State and the Metropolitan Government which have committed to purchase, respectively, 39.84% and 29.00% of the total available capacity of steam and 28.25% and 33.08% of the total available capacity of chilled water, no single Initial Customer of the System is contractually committed to purchase more than 6.89% of the total available capacity of steam and 4.01% of the total available capacity of chilled water. For a more detailed description of the terms and conditions of the Initial Customer Contracts, see “**THE SYSTEM AND ITS OPERATIONS – Production and Sale of Energy – Sale of Energy Generated by the System**” and ***Appendix B-III – “Summary of Certain Provisions of the Customer Contracts”***

#### ***Holdover Customer Contracts***

The Holdover Customer Contracts include existing NTTC contracts with three private customers (the “Holdover Customers”) who, as of the date hereof, have not entered into new contracts with the Metropolitan Government. Under the terms of their existing contracts which have been assigned to the Metropolitan Government, the Holdover Customers will continue to receive energy services from the System for varying periods of time after the New Energy Generating Facility becomes operational. One of the Holdover Customers has informed the Metropolitan Government that it will not require Services from the System beyond the Spring of 2003 and in accordance with the terms of its contract will terminate the contract at that time. Upon the commencement of service of the New Facility, it is expected that the Holdover Customer Contracts initially will account for the sale of 3.58% of the total available capacity of steam from the New Facility and 3.37% of the total available capacity of chilled water from the New Facility. For a detailed more description of the terms and conditions of the Holdover Customer Contracts, see “**THE SYSTEM AND ITS OPERATIONS – Production and Sale of Energy – Sale of Energy Generated by the System**” and ***Appendix B-III – “Summary of Certain Provisions of the Customer Contracts”***.

Holdover Customers who enter into contracts with the Metropolitan Government for continued energy services subsequent to the date hereof will become Additional Customers of the System discussed below.

### ***Additional Customer Contracts***

Prior to the Service Commencement Date, the Metropolitan Government intends to enter into a long-term contract for an additional Metro-owned building which will account for 1.20% of total available capacity of steam from the New Facility and 1.15% of total available capacity of chilled water from the New Facility. This building is currently being serviced pursuant to a contract between the Metropolitan Government and NTTC recently entered into for a term expiring on the Service Commencement Date. Because the Metropolitan Government intends to enter into a new contract for continued energy services for this building subsequent to the issuance of the 2002 Series A Bonds, the new contract, together with any contracts entered into with new customers of the System subsequent to the date hereof, are referred to herein as “Additional Customer Contracts” and the customers entering into such contracts are referred to as “Additional Customers”. The remaining 6.20% available capacity of steam and 9.83% of chilled water for which the Metropolitan Government has not yet received commitments, as well as any additional steam and chilled water capacity that becomes available (i) by expiration of the terms of the Holdover Customer Contracts, (ii) as a result of reduced capacity needs of the Initial Customers or termination of the Initial Customer Contracts, or (iii) as a result of future improvements or expansions to the System, will be marketed by the Metropolitan Government and CES upon terms and conditions to be determined by the Metropolitan Government. See ***Appendix B-III – “Summary of Certain Provisions of the Customer Contracts”*** herein.

At present, the Metropolitan Government is confident that it will successfully market any excess capacity that now exists or will become available, and to the extent it is unable to do so, that the Metropolitan Government believes it can itself absorb most, if not all, of such capacity for additional Metro-owned buildings.

As consideration for the services provided by the Metropolitan Government under the Customer Contracts, each Customer will pay an energy fee (the “Energy Fee”), computed in accordance with the formula established in the respective Customer Contracts. The components comprising the calculation of the Energy Fee paid by a Customer, as well as certain terms and conditions relating to a Customer’s reduced capacity needs and its obligation to continue to purchase energy and the termination of a Customer Contract, are significantly different (i) for the State than those applicable to the Commercial Customers (whose contracts are substantially the same except for reserved capacity of steam and chilled water) and the Metropolitan Government, and (ii) for the Initial Customers than those applicable to the Holdover Customers and those that may be applicable to Additional Customers. For a detailed description of the Energy Fees and the terms and conditions of the respective Customer Contracts, see **“THE SYSTEM AND ITS OPERATIONS – Production and Sale of Energy – Sale of Energy Generated by the System”** and ***Appendix B-III – “Summary of Certain Provisions of the Customer Contracts”***. Projected revenues from Energy Fees payable by the Initial Customers, the Holdover Customers and Additional Customers are set forth below under the heading **“THE SYSTEM AND ITS OPERATIONS – Projected Operating Results; Projected Revenues and Expenses”**.

### **Security During Construction of the Project**

The Customer Contracts (other than the original contracts assigned to the Metropolitan Government by NTTC), do not require any payments to be made prior to the Service Commencement Date. The original contracts assigned to the Metropolitan Government by NTTC continue to be effective during construction of the New Facility. Under the General Resolution, the Metropolitan Government has pledged up to \$3,000,000 of gross revenues from the existing NTTC contracts to the System. These revenues will be deposited directly in the Operating Reserve Fund to be available for working capital. See **“The Resolution - Pledge for all**

**Parity Obligations**” above. As security for the payment of the 2002 Series A Bonds during construction of the Project (the “Construction Period”), the Metropolitan Government has also covenanted in the General Resolution that prior to the Service Commencement Date, subject to annual appropriation, it shall pay all debt service expenses of the 2002 Series A Bonds to the extent proceeds available from the 2002 Series A Bonds and from other available sources are insufficient for such purpose. See *Appendix B-I - “Summary of Certain Provisions of the General Resolution”* above.

As further security for the payment of the 2002 Series A Bonds during the Construction Period the Metropolitan Government has pledged all of its rights, title and interest in and to certain damage payments payable to the Metropolitan Government by CES as a result of CES’s failure to satisfy certain Construction Period obligations under the Management Contract. Pursuant to the Management Contract, CES is required to place the New Energy Generating Facility in service by the Scheduled Service Commencement Date, which is 610 days following the date on which construction of the Project commences (the “Scheduled Service Commencement Date”). Construction is expected to commence on November 10, 2002 in accordance with the terms of the Management Contract. If CES commences providing service prior to the Scheduled Service Commencement Date, the Metropolitan Government is required to pay CES incentive payments in the amount of \$10,000 for each day that service commences prior to such date. In the event that service commences after the Scheduled Service Commencement Date, however, CES is required to make damage payments to the Metropolitan Government in the amount of daily debt service plus an additional \$10,000 per day for each day commencement of service is delayed beyond the Scheduled Service Commencement Date.

The Management Contract also requires CES to perform acceptance testing and achieve acceptance within two years following the Scheduled Service Commencement Date, and CES is also required to satisfy several acceptance testing performance guarantees with respect to (i) steam capacity and chilled water delivery and (ii) electricity, natural gas, fuel oil and water usage. If acceptance is not achieved within the time period allotted, the Metropolitan Government shall have the right to terminate the Management Contract and CES will be required to pay liquidated damages in an amount sufficient to discharge the 2002 Series A Bonds plus \$5,000,000 as compensation to the Metropolitan Government. To the extent that the New Energy Generating Facility would otherwise achieve acceptance but for the failure to satisfy one or more of the acceptance performance guarantees, and provided the New Facility meets a threshold level of acceptance as specified in the Management Contract, CES may still achieve acceptance by paying certain amounts to the Metropolitan Government for its failure to satisfy the performance guarantees. Such amounts are intended to compensate the Metropolitan Government for any losses incurred as a result of reduced operating capacity, including any amounts necessary to defease a portion of the 2002 Series A Bonds as a result of reduced energy outputs. For a detailed discussion of the acceptance standards, performance guarantees, and the damages and amounts payable to the Metropolitan Government for failure to satisfy its Construction Period obligations, see *“Appendix B-II – “Summary of Certain Provisions of the Management Contract”*.

### **Security During Management and Operation of the System**

The Management Contract provides that CES will operate and maintain the System, at its own expense, on a 24 hour per day, 7 day per week basis (except for scheduled maintenance or due to Uncontrollable Circumstances), for a term commencing on the Scheduled Service Commencement Date and ending on the 15th anniversary of the Service Commencement Date, provided that the Metropolitan Government may extend the term by exercising, at its sole option, any of one or more of three consecutive five year renewal options (the “Management Term”). As consideration for the performance of its management obligations, CES will be paid a fee calculated in accordance with the formula set forth in the Management Contract (the “Management Fee”). As part of its Management Period obligations, CES is required to satisfy several operating performance guarantees with respect to the availability of the System, environmental standards, certain qualitative and quantitative operating standards relating to steam and chilled water, and electricity, and natural gas, fuel oil and water usage. If CES fails to meet any of its operating

performance guarantees, and the failure to do so is not otherwise excused under the terms of the Management Contract, CES will be required to pay damages to the Metropolitan Government for the period during which the applicable standard is not met, and in the case of a failure to satisfy environmental standards, CES will be obligated to pay all costs to remedy the cause thereof and pay all fines and penalties assessed by regulatory bodies. Also, as part of its Management Period obligations, CES is required to cause the Parent to provide and maintain the Guaranty (discussed below), and under certain conditions related to the credit of the Parent as set forth in the Management Contract, CES must also provide credit enhancement of its obligations under the Management Contract. For a detailed discussion of the CES's Management Period Obligations and the damages and amounts payable to the Metropolitan Government for failure to satisfy such obligations, see "**Appendix B-II – Summary of Certain Provisions of the Management Contract**".

## **The Parent Guaranty**

The Parent has entered into a Guaranty in favor of the Metropolitan Government with respect to CES's obligations under the Management Contract. For a discussion of the Parent, see "**CONSTELLATION ENERGY SOURCE, INC. AND CONSTELLATION ENERGY GROUP**" herein. The Guaranty and the payments to be made by the Parent to the Metropolitan Government are pledged to secure the 2002 Series A Bonds.

### ***Obligations Guaranteed; Right to Proceed Against Guarantor***

Pursuant to the Guaranty, the Parent has absolutely, presently, irrevocably and unconditionally guaranteed to the Metropolitan Government the full and prompt payment when due of each and all payments required to be credited or made by CES under the Management Contract, to or for the account of, the Metropolitan Government as the same become due and payable under the Guaranty. The Guaranty constitutes a guaranty of payment and not of collection, and the Metropolitan Government shall have the right to proceed first and directly against the Parent under the Guaranty without first proceeding against CES or exhausting any remedies against CES which the Metropolitan Government may have.

### ***Limitation of Liability***

Pursuant to the Guaranty, the aggregate liability of the Parent (i) with respect to the Construction Work (including damages payable through the acceptance) is limited to \$12,000,000, and (ii) with respect to the Management Period obligations (a) from the period commencing on the Service Commencement Date and ending on the last day of the initial term is limited to \$12,000,000, declining to \$8,000,000 on the day following the fifth anniversary of the Service Commencement Date and further declining to \$4,000,000 on the day following the tenth anniversary of the Service Commencement Date. The Guaranty does not extend to any renewal terms under the Management Contract. For a discussion of CES's obligations with respect to the Construction Work and the Management Period, see "**Security During Construction of the Project**" and "**Security During Management and Operation of the System**" above and *Appendix B-II – Summary of Certain Provisions of the Management Contract*".

### ***Substitution of Credit***

On and after the fifth anniversary of the Service Commencement Date, the Parent shall have the right to deliver to the Metropolitan Government a letter of credit satisfying the requirements set forth in the Guaranty in the stated amount of \$8,000,000 (less any amount previously paid to the Metropolitan Government under the Guaranty and counted against the limitation of liability described above under the subheading "*Limitation of Liability*") and upon delivery of such letter of credit to terminate the Guaranty. Upon such termination the obligations of the Parent shall terminate, except for obligations that accrued prior to the termination date that remain unsatisfied.

## **Additional Parity Obligations**

The General Resolution permits, upon satisfaction of certain conditions set forth therein, the issuance or execution and delivery of Parity Obligations on a parity with the 2002 Series A Bonds. Except with respect to (i) the 2002 Series A Bonds, (ii) Parity Obligations issued to refund other Parity Obligations to reduce debt service, and (iii) Parity Obligations issued or executed and delivered for the purpose of financing repairs or replacements to the System, the Metropolitan Government may not issue or execute and deliver other Parity Obligations unless it delivers to the Trustee a certificate of an Authorized Officer of the Metropolitan Government to the effect that (y) Net Revenues for the immediately preceding Fiscal Year (including all payments by the Metropolitan Government pursuant to the General Resolution) were at least equal to the debt service expenses for such Fiscal Year and (z) projected Net Revenues for the current Fiscal Year (including all payments by the Metropolitan Government pursuant to the General Resolution included in a then current appropriation), taking into account the proposed issue or execution and delivery of Parity Obligations and the expenses related to the project financed with proceeds of such Parity Obligations, are expected to be at least sufficient to pay debt services expenses for such Fiscal Year. See *Appendix B-I - "Summary of Certain Provisions of the General Resolution."*

## **METROPOLITAN GOVERNMENT BUDGET AND APPROPRIATION SYSTEM**

The Metropolitan Government operates on a fiscal year beginning July 1 and ending on June 30. The Metropolitan Government Charter (the "Charter") governs the budget and appropriation system which provides for separate operating and capital improvements budgets. The annual operating budget and the capital improvements budget must take the form of ordinances which become effective only if passed by a majority vote of the Metropolitan County Council (the "Council") on three different days. Final passage of an ordinance occurs when the ordinance is approved by a majority of the entire membership of the Council and (i) is signed by the Metropolitan County Mayor (the "Mayor"), or (ii) if not approved and signed by the Mayor, is subsequently adopted by two-thirds of the Council membership. The provisions of the Charter governing the budget procedures, adoption and amendments, as well as transfers of and additional appropriations are set forth below.

### **Annual Operating Budget**

On or before April 30 of each year, all officers, departments, boards, commissions and other agencies for which appropriations are made by the Metropolitan Government, must submit their budget requests or estimates to the Metropolitan Government director of finance (the "Director of Finance") for the next fiscal year. The Director of Finance then prepares the annual operating budget, making such revisions to the requests or estimates received as he/she deems necessary, provided each officer, department, board commission or other agency is entitled to a hearing before the Director of Finance with reference to any contemplated revision to its budget request or estimates.

The Director of Finance then transmits the proposed operating budget to the Mayor, who reviews and makes revisions to the proposed budget as he/she deems necessary or desirable. The Mayor must submit the proposed budget to the Council on or before May 25, together with a message explaining the budget, describing its important features and proposed financial policies for the ensuing fiscal year and setting forth the reasons for any significant policy changes or budgetary allocations. Copies of the budget and budget message are also distributed to any interested persons and a summary of the budget is published in each daily newspaper in the Metropolitan Government area. The annual operating budget ordinance must set forth the estimated revenues in detail by source and make appropriations according to fund and by organizational unit, purpose or activity.

Upon passage by the Council of the budget ordinance on first reading, the Council is required to hold public hearings which must be advertised in a daily newspaper of general circulation in the Metropolitan Government area at least seven days prior to the date or dates set for such hearings. At the conclusion of the public hearings, the Council may amend the proposed budget provided the budget makes provisions for all expenditures required by law and the Charter and all debt service requirements for the ensuing fiscal year, and further provided, total appropriations from any fund do not exceed the estimated fund balance, reserves, and revenues available for such fund. Final adoption of the budget ordinance by the Council must occur not later than June 30 and if the Council fails to adopt a budget ordinance by June 30, it is conclusively presumed to have adopted the budget submitted to the Council by the Mayor.

The amount set out in the adopted budget ordinance for each organizational unit, purpose or activity constitutes the annual appropriation for such item. All appropriations are allotted by the Director of Finance on a quarterly basis based on estimated needs. No expenditures or encumbrances in excess of the unencumbered balance of an appropriation are permitted unless an additional appropriation or transfer of an appropriation is made as provided in the Charter.

The Council may make additional appropriations at any regular or special meeting provided that any additional appropriation is made only from an existing unappropriated surplus in the fund to which it applies. Also, upon the request of any department head, the Mayor may transfer an unencumbered balance of any appropriation (or portion thereof) for any purpose or activity to the appropriation for any other purpose or activity within the same department. Further, at the end of a fiscal year quarter and at the request of the Mayor, the Council may by a resolution passed by a majority of the membership, transfer the unencumbered balance of any appropriation (or portion thereof) to another appropriation within the same section of the budget and within the same fund, provided the restriction on transfers within the same section of the budget and within the same fund shall not apply to (i) the discharge of obligations existing between governmental agencies financed from one fund and those financed through another fund, (ii) the transfer of moneys from operating funds to agency or trust funds, covering collections to be expended through such agency or trust funds, (iii) transfers of unappropriated surplus bond funds to the debt service funds set up to retire such bonds, and (iv) transfers between funds as may be authorized by law.

### **Capital Improvement Budget**

Not later than February 28 of each year, the Director of Finance shall submit to the Metropolitan Government planning commission (the "Planning Commission") requests for funds for capital improvements collected from all officers, departments, boards, commissions and other agencies so that the Planning Commission may prepare a capital improvement budget to be submitted to the Mayor along with its recommendations. The capital improvement budget must include a program of expenditures for the ensuing fiscal year and for the next five fiscal years thereafter. The Mayor is required to submit the capital improvement budget to the Metropolitan Council by May 15 of each year along with his/her recommendations of projects to be undertaken, the method of financing the projects and the impact on the Metropolitan Government debt structure. Projects to be financed from current revenues for the ensuing fiscal year are included in the annual operating budget discussed above.

The Council is required to hold public hearings on the proposed capital improvements budget prior to any hearings on the annual operating budget, advertised in the same manner as the annual operating budget. At the conclusion of the public hearings, the Council may accept, with or without amendment, or reject the proposed capital improvements program and the proposed means of financing. The capital improvements budget must be finally acted upon by the Council by the June 15 following submission of the budget.

The Mayor may submit amendments to the capital improvements budget to the Council at any time, accompanied by the recommendations of the Planning Commission, and such amendments will become effective when adopted by two-thirds of the membership of the Council.

## DESCRIPTION OF THE 2002 SERIES A BONDS

### General Description of 2002 Series A Bonds

The 2002 Series A Bonds will initially be dated their date of delivery and will bear interest from their dated date at the rates, and will mature on the dates and in the amounts, shown on the cover page hereof. Interest will be payable semiannually on each April 1 and October 1, commencing April 1, 2003. Principal on the 2002 Series A Bonds will be payable at the offices of SunTrust Bank, Nashville Tennessee, as Trustee and Paying Agent or any successors thereto. Interest on the 2002 Series A Bonds will be payable by check or draft of the Trustee mailed to the person in whose name the Bonds are registered as shown on the registration books of The Metropolitan Government on the Record Date for payment.

As long as the 2002 Series A Bonds are registered in book-entry only form, the foregoing is modified as set forth in the discussion under "Book-Entry Only System" below.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the 2002 Series A Bonds. The 2002 Series A Bonds will be issued in fully registered form, and, when issued, will be registered in the name of Cede & Co., as Bond owner and nominee for DTC. Purchase of beneficial interests in the 2002 Series A Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof. Purchasers of such beneficial interests will not receive certificates representing their interests in the 2002 Series A Bonds. One fully registered certificate will be issued for each maturity of the 2002 Series A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. So long as Cede & Co. is the Bond owner, as nominee of DTC, reference herein to the Bond owners or registered Owners shall mean Cede & Co., as aforesaid, and shall not mean the owners of beneficial interests in the 2002 Series A Bonds.

### Redemption Provisions

#### *General Optional Redemption*

2002 Series A Bonds maturing on or before October 1, 2012 are not subject to general optional redemption. At the option of the Metropolitan Government, 2002 Series A Bonds maturing after October 1, 2012, shall be subject to redemption prior to maturity, commencing on October 1, 2012, as a whole at any time or in part at any time, at a redemption price (expressed as a percentage of the principal amount of the 2002 Series A Bonds or portions thereof to be redeemed) equal to 100% of the principal amount thereof, together with interest accrued to the date fixed for redemption.

#### *Extraordinary Optional Redemption*

The 2002 Series A Bonds will be subject to redemption in whole (but only if all other Bonds issued under the General Resolution are simultaneously redeemed), but not in part, at the option of the Metropolitan Government, at any time prior to maturity, at a Redemption Price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the Redemption Date, if any of the following events shall have occurred:

(a) the System shall have been damaged or destroyed to the extent that, in the opinion of the Consulting Expert, either (i) the System cannot be reasonably restored or repaired within a period of six months to the condition thereof immediately preceding such damage or destruction, or (ii) the Metropolitan Government would thereby be prevented from carrying on the normal operations of the System for a period of six months or more; or

(b) title to, or the use or possession of, all or substantially all of the System shall have been condemned or taken under the exercise of the power of eminent domain by any governmental authority, or a person, firm or corporation acting under governmental authority, for any public use or purpose to such an extent that, in the opinion of the Consulting Expert, either (i) the System cannot be reasonably restored or replaced within a period of six months to a condition of comparable usefulness to that existing prior to such taking, or (ii) the Metropolitan Government would thereby be prevented from carrying on the normal operations of the System for a period of six months or more; or

(c) as a result of changes in the constitutions or laws of the United States of America or the State of Tennessee or of legislative or administrative action of the United States of America or the State of Tennessee or any political subdivision of either thereof or a final decree, judgment or order of a court or an order, rule, regulation, determination, action or refusal to take action, or refusal to issue or make any order, material permit, rule, regulation or determination, by a governmental authority or agency, after contest thereof by the Metropolitan Government in good faith either (i) the Customer Contracts, or any material part thereof, shall have become void or unenforceable or impossible of performance in accordance with the intent and purpose of the parties, or (ii) unreasonable burdens or excessive Service Payments being charged to the Customers with respect to the System or the operation thereof, or (iii) the System becomes regulated as a public utility.

***Mandatory Discharge of 2002 Series A Bonds***

Moneys deposited in the Debt Service Fund in accordance with the General Resolution from (a) proceeds from the sale of all or portion of the System by the Metropolitan Government; (b) damage payments arising from CES's failure to achieve acceptance of the New Facility; or (c) damages paid to the Metropolitan Government by any Initial Customer for early termination of its Initial Customer Contract shall be set aside to defease the 2002 Series A Bonds pursuant to the provisions of the General Resolution, in whole or in part, on their first call date, at a Redemption Price equal to 100% of the principal amount thereof, without premium, plus accrued interest to the date of redemption.

***Mandatory Sinking Fund Redemption***

The 2002 Series A Bonds maturing on October 1, 2025 are subject to mandatory redemption prior to maturity by operation of mandatory Sinking Fund Installments as provided in the Resolution in the amounts in each year as set forth below at par plus accrued interest thereon to the date of redemption:

<u>Year</u>	<u>Sinking Fund Installment</u>
2024	2,665,000
2025 <sup>†</sup>	2,795,000

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<sup>†</sup>Final Maturity

The 2002 Series A Bonds maturing on October 1, 2027 are subject to mandatory redemption prior to maturity by operation of mandatory Sinking Fund Installments as provided in the Resolution in the amounts in each year as set forth below at par plus accrued interest thereon to the date of redemption:

<u>Year</u>	<u>Sinking Fund Installment</u>
2026	3,790,000
2027 <sup>†</sup>	3,110,000

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<sup>†</sup>Final Maturity

The 2002 Series A Bonds maturing on October 1, 2033 are subject to mandatory redemption prior to maturity by operation of mandatory Sinking Fund Installments as provided in the Resolution in the amounts in each year as set forth below at par plus accrued interest thereon to the date of redemption:

<u>Year</u>	<u>Sinking Fund Installment</u>
2028	3,255,000
2029	3,420,000
2030	3,590,000
2031	3,770,000
2032	3,955,000
2033 <sup>†</sup>	4,155,000

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<sup>†</sup>Final Maturity

### ***Notice of Redemption***

Notice of redemption shall be mailed not less than 30 or more than 60 days prior to the scheduled redemption date, by first class mail, to the holder of such bond at the holder's address as it appears on the bond register. So long as Cede & Co., as nominee of DTC is the registered owner of the 2002 Series A Bonds, all notices of redemption will be sent only to DTC.

### **Book-Entry Only System**

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 securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations (the "Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of 2002 Series A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Series A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2002 Series A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are 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 2002 Series A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2002 Series A Bonds except in the event that use of the book-entry system for the 2002 Series A Bonds is discontinued.

To facilitate subsequent transfers, all 2002 Series A Bonds are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of 2002 Series A Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Series A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 Series A Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Redemption notices shall be sent to Cede & Co. If less than all of the 2002 Series A Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to 2002 Series A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Metropolitan Government 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 2002 Series A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2002 Series A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee or the Metropolitan Government, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Metropolitan Government and the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2002 Series A Bonds at any time by giving reasonable notice to the Metropolitan Government or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates for the 2002 Series A Bonds are required to be printed and delivered.

The Metropolitan Government may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates for the 2002 Series A Bonds will be printed and delivered.

The information contained above in this section “Book-Entry-Only System” has been extracted from a schedule prepared by DTC as sample disclosure language provided to the Metropolitan Government in connection with the issuance of the 2002 Series A Bonds. No representation is made by the Metropolitan Government or the Underwriters as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date thereof.

For every transfer and exchange of a beneficial ownership interest in the 2002 Series A Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

NEITHER THE METROPOLITAN GOVERNMENT, THE UNDERWRITERS NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS OF THE 2002 SERIES A BONDS. NO ASSURANCES CAN BE PROVIDED THAT, IN THE EVENT OF BANKRUPTCY OR INSOLVENCY OF DTC, A DIRECT PARTICIPANT OR AN INDIRECT PARTICIPANT THROUGH WHICH A BENEFICIAL OWNER HOLDS INTERESTS IN THE 2002 SERIES A BONDS, PAYMENT WILL BE MADE BY DTC, THE DIRECT PARTICIPANT OR THE INDIRECT PARTICIPANT ON A TIMELY BASIS.

SO LONG AS CEDE & CO., AS NOMINEE OF DTC, IS THE REGISTERED OWNER OF ALL OF THE 2001 SERIES A BONDS, REFERENCES HEREIN TO THE BOND OWNERS OR REGISTERED OWNERS OF THE 2002 SERIES A BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS. THEREFORE, THE PROVISIONS IN THIS OFFICIAL STATEMENT SUMMARIZING THE TERMS OF PAYMENT AND REDEMPTION OF THE 2002 SERIES A BONDS, THE REQUIREMENTS OF NOTICE TO BOND OWNERS AND RIGHTS OF BOND OWNER CONSENT SHALL APPLY TO CEDE & CO., AS BOND OWNER.

## **BOND INSURANCE**

Payments of principal of and interest on the 2002 Series A Bonds are insured by a financial guaranty insurance policy to be issued simultaneously upon the issuance of the 2002 Series A Bonds. However, there can be no assurance that the Insurer will be financially able to meet its contractual obligations under the financial guaranty insurance policy.

The following information has been furnished by Ambac Assurance Corporation (the “Ambac Assurance”) for use in this Official Statement. Reference is made to *Appendix H* attached hereto for a specimen of the Ambac Assurance financial guaranty insurance policy, including the endorsements thereto. The Metropolitan Government takes no responsibility for the accuracy or completeness of this information and makes no representations with respect thereto.

### **Financial Guaranty Insurance Policy**

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the 2002 Series A Bonds effective as of the date of issuance of the 2002 Series A Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the “Insurance Trustee”) that portion of

the principal of and interest on the 2002 Series A Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Metropolitan Government (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the 2002 Series A Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the 2002 Series A Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding 2002 Series A Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding 2002 Series A Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the 2002 Series A Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a 2002 Series A Bonds which has become Due for Payment and which is made to a Bondholder by or on behalf of the Metropolitan Government has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

- (1) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
- (2) payment of any redemption, prepayment or acceleration premium.
- (3) nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of 2002 Series A Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such 2002 Series A Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Bondholder entitlement to interest payments and an appropriate assignment of the Bondholder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the 2002 Series A Bonds, appurtenant coupon, if any, or right to payment of principal or interest on such 2002 Series A Bonds and will be fully subrogated to the surrendering Bondholder's rights to payment.

### **Ambac Assurance Corporation**

Ambac Assurance Corporation is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately \$5,587,000,000 (unaudited) and statutory capital of approximately \$3,453,000,000 (unaudited) as of June 30, 2002. Statutory capital consists of Ambac Assurance's policyholders' surplus and

statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Metropolitan Government of the 2002 Series A Bonds.

Ambac Assurance makes no representation regarding the 2002 Series A Bonds or the advisability of investing in the 2002 Series A Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under this caption "**BOND INSURANCE**".

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19<sup>th</sup> Floor, New York, New York 10004 and (212) 668-0340.

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

- (1) The Company's Current Report on Form 8-K dated January 23, 2002 and filed on January 25, 2002;
- (2) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;
- (3) The Company's Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002;
- (4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002;
- (5) The Company's Current Report on Form 8-K dated July 17, 2002 and filed on July 19, 2002;

(6) The Company's Current Report on Form 8-K dated August 14, 2002 and filed on August 14, 2002; and

(7) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2002 and filed on August 14, 2002.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner described above under "**Available Information**".

## THE SYSTEM AND ITS OPERATIONS

### Overview

The existing District Energy System, a district heating and cooling system that provides steam and chilled water to the downtown metropolitan Nashville area for the purpose of general heating and air conditioning, is located on approximately ten acres in downtown Nashville. The Metropolitan Government is the owner of the System and the site on which the Existing Facility is located and the owner of the site where the New Energy Generating Facility will be located. A portion of the Energy Distribution System is currently owned by the State and will be transferred to the Metropolitan Government prior to completion of the New Energy Generating Facility.

Upon completion of the Project, primary components of the System will include (i) the steam production subsystem consisting of four 65,000 PPH forced draft, pressurized, dual-fuel boilers and a duplex soft water system; (ii) the chilled water subsystem comprised of eight 2,600-ton electrical drive chillers, 16 single-cell, induced draft cooling towers and 6 chilled water and 5 condenser water pump/motor sets; (iii) a 69/13.8 KV supply substation and two 69/13.8 KV transformers; and (iv) 14,000 linear feet of underground energy distribution piping.

### Production and Sale of Energy

#### *Sale of Energy Generated by the System*

Historical Capacity and Sales. Under existing contracts with NTTC which have been assigned to the Metropolitan Government, the Existing Facility provides steam and chilled water services to a total of 38 buildings in downtown Nashville, consisting of 16 privately owned buildings, 14 State owned buildings and 8 Metro-owned buildings. Historically, the private customers, the State and the Metropolitan Government have accounted for approximately 28%, 54% and 18%, respectively, of the total steam sales and 33%, 44% and 23%, respectively, of the total chilled water sales. Below is a five-year summary of total steam and chilled water sales for the Existing Facility:

	<u>Fiscal Year Ended June 30</u>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Steam Sales (1,000 lbs)	330,418	319,880	301,700	301,329	340,072
Chilled Water Sales (1,000 ton hours)	50,433	50,785	55,018	57,236	55,155

For a more complete discussion of historical sales at the Existing Facility, see *Appendix C - "Project Feasibility Report."*

New System Capacity and Sales: The New Energy Generating Facility has been designed to produce a total installed capacity of 260,000 PPH of 150 PSIG saturated steam and 20,800 tons per hour of 42 degree Fahrenheit chilled water. Assuming one boiler and one chiller off-line and a 70.0% diversity for steam and chilled water services, the Metropolitan Government has estimated total available sales capacity at 250,714 PPH for steam and 26,000 tons for chilled water. For a discussion of the diversity factor, see Section 2.9.5 of the Project Feasibility Report attached hereto as *Appendix C*.

The following table sets forth the total capacities of steam and chilled water contracted for by the Customers pursuant to the Customer Contracts:

<u>Customer Commitments</u>	<u>Committed Capacity</u>		<u>Percentage of Total Available Capacity</u>	
	<u>Steam (PPH)</u>	<u>Chilled Water (tons)</u>	<u>Steam (PPH)</u>	<u>Chilled Water (tons)</u>
<b>Commercial Customers</b>				
Parkway Towers	4,500	550	1.79%	2.12%
Union Planters	1,995	300	.80	1.15
Sheraton Hotel	12,660	950	5.05	3.65
South Trust Bank	2,000	233	.80	.90
Hermitage Hotel	7,000	400	2.79	1.54
501 Building	2,500	175	1.00	.67
Sun Trust Financial Center	0	1,043	.00	4.01
Renaissance Hotel	17,287	1,000	6.89	3.85
Renaissance Offices	0	300	.00	1.15
Nashville City Center	0	1,000	.00	3.85
Saint Mary's Church	317	26	.13	.10
Ryman Auditorium	954	180	.38	.69
Wildhorse Saloon	<u>1,385</u>	<u>167</u>	<u>.55</u>	<u>.64</u>
<b>Total Commercial</b>	<b>50,598</b>	<b>6,324</b>	<b>20.18%</b>	<b>24.32%</b>
<b>State of Tennessee</b>				
Andrew Jackson	65,808	1,425	26.25%	5.48%
James K. Polk	14,560	1,309	5.81	5.04
John Sevier	(1)	404	-	1.55
Cordell Hull	(1)	498	-	1.92
Library and Archives	(1)	156	-	.60
State Capitol	(1)	222	-	.85
Supreme Court	(1)	78	-	.30
War Memorial	(1)	704	-	2.71
Tennessee State University	(1)	0	-	.00
Legislative Plaza	(1)	(2)	-	-
Central Services	(1)	(3)	-	-
Rachel Jackson	(1)	(1)	-	-
	7,350	788	2.93	3.03
Citizen's Plaza	<u>12,165</u>	<u>1,760</u>	<u>4.85</u>	<u>6.77</u>
<b>Total State</b>	<b>99,883</b>	<b>7,344</b>	<b>39.84%</b>	<b>28.25%</b>
<b>Metropolitan Government</b>				
Metropolitan Courthouse	7,000	350	2.79%	1.35%
Criminal Justice Center	13,800	800	5.50	3.08
Ben West	13,800	1,050	5.50	4.04
Municipal Auditorium	4,096	500	1.63	1.92
Convention Center	18,750	1,400	7.48	5.38
Gaylord Entertainment Center	15,269	2,500	6.10	9.62
Coliseum	0	2,000	.00	7.69
<b>Total Metro</b>	<b>72,715</b>	<b>8,600</b>	<b>29.00%</b>	<b>33.08%</b>
<b>Additional Customer Contracts</b>				
Hume Fogg Academic School (Metro-owned)	<u>3,000</u>	<u>300</u>	<u>1.20%</u>	<u>1.15%</u>
<b>Total Additional</b>	<b>3,000</b>	<b>300</b>	<b>1.20%</b>	<b>1.15%</b>
<b>TOTAL COMMITMENTS</b>	<b><u>226,196</u></b>	<b><u>22,568</u></b>	<b><u>90.22%</u></b>	<b><u>86.80%</u></b>
<b>Capacity Available For Sale</b>	<b><u>24,518</u></b>	<b><u>3,432</u></b>	<b><u>9.78%</u></b>	<b><u>13.20%</u></b>
<b>Holdover Customer Contracts</b>				
Public Square	976	110	.39%	.42%
Sun Trust Bank	<u>8,011</u>	<u>765</u>	<u>3.19</u>	<u>2.94</u>
<b>Total Holdover</b>	<b>8,987</b>	<b>875</b>	<b>3.58%</b>	<b>3.36%</b>

- (1) Included as part of Andrew Jackson building capacity.  
(2) Included as part of War Memorial building capacity.  
(3) Included as part of John Sevier building capacity.

The Customer Contracts. As of the date hereof, the Initial Customer Contracts and the existing Additional Customer Contracts will account for 90.22% of the total available capacity of steam of the New Energy Generating Facility and 86.80% of the total available capacity of chilled water of the New Facility. The Holdover Contracts will account for 3.58% and 3.36%, respectively, of steam and chilled water but these percentages will decline over time as the terms of the Holdover Contracts expire. The remaining balances of total available capacity of steam (4.67%) and total available capacity of chilled water (8.49%) and the capacities becoming available under the Holdover Contracts are actively being marketed by the Metropolitan Government to potential Additional Customers. Projected Revenues from the sales of steam and chilled water are set forth below under the caption **“Projected Operating Results; Projected Revenues and Expenses”**.

Under the terms of the Customer Contracts each Customer is required to purchase all of its steam and chilled water requirements from the System up to its respective contract capacity for services at the premises subject to the contract. No Customer is permitted to operate any boilers, chillers or ancillary equipment on its premises in lieu of the services provided under its contract, except for periodic testing, maintenance, emergencies and during a service interruption by the Metropolitan Government. If the Customer determines that its requirements for services exceeds its contract capacity, the Customer may acquire the additional requirements of steam or chilled water service from any other source. The Customer is not obligated to purchase, and the Metropolitan Government is not obligated to provide, services for any expansion of the Customer’s premises. A list of the historical energy demands of the Initial Customers and the Holdover Customers under the NTTC contracts is set forth in the **“Project Feasibility Report”** attached hereto as *Appendix D*. A list of all Customers, their contract capacities for steam and chilled water and the buildings served pursuant to their Customer Contracts is set forth above under the caption “New System Capacity and Sales”.

Under the provisions of all Customer Contracts (except Holdover Customer Contracts), the Metropolitan Government is required to use all reasonable efforts to make steam and chilled water services available to the Customers without interruption, but the Metropolitan Government does not guarantee a constant supply of services. If, however, the Metropolitan Government fails to provide such services for three consecutive days or substitute service reasonable to the Customer, the Metropolitan Government will be liable to the Customer for the Customer’s direct costs resulting from such failure and the Metropolitan Government will credit the Customer for the charge for steam or chilled water. Service Interruptions, however, will not constitute a default by the Metropolitan Government if the Metropolitan Government complies with applicable cure provisions.

Energy Fees, Reduced Capacity and Termination. As consideration for the services provided by the Metropolitan Government under the Customer Contracts, each Customer currently does or will pay an Energy Fee computed in accordance with the formula established in the respective Customer Contracts. Charges are calculated based on the Metropolitan Government’s costs of providing services, including (i) the cost of servicing Bonds issued under the General Resolution, (ii) fixed management fees payable by the Metropolitan Government under the Management Contract, (iii) fuel purchase costs, and (iv) the Metropolitan Government’s Incremental Costs. A more detailed discussion of the calculation of the Energy Fees paid by Customers under the different categories of contracts is set forth in *Appendix B-III* to this Official Statement.

Under the terms of the Initial Customer Contracts and the existing Additional Customer Contracts, Customers are permitted to reduce their contract capacity under certain conditions defined in the contracts. The Metropolitan Government has agreed that if the State’s capacity requirements (which accounts for 39.84% of the total available capacity of steam and 28.25% of the total available capacity of chilled water) at the serviced premises are reduced, the State may either (i) allocate such capacity to other premises owned by the State, or (ii) request the Metropolitan Government to market the excess capacity to other customers, provided the Metropolitan Government may market its own excess capacity first. In either event, the State is obligated to continue paying its Energy Fee, and any revenues generated from the resale of such excess capacity by the Metropolitan Government will be credited toward the State’s payment requirement. With

respect to the Commercial Customer Contracts and the existing Additional Customer Contracts, however, Customers are permitted to reduce their contract capacity with a corresponding reduction in the Energy Fee payable to the Metropolitan Government if: (i) the Customer materially reduces its actual capacity requirement due to an investment in energy efficiency, (ii) the Customer determines that the contract capacity it has nominated exceeds its needs, and (iii) the Customer ceases operations at the premises for any reason (unless existing premises are demolished and new premises are constructed within two years of such cessation, in which case the new premises would be covered by the contract).

Additionally, all Initial Customers have the right, at their sole option, to terminate their respective Customer Contracts at any time after the fifteenth contract year. With respect to the Initial Customers, however, such termination can only be effected by paying to the Metropolitan Government an amount sufficient to discharge the Customer’s pro rata portion of the capital costs of the facilities plus an amount equal to the Customer’s pro rata portion of the operating costs of the New Facility for the remainder of the term of the Initial Customer Contract. If the Metropolitan Government re-sells the capacity, the Metropolitan Government is required to reimburse the Initial Customer for amounts paid by such Customer from proceeds of such energy sales. See *Appendix C-II – “Summary of Certain Provisions of the Customer Contracts”*.

To offset potential losses of revenue from reductions in Customer capacity or from termination of Customer Contracts, in addition to reselling the excess capacity, the Metropolitan Government has agreed in the Metropolitan Customer Contract, subject to annual appropriation, to pay the Metro Funding Amount to insure adequate revenues to pay operating expenses and outstanding debt service on Parity Obligations, including the 2002 Series A Bonds. The Metropolitan Government has also covenanted in the General Resolution to pay the Metro Funding Amount, subject to annual appropriation, for as long as any Parity Obligations remain outstanding thereunder or pursuant thereto and to pay any deficiencies in the Debt Service Fund and the Operating Reserve Fund. See “**SECURITY AND SOURCES OF PAYMENT FOR THE 2002 SERIES A BONDS – Metropolitan Government Obligation to Purchase Energy and Pay Deficiencies in Revenues**” herein and *Appendix B-I – “Summary of the General Resolution”*.

*New System Capacity and Operating Performance*

The New Energy Generating Facility has been designed to produce 260,000 PPH of 150 PSIG saturated steam and 23,400 tons of 42 degree Fahrenheit chilled water, with expected outputs of 250,714 PPH and 26,000 tons of chilled water. Pursuant to the Management Contract, CES has guaranteed continuous performance of the New Facility at the following standards:

Steam Mass Flow Rate and Quality:	At the Facility:	221,000 lb/hr at the main header of the boiler, 150.0 PSIG-saturated, nominal condition.
	At the Delivery Points:	136,000 lb/hr system peak demand, 150.0 PSIG-saturated, nominal condition
Chilled Water:	At the Facility:	43.3 degree F. nominal, in a capacity of 17,680 Tons, measured in accordance with ARI standards at a plant temperature differential of 14.0 degree F.
	At the Delivery Points:	43.3 degree F., in a capacity of 17,503.2 Tons, measured in accordance with ARI standards at a plant temperature differential of 10.0 degree F.

Guaranteed Maximum Quantities (“Q<sub>0</sub>”):

	For Steam Service	For Chilled Water Service
Electricity	6.0 kwh/k-lb sold	1.055 kwh/ton-hr
Natural Gas	Note 1 decatherm/ k-lb sold	N/A decatherm/ton-hr
Propane	Note 2 decatherm/k-lb sold	N/A gal/ton-hr
Water	Note 3 gal/k-lb sold	5.25 gal/ton-hr (Note 4)

Notes:

1. 70% efficiency (HHV Basis), steam out at 150 PSIG, saturated, to fuel in with 60% condensate return at 180 deg-F minimum.
2. 70% efficiency (HHV Basis), steam out at 150 PSIG, saturated, to fuel in with 60% condensate return at 180 deg-F minimum.
3. (100% EGF steam output in lbs. less the percentage condensate return in lbs. to the EGF) x 1.15.
4. Condenser water only; chilled water excluded.

Environmental: The New Energy Generating Facility will comply with all environmental standards and applicable law.

### Projected Operating Results; Projected Revenues and Expenses

Gershman, Brickner & Bratton, Inc. (“GBB”) has prepared the Project Feasibility Report with respect to certain aspects of the System which is attached hereto as *Appendix C*. The Project Feasibility Report contains projections of operating results of the System based on data from sources considered by GBB to be reliable and on assumptions made by GBB concerning future events and circumstances which GBB believes are significant to the projections. The achievement of any actual results may be affected by fluctuating economic conditions and depends upon the occurrence of other future events that cannot be assured. Therefore, the actual results achieved may vary from the forecasts, and such variations could be material.

The following table sets forth certain base case financial projections developed by GBB in connection with the issuance of the 2002 Series A Bonds for the first 5 years of operation of the New Facility. The base case projections assume sales based on Customer Contracts existing as of the date hereof and not on sales of any remaining available capacity. For a discussion of forecasted revenue, assumptions, expenses and cash flow and a more detailed exposition of projected operating results, see *Appendix C – “Project Feasibility Report.”*

#### Forecast of Revenues and Expenses

##### Fiscal Year Ended

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total Operating Revenues <sup>(1)</sup>	\$13,812,485	\$15,242,153	\$15,607,326	\$16,000,079	\$16,383,671
Total Operating Expenses	\$10,627,791	\$10,962,959	\$11,314,491	\$11,708,344	\$12,091,623
Net Revenues	\$ 3,184,694	\$ 4,279,194	\$ 4,292,835	\$ 4,291,735	\$ 4,292,048
Total Debt Service <sup>(2)</sup>	\$ 3,184,694	\$ 4,279,194	\$ 4,292,835	\$ 4,291,735	\$ 4,292,048
Net Revenue Available	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

Notes:

1. Total Operating Revenues include the Metro Funding Amount which, assuming sales based on contracts executed as of the date hereof and not any sales of remaining available capacity, is projected to be \$1,028,571, \$1,669,938, \$1,704,868, \$1,732,350 and \$1,761,467, respectively, for fiscal years ended 2005 through 2009.
2. Debt service amounts have been pro-rated on a 12-month Fiscal Year basis and are net of any interest earnings and capitalized interest payments.

Based on the experience of GBB and the information made available to it and subject to the reliances and assumptions in the Project Feasibility Report (which GBB believes to be reliable), GBB is of the opinion that the revenues to be derived from operation of the System are projected to be adequate to pay all operating expenses and provide a minimum debt service coverage on the 2002 Series A Bonds of at least 1.00 over the term of the debt. See *Appendix C – “Project Feasibility Report.”*

No representation is made by the Metropolitan Government or the Underwriters as to the accuracy, completeness or adequacy of the information set forth above or in the Project Feasibility Report.

## **Operation and Management of the System**

The Management Contract provides that on the Scheduled Service Commencement Date, CES will assume all management and operation functions of the System. CES is obligated under the Management Contract to operate and maintain the System, at its own expense, on a 24 hour per day, 7 day per week basis (except for scheduled maintenance or due to Uncontrollable Circumstances), for a term commencing on the Scheduled Service Commencement Date and ending on the 15th anniversary of the Service Commencement Date, provided that the Metropolitan Government may extend the term by exercising, at its sole option, any of one or more of three consecutive five year renewal options (the “Management Term”). As consideration for the performance of its management obligations, CES will be paid the Management Fee discussed below.

General Responsibilities. CES is obligated to operate and maintain the System, in accordance with the standards established in the Management Contract which include satisfaction of certain performance guarantees described above. CES’s operation and maintenance responsibilities include: (i) maintaining the System, (ii) installing, operating and maintaining metering interconnections of Customers with the Energy Distribution System, (iii) installing and hydraulically and thermally balancing the Energy Distribution System including extensions or modifications required to connect the Energy Distribution System to the New Energy Generating Facilities, (iv) repairing and maintaining streets and sidewalks, public rights of way, utilities, or other property damaged by the operation and maintenance of the Facility or Energy Distribution System, and (v) maintaining maintenance and operation records and providing operating reports. CES is also obligated to perform the obligations undertaken by the Metropolitan Government pursuant to the Customer Contracts, including billing, collection, metering services and customer service. CES shall be obligated to pay for any amounts owed by the Metropolitan Government under the Customer Contracts on account of service interruptions for causes other than Uncontrollable Circumstances. In addition, CES is required to perform certain marketing and sales services in order to assist the Metropolitan Government in selling energy generated by the System.

Maintenance and Repair. Throughout the Management Term, all repairs and replacements, including major maintenance, repairs and replacements, and upgrading or replacing obsolete equipment, machinery, facilities, structures and improvements constituting the System, whether of an operating or capital nature, will be the responsibility of CES. At the end of the Management Term, CES is required to return the System to the Metropolitan Government in a well-maintained, functional condition, without need for overhauls.

CES’s cost to provide maintenance and repair of the Energy Distribution System will be a pass through cost. \$150,000 per year, plus applicable escalation as provided in the Management Contract, will be budgeted for deposit in the EDS Repair and Improvement Account of the Operating Fund to be used for repairs and maintenance of the Energy Distribution System. Such \$150,000, subject to annual escalation, is included in the Energy Fees charged to all Initial Customers except the State. In addition, Initial Customers who are Commercial Customers will pay on an annual basis their pro rata share of \$59,900, subject to annual escalation, which shall also be used for repairs and maintenance of the Energy Distribution System. Any costs of repairs and maintenance of the Energy Distribution in a contract year in excess of the \$150,000 and the \$59,900 (in each case subject to annual escalation) will be borne by the Metropolitan Government.

Fuel Purchase. As part of its management and operation responsibilities, CES is responsible for arranging for the provision of 100% of the required supply of (i) natural gas and electricity for use at the New Energy Generating Facilities, and (ii) propane to be used in the event natural gas is unavailable or uneconomical, pursuant to the Fuel Purchase Contract. CES is required to arrange for the purchase the fuels on behalf of the Metropolitan Government, who is required to pay each approved invoice submitted by CES and, to the extent such invoice is submitted in a timely manner, any late fees and charges for invoices paid late. CES is not entitled to any additional compensation for its services under the Fuel Purchase Contract and the only consideration for its obligations thereunder is the Management Fee payable to CES under the Management Contract (see below). Neither the Metropolitan Government nor CES is entitled to any special damages in the event of a breach or termination of the Fuel Purchase Contract.

The Management Fee. The Management Contract requires CES to perform all operation and management functions for a Management Fee payable in monthly installments. The Management Fee is comprised of a fixed operation and maintenance component (which includes \$150,000 allowance each year for repairs and upgrades to the Energy Distribution System), pass through costs (equal to the costs of water and sewerage, chemical usage for water treatment at the Energy Generating Facility, engineering costs, Energy Distribution System repair costs distributed as described above under the heading “Maintenance and Repair”, and insurance premiums for all-risk insurance and business interruption insurance), Uncontrollable Circumstance cost savings, marketing payments (to pay for marketing excess capacity to new DES customers), and a fuel efficiency adjustment.

For a complete discussion of CES’s operation and maintenance responsibilities under the Management Contract, see *Appendix B-II* attached hereto.

## **INVESTMENT CONSIDERATIONS**

The following is a list of possible risks associated with the purchase of the 2002 Series A Bonds. The discussion of risks set forth below is not intended to be definitive, but rather is intended to summarize certain matters that could adversely affect the ability of the Metropolitan Government to make payments of debt service on the 2002 Series A Bonds or otherwise affect the 2002 Series A Bonds. Prospective purchasers of the 2002 Series A Bonds are urged to read this Official Statement, including all appendices, in its entirety.

### **Nature of the Metropolitan Government’s Obligations; Adequacy of Revenues**

The 2002 Series A Bonds are limited obligations of the Metropolitan Government, payable solely from the moneys, funds, accounts and other security pledged under the General Resolution and any moneys, funds and accounts pledged pursuant to the terms of any Parity Obligation Agreement. There is no recourse to the general fund or any other revenues or property of the Metropolitan Government for payment of the 2002 Series A Bonds to the holders thereof and no representation or assurance can be given that the Metropolitan Government will generate sufficient Revenues to make such payments. The management of the System, regulatory actions, economic conditions, changes in demand for cooling and heating services, or other factors could adversely affect the Metropolitan Government’s ability to make payments on the 2002 Series A Bonds.

### **Dependence on Delivery of and Payment for Heating and Cooling Service**

As discussed more fully herein, the payment of the 2002 Series A Bonds is dependent upon CES providing, and the Metropolitan Government paying for the delivery of, heating and cooling services to Customers pursuant to the Management Contract. The failure of CES to provide such service to Customers or otherwise comply with the provisions of the Management Contract, or the failure of the Metropolitan Government to pay the Management Fee as consideration for CES’s delivery of such service, or the bankruptcy of either CES or the Metropolitan Government, could delay or result in the nonpayment of debt

service on the 2002 Series A Bonds. In particular, CES is relying on the receipt of the Management Fee for its continued ability to provide heating and cooling services to Customers under the Management Contract. The Metropolitan Government, in turn, is relying on the delivery of such services to its Customers in order to generate revenues to pay for such delivery and to make payments of principal, premium, if any, of and interest on the 2002 Series A Bonds.

The requirement of the Metropolitan Government to continue to pay the Management Fee is conditioned upon the receipt of service in accordance with the terms of the Management Contract. In the event CES materially defaults in providing heating and cooling service, upon the terms and conditions, in the manner and to the extent provided for under the Management Contract, the Metropolitan Government may terminate the Management Contract without liability. In the event that the Management Contract is terminated as a result of CES's failure to perform thereunder, CES is required to pay damages to the Metropolitan Government, including amounts sufficient to cover the costs of providing alternative energy to Customers and costs associated with procuring, negotiating and implementing an agreement with a replacement operator. There can be no assurance that an alternative source of energy will be readily available to fulfill Customer's needs.

### **The Parent Guaranty a Limited Obligation**

CEG's Guaranty is a guaranty of certain payment obligations of CES for its failure to perform upon the terms and conditions, in the manner and to the extent provided for under the Management Contract, and is not a guaranty of the 2002 Series A Bonds, nor does it require CEG to make any contribution to CES to enable it to provide services under the Management Contract. Additionally, CEG's obligations are limited as to amounts required to be paid by it and may not fully compensate the Metropolitan Government for the damages the Metropolitan Government may incur as a result of CES's failure to perform as required under the Management Contract. CEG's obligations are further limited by a fifteen year term to the Guaranty.

### **Bankruptcy of CES and the Parent**

It is an "Event of Default" under the Management Contract, permitting the Metropolitan Government to terminate the Management Contract, if (i) either CES or the Parent become insolvent as determined by the Federal Bankruptcy Code (the "Bankruptcy Code"); (ii) either CES or the Parent files a petition for voluntary bankruptcy or reorganization under the Bankruptcy Code or consents to such a petition; (iii) a court of competent jurisdiction issues an order appointing a receiver, liquidator, custodian or trustee of CES or the Parent which is not discharged within 90 days after issuance; or (iv) a petition to reorganize CES or the Parent is filed pursuant to the Bankruptcy Code and is not dismissed within 90 days following such filing.

In the event that the Metropolitan Government terminates the Management Contract for any of the above reasons, the Metropolitan Government shall have the right to pursue an action for actual damages and to exercise all remedies available to it under the law, the Management Contract, the Guaranty and any other security instruments. The damage payable to the Metropolitan Government shall include, but not be limited to the costs of (i) making repairs and replacements to the System, (ii) completing Construction Work, (iii) remediating any safety problems, and (iv) paying unpaid fines and penalties to any Governmental Body, in each case resulting from any breach of the Management Agreement. In addition, the CES must pay the Metropolitan Government all reasonable costs incurred by the Metropolitan Government in procuring, negotiating and implementing a new service agreement with a replacement operator, if any. CES must also cease performing under the Management Contract on the date specified by the Metropolitan Government and provide the Metropolitan Government with certain deliverables and assistance in order to aid in the transition and to minimize costs to the Metropolitan Government. The Metropolitan Government, or a successor operator, may extend offers of employment to any full-time employees of CES employed at the System. For the 60 days following such termination, CES must aid the Metropolitan Government in the smooth transition of management. There can be no assurance that funds will be available to pay any or all of such damages in bankruptcy.

## **Financial Status and Performance of Commercial Customers**

The Metropolitan Government has entered into Customer Contracts with 13 Commercial Customers, which contracts in the aggregate presently account for 25% of the revenues projected to be generated from the sale of energy from the System. The Metropolitan Government's ability to meet its debt service obligations with respect to the 2002 Series A Bonds and its payment obligations to CES under the Management Contract will be dependent in part on the continued payment of Energy Fees by the Commercial Customers under the Commercial Customer Contracts. There are, however, no credit qualifications required of Commercial Customers as a prerequisite to entering into or receiving energy services under the Commercial Customer Contracts. Therefore, no assurance can be given that any one or more Commercial Customers have, or will continue to have, the financial ability to pay the Energy Fees pursuant to their respective contracts. Under the terms of the Commercial Customer Contracts, the Metropolitan Government may terminate delivery of service to a Commercial Customer for failure to pay the Energy Fees. No single Commercial Customer represents more than 5.0% of total revenues expected to be generated by the System.

## **Metropolitan Government Customer Contract with the Metropolitan Government**

Pursuant to the Metropolitan Government Customer Contract the Metropolitan Government has committed itself to the purchase of steam and chilled water representing 29.0% of the total available System capacity of steam and 33.0% of the total available System capacity of chilled water for which the Metropolitan is obligated to pay an Energy Fee. Additionally, under the Metropolitan Government Customer Contract, the Metropolitan Government is obligated, subject to annual appropriation, to pay the Metro Funding Amount which is equal to any shortfall in revenues to pay debt service and operating expenses. The validity and enforceability of a contract of the Metropolitan Government with itself has not yet been tested under State law and no opinions or assurances are given that such a contract will be upheld if challenged. However, the Metropolitan Government has independently covenanted in the General Resolution, for the benefit of the holders of the 2002 Series A Bonds, to purchase its energy requirements for the Metropolitan Government Premises at the rates established in the Metropolitan Government Customer Contract and, subject to annual appropriation, to pay for such energy as well as the Metro Funding Amount and any amounts necessary to maintain certain reserve accounts at their required balances.

## **Payment Obligations of the Metropolitan Government Subject to Annual Appropriation**

The obligation of the Metropolitan Government to pay (i) its Energy Fee for services delivered to it by the System, (ii) the Metro Funding Amount, and (iii) amounts necessary to replenish the Debt Service Reserve Fund and the Operating Reserve Fund to their required levels, is subject to and dependent upon annual appropriations by the Metropolitan County Council. There can be no assurance that the Council will make such appropriations. See **"SECURITY AND SOURCES OF PAYMENT FOR THE 2002 SERIES A BONDS"** – **Metropolitan Government Obligation to Purchase Energy and Pay Deficiencies in Revenues**" and **"METROPOLITAN GOVERNMENT BUDGET AND APPROPRIATION SYSTEM"** herein for a discussion of the Metropolitan Government's obligations and the appropriation process. The Metropolitan Government has been appropriating and contributing funds for the support of the System since the System became operational in 1974.

## **Payment Obligations of the State Subject to Annual Appropriation**

The State's obligations to make payments to the Metropolitan Government under the State Customer Contract is subject to and dependent upon annual appropriations by the State General Assembly, allotment by State officials and the State Customer Contract being in effect. The State's obligation shall not constitute a moral or general obligation or a debt of the State within the meaning of any constitutional or statutory provision. The State is not obligated to make appropriations to satisfy the State's obligation to make such payments and there can be no assurance that the State General Assembly will make any such appropriation. Upon annual appropriation and allotment of monies to the Metropolitan Government in the amount due and

payable during a fiscal year under the State Customer Contract, the State will be under a contractual obligation to make such payments to the Metropolitan Government during that fiscal year.

Under State case law (see Cunningham et al. V. Broadbank, 177 Tenn. 202, 147 S.W. 2d-408 (1941)), it has been held that the Constitution of the State does not impose any restraint on the State General Assembly affecting contracts between the State and its political subdivisions (of which the Metropolitan Government is one) with respect to governmental purposes and objectives and such contracts are not binding and enforceable against the State by such political subdivisions.

### **Market for Excess Energy Capacity**

The ability of the Metropolitan Government to make payments of principal, redemption premium, if any of, and interest on the 2002 Series A Bonds, is in part dependent upon the Metropolitan Government's ability to generate sufficient revenues from the sale of steam and chilled water generated by the System. At present, the Metropolitan Government has entered into Customer Contracts for the sale of approximately 90.22% of the projected steam output and 86.80% of the projected chilled water output at the System. Furthermore, pursuant to the Commercial Customer Contracts, Commercial Customers may reduce the capacity of steam and chilled water purchased from the Metropolitan Government with corresponding reductions in the Energy Fees payable to the Metropolitan Government. There can be no assurance that the Metropolitan Government with CES will successfully sell existing or future excess capacity of steam and chilled water generated by the System and thereby generate revenues sufficient to make debt service payments on the 2002 Series A Bonds.

The Metropolitan Government has instituted a marketing plan and believes there is a market for any excess capacity of steam and chilled water. In the event that the Metropolitan Government is at any time unable to sell such excess capacity, the Metropolitan Government believes it has sufficient additional Metropolitan Government owned buildings which can absorb all or a significant portion of the excess capacity of steam and chilled water generated by the System. Furthermore, as discussed above, the Metropolitan Government has agreed in the Metropolitan Government Contract and covenanted in the General Resolution, subject to annual appropriation, to pay any deficiencies in revenues to insure payment of debt service on the 2002 Series A Bonds.

### **Enforceability of Remedies**

The realization of any rights upon default of: the Metropolitan Government under the Indenture, CES under the Management Contract or the Parent under the Guaranty, will depend on the exercise of various remedies specified in the respective agreements. Certain remedies may require judicial action which is often subject to discretion and delay. Under existing constitutional and statutory laws and judicial decisions, including specifically the federal Bankruptcy Code, a particular remedy specified by the agreement in question may not be readily available or, if available, may be limited or subject to substantial delay. The various legal opinions to be delivered concurrently with the issuance and delivery of the 2002 Series A Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by principles of equity, considerations of public policy, and by bankruptcy, reorganization, insolvency, moratorium and similar laws affecting the rights of creditors generally.

### **Event of Taxability**

If the Metropolitan Government does not comply with certain covenants and provisions set forth in its Tax Certificate delivered upon the issuance of the 2002 Series A Bond, or if certain statements of intention and representations of the Metropolitan Government contained in its Tax Certificate are materially inaccurate, the interest payable on the 2002 Series A Bonds may become subject to federal income taxation retroactive to the date of issuance of the 2002 Series A Bonds, regardless of the date on which such noncompliance or inaccuracy is ascertained. In the event that interest on the 2002 Series A Bonds should become subject to

federal income taxation, the General Resolution does not provide for redemption of the 2002 Series A Bonds or acceleration of debt service.

### **Yield Considerations**

The 2002 Series A Bonds are subject to redemption or acceleration prior to maturity in certain circumstances. See “**THE 2002 SERIES A BONDS – REDEMPTION PROVISIONS**” herein and *Appendix B-I - “Summary of Certain Provisions of the General Resolution”*. Bondowners may not realize their anticipated yield or investment to maturity because the 2002 Series A Bonds may be redeemed or accelerated prior to maturity at par or at a redemption price that results in the realization of less than the anticipated yield to maturity.

### **Additional Parity Obligations**

The General Resolution permits the Metropolitan Government, upon satisfaction of certain conditions set forth therein, to issue or execute and deliver other Parity Obligations secured on a parity with the 2002 Series A Bonds. Accordingly, revenues pledged for the payment of the 2002 Series A Bonds may be diluted on a pro rata basis upon the issuance of other Parity Obligations.

## **PROJECT FEASIBILITY REPORT**

GBB has prepared the Project Feasibility Report dated September 18, 2002, and has consented to its inclusion as *Appendix C* to this Official Statement. The Project Feasibility Report should be read in its entirety by all investors for information with respect to the System and the related subjects discussed therein. The Project Feasibility Report has been included in this Official Statement in reliance upon the conclusions therein of GBB and upon such firm’s experience in preparing independent reports. GBB is not a licensed engineering firm and, where appropriate, has relied on Gresham Smith and Partners (“GS&P”), engineers licensed in the State of Tennessee, for engineering conclusion included in the report.

GS&P was retained by the Metropolitan Government to assist in the development of the new System and as part of that process, GS&P retained GBB as a subcontractor. Also, a principle of GBB was retained by the Metropolitan Government to act as project manager during System development, pre-construction, construction and the initial years of operation of the New Facility. GBB believes that its involvement in the development process and employment as project manager has not influenced its objectivity in preparing the Project Feasibility Report or in reaching any conclusions stated therein.

Set forth below are several of the key opinions reached by GBB in the preparation of the Project Feasibility Report:

- The Fixed Construction Price is reasonable when compared to construction costs for similar facilities of similar size.
- The period of 610 days is a reasonable period of time for CES to achieve the Scheduled Service Commencement Date.
- The Construction Period performance guarantees of CES are reasonable, and CES can be expected to achieve Acceptance at the guaranteed performance levels.
- The amount available under the Parent Guaranty to support the Construction Period obligations of CES are reasonably sufficient to pay damages to which CES may become subject during the Construction Period under most foreseeable circumstances.
- The Acceptance tests are a reasonable and adequate test of whether the Project can perform reliably at the guaranteed levels.

- The New Facility, as proposed and designed by CES, has adequate capacity to satisfy CES performance obligations under the Management Contract.
- The New Facility, if operated and maintained in accordance with general utility operating practice, will have a useful life greater beyond the final maturity date of the term of the 2002 Series A Bonds.
- The New Facility has sufficient redundancy to provide service without interruption during the term of the 2002 Series A Bonds assuming operated and maintained according to generally accepted utilities standards.
- The Management Fee of CES is reasonable for operating similar facilities of similar size. CES can operate and maintain the New Facility, and replace equipment as may be necessary, during the term of the Management Contract at costs within the fixed Management Fee.
- The Management Period performance guarantees of CES are reasonable and CES can be expected to operate the New Facility at least at the guaranteed performance levels.
- The amount available under the Parent Guaranty to support the Management Period obligations of CES are reasonably sufficient to pay damages to which CES may become subject during the operating period under most foreseeable circumstances.
- The proposed energy charge to Customers is expected to be significantly below projected market rates and below what it would cost Customers to install their own energy systems.
- Based on projected System costs, it is reasonable to assume that CES and the Metropolitan Government will be successful in marketing any uncommitted capacity of the System within two (2) years following the Service Commencement Date.
- If the initial unused capacity is sold and used, assuming the Metropolitan Government pays the same price for energy as Commercial Customers, it is expected that System revenues will be sufficient to pay all System expenses, without the Metropolitan Government having pay the Metro Funding Amount, starting in Fiscal Year 2010.<sup>2</sup>

## **THE METROPOLITAN GOVERNMENT**

The Yearly Information Statement of the Metropolitan Government dated as of June 30, 2001 is attached hereto as *Appendix D-I* and the audited financial statements of the Metropolitan Government for the fiscal year ended June 30, 2001 are attached hereto as *Appendix D-II*.

## **CONSTELLATION ENERGY SOURCE, INC. AND CONSTELLATION ENERGY GROUP**

CES, a Delaware Corporation, is an indirect subsidiary of Constellation Energy Group, a corporation organized and existing under the laws of the State of Maryland. CEG was created in 1999 as a holding company overseeing a group of competitive energy businesses, including regulated and non-regulated businesses, focused mostly on power marketing and merchant generation in North America and retail energy businesses focused primarily in the Mid-Atlantic region.

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<sup>2</sup> The base case projections set forth under the heading “**THE SYSTEM AND ITS OPERATIONS - Projected Operating Results; Projected Revenues and Expenses**” above in this Official Statement assume no sales of the unused System available capacity.

The CEG companies have been providing energy services for customers in the commercial, industrial, institutional, and government markets since 1985, and currently own and operate 37 energy plants across the United States. CEG is a public company with common stock traded on the New York, Chicago and Pacific Stock exchanges. CEG's power marketing and merchant generation business include Constellation Power Source and Constellation Nuclear and CEG's retail energy businesses include Baltimore Gas & Electric (BGE) founded in 1816, CES and BGE Home, which operates Commercial Building Systems. CEG entered the district chilled water business through Comfort Link in July 1996 with the operation of the Baltimore Convention Center Chiller Station, the first of three new facilities built in the last five years.

CES's origins date back to 1983 with the incorporation of Baltimore Biogas, Inc. Originally CES provided wholesale natural gas trading and retail marketing for industrial and commercial customers. With the advent of deregulation in Pennsylvania, CES provided retail marketing of electricity. CES staff have been involved in the development of many district energy plants including those in Chicago, Boston, New Orleans and Baltimore.

CEG is subject to the informational requirements of the Federal Securities and Exchange Act of 1934 and must file reports and other information with the Securities and Exchange Commission (the "Commission") pursuant thereto. CEG's annual reports on form 10-K for the year ended December 31, 2001 and all subsequent periodic reports filed by CEG through the date of this Official Statement are on file with the Commission. Without any representation as to the accuracy thereof, potential investors are directed to consult and review the information and reports regarding CEG, including, without limitation, those on file with the Commission. Such information and reports are not incorporated by reference in this Official Statement.

## THE STATE OF TENNESSEE

Economic and statistical information about the State of Tennessee is attached hereto as *Appendix E-I* and information of the State's appropriation and allotment procedures are attached as *Appendix E-II*. Information regarding the State's Comprehensive Annual Financial Report, including the audited General Purpose Statements, audited for the fiscal year ended June 30, 2001 is attached hereto as *Appendix E-III*.

## RATINGS

Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch") have assigned ratings to the 2002 Series A Bonds of "AAA", "Aaa" and "AAA", respectively, with the understanding that upon delivery of the 2002 Series A Bonds, the Financial Guaranty Insurance Policy will be issued by Ambac Assurance. Without insurance, S&P, Moody's and Fitch have assigned ratings to the 2002 Series A Bonds of "AA-", "Aa3" and "AA", respectively (the "Underlying Ratings"). Such ratings reflect only the views of S&P, Moody's and Fitch, respectively, and any explanation of the significance of such ratings may only be obtained from S&P, Moody's and Fitch. There is no assurance that any of such ratings will remain in effect for any given period of time or that the ratings will not be lowered, suspended or withdrawn entirely by S&P, Moody's or Fitch, as the case may be, if, in its judgment, circumstances so warrant, any such lowering, suspension or withdrawal of any rating might have an adverse effect on the market price or marketability of the 2002 Series A Bonds.

## TAX MATTERS

### Federal Income Taxes

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to delivery of the 2002 Series A Bonds in order that interest on the 2002 Series A Bonds be excluded from gross income of the owners thereof for federal income tax purposes. A Metropolitan

Government Tax Certificate, which will be delivered concurrently with the delivery of the 2002 Series A Bonds, will contain representations, covenants and procedures relating to compliance with such requirements of the Code.

In the opinion of Bond Counsel, under existing statutes and court decisions, interest on the 2002 Series A Bonds is excluded from gross income of the owners thereof for federal income tax purposes pursuant to Section 103 of the Code, and under the Code, such interest is not treated as a preference item in calculating the alternative minimum tax imposed on individuals and corporations; such interest, however, is includable in the adjusted earnings of certain corporations for purposes of calculating the alternative minimum tax imposed with respect to such corporations. In rendering the foregoing opinions, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Metropolitan Government in connection with the 2002 Series A Bonds, and has assumed compliance by the Metropolitan Government with certain ongoing covenants to comply with applicable requirements of the code to assure the exclusion of interest on the 2002 Series A Bonds from gross income under Section 103 of the code. Under the Code, noncompliance with such requirements may cause the interest on the 2002 Series A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance thereof, irrespective of the date on which such noncompliance occurs or is discovered.

### **State Taxes**

In the opinion of Bond Counsel, under the existing laws of the State, the 2002 Series A Bonds and the interest thereon are free from taxation by the State or any county, municipality or taxing district of the State, except for inheritance, transfer and estate taxes and except to the extent such interest may be included within the measure of privilege taxes imposed pursuant to the laws of the State. Owners of the 2002 Series A Bonds should consult their tax advisors with respect to other applicable state and local tax consequences of ownership of the 2002 Series A Bonds and the disposition thereof.

### **Original Issue Discount**

The initial public offering price of certain of the 2002 Series A Bonds is less than the amount payable on the 2002 Series A Bonds at maturity. The excess of the amount payable at maturity over the initial public offering price at which these 2002 Series A Bonds are sold constitutes original issue discount. The prices set forth on the front cover page of the Official Statement may or may not reflect the prices at which a substantial amount of the 2002 Series A Bonds were ultimately sold to the public.

The discussion in this paragraph applies to those 2002 Series A Bonds that may have original issue discount. Under Section 1288 of the Code, the amount of original issue discount treated as having accrued with respect to any bond during each day it is owned by a taxpayer is added to the cost basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bond by such owner. Accrued original issue discount on a bond is excluded from gross income of the owners thereof for federal income tax purposes. Original issue discount on any bond is treated as accruing on the basis of economic accrual for such purposes, computed by a constant semiannual compounding method using the yield to maturity on such bond. The original issue discount attributable to any bond for any particular semiannual period is equal to the excess of the product of (i) one-half of the yield to maturity of such bond and (ii) the amount which would be the adjusted basis of the bond at the beginning of such semiannual period if held by the original owner and purchased by such owner at the initial public offering price, over the interest payable on such bond during such period. The amount so treated as accruing during each semiannual period is apportioned in equal amounts among the days in that period to determine the amount of original issue discount accruing for such purposes during each such day. Owners of the 2002 Series A Bonds should consult their tax advisors with respect to the federal and state income tax consequences of the disposition of 2002 Series A Bonds.

## **Original Issue Premium**

The initial public offering price of certain of the 2002 Series A Bonds is greater than the amount payable on the 2002 Series A Bonds at maturity. The excess of the initial public offering price at which these 2002 Series A Bonds are sold over the amount payable thereon at maturity constitutes original issue premium. The prices set forth on the front cover page of the Official Statement may or may not reflect the prices at which a substantial amount of the 2002 Series A Bonds were ultimately sold to the public.

The discussion in this paragraph applies to those 2002 Series A Bonds that may have original issue premium. Under Sections 1016 and 171 of the Code, the amount of original issue premium treated as having amortized with respect to any bond during each day it is owned by a taxpayer is subtracted from the cost basis of such owner for purposes of determining gain or loss upon the sale or other disposition of such bond by such owner. Amortized original issue premium on a bond is not allowed as a deduction from gross income for federal income tax purposes. Original issue premium on any bond is treated as amortizing on the basis of the taxpayer's yield to maturity on such bond using the taxpayer's cost basis and a constant semiannual compounding method. As a consequence of the resulting cost basis reduction, under certain circumstances an owner of a bond acquired with original issue premium may realize a taxable gain upon disposition thereof even though it is sold or redeemed for an amount equal to or less than such owner's original cost of acquiring the bond. Owners of the 2002 Series A Bonds should consult their tax advisors with respect to the federal and state income tax consequences of the disposition of 2002 Series A Bonds.

## **Certain Federal Tax Information**

**General.** The following is a discussion of certain federal income tax matters under existing statutes. It does not purport to deal with all aspects of federal taxation that may be relevant to particular investors. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the 2002 Series A Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

**Social Security and Railroad Retirement Payments.** The Code provides that interest on tax-exempt obligations is included in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement benefits received are to be included in taxable income.

**Branch Profits Tax.** The Code provides that interest on tax-exempt obligations is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States.

**Borrower Funds.** The Code provides that interest paid (or deemed paid) on borrowed funds used during a tax year to purchase or carry tax-exempt obligations is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

**Property and Casualty Insurance Companies.** The Code contains provisions relating to property and casualty insurance companies whereunder the amount of certain loss deductions otherwise allowed is reduced (in certain cases below zero) by a specified percentage of, among other things, interest on tax-exempt obligations acquired after August 7, 1986.

**Financial Institutions.** The Code provides that commercial banks, thrift institutions and other financial institutions may not deduct the portion of their interest expenses allocable to tax-exempt obligations acquired after August 7, 1986, other than certain "qualified" obligations. The 2002 Series A Bonds are not "qualified" obligations for this purpose.

***S Corporations.*** The Code imposes a tax on excess net passive income of certain S corporations that have accumulated earnings and profits. Interest on tax-exempt obligations must be included in passive investment income for purposes of this tax.

***Earned Income Credit.*** For any taxable year beginning after December 31, 1995, the Code denies the earned income credit to an individual otherwise eligible for it if the aggregate amount of disqualified income of the taxpayer for the taxable year exceeds \$2,200 (subject to adjustment for inflation). Interest on the 2002 Series A Bonds will constitute disqualified income for this purpose.

***Changes in Federal Tax Law.*** From time to time proposals are introduced in Congress that, if enacted into law, could have an adverse impact on the potential benefits of the exclusion from gross income for federal income tax purposes of the interest on the 2002 Series A Bonds, and thus on the economic value of the 2002 Series A Bonds. This could result from reductions in federal income tax rates, changes in the structure of the federal income tax rates, changes in the structure of the federal income tax or its replacement with another type of tax, repeal of the exclusion of the interest on the 2002 Series A Bonds from gross income for such purposes, or otherwise. It is not possible to predict whether any legislation having an adverse impact on the tax treatment of holders of the 2002 Series A Bonds may be proposed or enacted.

## CONTINUING DISCLOSURE

The Metropolitan Government will enter into a Continuing Disclosure Certificate for the benefit of the Beneficial Owners of the 2002 Series A Bonds, substantially in the form attached as ***Appendix F*** to this Official Statement (the “Continuing Disclosure Certificate”), to provide or cause to be provided, in accordance with the requirements of SEC Rule 15c2-12, (i) certain annual financial information, and (ii) timely notice of the occurrence of certain material events with respect to the 2002 Series A Bonds. Pursuant to the Continuing Disclosure Certificate, the Metropolitan Government is obligated to provide certain annual financial information of the State and the Parent and has obtained undertakings from the State and the Parent with respect to the provisions of such information. Any failure by the Metropolitan Government to perform its obligations under the Continuing Disclosure Certificate shall not constitute an Event of Default under the Resolution or the 2002 Series A Bonds; rather, the right to enforce the provisions of the Continuing Disclosure Certificate is limited to the right to compel performance. The Underwriters’ obligation to purchase the 2002 Series A Bonds shall be conditioned upon their receiving, at or prior to the delivery of the 2002 Series A Bonds, an executed copy of the Continuing Disclosure Certificate.

The Metropolitan Government has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in SEC Rule 15c2-12(b)(5).

## UNDERWRITING

The Underwriters have agreed, subject to certain conditions precedent, to purchase all but not less than all of the 2002 Series A Bonds at an aggregate purchase price of \$68,699,167.55 (representing the aggregate principal amount of the 2002 Series A Bonds plus net original premium of \$2,386,748 and less an Underwriters’ discount of \$387,580.45). The initial public offering prices set forth on the inside cover page of this Official Statement and concessions in transactions with securities dealers may be changed by the Underwriters. The Underwriters may offer and sell the 2002 Series A Bonds to certain dealers and others at prices lower than the initial public offering prices.

## **ABSENCE OF LITIGATION**

As of the date of this Official Statement, there is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the 2002 Series A Bonds or in any way contesting or affecting the validity of the 2002 Series A Bonds or any proceedings of the Metropolitan Government taken with respect to the issuance or sale thereof, the pledge or application of any moneys or security provided for the payments of the 2002 Series A Bonds, or the existence or powers of the Metropolitan Government insofar as they relate to the authorization, sale and issuance of the 2002 Series A Bonds or such pledge or application of moneys and security.

## **APPROVAL OF CERTAIN LEGAL MATTERS**

All legal matters incident to the authorization, issuance and sale of the 2002 Series A Bonds are subject to the approval of Hawkins, Delafield & Wood, New York, New York, Bond Counsel to the Metropolitan Government, whose approving opinion in substantially the form attached to this Official Statement as *Appendix G* will be delivered upon the issuance of the 2002 Series A Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Bass, Berry & Sims, PLC, Nashville, Tennessee. Certain other legal matters will be passed upon for CES, the Parent and the Metropolitan Government by their respective counsel.

## **FINANCIAL ADVISOR**

This Official Statement has been prepared under the direction of the Metropolitan Government and with the assistance of Public Financial Management, Inc., Memphis, Tennessee (“PFM”), employed by the Metropolitan Government to perform professional services in the capacity of financial advisor. In their role as financial advisor, PFM has provided advice on the plan of financing and structure of the issue, reviewed and commented on certain legal documents, drafted certain portions of the Official Statement based upon information provided by the Metropolitan Government and reviewed the pricing of the 2002 Series A Bonds by the Underwriter thereof. The information set forth herein has been obtained from the Metropolitan Government and other sources which are believed to be reliable. PFM has not verified the factual information contained in the Official Statement but relied on the information supplied by the Metropolitan Government and the Metropolitan Government’s certificate as to the Official Statement.

**ADDITIONAL INFORMATION**

This Official Statement is submitted only in connection with the sale of the 2002 Series A Bonds and may not be reproduced or used in whole or in part for any other purpose. Statements in this Official Statement involving matters of opinion or estimates, whether or not expressly stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Metropolitan Government and the purchasers or holders of any of the 2002 Series A Bonds.

**THE METROPOLITAN GOVERNMENT OF NASHVILLE  
AND DAVIDSON COUNTY (TENNESSEE)**

By: /s/ Bill Purcell  
Metropolitan County Mayor

By: /s/ David L. Manning  
Director of Finance

**DEFINITIONS**

The following terms used in this Official Statement have the following meanings.

**“Acceptance”** means approval by Metro that (1) the Contractor has successfully performed the Acceptance Tests and achieved the full Acceptance Standards (or otherwise complied with the conditions for Acceptance set forth in the Management Contract), and (2) the Facility has been built in accordance with the Design Requirements, all in accordance the Management Contract

**“Acceptance Date”** means the date on which Acceptance of the Facility occurs or is deemed to have occurred.

**“Acceptance Date Conditions”** means the conditions that must be satisfied for the Acceptance Date to occur as set forth in the Management Contract

**“Acceptance Standards”** means those standards for achieving Acceptance as set forth in the Management Contract.

**“Acceptance Tests”** means the tests for Acceptance set forth in the Management Contract.

**“Accountant”** means any independent certified public accountant or firm of accountants of recognized standing designated by the Metropolitan Government from time to time to perform the duties of the Accountant hereunder, or an employee of the Metropolitan Government who is designated by an Authorized Officer of the Metropolitan Government as the official or employee responsible for the accounting functions of the System.

**“Accreted Value”** means, with respect to any Capital Appreciation Obligation, the principal amount thereof plus the interest accrued on or with respect thereto from its delivery date to the date of calculation, compounded at the approximate interest rate thereof on each date specified therein, determined in accordance with provisions thereof and the related Parity Obligation Agreement.

**“Accrued Interest”** means, for any calendar month, the amount of interest which has accrued or will accrue on Parity Obligations during that month, less any interest which accrues during such period but for which a separate fund has been established and into which have been deposited moneys or Investment Securities which, with the earnings thereon, will be sufficient to pay such interest and which fund is irrevocably pledged to payment of such interest. Variable Rate Obligations will be treated as bearing interest at the greater of (A) the rate or rates which were assumed by the Metropolitan Government in the Annual Budget for such Fiscal Year to be borne by Variable Rate Obligations during such Fiscal Year or (B) the actual rate or rates borne by such Variable Rate Obligations on such date of calculation. With respect to Capital Appreciation Obligations, the interest accruing thereon shall be treated as an accretion of principal not includable as Accrued Interest. With respect to Parity Contract Obligations constituting lease payments or installment purchase payments or similar obligations not designated as “bonds” or “debt”, interest shall include the “interest component” of the periodic payments accruing thereunder as so designated therein.

**“Accrued Principal”** means, with respect to any calendar month, one-twelfth of the amount of Principal which has matured or will mature on Parity Obligations during the next 12 months (or which are subject to mandatory prepayment or sinking fund redemption during the next 12 months) less any Principal which matures during the next 12 months but for which a separate fund has been established and into which have been deposited moneys or Investment Securities which, with the earnings thereon, will be sufficient to pay such Principal and which fund is irrevocably pledged to the payment of such Principal; provided, however,

that to the extent any Principal payment on a Parity Obligation is payable sooner than one year after issuance of such Parity Obligation, such Principal with respect to such obligation shall be amortized over the period from issuance to payment with pro rata monthly portions of such Principal deemed to be Accrued Principal during such amortization period.

**“Act”** means the Energy Production Facilities Act, Title 7, Chapter 54 of the Tennessee Code Annotated, as amended.

**“Actual Capacity Requirement”** means the average of two maximum metered demands each measured over a 30-minute period for the Services provided during a Contract Year.

**“Additional Customer Contract”** means any contract between a Customer and the Metropolitan Government for steam or chilled water or similar energy services provided by the System; provided that an Additional Customer Contract shall not include any Interim Customer Contract, Initial Customer Contract or Holdover Customer Contract.

**“Affiliate”** means any person, corporation or other entity directly or indirectly controlling or controlled by another person, corporation, or other entity or under direct or indirect common control with such person, corporation or other entity.

**“Annual Budget”** means the budget or the amended budget for the System for a Fiscal Year, as adopted by the Metropolitan Government in accordance the General Resolution.

**“Applicable Law”** means: (1) any federal, state or local law, code, regulation or consent order or agreement having the force of law; (2) any formally adopted and generally applicable rule, requirement, determination, standard, policy, implementation schedule or order of any Governmental Body having appropriate jurisdiction; (3) any established interpretation of law or regulation utilized by an appropriate Governmental Body if such interpretation is documented by such Governmental Body and generally applicable; and (4) any Governmental Approval, in each case applicable from time to time to the: (a) siting, design, acquisition, construction, equipping, possession, start-up, testing, operation, maintenance, repair, replacement or management of the System, including the Facility and EDS and any expansions thereto; (b) air emissions from the Facility; (c) transfer, handling, processing, transportation and marketing of steam and chilled water; (d) procurement and transportation of fuel and utilities, and (e) performance of any other services under the Management Contract.

**“Authorized Denomination”** means (i) with respect to the 2002 Series A Bonds, \$5,000 and integral multiples thereof, and (ii) with respect to any other series of Parity Bond Obligations, such denominations as shall be determined by Supplemental Resolution.

**“Authorized Officer of the Metropolitan Government”** means the Metropolitan County Mayor, the Vice Mayor, Director of Finance or Metropolitan Treasurer of the Metropolitan Government and, in the case of any act to be performed or duty to be discharged, any other member, officer or employee of the Metropolitan Government then authorized to perform such act or discharge such duty.

**“Available Funds”** means, as of any date of calculation, amounts in the Surplus Fund.

**“Base Chilled Water Facilities Capital Cost”** means 85% of the Chilled Water Facilities Capital Cost.

**“Base Chilled Water Facilities Operating Costs”** means 85% of the Chilled Water Facilities Operating Costs.

**“Base Steam Facilities Capital Cost”** means 85% of the Steam Facilities Capital Cost.

**“Base Steam Facilities Operating Costs”** means 85% of the Steam Facilities Operating Costs.

**“Beneficiary”** means any registered owner of or any party and any express third party beneficiary to a Parity Obligation, other than the Metropolitan Government.

**“Bond Counsel”** means an attorney or firm of attorneys with experience and nationally recognized expertise in the area of municipal finance as may be designated by the Metropolitan Government from time to time.

**“Bonds”** means (i) with respect to the General Resolution, the bonds authorized and issued thereunder, and (ii) with respect to the Management Contract, the 2002 Series A Bonds.

**“Book Entry Bonds”** means Parity Bond Obligations or Subordinated Bond Obligations registered in book entry form with a Securities Depository.

**“Business Day”** means a day other than (i) a Saturday or Sunday, (ii) a day on which federally or State chartered banking institutions or, with respect to any Parity Obligation secured by a Credit Facility, the office of the Credit Facility Provider at which a draw or claim on a Credit Facility is to be made is located, are authorized or obligated by law to close or (iii) a day on which the New York Stock Exchange is closed.

**“Capital Appreciation Obligation”** means any Parity Bond Obligation the interest on or with respect to which is compounded and not scheduled to be paid until maturity or prior redemption thereof.

**“Capital Costs”** means

- (1) Costs of any System Improvement;
- (2) Costs of Issuance of any Parity Obligations issued to provide funds to pay Capital Costs;
- (3) to the extent properly attributable to Construction or the period of Construction the costs incurred for interest on funds borrowed to finance the Costs of Construction;
- (4) any taxes or other governmental charges lawfully agreed to, levied or assessed on any property acquired; and
- (5) costs reasonably related to any of the foregoing and designated by the Metropolitan Government as being “Capital Costs” for purposes of this definition, including, but not limited to, post-construction interest, start-up costs, reasonable reserves, initial working capital and similar expenses.

**“Change in Law”** means any of the following acts, events or circumstances to the extent that compliance therewith increases the cost of performing or increases the scope of a party's obligations thereunder:

- (a) the adoption, amendment, promulgation, issuance, modification, repeal or written change in administrative or judicial interpretation of any Applicable Law on or after the Contract Date, unless such Applicable Law was on or prior to the Contract Date duly adopted, promulgated, issued or otherwise officially modified or changed in interpretation, in each case in final form, to become effective without any further action by any Governmental Body;

(b) the order or judgment of any Governmental Body issued on or after the Contract Date (unless such order or judgment is issued to enforce compliance with Applicable Law which was effective as of the Contract Date) to the extent such order or judgment is not the result of willful or negligent action, error or omission or lack of reasonable diligence of the Contractor or of the Metropolitan Government, whichever is asserting the occurrence of a Change in Law; provided, however, that the contesting in good faith or the failure in good faith to contest any such order or judgment shall not constitute or be construed as such a willful or negligent action, error or omission or lack of reasonable diligence; or

(c) except with respect to any Governmental Approval required for the Facility as provided in item (c) below pertaining to exclusions from “Change in Law”, the denial of an application for, a delay in the review, issuance or renewal of, or the suspension, termination, or interruption of any Governmental Approval, or the imposition of a term, condition or requirement which is more stringent or burdensome than the Contract Standards in connection with the issuance, renewal or failure of issuance or renewal of any Governmental Approval, to the extent that such occurrence is not the result of willful or negligent action, error or omission or a lack of reasonable diligence of the Contractor or of the Metropolitan Government, whichever is asserting the occurrence of a Change in Law; provided, however, that the contesting in good faith or the failure in good faith to contest any such occurrence shall not be construed as such a willful or negligent action or lack of reasonable diligence.

It is specifically understood, however, that none of the following shall constitute a “Change in Law”:

(a) the failure of the appropriate Governmental Body to approve the Contractor's permit applications or modifications thereto;

(b) a change in the nature or severity of the actions typically taken by Governmental Body to enforce compliance with Applicable Law which was effective as of the Contract Date; and

(c) all matters relating to obtaining and maintaining Governmental Approvals of the design, construction and operation of the Facility, including any delay, non-issuance or imposition of terms and conditions upon the issuance or renewal of any Governmental Approval necessary in connection therewith.

**“Charter”** means the Charter of The Metropolitan Government authorized by the Constitution of the State of Tennessee and approved by referendum on June 28, 1962, as previously amended and approved and as may be subsequently amended and approved in accordance with its terms, and any successor charter.

**“Chilled Water Facilities Capital Cost”** means that portion of the total capital costs of the facilities (or debt service on debt issued to finance such costs or similar amortization thereof), including costs of funding reasonable reserves, reasonably allocable to the production, metering, and distribution of chilled water. Chilled Water Facilities Capital Cost shall not include Excluded Costs or capital costs of improving that portion of the Energy Distribution System currently owned by the State to the condition of the balance of the Distribution System as of the date of the Customer Contract.

**“Chilled Water Facilities Fixed Operating Costs”** means that portion of the Fixed Operating Costs assignable to operating and maintaining the chilled water portion of the System.

**“Code”** means the Internal Revenue Code of 1986, as the same may be amended from time to time, and the regulations promulgated thereunder.

**“Commercial Customer Contracts”** means any contracts with Initial Customers other than the State or the Metropolitan Government.

**“Completion Obligations”** means any obligations issued or any increase in the obligations of the Metropolitan Government incurred in accordance with the terms of any Parity Obligation Agreement, which is issued or incurred to (1) pay the costs of completing any portion of the System for which a Parity Obligation has previously been issued or executed and delivered pursuant to the terms of the applicable Parity Obligation Agreement, or (2) pay the costs of meeting, maintaining or restoring any reduction in capacity in any portion of the System or required modifications or improvements to the System, in each case required due to an unforeseen or uncontrollable circumstance or a change in law.

**“Construction Commencement Date”** means the date upon which all conditions precedent to the commencement of construction set forth in the Management Contract have been satisfied or waived in writing by the party or parties entitled to the benefit thereof.

**“Consulting Expert”** means an engineering firm or firm of experts in district heating and cooling or energy producing facilities of recognized standing, having skill and experience with respect to the design, construction and operation of facilities similar to those which comprise the System, as may be designated by the Metropolitan Government from time to time in accordance with the General Resolution.

**“Construction”** shall mean the acquisition, erection, building, alteration, improvement, increase, enlargement, extension, reconstruction, renovation or rehabilitation of a System Improvement; the inspection and supervision thereof; and the engineering, architectural, legal, fiscal and economical investigations and studies, surveys, designs, plans, working drawings, specifications, procedures and other actions incidental thereto and may include the start-up of a System Improvement, the initial testing and acceptance of the System Improvement and the administration and management by the Metropolitan Government of any contracts relating to a System Improvement during the period prior to completion and commercial operation of the System Improvement.

**“Construction Period”** means the period from and including the Construction Commencement Date to and including the day preceding the Acceptance Date.

**“Construction Work”** means all of the Contractor's design, engineering, construction, start-up, Acceptance Testing, and related obligations with respect to the Facility and the Initial System Improvements during the Construction Period under the Management Contract.

**“Contract Capacity”** means with respect to steam service the Contract Capacity set forth in the Customer Contracts for steam service, and with respect to chilled water service the Contract Capacity set forth in the Customer Contracts for chilled water service, which, after the Transition Date, the Metropolitan Government is obligated by the Customer Contracts to make available to the Customers pursuant to the terms of the Customer Contracts; provided, that in the event the Customer's Actual Capacity Requirement exceeds the Contract Capacity, the Metropolitan Government may, but shall not be obligated to, increase the Contract Capacity for all subsequent periods to equal the Contract Capacity (prior to such adjustment) plus the additional capacity required.

**“Contract Capacity Charge”** means the charges payable by a Customer for the steam and/or chilled water capacity required by such Customer pursuant to a Customer Contract. The Contract Capacity Charge includes, but is not limited to, the capital and interest costs associated with the investment required to serve the Customer.

**“Contract Date”** means the date of delivery of the Management Contract which was January 16, 2002.

**“Contract Services”** means the Construction Work and the Management Services.

**“Contract Standards”** means the terms, conditions, methods, techniques and practices imposed or required by: (1) Applicable Law; (2) the Design Requirements; (3) the Performance Guarantees; (4) Prudent Utility Practice; (5) the operation and maintenance manual; (6) applicable equipment manufacturers specifications; (7) applicable insurance requirements under the Management Contract; (8) Acceptance Requirements and (9) any other standard, term, condition or requirement specifically provided in the Contract to be observed by the Contractor.

**“Contract Year”** means (i) with respect to the Management Contract, the Metropolitan Government's fiscal year commencing on July 1 in any year and ending on June 30 of the following year; provided, however, that the first Contract Year shall commence on the Service Commencement Date and shall end on the following June 30, and the last Contract Year shall commence on July 1 prior to the date the Contract expires or is terminated, whichever is appropriate, and shall end on the last day of the Term or the effective date of any termination, whichever is appropriate, and (ii) with respect to the Customer Contracts, the period of time from July 1 through June 30 of the following year during the Initial Term or any Renewal Term.

**“Contractor”** means Constellation Energy Source, Inc, and its permitted successors or assigns.

**“Cost Substantiation”** means, with respect to any cost reasonably incurred by the Contractor which is directly or indirectly chargeable in whole or in part to the Metropolitan Government under the Management Contract, the delivery to the Metropolitan Government of a certificate signed by the principal engineering officer and the principal financial officer of the Contractor, substantiating such costs and the Contractor's allowed markup in the manner and subject to the terms and conditions set forth in the Management Contract.

**“Costs”** as applied to any System Improvement shall mean and includes the cost of Construction, the cost of the acquisition of all property, including real property and other property, both real and personal and improved and unimproved, the cost of demolishing, removing or relocating any buildings or structures on lands so acquired, including the cost of acquiring any lands to which such buildings or structures may be moved or relocated, the cost of all systems, facilities, machinery, apparatus and equipment, financing charges, interest prior to, during and after construction to the extent not paid or provided for from revenues or other sources, the cost of engineering and architectural surveys, plans and specifications, the costs of consultants and legal services, the cost of a guarantee or bond insurance, other expenses necessary or incidental to the Construction of such System Improvement and the financing of the Construction thereof, including cost of administration and management by the Metropolitan Government and cost of insurance or sureties for the Construction period and the amount authorized in the resolution of the Metropolitan Government providing for the issuance of Parity Obligations to be paid into any reserve or special fund from the proceeds of such Parity Obligations and the financing of the startup, testing, accepting and placing of any System Improvement in operation, including reimbursement to any municipality, State agency, the State, the United States government, or any other person for expenditures that would be costs of the System Improvement hereunder had they been made directly by the Metropolitan Government.

**“Costs of Issuance”** shall mean all items of expense, directly or indirectly payable or reimbursable and related to the authorization, sale and issuance of Parity Obligations or interests therein, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, any guaranty or Credit Facility and of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Parity Obligations or evidences of ownership interests therein, underwriting fees and discounts and costs and expenses of refunding, premiums for the insurance of the payment of the Parity Obligations and any other cost, charge or fee in connection with the original issuance of Parity Obligations.

**“CPI”** means the Consumer Price Index-South: Size Class B/C.

**“Credit Facility”** means any letter of credit, surety bond, reserve fund insurance policy or reserve fund letter of credit, loan agreement, line of credit, liquidity facility or other credit agreement, facility, insurance or guarantee arrangement issued by a financial institution, insurance company or any other entity that provides additional security for any Parity Obligation which provides for payment, in accordance with the terms of such Credit Facility, of Principal, premium and/or interest of such Parity Obligation or portion of a Parity Obligation and/or the purchase price of such Parity Obligation or portion thereof. A Credit Facility may comprise of one or more credit facilities issued by one or more financial institutions.

**“Credit Facility Provider”** means the issuer of any Credit Facility.

**“Customer”** means any Person that has entered into a contract with the Metropolitan Government or any successor in interest to the System, in form and substance substantially the same as the Customer Contracts and includes the Initial Customers, the Interim Customers, the Holdover Customers and the Additional Customers. Differing usage levels, Term of agreement, delivery point, or similar user specific provision shall not be considered a material difference under the preceding sentence.

**“Customer Contract”** means any Interim Customer Contract, any Initial Customer Contract, any Holdover Customer Contract and any Additional Customer Contract.

**“Customer Return Temperature”** means the temperature of chilled water at the Return Point that is listed in the Customer Contracts.

**“Customer Reimbursable Amounts”** means that portion of amounts paid by Additional Customers with respect to System capacity that has become available upon termination of an Initial Customer Contract pursuant to the Customer Contracts and resold, and with respect to which the Initial Customer is entitled to reimbursement.

**“Debt Service Fund”** means the fund so designated and established by the Metropolitan Government pursuant to the General Resolution.

**“Debt Service Reserve Fund”** means, with respect to any issue of Parity Obligations, the reserve fund, if any, established in connection with such Parity Obligations solely as a source of contingency funds for payment of Parity Obligation Debt Service Expenses with respect to such Parity Obligations and, with respect to Bonds, the Debt Service Reserve Fund established by the Metropolitan Government pursuant to the General Resolution.

**“Debt Service Reserve Fund Deposit Requirement”** means (i) with respect to any issue of Parity Obligations, the amount required to be deposited to the Debt Service Reserve Fund applicable to such issue, if any, to increase the balance therein to its required level, and (ii) with respect to the 2002 Series A Bonds an amount equal to the lesser of (i) maximum annual debt service becoming due on the 2002 Series A Bonds in any year, (ii) 125% of average annual debt service becoming due on the 2002 Series A Bonds and (iii) 10% of the proceeds of the 2002 Series A Bonds.

**“Debt Service Reserve Fund Requirement”** means, with respect to a series of Parity Obligations, the amount specified in the Supplemental Resolution authorizing the issuance of such Parity Obligations.

**“Defeasance Obligations”** means securities described in clauses (a) and (b) of the definition of Investment Securities.

**“Delivery Point”** means the connection(s) where the Metropolitan Government delivers Service to the Customer.

**“Delta T”** means the temperature difference, in °F, between the Customer Return Temperature and 42°F as of the date of the Customer Contract.

**“Design Requirements”** means the Facility and EDS design requirements, the minimum technical requirements and technical specifications included in the Management Contract.

**“Director of Finance”** means the Director of Finance of the Department of Metropolitan Finance appointed pursuant to the Charter or his designee acting on his behalf pursuant to the Charter.

**“DTC”** means The Depository Trust Company.

**“EDS”** means the Energy Distribution System.

**“EDS Repair and Improvement Account”** means the account so designated and created in the Renewal and Replacement Fund by the Metropolitan Government pursuant to the General Resolution.

**“EDS Site”** means the locations described in the Management Contract on which the EDS is located together with any locations over which the Facility and the EDS will be connected.

**“Encumbrance”** means any Lien, lease, mortgage, security interest, charge, judgment, judicial award, attachment or encumbrance of any kind with respect to the System.

**“Energy Charge” or “Energy Fee”** means the charges payable by the Customers pursuant to the Customer Contracts for energy used by the Metropolitan Government in producing steam and/or chilled water for its Customers, including without limitation, commodity charges for natural gas, electricity, oil, coal, biomass or alternate forms of fuel, distribution and transmission charges, applicable federal, state and local Taxes and all ancillary charges related to the purchase and delivery of the foregoing.

**“Energy Distribution System”** means the steam delivery, condensate return and chilled water delivery and return pipes, together with all related equipment, valves and fixtures, used by the Metropolitan Government for the delivery of steam and chilled water to Customers.

**“Event of Default”** means (i) with respect to the General Resolution, an event of default described in Section 10.1 thereof, and (ii) with respect to the Management Contract, an event of default described in Sections 18.02 and 18.03 thereof.

**“Excluded Costs”** means (i) with respect to Chilled Water Facilities Capital Costs and Steam Facilities Capital Costs, costs paid or incurred by the Metropolitan Government for legal, financial management and technical consultants of performing economic, engineering and feasibility studies of the System, procuring contracts or performing other tasks relating to the restructuring of the System in each case prior to the date of execution of the Initial Operating Agreement, and (ii) with respect to Fixed Operating Costs or Variable Operating Costs, paid or payable to a System Operator, either as part of a fixed fee or an incentive program, of costs of marketing excess System capacity. Excluded Costs does not include costs relating to financing the System, such as bond issuance costs.

**“Existing Facility”** means the Thermal Facility.

**“Extension Period”** means the period ending on the day that is eighteen months after the Scheduled Service Commencement Date.

**“Facility”** or **“EGF”** means the energy generation facilities to be designed, built, started-up, acceptance tested and operated by the Contractor pursuant to the Management Contract and may include one or more facilities in one or more locations.

**“Facility Site”** means the site described in the Management Contract and the Project Feasibility Report on which the Facility is to be constructed in accordance with the Management Contract

**“Fiduciary”** means the Trustee, any Paying Agent, any Registrar, any tender agent or remarketing agent for any Parity Obligation, or any or all of them, as the case may be.

**“Final Completion”** means Acceptance of the Facility and the Initial System Improvements pursuant to the Management Contract and satisfaction of the requirements thereof.

**“Fiscal Year”** means the fiscal year of the Metropolitan Government which begins on July 1 of each year and ends on June 30.

**“Fitch”** means Fitch Investors Service, its successors and assigns, and if such corporation shall be dissolved or liquidated or no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Metropolitan Government.

**“Fixed Construction Price”** has the meaning given in the Management Contract and as set forth under the heading “Contract Price; Payment for Construction Work” in *Appendix B-II* hereof.

**“Fixed Construction Price Adjustments”** means those adjustments to the Fixed Construction Price permitted by the Management Contract.

**“Fixed Operating Costs”** means those costs of operating and maintaining the System that are fixed monthly or annual amounts (some of which may be subject to escalation), and may include, but is not necessarily limited to, (i) monthly or annual operating fee payable to an operator of the System, (ii) monthly or annual allowance for repairs or replacements, and (iii) monthly or annual allowance for The Metropolitan Government’s Incremental Costs. Fixed Operating Costs shall not include Excluded Costs.

**“Force Majeure Event”** means acts of God, war, civil commotion, embargoes, strikes, epidemics, fires, cyclones, hurricanes, droughts or floods, or labor, production or transportation difficulties, breakdown of, or accident or repairs to, machinery, equipment or lines of pipe, or shortage of materials, power, fuel, equipment, transportation or labor, or inability to obtain same without litigation or the payment of penalties, premiums or unusual prices, or any governmental law, regulation, order, request, instruction or injunction, or failure to provide or cancellation of rights-of-way, permits, licenses or other authorization, whether valid or invalid, or any other cause, whether or not similar to the foregoing, beyond the reasonable control of a party hereto, or its agents or contractors, and includes “Uncontrollable Circumstances” as defined in the System Operating Agreement.

**“Fuel”** means the fuel or fuels designated by the Contractor as the primary and backup fuels for the Facility (including electricity used in Facility operations).

**“Fuel Purchase Contract”** means (i) with respect to the General Resolution, the contract for the acquisition of fuel for all or any portion of the System between the Metropolitan Government and the Contractor, or any replacement contract, and (ii) with respect to the Management Contract, that Fuel Purchase Contract for the Metropolitan Government System, between the Contractor and the Metropolitan Government.

**“General Resolution”** means the Amended and Restated General Resolution, adopted by the Metropolitan Government on August 20, 2002, as the same may be amended or supplemented from time to time in accordance with the terms hereof.

**“Governmental Approvals”** means all permits, licenses and approvals required from any Governmental Body for the performance of the Contract.

**“Governmental Body”** means any federal, State, regional or local legislative, executive, judicial or other governmental board, agency, authority, commission, administration, court or other body, or any official thereof, having jurisdiction.

**“Guarantor”** means Constellation Energy Group.

**“Guaranty”** means the Guaranty Agreement between the Metropolitan Government and the Guarantor that guarantees the payment by the Contractor of its obligations to the Metropolitan Government under the Contract up to the limits of the Guaranty.

**“Hazardous Material”** means any waste, substance, object or material deemed hazardous under Applicable Law, including without limitation “hazardous material” as defined in CERCLA and “hazardous waste” as defined in RCRA.

**“Holdover Customers”** means those customers that have contracts with NTTC as of the date of adoption of the General Resolution and who do not become Initial Customers

**“Holdover Customer Contract”** means those contracts existing as of the date of the General Resolution with Holdover Customers.

**“Incremental Costs”** means the actual, reasonable and necessary costs incurred by the Metropolitan Government above and beyond what would have been incurred if the System did not exist, including the services of the Consulting Expert and Project Consultants. Incremental Costs shall not include debt service on bonds issued by the Metropolitan Government to finance costs of the existing waste disposal and energy generating facilities operated by NTTC.

**“Initial Customer Contract”** means any Customer Contract in substantially the form approved by the Metropolitan Council for customers that have contracts with NTTC as of July 1, 2001 and who executed contracts with the Metropolitan Government on or prior to June 14, 2002.

**“Initial Customers”** means those customers that have contracts with NTTC as of June 1, 2001 and who executed Initial Customer Contracts on or prior to June 14, 2002.

**“Initial Management Term”** means the period commencing on the Service Commencement Date and ending on the fifteenth anniversary of such date.

**“Initial Operating Agreement”** means the Management Contract.

**“Initial Operator”** means CEG.

**“Initial Parity Obligations”** means the 2002 Series A Bonds.

**“Initial System Improvements”** means System Improvements for the development, design, construction and acquisition of the energy generating facility to be constructed pursuant to the Management Contract, improvements to and expansion of the Energy Distribution System, metering, interconnection and

thermal efficiency projects, including the Metro Government's work in developing the project and procuring the contracts thereunder and any land and easements required for the improvements.

**"Initial Term"** means the period of time beginning on the Transition Date and ending on the thirtieth (30<sup>th</sup>) anniversary of the Transition Date.

**"Interim Pledge Period"** means the period commencing on the first day of January, 2004 and ending at such time as the Revenues transferred to the Metropolitan Government under the existing contracts between customers and NTTC (which have been assigned to the Metropolitan Government) and deposited into the Operating Reserve Fund in accordance with the General Resolution equal \$3,000,000.

**"Investment Securities"** means any of the following securities (provided that with respect to funds held and invested by the Metropolitan Government, the following shall only be Investment Securities if and to the extent the same are at the time legal investments by the Metropolitan Government of the funds to be invested therein and are permitted by the Metropolitan Government's investment policies then in effect):

(1) direct obligations of the United States of America, direct federal agency obligations the timely payment of principal of and/or interest on which are, respectively, fully and unconditionally guaranteed by the United States of America, including direct obligations of the United States of America which have been stripped by the United States Treasury itself (STRIPS), treasury receipts securities "Treasury Receipts" including "CATS", "TIGRS", "LIONS" and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form;

(2) bonds, debentures or notes or other evidence of indebtedness payable in cash issued by any one or a combination of any of the following federal agencies, or any other federal agency, to the extent any of such evidences of indebtedness are secured by the pledge of the full faith and credit of the United States of America: Export-Import Bank of the United States, Federal Financing Bank, Farmer's Home Administration, Federal Housing Administration, Maritime Administration, Government National Mortgage Association;

(3) certificates of deposit properly secured at all times, by collateral security described in (a) or (b) above, with commercial banks, savings and loans associations, and mutual savings banks;

(4) the following investments if fully insured by the Federal Deposit Insurance Corporation: (i) certificates of deposit, (ii) savings accounts, (iii) deposit accounts, or (iv) depository receipts of banks, savings and loan associations, and mutual savings banks;

(5) bonds, debentures, notes or other evidences of indebtedness issued by any of the following agencies: the United States Postal Service; the Federal Home Loan Bank System; the Tennessee Valley Authority; the Washington Metropolitan Area Transit Authority; the Federal National Mortgage Association and the Federal Home Mortgage Corporation;

(6) Public Housing Bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract with the United States of America; temporary notes, preliminary loan notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(7) direct and general obligations of any state of the United States, to the payment of the principal of and interest on which the full faith and credit of such state is pledged, but only if, at the time of their purchase hereunder, such obligations are rated in either of the two highest rating categories by either S&P or Moody's;

(8) repurchase agreements or investment agreements collateralized by securities described in subparagraphs (1), (2), (3), (4) or (5) above with any registered broker/dealer subject to the Securities Investors' Protection Corporation or that is an approved Federal Reserve Bank Primary Dealer or with any commercial bank (including the Trustee) insurance company or financial institution, provided that (1) a specific written repurchase agreement or investment agreement governs the transaction, (2) the securities, free and clear of any lien, are held by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (a) a Federal Reserve Bank, or (b) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (3) a perfected first security interest under the Uniform Commercial Code, or book entry procedures described in 31 CFR 306.1 et seq. or 31 CFR 350.0 et seq., in such securities is created for the benefit of the Trustee, (4) the Trustee or third-party agent will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two (2) Business Days of such valuation, or, in the case of a repurchase agreement, the agreement has a term of thirty (30) days or less, and (5) the fair market value of the collateral securities in relation to the amount of the repurchase obligation or the payment obligation, depending on whether it is a repurchase agreement or an investment agreement, including principal and interest, is equal to at least 100%;

(9) money market funds rated "A", "Am" or "Am-G" or better by Moody's or S&P;

(10) commercial paper rated "Prime-1" or better by Moody's or "A-1" or better by S&P;

(11) advance-refunded municipal bonds;

(12) tax-exempt obligations that are rated "A" or better or V-MIG 1 by Moody's or "A-" or better or "A-1" by S&P, or shares of investment companies that invest only in such obligations;

(13) the Trustee's "cash sweep account" or other short term investment fund of the Trustee, the assets of which consist of other Investment Securities defined above;

(14) an investment agreement, to the extent permitted by law, issued or guaranteed by a corporation whose long-term unsecured debt or claims paying ability is rated in either of the highest two rating categories by Moody's or S&P.

**"Legal Proceedings"** means every action, suit, litigation, arbitration, administrative proceeding, and other legal or equitable proceeding having a bearing upon the Management Contract, and all appeals therefrom.

**"Lien"** means any and every lien against the System or against any monies due or to become due from Metro to the Contractor under the Management Contract, for or on account of the Contract Services, including without limitation mechanics', materialmen's, laborers' and lenders' liens.

**"Loss-and-Expense"** means any and all loss, liability, forfeiture, obligation, damage, delay, fine, penalty, judgment, deposit, cost, expense, claim, demand, charge, tax, or expense, except as explicitly excluded or limited under any provision of the Management Contract

**“Managed Assets”** means the EGF, the EDS and those assets constituting part of the System which the contractor is responsible for managing, as described in Appendices 2 and 3, of the Management Contract and shall include the EGF, the EDS and all other System improvements, expansions and modifications which have been agreed upon by the parties, both when under construction and after being placed in service as part of the Managed Assets.

**“Management Contract”** means (i) with respect to this Official Statement, that Contract for the Design and Construction of an Energy Generation Facility, Improvement of an Energy Distribution System, and Long Term Operation and Management of the Nashville District Energy System, dated as of January 16, 2002, between Constellation Energy Source, Inc. and the Metropolitan Government, as the same may be amended and supplemented from time to time, and (ii) with respect to the .General Resolution and the Customer Contracts, that Contract for the Design and Construction of an Energy Generation Facility, Improvement of an Energy Distribution System, and Long Term Operation and Management of the Nashville District Energy System, dated as of January 16, 2002, between Constellation Energy Source, Inc. and the Metropolitan Government and any replacement contract or contracts for operation and maintenance of all or any portion of the System.

**“Management Fee”** has the meaning set forth in the Management Contract

**“Management Period”** means the period of time commencing on the Scheduled Service Commencement Date and ending on the Termination Date.

**“Management Services”** means everything required to be furnished and done for and relating to the System by the Contractor pursuant to the Contract during the Term, other than the Construction Work. Management Services include the full performance of the Contractor's operation, maintenance, repair, replacement, management and related obligations under the Management Contract.

**“Metro” or “Metropolitan Government”** means The Metropolitan Government of Nashville and Davidson County.

**“Metro Council” or “Metropolitan Council”** means the Metropolitan County Council created pursuant to the Charter.

**“Metro Funding Amount”** means the amount payable by the Metropolitan Government, subject to annual appropriation, that is equal to the difference between (i) total System costs less (ii) the sum of (a) revenues from Initial Customers and (b) revenues from sales of energy to any other customers.

**“Metropolitan Government Customer Contract”** means the Customer Contract between the Metropolitan Government, as customer, and the Metropolitan Government, as service provider to be entered into on or prior to the date of issuance and delivery of the Initial Parity Obligations.

**“Metropolitan Government Premises”** means the following buildings or any buildings substituted therefor: Metropolitan Courthouse, Criminal Justice Center, Ben West, Metropolitan Auditorium, Convention Center, Gaylord Entertainment Center, Nashville Coliseum (formerly known as the Adelpia Coliseum).

**“Mlbs”** means thousand pounds of steam.

**“Moody's”** means Moody's Investors Service, Inc., its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody's” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Metropolitan Government.

**“New Contract Capacity”** means the increased Contract Capacity that results from an expansion of the Premises, or the decreased Contract Capacity that results from an energy efficiency improvement of the Premises, or the decreased Contract Capacity that results from a reduction Contract Capacity, in each case pursuant to the Customer Contracts.

**“New Customer Return Temperature”** means the chilled water temperature agreed upon by the Customer and The Metropolitan Government at the Return Point after a project has been undertaken to improve Delta T pursuant to the provisions of the Customer Contract.

**“New Customer Surplus Revenues”** means those net revenues, including as a cost any sales commissions paid to secure those revenues received by the Metropolitan Government from Customers other than Initial Customers, in excess of the amount required to bring the amount to be paid by the Metropolitan Government as an additional energy charge, to zero.

**“New Delta T”** means the temperature difference, in F, between the New Customer Return Temperature and 42°F.

**“Net Revenues”** means Revenues less Operating Expenses.

**“NTTC”** means Nashville Thermal Transfer Corporation.

**“Operating Agreement”** means the Management Contract and any Replacement Operating Agreement.

**“Operating Expenses”** means and includes the reasonable or necessary costs and expenses of the Metropolitan Government (including payments for services under a Management Contract) of operating, maintaining, repairing, insuring and administering the System or providing services therefrom (other than Parity Obligation Debt Service Expenses or debt service on any other debt obligation, amounts paid from the proceeds of Parity Obligations and costs of System Improvements) including, without limitation (a) all administrative, general and commercial expenses, (b) insurance and surety bond premiums, (c) fuel expenses, (d) engineering expenses (including expenses of a consulting expert or independent engineer), (e) legal expenses, and any damages, judgments, awards, fines, penalties, assessments, impositions, charges, levies, litigation settlement amounts or other similar costs or expenses legally incurred and owing by the Metropolitan Government in connection with the System, (f) accounting and auditing expenses, (g) ordinary and current rentals of equipment or other costs which are not Capital Costs, (h) expenses (other than Parity Obligation Debt Service Expenses) which are incurred in connection with Parity Obligations, (i) costs incurred in connection with; the preparation of any reports, plans, opinions or certificates which are required to be prepared under the terms of this General Resolution, (j) costs, fees and expenses of Fiduciaries, (k) any amounts required to be paid to the federal government pursuant to the Tax and Nonarbitrage Certificates and (l) any other amounts the Metropolitan Government is required by law to pay or set aside in order to continue to operate the System.

**“Operating Fund”** means the fund so designated and established by the Metropolitan Government pursuant to the General Resolution.

**“Operating Reserve Fund”** means the fund so designated and established by the Metropolitan Government pursuant to the General Resolution.

**“Operating Reserve Fund Requirement”** means, with respect to each Fiscal Year, an amount equal to one fourth (1/4) of the Operating Expenses projected for such Fiscal Year as set forth in the Annual Budget.

**“Operator”** means the Initial Operator or any Person appointed by the Metropolitan Government, by Management Contract or otherwise, to operate and maintain the System or any part thereof on behalf of the Metropolitan Government, or the Metropolitan Government if no other Person has been designated by it as the Operator.

**“Overdue Rate”** means the Prime Rate plus 1%, 1.5% per month or the maximum rate permitted by law, whichever is less.

**“Parity Bond Obligations”** means any bonds, notes, bond anticipation notes, commercial paper or other similar obligations constituting debt of the Metropolitan Government, authorized by a Supplemental Resolution and designated by the Metropolitan Government as being secured by a pledge of and lien on the Trust Estate on a parity basis with the lien created by the General Resolution.

**“Parity Contract Obligations”** means (i) any financing leases, installment purchase agreements or other similar evidences of indebtedness or obligations of the Metropolitan Government issued for the purposes of the System and in accordance with the terms of the General Resolution or (ii) any Reimbursement Agreement, each of which has been designated by resolution of the Metropolitan Government as a “parity obligation” to be secured under and entitled to the pledge set forth in the General Resolution

**“Parity Obligation Agreement”** means any resolution, trust agreement, indenture, installment purchase agreement, lease, reimbursement agreement or other agreement executed by the Metropolitan Government in connection with the issuance of any Parity Obligation and designated as such therein. Reimbursement Agreements may constitute both a Parity Obligation and a Parity Obligation Agreement. This General Resolution shall constitute a Parity Obligation Agreement with respect to the Initial Parity Obligations.

**“Parity Obligation Debt Service Expenses”** means, for each month, the Accrued Interest and Accrued Principal due for such month and any other amounts required to be paid by the Metropolitan Government pursuant to Parity Obligations, but excluding from such calculation any portion of such amounts which are to be paid from the proceeds of Parity Obligations.

**“Parity Obligations”** means any Parity Bond Obligations and any Parity Contract Obligations and with respect to which the Trustee has authenticated and delivered a certificate of authentication in the form set forth in the General Resolution.

**“Paying Agent”** means any bank or trust company, as designated from time to time by the Metropolitan Government, authorized to pay the Principal of, premium, if any, and interest on any Parity Obligations as established in a Parity Obligation Agreement.

**“Performance Guarantees”** means the guarantees of performance identified in the Management Contract.

**“Person”** means (i) with respect to the General Resolution, an individual, corporation, firm, association, partnership, trust, limited liability company, or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof. and (ii) with respect to the Customer Contracts and the Management Contract, any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or governmental authority or regulatory body.

**“Permitted Liens”** means (i) the pledge of the General Resolution, (ii) easements, rights of way, restrictions or encumbrances that do not materially impair the operation of the System, (iii) mechanic's liens arising in the ordinary course of business or incident to the construction or improvement of any property in

respect of obligations which are not yet due or for which adequate security is posted, (iv) liens securing purchase money obligations, and (v) Subordinated Obligations.

**“Pledge Period”** means the Interim Pledge Period and the period commencing on the earlier of the Scheduled Service Commencement Date or the Service Commencement Date and ending on the date upon which the lien created by the General Resolution is discharged in accordance with the provisions hereof.

**“Pre-Existing Environmental Condition”** means, and is limited to, (1) the presence anywhere in, on or under the Facility Site or the EDS Site on the Contract Date, whether or not disclosed to the Contractor as of the Contract Date, of underground storage tanks (for the storage of chemicals or petroleum products) that are not then in use in connection with operation of the Facility; (2) the presence anywhere in, on or under the Facility Site or the EDS Site, whether or not disclosed to the Contractor as of the Contract Date, of Hazardous Materials; and (3) the presence at the Facility Site or the EDS Site of any habitat of an endangered or protected species as provided in Applicable Law; and (4) the presence in, on or under the Facility Site or the EDS Site on the Contract Date, of any extraordinary subsurface conditions (including historical, archeological, anthropological or paleontological artifacts and other matters of scientific interest which may be protected in some way by Applicable Law).

**“Premises”** means the building or buildings located at the addresses and on the parcels of land legally described in the Customer Contract.

**“Prime Rate”** means the prime rate as published in The Wall Street Journal, or a mutually agreeable alternative source of the prime rate if it is no longer published in The Wall Street Journal or the method of computation thereof is substantially modified.

**“Principal”** means, as the context requires, the principal amount of any Parity Obligation and the Accreted Value of any Capital Appreciation Obligation. With respect to Parity Contract Obligations constituting lease payments or installment purchase payments or similar obligations not designated as “bonds” or “debt”, principal shall refer to the “principal component” of the periodic payments made thereunder as so designated therein.

**“Project Consultant”** means the professional or firm of professionals that The Metropolitan Government retains and designates to perform project analysis, management and District Energy System business consulting services.

**“Pro Rata Portion”** means, (i) with respect to Contract Capacity for steam service, the percentage that the Contract Capacity of the Customer for steam service bears to the total Contract Capacities of all Initial Customers (including Metropolitan Government in its capacity as customer) for steam service and (ii) with respect to Contract Capacity for chilled water service, the percentage that the Contract Capacity of the Customer for chilled water service bears to the total Contract Capacities of all Initial Customers (including Metropolitan Government in its capacity as customer) for chilled water service.

The Customer's Pro Rata Portion shall be determined as of the date of the sale of the 2002 Series A Bonds and (i) shall be increased proportionately if the Customer's Contract Capacity is increased pursuant to the Customer Contract, (ii) shall be decreased proportionately if the Customer's Contract Capacity is decreased pursuant to the Customer Contract

In no event shall an increase or decrease in the Contract Capacity of any other Customer be permitted to change the Pro Rata Portion of the Customer.

**“Prudent Utility Practice”** means those practices, methods and procedures, as modified from time to time, that are currently and commonly used in utilities to design, engineer, select, construct, operate and

maintain energy generating facilities and equipment for providing steam and chilled water in the mainland United States dependably, reliably, safely, efficiently, and economically, with due regard to the state-of-the-art in the energy generating industry.

**“Projected Net Operating Expense Amount”** means, as of any date of computation and with respect to any applicable period of time, an amount reasonably projected by the Metropolitan Government to be the Operating Expenses, less Revenues reasonably expected to become available to pay such Operating Expenses during such period.

**“Psig”** means pounds per square inch gauge pressure.

**“Qualifying Letter of Credit”** means a standby letter of credit that (i) is issued by a state or federal commercial bank whose long-term unsecured senior debt is rated by a Rating Service at least A or better, (ii) is for a term of at least one year (but need not extend beyond the 15<sup>th</sup> anniversary of the Service Commencement Date), (iii) includes a provision for automatic renewal for a one year term (but need not extend beyond the 15<sup>th</sup> anniversary of the Service Commencement Date) unless at least 30 days prior to the upcoming expiration date written notice of termination is delivered to the Metropolitan Government, (iv) permits the Metropolitan Government to draw by sight draft the full amount of the letter of credit following a notice of non-renewal by the issuing bank, (v) is otherwise in the form set forth in the Management Contract and (vi) is accompanied by an opinion of counsel satisfactory to the Metropolitan Government confirming the due authorization, validity and enforceability of the letter of credit.

**“Rating Service”** means Moody's, S&P and Fitch.

**“Record Date”** means a date established by Metro not less than 10 days after notice is delivered to the Initial Customers of a proposed amendment to the Management Contract.

**“Redemption Price”** means the Principal of a Parity Obligation payable upon its redemption, together with any redemption premium payable in connection therewith.

**“Refunding Obligation”** means any Parity Obligation of the Metropolitan Government incurred in accordance with the terms of any Parity Obligation Agreement, the proceeds of which are used to refund any previously issued Parity Obligation.

**“Registrar”** means, as to any Parity Obligation, the Trustee, registrar or paying agent or any national bank and/or trust company appointed by the Metropolitan Government to maintain the registration records for such Parity Obligation.

**“Reimbursement Agreement”** means any agreement between the Metropolitan Government and any issuer of a letter of credit, surety policy, insurance or guaranty arrangement, liquidity arrangement, which provides security for any Parity Obligation, which secures in whole or in part any Parity Obligation or participation interest in a Parity Obligation and which creates by its terms an obligation of the Metropolitan Government to reimburse the issuer of such credit facility following the payment by such party of any Parity Obligation or participation interest in a Parity Obligation.

**“Renewal Term”** means (i) with respect to the Management Contract, the meaning set forth in the Management Contract, and (ii) with respect to the Customer Contracts, in the event no party has given the notice described in the Customer Contract with respect to the Initial Term or any Renewal Term, the period beginning on the day after the last day of such Initial Term or Renewal Term and ending on the fifth (5<sup>th</sup>) anniversary of such last day of such Initial Period or Renewal Period.

**“Renewal and Replacement Fund”** means the fund so designated and established by the Metropolitan Government pursuant to the General Resolution.

**“Renewal and Replacement Fund Requirement”** means, (i) during any period in which in the determination of an Authorized Officer of the Metropolitan Government a Management Contract is in effect that requires the Operator to perform substantially all System maintenance, zero and (ii) during any other period, with respect to any monthly transfer of funds as set forth in Section 5.4 hereof, an amount equal to 5% of gross Revenues during the preceding month, provided that such amount shall be zero at any time that the balance on deposit in the Renewal and Replacement Fund equals or exceeds \$250,000.

**“Replacement Operating Agreement”** means any agreement between the Metropolitan Government and a Replacement Operator for System operating services replacing the Management Contract or any Replacement Operating Agreement.

**“Replacement Operator”** means any operator procured by the Metropolitan Government to replace CES or any Replacement Operator.

**“Required Insurance”** has the meaning set forth in the Management Contract.

**“Requisition”** means a request by the Contractor for payment of a portion of the cost of constructing the Facility in the form set forth in the Management Contract.

**“Return Point”** means the connection(s) where the Customer returns steam condensate and chilled water to the Metropolitan Government as indicated in the Customer Contract.

**“Revenues”** means all rates, fees or other charges or other income received by or on behalf of the Metropolitan Government in connection with ownership and operation of the System and the sale of steam or chilled water or other forms of energy for heating, cooling, manufacturing processes and other uses generated by the System, including amounts received by the Metropolitan Government which are paid pursuant to the Customer Contracts. Revenues shall also include amounts received from the investment or deposit of moneys in the Funds or Accounts and earnings thereon and proceeds of insurance (other than liability insurance). Revenues shall not mean or include (i) any amount received or receivable from the United States or the State (or any agency thereof) or from any other source as or on account of a grant or contribution for or with respect to (a) the construction, acquisition, improvement, extension, renewal or other development of a part of the System or (b) the financing of any of the foregoing, (ii) the proceeds of any Parity Obligations or Subordinated Obligations, (iii) the proceeds of any liability insurance or indemnity, (iv) amounts received by the Metropolitan Government as reimbursement for System costs incurred or expenses paid by the Metropolitan Government from non-System funds, (v) distributions to the Metropolitan from the Surplus Fund, (vi) amounts paid by Initial Customers as an allowance for repairs and upgrades to the EDS pursuant to the Initial Customer Contracts, which shall be deposited and held in the EDS Repair and Improvement Account established in the Operating Fund for application in accordance therewith, (vii) Customer Reimbursable Amounts, which shall be deposited and held in the Resold System Capacity Account of the Operating Fund, (viii) except to the extent required to replenish a deficiency in a Debt Service Reserve Fund, 25% of New Customer Surplus Revenues, which shall be deposited and held in the Energy Conservation Fund for the payment of costs of energy conservation projects, (ix) delay liquidated damages paid pursuant to Section 12.01 the Management Contract in excess of daily debt service, or (x) any amount received or receivable by the Metropolitan Government in a capacity other than as owner and operator of the System. For purposes of Section 5.4 only, Revenues shall not include (i) amounts received by the Metropolitan Government pursuant to the Interim Customer Contracts during the Interim Pledge Period, which shall be deposited directly in the Operating Reserve Fund, (ii) amounts paid as interconnection charges by a Customer pursuant to an Additional Customer Contract, which shall be deposited in the System Improvement Fund, (iii) amounts received as prepayments under an Additional Customer Contract allocable to interconnections or line extension costs which shall be deposited at

the direction of the Project Administrator into either the General Account of the Operating Fund or the Construction Account of the System Improvement Fund; (iv) payments made by Customers as a condition of terminating a Customer Contract, which shall be deposited in either (a) the Debt Service Fund and applied to the prepayment of Parity Obligations or (b) in the Contract Termination Account of the Operating Fund, in each case to the extent allocable to debt service and operating expenses, respectively, based on the Customer's Contract Capacity as set forth in the Customer Contract, (v) proceeds of casualty insurance or condemnation received in connection with the System, which shall be deposited either in the System Improvement Fund or applied towards the prepayment of Parity Obligations, as the Metropolitan Government elects in accordance with Section 7.7 hereof, (vi) damage payments received by the Metropolitan Government in accordance with the Management Contract for a delay in Scheduled Service Commencement equal to daily debt service, which shall be deposited in the Debt Service Fund, (vii) damage payments received by the Metropolitan Government as a result of a failure to achieve acceptance or a shortfall in output or fuel usage acceptance guarantees pursuant to the Management Contract, which shall be deposited in the Debt Service Fund and applied to the prepayment of the Parity Obligations, (v) damage payments paid by an Operator as a result of the early termination of any Management Contract for Operator default, which shall be deposited in the Contract Termination Account of the Operating Fund or payments corresponding to the foregoing with respect to any System Improvements financed with proceeds of Parity Obligations.

**"S&P"** means Standard & Poor's Ratings Group, a Division of The McGraw-Hill Companies, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Metropolitan Government.

**"Scheduled Acceptance Date"** means the date that is 180 days following the Scheduled Service Commencement Date.

**"Scheduled Service Commencement Date"** means the day that is 610 consecutive days following the Construction Commencement Date, provided that the Scheduled Service Commencement Date will be extended for each day of excused delay due to Uncontrollable Circumstances.

**"Security Depository"** means any securities depository performing book-entry registration services.

**"Security Instruments"** means the Guaranty, any Qualifying Letter of Credit and the Performance Bond.

**"Service Commencement Date"** the date upon which the Contractor commences delivery of steam and/or chilled water service to Customers in sufficient quality and quantity to satisfy the demand requirements of the Metropolitan Government under all Customer Contracts.

**"Service Interruption"** means a complete or partial loss of Service to the Customer's Premises.

**"Service Standards"** means the chilled water service and steam service specifications set forth in the Customer Contract.

**"Services"** means (i) with respect to the General Resolution, all services which are required to be provided by the Metropolitan Government pursuant to its service covenant, whether such services are provided through the use of the System, by Management Contracts, or otherwise, and (ii) with respect to the Customer Contracts, the steam and/or chilled water set forth in the Customer Contract supplied by the Metropolitan Government to heat and/or cool the Customer's Premises.

**“Sinking Fund Installment”** means, as of any date of calculation, the amount of money required to be paid by the Metropolitan Government on a single future date for the retirement of outstanding Parity Obligations which are scheduled to mature after said future date.

**“Small Customer Contract”** means the form of contract between Metro and customers who have designated a contract capacity of 40 tons of chilled water or less and/or up to 400 pph of steam.

**“State Customer Contract”** means the customer contract between the State and Metropolitan Government dated as of April 1, 2002.

**“Small Business Program”** means the program described in the Management Contract.

**“State”** means the State of Tennessee.

**“Steam Facilities Capital Cost”** means that portion of the total capital costs of the facilities (or debt service on debt issued to finance such costs or similar amortization thereof), including costs of funding reasonable reserves, reasonably allocable to the production, metering, and distribution of steam. Steam Facilities Capital Cost shall not include Excluded Costs or capital costs of improving that portion of the Distribution System currently owned by the State to the condition of the balance of the Energy Distribution System as of the date of the Customer Contract.

**“Steam Facilities Fixed Operating Costs”** means that portion of the Fixed Operating Costs assignable to operating and maintaining the steam portion of the System.

**“Subcontractor”** means every person (other than employees of the Contractor) employed or engaged by the Contractor or any person directly or indirectly in privity with the Contractor (including all Subcontractors and every sub-subcontractor of whatever tier) for any portion of the Contract Services, whether for furnishing labor, materials, equipment, supplies, services or otherwise.

**“Subordinated Obligations”** means any indebtedness or obligation of the Metropolitan Government described in the General Resolution incurred in connection with the System which is secured by a pledge of the Net Revenues but which (a) is, by the express terms of such indebtedness or obligation, subordinate to the pledge made in the General Resolution securing Parity Obligations and (b) otherwise meets the requirements of the General Resolution.

**“Substantial Completion”** has the meaning set forth in the Management Contract.

**“Supplemental Resolution”** means any amendment, modification or supplement to the General Resolution executed in accordance with the provisions of the General Resolution.

**“Supplier”** means the Metropolitan Government acting solely as the provider of services under the Customer Contract and not in its general governmental capacity.

**“Surplus Fund”** means the fund so designated and established by Metropolitan Government pursuant to the General Resolution.

**“System”** means (i) with respect to the General Resolution, the Management Contract and the Official Statement the energy generating facility to be constructed pursuant to the Management Contract (including the Initial System Improvements) any additional facilities for the generation, storage or distribution of thermal energy through the EDS, and the EDS, including any expansions thereto designated by the Metropolitan Government as part of the System, and (ii) with respect to the Customer Contracts, the energy generating facilities and the Energy Distribution System, including any improvements, replacements, modifications,

additions, expansions, substitutions or relocations thereof, but shall not include any expansion of the Distribution System or addition of new generating facilities to serve such expansion.

**“System Improvement”** means any planning, development, financing, construction, operation or maintenance undertaken in whole or in part by the Metropolitan Government for the additions or improvements to, or replacements of the System.

**“System Improvement Costs”** means the Capital Costs of a System Improvement.

**“System Improvement Fund”** means the fund so designated and established by the Metropolitan Government pursuant the General Resolution.

**“System Improvement Fund Requirement”** means, with respect to any month, that amount which the Metropolitan Government determines in its Annual Budget shall be the System Improvement Fund Requirement for that month.

**“Tax and Nonarbitrage Certificate”** means the tax and nonarbitrage certificate executed by the Metropolitan Government in connection with any Parity Obligations which are issued as Tax-Exempt Parity Obligations, which certificate relates to the exclusion from gross income pursuant to the Code of interest of such Parity Obligations.

**“Tax-Exempt Parity Obligation”** means any Parity Obligation the interest on which is intended to be excludable from gross income pursuant to the Code (notwithstanding the application of the provisions of the Code relating to alternative minimum taxation).

**“Term”** means the Initial Term and any Renewal Term.

**“Termination Date”** means the last day of the Term of the Management Contract or such earlier date as the Management Contract is terminated pursuant thereto.

**“Thermal”** means Nashville Thermal Transfer Corporation.

**“Thermal Facility”** means the existing waste-to-energy and ancillary facilities owned by the Metropolitan Government and operated by Thermal and which currently supplies steam and chilled water to the existing customers of the System.

**“Thermal Inefficiency Fuel Surcharge”** means the charge so designated in Section 2.2 (d) of the Customer Contract and calculated in accordance therewith.

**“Ton”** means refrigeration capacity equivalent to the cooling capacity of one ton of ice melting in a period of twenty-four hours (at a rate of 12,000 BTU per hour).

**“Transition Date”** means Service Commencement Date.

**“Trust Estate”** means the collateral pledged as security for the Parity Obligations under the General Resolution.

**“Trustee”** means SunTrust Bank and any other person at any time substituted in its place in accordance with the terms of the General Resolution.

**“Uncontrollable Circumstance”** means any act, event or condition that is beyond the reasonable control of, and is not also the result of the willful or negligent act, error or omission, failure to exercise

reasonable diligence, or breach of the Management Contract on the part of, the party relying thereon as justification for not performing an obligation or complying with any condition required of such party under the Management Contract, and that interferes with or materially increases the cost of performing its obligations hereunder (other than payment obligations).

(1) Inclusions. Subject to the foregoing, Uncontrollable Circumstances shall include, and shall not be limited to, the following:

(a) a Change in Law (including a Change in Law imposing or increasing taxes imposed on the services provided by the Contractor under the Management Contract, but excluding any tax based on income or value added or any tax in replacement thereof);

(b) the existence of a Pre-Existing Environmental Condition;

(c) contamination of the Facility Site, the Facility or EDS from groundwater, soil or airborne Hazardous Material migrating from sources outside the Facility Site and not caused by Contractor fault;

(d) naturally occurring events (except reasonably anticipated weather conditions normal for the Nashville region of the United States) such as landslides, underground movement, earthquakes, lightning, fires, tornadoes, hurricanes, floods, epidemics, and other acts of God;

(e) explosion, sabotage or similar occurrence, acts of a declared public enemy, extortion, war, blockade or insurrection, riot or civil disturbance;

(f) labor disputes, except labor disputes involving the employees of Contractor, its affiliates, or subcontractors;

(g) the failure of any subcontractor or the Metropolitan Government, other than the Contractor, the Guarantor or any affiliate of either, to furnish services, materials, chemicals or equipment on the dates agreed to, but only if such failure is the result of an event which would constitute an Uncontrollable Circumstance if it affected the Contractor directly, and the Contractor is not able after exercising all reasonable efforts to timely obtain substitutes;

(h) the failure of any appropriate Governmental Body or private utility having operational jurisdiction in the area in which the Facility is located to provide and maintain utility service to the Facility which is required for the performance of the Management Contract;

(i) any failure of title to the Facility Site or the EDS Site or affecting any easements required for operation of the Steam or the performance of the Construction Work or any enforcement of any encumbrance on the Facility or the System not consented to in writing by, or arising out of any action or agreement entered into by, the party adversely affected thereby;

(j) the preemption of materials or services by a Governmental Body in connection with a public emergency or any condemnation or other taking by eminent domain of any material portion of the Facility Site;

(k) any existing condition of the EDS as of the Contract Date; and

(l) any failure by Metro to procure Fuels at any time when Metro is obligated to procure Fuels for the Facility.

(2) Exclusions. It is specifically understood that, without limitation, none of the following acts, events or circumstances shall constitute Uncontrollable Circumstances:

(a) any act, event or circumstance that would not have occurred if the affected party had complied with its obligations under the Management Contract;

(b) changes in interest rates, inflation rates, labor costs, insurance costs, commodity prices, currency values, exchange rates or other general economic conditions;

(c) changes in the financial condition of Metro, the Contractor, the Guarantor, or their affiliates or subcontractors affecting the ability to perform their respective obligations;

(d) the consequences of error, neglect or omissions by the Contractor, the Guarantor, any subcontractor, any of their affiliates or any other person in the performance of the Contract Services;

(e) union or labor work rules, requirements or demands which have the effect of increasing the number of employees employed at the Facility or otherwise increasing the cost to the Contractor of performing the Contract Services;

(f) mechanical failure of equipment, unless such a failure is the result of a condition that is listed in the "Inclusions" section of this definition;

(g) power outages caused by the claiming party;

(h) any impact of prevailing wage or similar laws, customs or practices on the Contractor's costs;

(i) reasonably anticipated weather conditions for the geographic region of Metro;

(j) any action taken by a Governmental Body to enforce compliance with Applicable Law in effect on the date of the Management Contract;

(k) failure of Contractor to secure applicable patents;

(l) a Change in Law pertaining to income taxes or similar taxes in replacement thereof; or

(m) any Change in Law (including the issuance of any Governmental Approval, the enactment of any statute, or the promulgation of any regulation) the terms and conditions of which do not impose more stringent or burdensome requirements on the Contractor than are imposed by the Contract Standards; or

(n) any regulation of the Contractor as a "utility" by any Governmental Body unless such regulation results from a Change in Law.

**“Utilities”** means any and all utility services and installations whatsoever provided by unrelated third parties (including gas, water, electricity, telephone, and telecommunications), and all piping, wiring, conduits, and other fixtures of every kind whatsoever related thereto or used in connection therewith.

**“Variable Rate Obligation”** means as of any date of determination any Parity Obligation with respect to which the interest rate borne thereby may vary during any part of its remaining term.

**SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION**

**Authorization by the General Resolution, Terms and Issuance of Parity Obligations**

Resolution to Constitute Contract; Parity Obligations. In consideration of the purchase and acceptance or execution and delivery of the Parity Obligations by the Beneficiaries from time to time, the provisions of the General Resolution shall be a part of the contract of the Metropolitan Government and the Beneficiaries and shall be deemed to be and shall constitute a contract among the Metropolitan Government, the Trustee and the Beneficiaries from time to time of Parity Obligations. The pledges and assignments made and the provisions, covenants and agreements set forth in the General Resolution to be performed by or on behalf of the Metropolitan Government shall be for the equal benefit, protection and security of the Beneficiaries of any and all of such Parity Obligations, each of which, regardless of the time or times of its issue or execution or maturity or term, shall be of equal rank without preference, priority or distinction over any other thereof except as expressly provided in the General Resolution. (Section 2.1)

Obligation of the Metropolitan Government With Respect to Parity Obligations. The Parity Obligations authorized to be issued or executed and delivered under or pursuant to the General Resolution shall be authorized pursuant to the Act and the Charter and shall be limited obligations of the Metropolitan Government payable solely from the Trust Estate. The Parity Obligations shall not be deemed to constitute a full faith and credit general obligation of the Metropolitan Government for which there is a right to compel the exercise of the ad valorem taxing power of the Metropolitan Government. (Section 2.2)

Conditions Precedent to the Execution and Delivery of Parity Obligations. The Metropolitan Government may execute or enter into and deliver any Parity Obligation pursuant to the terms of the General Resolution only if the Metropolitan Government has delivered or caused to be delivered to the Trustee with respect to such Parity Obligation the following:

(i) An original executed counterpart or a copy, certified as correct and complete by an Authorized Officer of the Metropolitan Government, of the General Resolution, together with all Supplemental Resolutions, including the Supplemental Resolution, if any, authorizing such Parity Obligation.

(ii) An opinion of Bond Counsel substantially to the effect that (a) the General Resolution and each Supplemental Resolution are in full force and effect and are valid and binding on the Metropolitan Government in accordance with their respective terms and that the Metropolitan Government may lawfully execute such Parity Obligation; (b) the General Resolution creates a valid pledge which it purports to create of the Net Revenues, moneys, security, assets and funds which are held or set aside under the terms of the General Resolution to the payment of such Parity Obligation, subject only to the provisions of the General Resolution permitting the application thereof for or to the purposes and on the terms and conditions set forth in the General Resolution; and (c) the Parity Obligation is a valid and binding obligation of the Metropolitan Government, as provided in the General Resolution and the applicable Supplemental Resolution and Parity Obligation Agreement, and the person or persons with whom the Metropolitan Government executes the Parity Obligation or the Parity Obligation Agreement or both, as applicable, are entitled to the benefits of the General Resolution, and that the Parity Obligation or the Parity Obligation Agreement or both, as applicable, have been duly and validly executed in accordance with applicable law and in accordance with the terms of the General Resolution; provided, however, that such opinion may take exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally, general principles of equity and the exercise of judicial

discretion and may expressly disclaim any responsibility for any financial or statistical data furnished to satisfy a condition precedent.

(iii) A copy of any resolution of the Metropolitan Government authorizing the issuance or execution and delivery of such Parity Obligation or Parity Obligation Agreement or both, as applicable (certified by the appropriate official), and any instruments which are required to be delivered pursuant to such Parity Obligation Agreement.

(iv) If credit enhancement or liquidity support is to be provided at the time of issuance of the Parity Obligation, the executed Credit Facility, if any, relating to the Parity Obligation.

(v) A certificate of an Authorized Officer of the Metropolitan Government stating that (a) the Metropolitan Government is not in default with respect to any Parity Obligation or Parity Obligation Agreement, and (b) the Metropolitan Government is not in default in the performance of any of its covenants and agreements under the General Resolution.

(vi) Except with respect to (a) the Initial Parity Obligations, (b) Parity Obligations issued or executed and delivered to refund other Parity Obligations for the purpose of reducing debt service and (c) Parity Obligations issued or executed and delivered for the purpose of financing repairs or improvements necessary (as evidenced by a certificate of an Authorized Officer of the Metropolitan Government) for the operation of the System, a certificate of an Authorized Officer of the Metropolitan Government to the effect that (y) Net Revenues for the immediately preceding Fiscal Year (including all payments by the Metropolitan Government pursuant to its covenant to pay for energy services and deficiencies in debt service and operating expenses were at least equal to Parity Obligation Debt Service Expenses for such Fiscal Year and (z) projected Net Revenues for the current Fiscal Year (including all payments by the Metropolitan Government pursuant to its covenant to pay for energy services and deficiencies in debt service and operating expenses included in a then current appropriation), taking into account the proposed issue or execution and delivery of Parity Obligations and the expenses related to the project financed with proceeds of such Parity Obligations, are expected to be at least sufficient to pay Parity Obligation Debt Services Expenses for such Fiscal Year.

Notwithstanding the foregoing, the certification described in paragraph (v) above is not required for (a) the issuance or the execution and delivery of Parity Obligations to finance any Capital Cost or other cost of the System which is required to be incurred in order to avoid a violation of applicable law, or to pay any final judgment against, or finance any other obligation imposed by law on, the Metropolitan Government related to the operation of the System or (b) the issuance of Completion Obligations upon the filing of a certificate of a Consulting Expert that the Capital Costs to be financed by the Parity Obligations is a cost included within the definitions of Completion Obligations. (Section 2.5)

Creation of Liens; Subordinated Obligations. Except as provided in this paragraph, the Metropolitan Government shall not issue any bonds, notes, or other evidences of indebtedness or enter into any obligations, other than Parity Obligations, which are secured by a pledge of or other lien or charge on the Net Revenues and shall not create or cause to be created any lien or charge on such Net Revenues under the terms of the General Resolution; provided, however, that neither this section nor any other provision of the General Resolution prevents the Metropolitan Government from issuing bonds, notes or other evidences of indebtedness or obligations for the purposes of the System which are payable out of or which are secured by a pledge of Net Revenues which are to be derived on and after such date as there is no longer any Parity Obligation outstanding. In addition, the Metropolitan Government is not prevented from issuing bonds or notes or other indebtedness or obligations for the purposes of the System which are payable out of or which are secured by a subordinate pledge of the Net Revenues or by a pledge of amounts in the surplus fund (“Subordinated Obligations”), provided that such obligations recite on their face that (a) such pledge of said amounts is and shall be in all respects subordinate to the provisions of the General Resolution and the lien and

pledge created by the General Resolution, and (b) no payment of the principal or redemption price of or interest on such obligations shall be made in any year, nor shall any Revenues or other assets of the System be applied to the purchase or other acquisition or retirement of such obligation if an Event of Default has occurred and is continuing or would occur immediately after giving effect to such payment or application. Subordinated Obligations may be issued pursuant to a Supplemental Resolution. (Section 2.7)

Amendment of Parity Obligation and Parity Obligation Agreements. Once executed and authenticated in accordance with the General Resolution any Parity Obligation or Parity Obligation Agreement shall then be considered a Supplemental Agreement which may be amended only in accordance with the terms of the General Resolution. (Section 2.8)

### **Pledge; Limited Obligation**

The Pledge Effected by the General Resolution. Subject to the provision set forth in the next succeeding paragraph, to secure the payment of the principal or redemption price, if any, of and interest on, the Parity Obligations (including Sinking Fund Installments for the retirement thereof) in accordance with their terms and the provisions of the General Resolution and the performance by the Metropolitan Government of all of its obligations under the terms and provisions of the General Resolution, the Metropolitan Government does hereby pledge and assign to the Trustee, and grant to the Trustee a security interest in, (i)(a) the proceeds of the sale of Parity Bond Obligations, (b) the Net Revenues, (c) all funds and accounts established by the General Resolution (net of amounts required to pay Operating Expenses), including the moneys or investments, if any, therein or thereof (provided a Debt Service Reserve Fund shall be pledged only to the series of Parity Bond Obligations for which such Debt Service Reserve Fund has been established), subject only to the provisions of the General Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the General Resolution, and (ii) the right, title and interests of the Metropolitan Government in, to and under, including the right to receive payments or other amounts (net of amounts required to pay Operating Expenses) (a) the Customer Contracts, (b) any Management Contract, (c) any Performance Guaranty, and (d) any Fuel Purchase Contract. The money and property pledged by the General Resolution shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.

The pledge made in the above paragraph shall become effective immediately upon the issuance of the Initial Parity Obligations, *provided, however*, the pledge of (i) all Revenues derived from amounts received by the Metropolitan Government pursuant to the Interim Customer Contracts and (ii) the Interim Customer Contracts shall be effective only during the Pledge Period. (Section 5.1)

Limited Obligation of the Metropolitan Government. All Parity Obligations are limited obligations of the Metropolitan Government and any payments required thereunder obligate the Metropolitan Government solely from the moneys, funds and accounts which are pledged, as and to the extent provided in the General Resolution hereof and pursuant to the terms of any Parity Obligation Agreement. Any Beneficiary of a Parity Obligation with the Metropolitan Government is entitled to the benefit of the continuing pledge and lien created by the General Resolution to secure the full and final payment of any amounts required to be paid by the Metropolitan Government pursuant to such Parity Obligations, subject only to the provisions of the General Resolution permitting the application of any pledged amounts for or to the purposes and on the terms and conditions set forth in the General Resolution.

No recourse shall be had for the payment of the Parity Obligations, or interest thereon, or any part thereof, against the general funds of any local government, including the Metropolitan Government, nor shall the full faith and credit or taxing power of any local government, including the Metropolitan Government, be deemed to be pledged to the payment of the Parity Obligations.

The Parity Obligations and interest thereon, shall not be a debt of the local government, including the Metropolitan Government, nor a charge, lien or encumbrance, legal or equitable, upon any property of the local government, including the Metropolitan Government, or upon any income, receipts or revenues of the local government, including the Metropolitan Government, other than the Net Revenues that have been pledged to the payment of the Parity Obligations. Every Parity Obligation shall recite in substance that the Parity Obligation including interest thereon, is payable solely from the revenues pledged to the payment thereof and that the Metropolitan Government is under no obligation to pay the same, except from those revenues.

In consideration of the purchase or execution of Parity Obligations by various Beneficiaries from time to time, the provisions of the General Resolution are deemed to be and do constitute a contract between Metropolitan Government and any Beneficiary, and the covenants and agreements set forth in the General Resolution are for the equal and ratable benefit of each Beneficiary. The pledge which is made in the General Resolution is for the equal benefit, protection and security of any Beneficiary which holds a Parity Obligation of the Metropolitan Government, subject only to the provisions of the General Resolution permitting the application of any pledged amounts for or to the purposes and on the terms and conditions set forth in the General Resolution. (Section 5.2)

**Establishment of Funds and Accounts**

The Metropolitan Government hereby establishes and creates the following special funds and accounts for the System:

- (1) Operating Fund;
  - (a) General Account
  - (b) EDS Repair and Improvement Account
  - (c) Customer Reconciliation Account
  - (d) Contract Termination Account
  - (e) Resold System Capacity Account
- (2) Operating Reserve Fund;
- (3) Debt Service Fund;
- (4) Debt Service Reserve Fund;
- (5) Renewal and Replacement Fund;
- (6) System Improvement Fund;
  - (a) Construction Account
  - (b) Capitalized Interest Account
  - (c) Retainage Account
- (7) Energy Conservation Fund; and
- (8) Surplus Fund.

Each of said funds and accounts shall be held by the Trustee. Other funds, accounts and subaccounts may be created as necessary or desirable to effectuate the purposes of the General Resolution. (Section 5.3)

### **Application of Funds and Accounts**

System Improvement Fund. Proceeds of the sale of any series of Parity Bond Obligations (other than (i) Refunding Obligations, (ii) amounts required to be deposited in the Debt Service Fund in respect of interest accrued to the date of issuance or capitalized interest to be funded from such proceeds, or (iii) amounts required to be deposited in the Debt Service Reserve Fund, the Operating Fund and the Operating Reserve Fund in order that amounts on deposit therein equal the Debt Service Reserve Fund Deposit Requirement, the Projected Net Operating Expense Amount and the Operating Reserve Fund Requirement, respectively) shall be deposited in the Construction Account of the System Improvement Fund. (Section 4.1)

Amounts on deposit in the System Improvement Fund shall be applied for any of the following purposes: (i) the payment of Costs of Issuance; (ii) the payment of Debt Service on Parity Obligations to the extent that the amount in the Debt Service Fund on any interest payment date is insufficient therefor; (iii) the payment of all Costs of Construction; (iv) the payment of notes issued for the payment of costs reasonably necessary in connection with the acquisition and construction of the System or any portion thereof; and (v) transfer to the Debt Service Fund to prepay Parity Obligations. (Section 4.2)

*Construction Account.* There shall be deposited to the Construction Account (i) the portion of the proceeds of Parity Obligations or Subordinated Obligations designated by the Metropolitan Government to be deposited therein for System Improvements and Costs of Issuance (which amounts shall be held by the Trustee), (ii) all amounts transferred from the Operating Fund pursuant to the General Resolution for deposit therein, (iii) amounts paid by Customers as interconnection charges pursuant to an Additional Customer Contract, and (iv) any other amounts transferred to the System Improvement Fund by the Metropolitan Government for deposit in the Construction Account therein.

The Construction Account shall be used for the payment of costs of capital improvements to the System. Upon the filing with the Metropolitan Treasurer of a Certificate signed by the Project Administrator stating that construction of a System Improvement has been substantially completed and setting forth an amount necessary to pay all unpaid Costs of Construction, the Metropolitan Treasurer shall direct the Trustee to deposit, and the Trustee shall deposit, in the Debt Service Fund all amounts in excess of the amount specified as necessary to pay all unpaid Costs of Construction, *provided, however*, the Metropolitan Government may by resolution authorize another use of such funds if, in the opinion of Bond Counsel, such use is permitted under the terms of the General Resolution and will not adversely affect the exclusion of interest on the applicable Parity Obligations from gross income for federal income tax purposes. (Sections 4.2 and 5.9)

*Capitalized Interest Account.* There shall be deposited in the Capitalized Interest Account that portion of the amounts of a series of Parity Obligations designated by the Metropolitan Government to be deposited therein for payment of Parity Obligation Debt Service Expenses during construction of a System Improvement.

During the period of construction of a System Improvement, amounts on deposit in the Capitalized Interest Account shall be transferred to the applicable account in the Debt Service Fund and applied to the payment of the Parity Obligations Debt Service Expenses on the Parity Obligations to which such proceeds relate to the extent amounts on deposit in the applicable account of the Debt Service Fund are not sufficient to make such payments as they become due; *provided, however*, upon commencement of service of a System Improvement, and with respect to the Initial Parity Obligations, upon the Service Commencement Date, the Metropolitan Government may direct the Trustee to transfer, and if so directed the Trustee shall transfer, the

applicable proceeds on deposit in the Capitalized Interests Account to the construction Account to be applied to the payment of the Costs of a System Improvement to which such proceeds relate.

Upon completion of construction of a System Improvement, related proceeds remaining on deposit in the Capitalized Interest Account shall, at the written direction of the Metropolitan Government, be transferred to the applicable account of the Debt Service Fund.(Section 5.9)

*Retainage Account.* As shall be directed in writing to the Trustee by the Metropolitan Government, there shall be transferred from the Construction Account and deposited in the Retainage Account, such amounts as are required to be retained pursuant to the applicable construction contract.

Amounts on deposit in the Retainage Account shall be invested in Investment Securities at the direction of the Metropolitan Treasurer. Any income earned or loss suffered as a result of such investment shall be credited or charged, as the case may be, to the Retainage Account. Amounts on deposit in the Retainage Account shall be paid to the contractor entitled thereto upon a Requisition submitted to the Trustee by the Metropolitan Treasurer and signed by the Project Administrator.

If at any time there shall be insufficient amounts available for payment of Operating Expenses in the Operating Fund and in the Operating Reserve Fund, the Metropolitan Government may transfer amounts in the System Improvement Fund (other than proceeds of Parity Obligations deposited therein) to the General Account of the Operating Fund to the extent reasonably necessary to pay such Operating Expenses.

If at any time there shall be insufficient amounts in the Debt Service Fund to pay Parity Obligation Debt Service Expenses when due, the Metropolitan Government may transfer amounts in the System Improvement Fund to the Debt Service Fund to the extent reasonably necessary to make such payments when due provided that proceeds of Parity Obligations shall be applied solely to pay principal (or interest during a construction period) of the issue of obligations from which the proceeds are derived. (Section 5.9)

Deposit of Revenues and Other Payments in Operating Fund.

*Operating General Account.* Except as otherwise provided in the General Resolution or in any Supplemental Resolution, all Revenues shall be collected by or on behalf of the Metropolitan Government and shall be deposited in the General Account of the Operating Fund in amounts which shall be sufficient to:

- (i) pay Operating Expenses;
- (ii) make payments when due on all Parity Obligations and Subordinated Obligations;
- (iii) restore any Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement;
- (iv) fund all other funds and accounts established pursuant to the General Resolution at their required levels;
- (v) fund all funds established pursuant to any Parity Obligation Agreement at their required levels;
- (vi) fund all necessary administration, repairs, replacements, renewals and improvements to the System.

Except as otherwise provided below in the General Resolution, the Metropolitan Government shall apply amounts in the General Account to pay Operating Expenses (including payments for services under a

Management Contract), consistent with Metropolitan Government procurement and payment procedures. In addition, following the Service Commencement Date, on the first Business Day of each month the Metropolitan Government shall, after retaining amounts in the General Account equal to the Projected Net Operating Expense Amount, make the following transfers of funds out of the General Account, in the order of priority set forth below, if and to the extent sufficient funds are available:

(i) First, the Metropolitan Government shall transfer from the General Account to the Debt Service Fund an amount such that the balance in the Debt Service Fund shall be equal to Accrued Interest and Accrued Principal on all Parity Obligations through the first day of the following month;

(ii) Second, the Metropolitan Government shall transfer from the General Account to the applicable Debt Service Reserve Fund for each issue of Parity Obligations, an amount equal to the Debt Service Reserve Fund Deposit Requirement;

(iii) Third, the Metropolitan Government shall transfer from the General Account to the Operating Reserve Fund, (i) during the first twenty-four months following adoption of the General Resolution and issuance of the Initial Parity Obligations, until such time as the balance in the Operating Reserve Fund equals the Operating Reserve Fund Requirement, an amount equal to 1/24 of the Operating Reserve Fund Requirement and (ii) following such twenty-four month period the amount, if any, necessary to increase the balance in the Operating Reserve Fund to the Operating Reserve Fund Requirement;

(iv) Fourth, the Metropolitan Government shall transfer from the General Account to the Renewal and Replacement Fund, an amount equal to the Renewal and Replacement Fund Requirement;

(v) Fifth, the Metropolitan Government shall transfer from the General Account to the System Improvement Fund, an amount equal to the System Improvement Fund Requirement for the applicable month;

(vi) Sixth, the Metropolitan Government may, but shall not be required to, during each month, after making all transfers required in paragraphs (i) through (v), transfer any surpluses in the General Account to the Surplus Fund; provided such transfer may be made only if (x) there is reserved in the General Account an amount sufficient to pay Operating Expenses during the six-month period immediately following such transfer, (y) there is reserved in the Debt Service Fund an amount sufficient to pay (1) all Parity Obligation Debt Service Expenses coming due during the six-month period immediately following such transfer and (2) all other funds at their required levels.

Notwithstanding the foregoing, if on the first Business day of each month it is determined that after payment of all amounts required to be deposited in the General Account of the Operating Fund, there shall be insufficient amounts available for deposit in the Debt Service Fund to pay Parity Obligation Debt Service Expenses when due, the Metropolitan Government shall not reimburse itself as an Operating Expense for its Incremental Costs then due and payable and shall delay payment of such Incremental Costs until sufficient Revenues become available under the General Resolution.

Notwithstanding the foregoing, in lieu of the required deposits of Revenues into the applicable Debt Service Reserve Fund, the Metropolitan Government may cause to be deposited into the applicable Debt Service Reserve Fund a reserve fund insurance policy, surety bond or reserve fund letter of credit for the benefit of the Bondowners in an amount equal to the difference between the applicable Debt Service Reserve Fund Requirement and all or a portion of the sums then on deposit in the applicable Debt Service Reserve Fund, if any. Any such reserve fund insurance policy, surety bond or reserve fund letter of credit shall be

payable or available to be drawn upon, as the case may be (upon the giving of notice as required thereunder), on any interest or principal payment date for the Parity Obligations on which a deficiency exists which cannot be cured by moneys in any other fund or account held pursuant to the General Resolution and available for such purpose. If a disbursement is made under a reserve fund insurance policy, surety bond or reserve fund letter of credit, the Metropolitan Government shall be obligated to either reinstate the maximum limits of such reserve fund insurance policy, surety bond or reserve fund letter of credit following such disbursement equal to the applicable Debt Service Reserve Fund Requirement or to deposit into the applicable Debt Service Reserve Fund from the Net Revenues, as provided, in the General Resolution funds in the amount of the disbursement made under such reserve fund insurance policy, surety bond or reserve fund letter of credit, or a combination of such alternatives as shall equal the applicable Debt Service Reserve Fund Requirement. Any amounts released from the applicable Debt Service Reserve Fund by virtue of a deposit of a reserve fund insurance policy, surety bond or reserve fund letter of credit shall be deposited into the Construction Account of the System Improvement Fund and applied to the payment of the Costs of Construction until the System Improvements are complete. Thereafter, any such released amounts shall be transferred to the applicable Debt Service Fund for payment of principal next due on the Parity Obligations. (Section 5.4(B))

*EDS Repair and Improvement Account.* There shall be deposited to the EDS Repair and Improvement Account (i) all amounts paid by Customers pursuant to the Customer Contracts as an allowance for repairs and upgrades to the EDS, and (ii) any other amounts transferred to the EDS Repair and Improvement Account by the Metropolitan Government for deposit therein, in each case as instructed in writing to the Trustee by the Metropolitan Government.

Amounts on deposit in the EDS Repair and Improvement Account shall be applied exclusively to the payment of repairs and upgrades to the EDS which have been approved by the Metropolitan Government in accordance with the Management Contract (or a replacement or substitute operating contract) and filed with the Trustee by the Metropolitan Treasurer, but only upon submission to the Trustee by the Operator of a requisition signed by a representative of the Operator and otherwise satisfying the requirements of the General Resolution. Repairs and upgrades to the EDS not previously filed with the Trustee by the Metropolitan Treasurer shall be paid from the EDS Repair and Improvement Account only upon submission of a requisition signed by the Project Administrator and submitted to the Trustee by the Metropolitan Treasurer. (Section 5.4(C))

*Customer Reconciliation Account.* Prior to making a transfer to the Surplus Fund, there shall be deposited in the Customer Reconciliation Account at the end of each Fiscal Year, the amounts, if any, paid by Customers, in excess of the amount actually due under the Customer Contracts for the applicable Fiscal Year, as instructed in writing to the Trustee by the Metropolitan Government.

The amount on deposit in the Customer Reconciliation Account shall be calculated at the beginning of each Fiscal Year and transferred in twelve equal installments to the General Account of the Operating Fund over the next succeeding Fiscal Year for application in accordance with the General Resolution. (Section 5.4(D))

*Contract Termination Account.* There shall be deposited upon receipt in the Contract Termination Account, (i) any amounts allocable to a Customer's share of operating expenses paid by a Customer in accordance with its Customer Contract as a result of early termination of such contract, and (ii) amounts paid as damages by an Operator (other than any amounts required to prepay Parity Obligations) as a result of the early termination of a Management Contract because of a default by an Operator, in each case as instructed in writing to the Trustee by the Metropolitan Government.

Amounts on deposit in the Contract Termination Account shall be applied at the direction of the Metropolitan Government to the payment of Operating Expenses.

If at any time there shall be insufficient amounts in the Debt Service Fund to pay Parity Obligation Debt Service Expenses when due, and there are amounts available in the Contract Termination Account, the Metropolitan Government may transfer amounts in the Contract Termination Account to the Debt Service Fund to the extent reasonably necessary to make such payments when due. (Section 5.4(E))

*Resold System Capacity Account.* There shall be deposited monthly into the Resold System Capacity Account that portion of Revenues representing Customer Reimbursable Amounts. Revenues derived from the resale of System energy capacity in excess of Customer Reimbursable Amounts shall be deposited in the General Account of the Operating Fund for application in accordance with the General Resolution.

Amounts on deposit in the Resold System Capacity Account shall be applied by the Trustee upon the direction of the Metropolitan Government exclusively to reimburse Customers for amounts paid to the Trustee upon early termination of a Customer Contract in accordance with the provisions of such Customer Contract (Section 5.4(F))

*Debt Service Fund.* There shall be deposited in the Debt Service Fund (i) all amounts transferred from the Operating Fund pursuant to the General Resolution for deposit therein, (ii) all amounts transferred from the Operating Reserve Fund, the Renewal and Replacement Fund, the System Improvement Fund and the Surplus Fund as set forth in the General Resolution for deposit therein, (iii) amounts paid by the Initial Operator pursuant to clause (i) of Section 12.01 (B) of the Management Contract, (iv) amounts paid by the Initial Operator pursuant to clause (i) of Section 11.14 (A), or Section 11.14 (B) or (C) of the Management Contract, (v) the allocable amounts paid by any Initial Customer under its Initial Customer Contract as a condition of reducing its committed capacity, (vi) the amounts allocable to capital costs of the System paid by the Initial Customers as a condition of terminating an Initial Customer Contract, and (vii) any other amounts transferred to the Debt Service Fund by the Metropolitan Government for deposit therein.

There shall be paid out of the Debt Service Fund, as follows (on a parity basis without priority of any Parity Obligations over the others) to the respective Paying Agents for any of the Parity Obligations, at least 7 days before (but no longer than 14 days before) each date on which Parity Obligation Debt Service Expenses are due, the amounts required for the payment of such Parity Obligation Debt Service Expenses, and such amounts shall be applied by such Paying Agents to such payments.

The amounts accumulated in the Debt Service Fund for each Sinking Fund Installment may be applied (together with amounts with respect to interest on the Parity Obligations for which such Sinking Fund Installment was established) prior to the seventy-fifth day preceding the due date of such Sinking Fund Installment as follows: (i) to the purchase of Parity Obligations of the issue and maturity for which such Sinking Fund Installment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price payable for such Parity Obligations when such Parity Obligations are redeemable by application of such Sinking Fund Installments plus unpaid interest accrued to the date of purchase, or (ii) to the redemption of such Parity Obligations, if then redeemable by their terms, at the Redemption Price referred to in clause (i).

Upon the purchase or redemption of any Parity Obligations as provided above, an amount equal to the principal amount of the Parity Obligation so purchased or redeemed shall be credited toward the next Sinking Fund Installment thereafter to be come due with respect to such Parity Obligations of the same issue and maturity. (Section 5.5)

*Debt Service Reserve Fund.* On the date of delivery of any series of Parity Obligations that is secured by a Debt Service Reserve Fund, there shall be deposited in such Debt Service Reserve Fund an amount equal to the Debt Service Reserve Fund Requirement for such series. There also shall be deposited in any Debt Service Reserve Fund (i) all amounts transferred from the Operating Fund pursuant to the General Resolution,

and (ii) any other amounts transferred to the Debt Service Reserve Funds by the Metropolitan Government for deposit therein.

Amounts on deposit in a Debt Service Reserve Fund shall be applied (i) on the third Business Day preceding any principal or interest payment date if amounts in the applicable account of the Debt Service Fund created for the Parity Obligations secured by such Debt Service Reserve Fund are insufficient to make the payment due on such Parity Obligations on such principal or interest payment date, in an amount sufficient to make up any deficiency and (ii) at such time as the amount in the Debt Service Reserve Fund and the applicable account of the Debt Service Fund created for the Parity Obligations secured by such Debt Service Reserve Fund equals or exceeds all principal and interest payments due or to become due with respect to the Parity Obligations secured by the Debt Service Reserve Fund, to the appropriate account of the Debt Service Fund to make principal payments on the series of Parity Obligations secured by the Debt Service Reserve Fund. (Section 5.6)

*Operating Reserve Fund.* There shall be deposited to the Operating Reserve Fund (i) all amounts transferred from the Operating Fund pursuant to the General Resolution for deposit therein; (ii) the amounts received by the Metropolitan Government under the Interim Customer Contracts during the Interim Pledge Period in an amount not to exceed \$3,000,000; and (iii) any other amounts transferred to the Operating Reserve Fund by the Metropolitan Government for deposit therein.

Amounts on deposit in the Operating Reserve Fund (i) may be used by the Metropolitan Government at any time in any Fiscal Year to pay anticipated or unanticipated Operating Expenses, (ii) may be applied by the Metropolitan Government in any Fiscal Year to offset any increases in the rates required to be paid by the Metropolitan Government pursuant to its Metropolitan Government Customer Contract or the General Resolution as a result of business interruption or any unusual, unexpected or extraordinary costs incurred, or revenue declines suffered, by the System subsequent to the adoption of the Annual Budget for such Fiscal Year or (iii) may be transferred to the Operating Fund. Any such use of amounts in the Operating Reserve Fund shall be specified, if applicable, in the Annual Budget or in any amended Annual Budget adopted in accordance with the General Resolution. Amounts in the Operating Reserve Fund are intended to be used to levelize revenue requirements and therefore minimize rate adjustments that may otherwise be required in Customer Contracts that permit or require rate adjustments and the Metropolitan Government is under no obligation to retain amounts in the Operating Reserve Fund as security to pay Parity Obligation Debt Service Expenses.

If at any time there shall be insufficient amounts in the Debt Service Fund to pay Parity Obligation Debt Service Expenses when due, and there are amounts available in the Operating Reserve Fund, the Metropolitan Government may transfer amounts in the Operating Reserve Fund to the Debt Service Fund to the extent reasonably necessary to make such payments when due. (Section 5.7)

*Renewal and Replacement Fund.* There shall be deposited to the Renewal and Replacement Fund (i) all amounts transferred from the Operating Fund pursuant to the General Resolution for deposit therein, and (ii) any other amounts transferred to the Renewal and Replacement Fund by the Metropolitan Government for deposit therein.

Amounts on deposit in the Renewal and Replacement Fund shall be applied to the payment of (i) any reasonable and necessary cost of major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals, and (ii) repairs, renewals or replacements resulting from the occurrence of uncontrollable events or circumstances.

If at any time there shall be insufficient amounts in the General Account of the Operating Fund and the Operating Reserve Fund to pay Operating Expenses, the Metropolitan Government may transfer amounts

in the Renewal and Replacement Fund to the General Account of the Operating Fund to the extent reasonably necessary to pay such Operating Expenses.

If at any time it shall be determined that there will be insufficient amounts in the Debt Service Fund to pay Parity Obligation Debt Service Expenses when due, the Metropolitan Government may transfer amounts in the Renewal and Replacement Fund to the Debt Service Fund to the extent reasonably necessary to make such payments when due. (Section 5.8)

Energy Conservation Fund. There shall be deposited in the Energy Conservation Fund (i) that portion of the proceeds of Parity Obligations or Subordinated Obligations designated by the Metropolitan Government to be deposited therein for energy conservation projects, (ii) an amount equal to 25% of New Customer Surplus Revenues in such year as determined by an Authorized Officer of the Metropolitan Government and (iii) any other amounts transferred to the Energy Conservation Fund from the Surplus Fund by the Metropolitan Government for deposit therein.

Amounts on deposit in the Energy Conservation Fund shall be used for the payment of costs of energy conservation projects upon submission to the Trustee of a requisition meeting the requirements of the General Resolution.

If at any time the amount on deposit in the Debt Service Reserve Fund is less than the Debt Service Reserve Fund Requirement, the Metropolitan Government shall direct the Trustee to transfer from the Energy Conservation Fund to the Debt Service Reserve Fund the amount necessary to eliminate the deficiency therein. (Section 5.10)

Surplus Fund. There shall be deposited in the Surplus Fund all amounts (i) (a) permitted to be deposited therein pursuant to the General Resolution and (b) which the Metropolitan Government elects to be so deposited, and (ii) any other amounts permitted to be deposited therein and deposited therein by the Metropolitan Government.

Amounts in the Surplus Fund may at any time be transferred to any other Fund established under the General Resolution or be applied by the Metropolitan Government for any lawful purpose whether or not related to the System, including payments of insufficient amounts in the Debt Service Fund to pay Parity Obligation Debt Service Expenses and payment of Subordinated Obligations and deposits to the Metropolitan Government's general fund. (Section 5.11)

Amounts Held for Payment of Parity Obligations. The amounts which are held by the Metropolitan Government or any Fiduciary on behalf of the Metropolitan Government for the payment of any amounts required to be paid by the Metropolitan Government pursuant to Parity Obligations shall, pending such payment, be set aside and held in trust for the persons who are entitled to such payment, and from and after the due dates for such payment for the purposes of the General Resolution, such amounts are no longer considered to be unpaid. (Section 5.12)

Investments. Except as otherwise provided in a Parity Obligation Agreement, moneys on deposit in each of the funds and accounts created hereunder and in any funds and accounts established in connection with the issuance or the execution and delivery of any Parity Obligations shall be invested at the direction of the Metropolitan Treasurer in Investment Securities. However, each account shall be held in trust for the benefit of those parties designated elsewhere in the General Resolution.

Except as otherwise provided in a Parity Obligation Agreement, any investment income earned on the funds and accounts established hereunder shall be credited to the Operating Fund. Any loss resulting from an investment in any Investment Securities shall be credited or charged to the fund, account or subaccount from which such investment was made. (Section 5.14)

## **Certain Covenants of the Metropolitan Government**

Covenants. The Metropolitan Government hereby covenants and agrees with each Beneficiary of a Parity Obligation that so long as any Parity Obligation remains outstanding, it will comply with and make a part of its contract with each Beneficiary each of the covenants set forth below. Nothing herein shall require the Metropolitan Government to expend any amounts other than the Net Revenues and other amounts pledged under the General Resolution to comply with any of the following covenants herein.

Powers as to System, Services and Collection of Revenue. The Metropolitan Government has the legal right and lawful authority to construct the System and to maintain, operate, improve and reconstruct the System or to provide for the construction, maintenance, operation, improvement and reconstruction of the System and to provide, or cause the provision of Services. The Metropolitan Government has the power and covenants to enter into from time to time Customer Contracts and charge rates for use of the System and the provision of Services as set forth in a Customer Contract and to demand and to collect all Revenues which are due or which are becoming due to it for the use of the System and the provision of Services, all in accordance with the Service Covenant set forth below. (Section 7.2)

Service Covenant. To the extent required as the basis for imposing and collecting the charges for services and other Revenues, the Metropolitan Government shall continue to construct, develop, own, operate, maintain, repair and improve the System and provide services to customers. The Metropolitan Government shall carry out the foregoing provisions through the System, with such Persons, using such technologies and upon such terms and conditions as the Metropolitan Government determines consistent with prudent district heating and cooling system practices and in a manner which will not impair the ability of the Metropolitan Government to comply with the Service Covenant. (Section 7.4)

Completion of System; Use of Construction Proceeds. Any moneys which are received by the Metropolitan Government from any source for payment of costs related to the construction, acquisition, restoration, improvement or completion of any portion of the System shall be expended only on the System or to pay (or prepay) Parity Obligation Debt Service Expenses where such amounts are determined to be no longer necessary to pay Capital Costs. Any amounts not applied to pay Parity Obligation Debt Service Expenses shall be disbursed to pay Capital Costs only in the amounts, at the times, in the manner and on such other terms and conditions as are set forth in the General Resolution. (Section 7.5)

Covenant to Purchase Energy From System. The Metropolitan Government covenants that on and after the Service Commencement Date and as long as any Parity Obligations remain outstanding under the General Resolution, the Metropolitan Government shall (i) obtain its heating and cooling requirements for the Metropolitan Government Premises from the System (to the extent of available System capacity) and (ii) not utilize any heating or cooling services other than the System for the Metropolitan Government Premises, except when System services are not available. (Section 7.6)

Covenant to Pay for Energy Services and Deficiencies in Debt Service and Operating Expenses. The Metropolitan Government covenants that beginning on the Service Commencement Date and as long as any Parity Obligations remain outstanding under the General Resolution, the Metropolitan Government shall (i) pay to the Trustee for all energy services delivered to the Metropolitan Government for the Metropolitan Government Premises from the System at the rates set forth in Section 2.2 of the Metropolitan Government Customer Contract, which is incorporated in the General Resolution by reference as if fully written herein, (ii) as an additional energy charge, pay to the Trustee any amounts necessary to maintain balances in the Operating Reserve Fund and the Debt Service Reserve Fund at the Operating Reserve Fund Requirement and the Debt Service Reserve Fund Requirement, and (iii) as an additional energy charge, pay to the Trustee an amount equal to the difference between (a) the sum of Parity Obligation Debt Service Expenses and Operating Expenses, and (b) Revenues derived from payments made pursuant to the Customer Contracts (all of the foregoing to be calculated monthly). Prior to the Service Commencement Date, to the extent amounts

available from the proceeds of a series of Parity Obligations are insufficient to pay Parity Obligation Debt Service Expenses, the Metropolitan Government shall pay any such deficiency to the Trustee for deposit into the Debt Service Fund. The foregoing payments shall be subject to annual appropriation by the Metropolitan County Council.

The Metropolitan Government further covenants that the Director of Finance shall submit, in each fiscal year, the amounts required to be paid by the Metropolitan Government as set forth in the preceding paragraph to the Metropolitan County Council for appropriation, provided, however, prior to [calculating and] submitting any amounts payable pursuant to clause (iii) above to the Metropolitan County Council for appropriation, the Metropolitan Government is permitted to first draw on and apply funds in the following order of priority: (i) Surplus Fund, (ii) Renewal and Replacement Fund, (iii) System Improvement Fund (other than proceeds of Parity Obligations), and (iv) Operating Reserve Fund. Any such draws shall be taken into account prior to submitting any amounts payable pursuant to clause (ii) in the preceding paragraph. (Section 7.7)

Insurance; Condemnation. The Metropolitan Government shall continuously maintain or require the Operator to maintain, to the extent commercially available at reasonable rates, the types of insurance as are recommended by the Metropolitan Government's risk manager. Such insurance shall be maintained in the amounts which are recommended by the Metropolitan Government's risk manager as necessary or desirable to enable the Metropolitan Government to comply with the terms and conditions of the General Resolution.

Any insurance required to be maintained as provided in the immediately succeeding paragraph may be maintained under a self-insurance program so long as (i) the self-insurance program includes an actuarially sound claims reserve fund out of which each self-insured claim shall be paid; (ii) the adequacy of such fund shall be evaluated on an annual basis by an independent insurance consultant or the Metropolitan Government's risk manager and any deficiencies in any self-insured claims reserve fund will be remedied in accordance with the recommendation of the independent insurance consultant or the Metropolitan Government's risk manager; and (iii) in the event the self-insurance program shall be discontinued, the actuarial soundness of its claims reserve fund, as determined by an independent insurance consultant, or the Metropolitan Government's risk manager, shall be maintained. The provisions of this paragraph shall not apply to deductibles or retentions under a commercial insurance policy.

If any useful portion of the System is damaged or destroyed, the Metropolitan Government shall, as expeditiously as practicable, continuously and diligently pursue the repair, reconstruction or replacement thereof, which may be done through the Operator. However, no such repair, reconstruction or replacement need be undertaken if the Metropolitan Government, in accordance with the provisions of this paragraph, determines not to so repair, reconstruct or replace such damaged property. Any proceeds received by the Metropolitan Government from any casualty insurance, including the proceeds of self-insurance, or proceeds received as a result of any condemnation of all or any portion of the System, shall be deposited in the System Improvement Fund and be applied to pay the necessary Capital Costs involved in the repair, reconstruction and replacement of the System. Any such proceeds of casualty insurance, including the proceeds of self-insurance and any such proceeds of a condemnation award which are not applied or committed to the repair, reconstruction or replacement of the System within six months after receipt thereof shall be applied to the prepayment of Parity Obligations; provided, however, that, to the extent that the Metropolitan Government certifies that such proceeds are required for the repair, reconstruction or replacement of the System, and that such proceeds will be expended for such purpose within a reasonable additional period of time, such proceeds may then remain on deposit for the purpose of repair, reconstruction or replacement. If any proceeds remain upon the completion of the repair, reconstruction or replacement, such proceeds shall be applied to the prepayment of Parity Obligations. In the event that the Capital Costs of such repair and replacement of the damaged or condemned property exceeds the proceeds of such insurance or condemnation award which are available for payment of the same, any amounts in the Surplus Fund may be used, to the extent necessary, for such purpose as directed by the Metropolitan Government as evidenced by a certificate duly executed by an

Authorized Officer of the Metropolitan Government. In addition, the Metropolitan Government may apply any other moneys of the Metropolitan Government which are not pledged for another purpose, to the extent necessary, for such purposes, subject to the provisions of the General Resolution.

If any portion of the System has been damaged, destroyed or condemned, and the Metropolitan Government has determined that the operation of the System has not been materially adversely affected, and as such the Metropolitan Government has determined not to repair, reconstruct or replace the damaged, destroyed or condemned property and the Metropolitan Government has delivered a certificate to the Trustee to such effect, the proceeds of insurance or condemnation award which are received by the Metropolitan Government, if any, shall be deposited into the Operating Fund and applied to any permissible purpose.

To the extent that amounts are transferred pursuant to the preceding two paragraphs to the prepayment of Parity Obligations, such amounts shall first be applied to the prepayment or early redemption of any Parity Obligation requiring that insurance and condemnation proceeds be so applied. In the event that more than one Parity Obligation has such a prepayment or early redemption feature, then such proceeds shall be allocated to each Parity Obligation in an amount, as nearly as practicable, as equals the percentage that such Parity Obligation represents of all outstanding Parity Obligations requiring such prepayment or early redemption.

The proceeds of any business interruption insurance coverage constituting Revenues shall be deposited in the Operating Fund. (Section 7.8)

Operation and Maintenance of System. The Metropolitan Government shall, at all times required by the General Resolution, (1) operate the System (or cause the same to be operated) properly and in a sound and economical manner, and (2) maintain, preserve and keep the same properly (or cause the same to be so maintained, preserved and kept), including all appurtenances thereto and every part and parcel thereof, in good repair, working order and condition. Further, the Metropolitan Government shall make (or cause to be made) from time to time, all necessary and proper repairs, replacements and renewals so that the operation of the System may be properly conducted at all times. Nothing in clause (1) above shall prevent the Metropolitan Government from terminating any Management Contract for its convenience in accordance with the provisions of such Management Contract. (Section 7.9)

Annual Budget; System Operating Plan. Prior to the commencement of each Fiscal Year the Metropolitan Government shall prepare and deliver to the Trustee an Annual Budget for such Fiscal Year, which Annual Budget shall include a capital improvement budget for such Fiscal Year to the extent there is no Operator obligated under a Management Contract to perform all required capital improvements. The Annual Budget shall be structured so as to permit compliance by the Metropolitan Government with the Service Covenant. The Annual Budget shall set forth in reasonable detail the estimated energy purchases and sales, rates and charges, Revenues, Operating Expenses, Parity Obligation Debt Service Expenses, a maintenance and repair scheduled for the System and other cash and operating requirements of the System for such Fiscal Year and such Annual Budget shall include estimates of the amounts to be deposited during such Fiscal Year in the funds and accounts established under the General Resolution, with reasonable provision for contingency receipts and payments. Nothing contained in the Annual Budget shall supersede the provisions of the General Resolution as to the application of Revenues or other amounts. In the event that at any point in a Fiscal Year the Metropolitan Government determines that the Annual Budget, as adopted, will not result in the Metropolitan Government's being in compliance with its obligations under the General Resolution for such Fiscal Year, then the Metropolitan Government shall adopt an amended Annual Budget or take such other actions as may be necessary, desirable or appropriate for the Metropolitan Government to comply with its obligations hereunder for the remainder of the Fiscal Year. Such amended Annual Budget may provide for the use of Available Funds to avoid or reduce any increase in the rates and charges imposed by the Metropolitan Government for the use of the System due to such unusual or extraordinary costs. A copy of each amended Annual Budget shall be delivered to the Trustee. The Trustee shall have no duty to review any Annual Budget or amendment thereto delivered to it. (Section 7.12)

Additional Financial and System Reports. The Metropolitan Government shall prepare annual financial statements of the System, and deliver such statements to the Trustee promptly upon their completion. Promptly upon the occurrence of an event which is material to the financial condition or operating effectiveness of the System, the Metropolitan Government shall deliver to the Trustee notice of such event and its projected impact on the System. In addition to preparing annual financial statements for the System, the Metropolitan Government shall prepare and deliver to the Trustee quarterly maintenance and operating reports for the System. The Trustee shall have no duty to review such statements and reports. (Section 7.13)

Reports on Parity Obligation Coverage Ratios. Within 30 days following the end of each Fiscal Year, the Metropolitan Government shall deliver to the Trustee (i) a certificate as to the ratio between Net Revenues for such Fiscal Year and Parity Obligation Debt Service Expenses for such Fiscal Year (together with supporting data and computations) and (ii) a certificate as to the projected ratio between Net Revenues for the then current Fiscal Year and Parity Obligation Debt Service Expenses for such Fiscal Year. Such certificates may be prepared by the Metropolitan Government based on its unaudited financial records, and need not be based on audited financial statements. (Section 7.14)

Sale or Encumbrance. The Metropolitan Government will not sell, lease, mortgage, pledge, encumber or otherwise dispose of all or any part of the System, except that the Metropolitan Government may sell, exchange or lease at any time and from time to time any property or facilities constituting part of the System (i) that are not useful or necessary in the construction, reconstruction or operation thereof, or (ii) to an Operator that enters into a Management Contract with the Metropolitan Government pursuant to which it agrees to provide services to the System at the portion of the System so sold, leased, mortgaged, pledged, encumbered or otherwise disposed of for a term reasonably determined by the Metropolitan Government and approved by the Consulting Expert, provided any proceeds of any such sale or exchange received and not used to replace the property so sold or exchanged shall be applied either to pay for improvements to the System or to prepay Parity Obligations.

Notwithstanding the foregoing, the Metropolitan Government may sell the System at any time provided that at or prior to the time of such sale, the Metropolitan Government has paid or defeased all Parity Obligations then Outstanding in accordance with the General Resolution. (Section 7.15)

Limitation on Liens. The Metropolitan Government shall not issue any bonds or notes, or enter into any installment sale agreements or financing lease agreements, or issue or enter into other instruments constituting evidences of indebtedness, other than Parity Obligations, secured by a pledge of or other lien or charge on the Revenues or the funds (other than the Surplus Fund) established under the General Resolution and shall not create or cause to be created any lien or charge on such Revenues or funds or on any amounts held by any Fiduciary under the General Resolution; nothing herein shall prevent the Metropolitan Government from issuing bonds or notes, or entering into installment sale agreements or financing lease agreements, or issuing or entering into other instruments constituting evidences of indebtedness payable out of, or secured by a pledge of, Revenues to be derived on or after such date as the pledge of Revenues provided in the General Resolution shall be discharged and satisfied as provided in the General Resolution, or which constitute Subordinated Indebtedness. (Section 7.16)

Consulting Expert. The Metropolitan Government shall designate a Consulting Expert from time to time to provide the services and certifications required under the General Resolution if the Metropolitan Government elects to use a person or entity other than a Metropolitan Government employee to act as a Consulting Expert. The Metropolitan Government may designate any expert otherwise meeting the requirements contained in the definition of Consulting Expert, and may designate different Consulting Experts concurrently to perform different services and to provide different certifications required under the General Resolution. The Metropolitan Government may revoke or change the designation of a Consulting Expert and designate a replacement Consulting Expert at any time in its discretion. (Section 7.20)

Tax Covenants. The Metropolitan Government shall at all times do and perform all acts and things necessary or desirable in order to assure that interest paid on Parity Obligations that are issued as Tax-Exempt Parity Obligations shall, for the purposes of federal income taxation, be excludable from the gross income of the recipients thereof and exempt from such taxation.

The Metropolitan Government shall not permit at any time or times any of the proceeds of the Parity Obligations that are issued as Tax-Exempt Parity Obligations or any other funds of the Metropolitan Government to be used, directly or indirectly, to acquire any securities or obligations the acquisition of which would cause any Parity Obligations that are issued as Tax-Exempt Parity Obligations to be an “arbitrage bond” as defined in the Code. (Section 7.21)

### **Supplemental Resolutions; Amendments**

Supplemental Resolutions Adopted for Certain Purposes Effective Without the Consent of Beneficiaries. The General Resolution may be amended, modified or supplemented at any time prior to the issuance of any Parity Obligations and thereafter without the consent of any Beneficiary of any Parity Obligation then outstanding, through the adoption of a Supplemental Resolution, if such amendment, modification or supplement is for any of the following purposes:

(i) To provide limitations and restrictions (in addition to the limitations and restrictions contained in the General Resolution) on the execution of other Parity Obligations to the extent that such amendment does not impair the ability of the Metropolitan Government to meet its obligations to any Beneficiary under the General Resolution or any Parity Obligation;

(ii) To add other covenants or agreements to be observed by the Metropolitan Government to the covenants or agreements of the Metropolitan Government which are contained in the General Resolution or to add additional security to that pledged under the General Resolution to the extent such covenants or agreements or additional security do not impair the ability of the Metropolitan Government to meet its obligations to any Beneficiary under the General Resolution or any Parity Obligation;

(iii) To add other limitations or restrictions to be observed by the Metropolitan Government to the limitations or restrictions which are contained in the General Resolution to the extent such amendment does not impair the ability of the Metropolitan Government to meet its obligations to any Beneficiary under the General Resolution or any Parity Obligation;

(iv) To surrender any right, power or privilege which is reserved to or conferred upon the Metropolitan Government by the terms of the General Resolution to the extent such amendment does not impair the ability of the Metropolitan Government to meet its obligations to any Beneficiary under the General Resolution or any Parity Obligation;

(v) To confirm, as further assurance, any pledge which is created under, and the subjection to any lien or pledge created by, the terms of the General Resolution of the Net Revenues or of any other moneys, securities or funds; provided that such confirmation shall not affect the priority of interests of any Beneficiary;

(vi) To specify, determine or authorize any and all matters and things relative to the issuance of Parity Obligations or the proceeds which are derived or which are to be derived from the sale thereof;

(vii) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the General Resolution;

(viii) To insert such provisions clarifying matters or questions arising under the terms of the General Resolution as are necessary or desirable and which are not contrary to or inconsistent with the terms of the General Resolution as theretofore in effect;

(ix) To effectuate the issuance by the Metropolitan Government of Subordinated Obligations to the extent consistent with the terms of the General Resolution;

(x) To amend, modify or supplement the General Resolution solely with respect to Parity Obligations to be issued subsequent to the execution of such Supplemental Agreement to the extent such amendment, modification or supplement does not impair the ability of the Metropolitan Government to meet its obligations to any Beneficiary under the General Resolution or any Parity Obligation which is outstanding prior to the adoption of such Supplemental Resolution;

(xi) To cause any nationally recognized rating agency to issue a rating on one or more Parity Obligations (or evidences of ownership therein) in a rating category that is at least "investment grade" as such term is generally used at the time of issuance of such rating, and which does not result in the reduction of any rating in effect at the time of adoption or execution of such Supplemental Resolution; or

(xii) To expressly secure interest rate swaps permitted under the Act to be secured as a Parity Obligation. (Section 8.1)

Supplemental Resolutions Effective Upon Consent of Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by the Metropolitan Clerk or an Authorized Officer of the Metropolitan Government, and (ii) the filing with the Trustee and the Metropolitan Government of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

(a) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the General Resolution; or

(b) to insert such provisions clarifying matters or questions arising under the General Resolution as are necessary or desirable and are not contrary to or inconsistent with the General Resolution as theretofore in effect.

Any such Supplemental Resolution may also contain one or more of the purposes specified in Section 8.1 of the General Resolution and, in that event, the consent of the Trustee shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in the immediately preceding paragraph. (Section 8.2)

Supplemental Resolutions Effective Upon Consent of Parity Obligation Holders. At any time or from time to time, any modification of or amendment to the General Resolution and of the rights and obligations of the Metropolitan Government and of the holders of the Parity Obligations may be made by a Supplemental Resolution adopted subject to the written consent of the holders of at least two-thirds in principal amount of the Parity Obligations outstanding at the time such consent is given, (ii) in case less than all of the several series of Parity Obligations outstanding are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Parity Obligations of each series so affected and outstanding at the time such consent is given, and (iii) in case less than all the maturities of a series of Parity Obligations are affected by the modification or amendment, of the holders of at least two-thirds in principal amount of the Parity Obligations of each maturity so affected and outstanding at the time such consent is given. If any such modification or amendment will not take effect until Parity Obligations of any specified maturity shall no

longer remain outstanding however, the consent of the holders of such Parity Obligations shall not be required and such Parity Obligations shall not be deemed to be outstanding for the purpose of any calculation of outstanding Parity Obligations under this Section.

No such modification or amendment shall permit a change in the terms of redemption or maturity of the Principal of any outstanding Parity Obligation or of any installment of interest thereon without the consent of the holder of such Parity Obligation, or shall reduce the percentages or otherwise affect the classes of Parity Obligations, the consent of the holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of the Trustee without its written consent thereto. For the purposes of this Section, a series shall be deemed to be affected by a modification or amendment of the General Resolution if the same adversely affects or diminishes the rights of the holders of Parity Obligations of such series. The Trustee may, in its sole discretion, determine whether or not Parity Obligations of any particular series or maturity would be affected by any modification or amendment made in accordance with the foregoing powers of amendment. Any such determination shall be binding and conclusive on the Metropolitan Government and all holders of Parity Obligations. Any such Supplemental Resolution shall become fully effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by the Metropolitan Clerk or by an Authorized Officer of the Metropolitan Government and upon compliance with the provisions of the General Resolution. (Sections 8.3 and 9.2)

**Amendments Of General Resolution**

Modifications by Unanimous Consent. The terms and provisions of the General Resolution and the rights and obligations of the Metropolitan Government and of the holders of the Parity Obligations hereunder may be modified or amended in any respect upon the adoption and filing by the Metropolitan Government of a Supplemental Resolution and the consent of the holders of all the Parity Obligations outstanding, such consent to be given as provided in Section 9.3 of the General Resolution, but no such modification or amendment shall change or modify any of the rights or obligations of the Trustee without the filing with the Trustee of the written consent thereto of the Trustee in addition to the consent of the holders of Parity Obligations. No notice of any such modification or amendment to holders of Parity Obligations either by mailing or publication shall be required. (Section 9.4)

**Defaults And Remedies**

Events of Default. The occurrence of any of the following events is hereby defined as and is declared to be and to constitute an “Event of Default”:

- (i) Default in the due and punctual payment of any amount owed under any Parity Obligation; or
- (ii) The occurrence of an event of default with respect to any Parity Obligation shall have occurred and be continuing; or
- (iii) Unless otherwise waived in accordance with the General Resolution, failure by the Metropolitan Government to observe and to perform any covenant, condition or agreement on the part of the Metropolitan Government which is provided in the General Resolution or any Parity Obligation or Parity Obligation Agreement and the continuance of such failure for a period of 60 days from the date the Metropolitan Government receives notice of such failure; or
- (iv) Breach by the Metropolitan Government of any material representation or warranty made in the General Resolution; or

(v) Any material provision of the General Resolution, any Parity Obligation, any Parity Obligation Agreement or any trust agreement or security agreement ceases to be valid and binding on the Metropolitan Government during any period when Parity Obligations affected thereby remain outstanding; or

(vi) The filing by the Metropolitan Government of a petition seeking relief under any federal or state bankruptcy or similar laws with respect to the Metropolitan Government.

Whenever any Event of Default shall have occurred and be continuing, the Trustee shall have the right, (i) at its option and without further demand or notice, to declare all Principal of Parity Obligations outstanding to be immediately due and payable, whereupon the same shall become due and payable, together with interest thereon at the rate or rates applicable thereto and (ii) to exercise such other rights and remedies as are set forth below. (Section 10.1)

Accounting and Examination of Records After Default. The Metropolitan Government covenants that if an Event of Default shall have happened and shall not have been remedied, the books of record and account of the Metropolitan Government relating to the System shall at all times be subject to the inspection of the Trustee and of its agents and attorneys. (Section 10.2)

Application of Revenues and Other Moneys After Default. The Metropolitan Government covenants that if an Event of Default shall happen and shall not have been remedied, the Metropolitan Government, upon demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, all moneys, securities and funds then held by the Metropolitan Government or a Fiduciary in any fund or account under the General Resolution, and (ii) as promptly as practicable after receipt thereof, the Revenues.

During the continuance of an Event of Default, the Trustee shall deposit such Revenues in a Revenue Fund to be established and held by the Trustee, and apply such Revenues and the income therefrom as follows and in the following order:

- (i) to the payment of the reasonable and proper charges, and expenses of the Trustee;
- (ii) to the payment of the amounts required for reasonable and necessary Operating Expenses, including reasonable and necessary reserves and working capital therefor, and for the reasonable repair and replacement of the System, necessary to prevent loss of Revenues, as certified to the Trustee by the Consulting Expert; and
- (iii) to the payment of Parity Obligations as follows:

First: To the payment to the persons entitled thereto of all interest then due in the order in which such interest became due, and, if the amount available shall not be sufficient to pay in full any interest on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid Principal or redemption price which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all such Principal or redemption price due on any date, then to the payment thereof ratably, according to the amounts of Principal or redemption price due on such date, to the persons entitled thereto, without any discrimination or preference.

If and whenever all overdue (i) installments of interest and Principal installments on all Parity Obligations and (ii) the reasonable and proper charges and expenses of the Trustee, and all other sums payable by the Metropolitan Government under the General Resolution, shall either be paid by or for the account of the Metropolitan Government, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the General Resolution shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the Metropolitan Government all such Revenues then remaining unexpended in the accounts held by the Trustee (except Revenues deposited or pledged, or required by the terms of the General Resolution to be deposited or pledged, with the Trustee), and thereupon the Metropolitan Government and the Trustee shall be restored, respectively, to their former positions and rights under the General Resolution, and all Revenues shall thereafter be applied as provided in the General Resolution. No such payment over to the Metropolitan Government by the Trustee or resumption of the application of Revenues as provided in Article 5 shall extend to or affect any subsequent default under the General Resolution or impair any right consequent thereon. (Section 10.3)

Proceedings Brought by Trustee. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, if the Trustee shall deem it advisable, may proceed to protect and enforce its rights and the rights of the Beneficiaries of the Parity Obligations under the General Resolution forthwith by a suit or suits in equity or at law, whether for the specific performance of any covenant herein contained, or in aid of the execution of any power herein granted, or for an accounting against the Metropolitan Government as if the Metropolitan Government were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the General Resolution.

All rights of action under the General Resolution may be enforced by the Trustee without the possession of any of the Parity Obligations or the production thereof in the suit or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its name.

Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the General Resolution, the Trustee shall be entitled to exercise any and all rights and powers conferred in the General Resolution and provided to be exercised by the Trustee upon the occurrence of an Event of Default; and, as a matter of right against the Metropolitan Government, without notice or demand, the Trustee shall, to the extent permitted by law, be entitled to the appointment of a receiver of the moneys, securities and funds then held by the Metropolitan Government in any fund or account under the General Resolution and of the Revenues, with all such powers as the court or courts making such appointment shall confer; but notwithstanding the appointment of any receiver, the Trustee shall be entitled to retain possession and control of and to collect and receive income from, any moneys, securities and funds deposited or pledged with it under the General Resolution or agreed or provided to be delivered to or deposited or pledged with it under the General Resolution. (Section 10.4)

Restriction on Beneficiary Action. No Beneficiary of any Parity Obligation shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the General Resolution or the execution of any trust under the General Resolution or for any remedy under the General Resolution, unless such holder shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the holders of at least 25% in principal amount of the Parity Obligations then outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in this Section or to institute such action, suit or proceeding in its own name, and unless such holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request within a reasonable time; it being understood and intended that no one or more holders of Parity Obligations shall have any right in any manner whatever by his or their action to

affect, disturb or prejudice the pledge created by the General Resolution, or to enforce any right under the General Resolution, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the General Resolution shall be instituted, had and maintained in the manner provided in the General Resolution and for the equal benefit of all Beneficiaries of the outstanding Parity Obligations.

Nothing in the General Resolution or in the Parity Obligations contained shall affect or impair the obligation of the Metropolitan Government to pay at the respective dates and places therein expressed the amounts due with respect to the Parity Obligations to the Beneficiaries thereof, or affect or impair the right of action of any Beneficiary to enforce such payment of his or her Parity Obligation. (Section 10.5)

Remedies of Beneficiaries. Subject to any contractual limitations binding upon the holders of any issue of Parity Obligations, or the Trustee, including, but not limited to, the restriction of the exercise of any remedy to a specified proportion or percentage of such holders, any Beneficiary, or the Trustee, shall have the right and power, for the equal benefit and protection of all Beneficiaries of Parity Obligations similarly situated and, in addition to all other rights:

(i) By mandamus or other suit, action or proceeding at law or in equity, to enforce such rights against the Metropolitan Government and its governing body and any of its officers, agents and employees and to require and compel the Metropolitan Government or the governing body or its officers, agents or employees to perform 1)and carry out its and their duties and obligations under the Act and its and their covenants and agreements under the General Resolution;

(ii) By action or suit in equity, to require the Metropolitan Government and the governing body thereof to account as if they were the trustee of an express trust;

(iii) By action or by suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Beneficiaries; and

(iv) To bring suit upon the Parity Obligations. (Section 10.6)

Appointment of Receiver on Default. In the event that the Metropolitan Government shall default in the payment of the principal of or interest on any of the Parity Obligations after the same shall become due, whether at maturity or upon call for redemption, and the default shall continue for a period of thirty (30) days, or in the event that the Metropolitan Government or the governing body or its officers, agents or employees shall fail or refuse to comply with the provisions of the Act or shall default in any agreement made with the holders of the Parity Obligations then any holder of Parity Obligations, or the Trustee, shall have the right to file a petition in the nature of a general creditors' bill in the chancery court of Davidson County, or in any court of competent jurisdiction, for the appointment of a receiver of the System. The petition may be filed whether or not all the Parity Obligations have been declared due and payable and whether or not the holder or holders or the Trustee is seeking or has sought to enforce any other right, or exercise any remedy in connection with the Parity Obligations. (Section 10.7)

Remedies Not Exclusive. No remedy by the terms of the General Resolution conferred upon or reserved to the Trustee or the Beneficiaries is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the General Resolution or existing at law or in equity or by statute on or after the date of adoption of the General Resolution. (Section 10.8)

Effect of Waiver and Other Circumstance. No delay or omission of the Trustee or of any Beneficiary to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such default or to be an acquiescence therein; and every power and remedy given to the Trustee or to the Beneficiaries of Parity Obligations may be exercised from

time to time and as often as may be deemed expedient by the Trustee or by the Beneficiaries of Parity Obligations.

No remedy which is conferred upon or reserved to the Trustee or to the Beneficiaries of any Parity Obligation by the terms of the General Resolution is intended to be exclusive of any other remedy, but each and every such remedy is cumulative and is in addition to any other remedy given to the Trustee or to Beneficiaries of Parity Obligations under the General Resolution or now or hereafter existing at law or in equity or by statute.

No delay or omission in the exercise of any right or power accruing upon the occurrence of any Event of Default will impair any right or power or be construed to be a waiver of any such occurrence of any Event of Default or the acquiescence therein, and every right and power may be exercised from time to time and as often as may be deemed expedient. (Section 10.9)

Rights of Beneficiaries of Parity Obligations to Direct Proceedings. Anything in the General Resolution to the contrary notwithstanding, a majority of the Beneficiaries of the Principal amount of the Parity Obligations outstanding have the right, at any time by a written instrument or instruments which is duly executed and delivered to the Trustee, to direct the method and the place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the General Resolution or to direct the appointment of a receiver or any other proceeding hereunder; provided however, that such direction shall not be otherwise than in accordance with the provisions of law and the provisions of the General Resolution. (Section 10.10)

Termination of Proceedings. If the Trustee has proceeded to enforce any right or remedy under the terms of the General Resolution by the appointment of a receiver, or otherwise, and such proceedings have been discontinued or abandoned for any reason or have been determined adversely, then in every such case the Metropolitan Government and the Trustee will be restored to their former respective positions and rights under the General Resolution and all rights, remedies and powers of the Trustee will continue as if no such proceedings had been taken. (Section 10.11)

Waivers of Defaults. The Trustee may in its discretion waive any Event of Default hereunder, and the consequences specified in this Article 10, and rescind any declaration of maturity of Principal and shall do so upon the written request of a majority of the Beneficiaries of all outstanding Parity Obligations. Upon such waiver or rescission or in case any proceedings taken by the Trustee on account of any such Event of Default have been discontinued or abandoned or determined adversely, then and in every such case the Metropolitan Government, the Trustee and the Beneficiaries of all outstanding Parity Obligations will be restored to their former positions and rights hereunder, respectively, but no such waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon. (Section 10.12)

Notice of Events of Defaults; Opportunity of the Metropolitan Government to Cure Defaults. No Event of Default which is specified in clause (C) of Section 10.1 hereof will constitute an Event of Default hereunder until notice of such Event of Default has been given by the Trustee or by a majority of the Beneficiaries of all outstanding Parity Obligations to the Metropolitan Government, by registered or certified mail, and the Metropolitan Government has had 30 days after receipt of such notice to correct such Event of Default or cause such Event of Default to be corrected and has not corrected such Event of Default or caused such Event of Default to be corrected within the applicable period; provided however, that if such Event of Default is such that it cannot be corrected within the applicable period, it will not constitute an Event of Default hereunder if corrective action which is designed to remedy such Event of Default is instituted by the Metropolitan Government within the applicable period and diligently pursued until such Event of Default is corrected. (Section 10.13)

## **Discharge Of Resolution**

Defeasance. If the Metropolitan Government shall pay or cause to be paid to the holders of all Parity Obligations then outstanding, the Parity Obligation Debt Service Expenses, if any, to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then, at the option of the Metropolitan Government, expressed in an instrument in writing signed by an Authorized Officer of the Metropolitan Government and delivered to the Trustee, the covenants, agreements and other obligations of the Metropolitan Government to the Beneficiaries shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Metropolitan Government, execute and deliver to the Metropolitan Government all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over or deliver to the Metropolitan Government all moneys, securities and funds held by them pursuant to the General Resolution which are not required for the payment or redemption of Parity Obligations not theretofore surrendered for such payment or redemption.

Parity Obligations or installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Paying Agents (through deposit by the Metropolitan Government of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in paragraph (A) of this Section. All outstanding Parity Obligations of any issue or series shall, prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph (A) of this Section if (i) in case any such Parity Obligations are to be redeemed prior to the maturity thereof, the Metropolitan Government shall have given to the Trustee in form satisfactory to it irrevocable written instructions to deliver a notice of redemption on said dates of such Parity Obligations, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the Principal or Redemption Price, if any, and Sinking Fund Installments and interest due and to become due on said Parity Obligations on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event such Parity Obligations are not by their terms subject to redemption within the next succeeding sixty days, the Metropolitan Government shall have given the Trustee in form satisfactory to it irrevocable written instructions to deliver a notice to the Beneficiaries of such Parity Obligations that the deposit required by (ii) above has been made with the Trustee and that said Parity Obligations are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the Principal or Redemption Price, if applicable, on said Parity Obligations. Neither Investment Securities or moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Investment Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the Principal or Redemption Price, if any, and interest on said Parity Obligations; except that any cash received from such Principal or interest payments on such Investment Securities deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, and solely at the direction of the Metropolitan Government, be reinvested in Investment Securities maturing at times and in amounts sufficient to pay when due the Principal or Redemption Price, if any, and interest to become due on said Parity Obligations on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Metropolitan Government, as received by the Trustee, free and clear of any trust, lien or pledge. For the purposes of this Section, Investment Securities shall mean and include only such obligations as are described in clauses (a), (b) or (e) of the definition of Investment Securities herein and non-callable municipal bonds rated in the highest rating category by a national rating agency.

If, through the deposit of moneys by the Metropolitan Government or otherwise, the Fiduciaries shall hold, pursuant to the General Resolution, moneys sufficient to pay the principal and interest to maturity on all outstanding Parity Obligations, or in the case of Parity Obligations in respect of which the Metropolitan Government shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of the Metropolitan Government all moneys

held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it under the General Resolution, shall be held by the Trustee for the payment or redemption of outstanding Parity Obligations.

Anything in the General Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Parity Obligations which remain unclaimed for two years after the date when all of the Parity Obligations have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for two years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when all of the Parity Obligations became due and payable, shall, at the written request of the Metropolitan Government, be repaid by the Fiduciary to the Metropolitan Government, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto. (Section 12.1)

### **Special Provisions Relating to the Insured 2002 Series A Bonds**

In accordance with the 2002 Series A Supplemental Resolution, the Metropolitan Government has agreed with and for the benefit of, Ambac Assurance Corporation (the "Insurer") that so long as the Insurer is not in default under the Financial Guaranty Insurance Policy (the "Insurance Policy"), as follows:

#### Consents.

Any provision of the 2002 Series A Supplemental Resolution expressly recognizing or granting rights in or to the Insurer may not be amended in any manner which affects the rights of the Insurer thereunder without the prior written consent of the Insurer.

Whenever the consent of the holders of the Insured Bonds is required under the terms of the General Resolution, the consent of the Insurer shall also be required.

Anything in the General Resolution to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default under the General Resolution, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the holders of the Insured Bonds or the Trustee for the benefit of the holders of the Insured Bonds under the General Resolution.

#### Notices.

While the Insurance Policy is in effect, the Metropolitan Government shall furnish to the Insurer (to the attention of the Surveillance Department): (a) as soon as practicable after the filing thereof, a copy of any financial statement, audit and annual report of the Metropolitan Government; (b) a copy of any notice to be given to the registered owners of the Insured Bonds, including, without limitation, notice of any redemption of or defeasance of the Insured Bonds, and any certificate tendered pursuant to the General Resolution relating to the security for the Insured Bonds; and (c) such additional information as the Insurer may reasonably request.

While the Insurance Policy is in effect, the Trustee shall (to the attention of the General Counsel Office): (a) notify the Insurer of any failure of the Metropolitan Government to provide relevant notices, certificates, in accordance with the General Resolution, and (b) immediately notify the Insurer if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any Event of Default under the General Resolution.

The Metropolitan Government thereby agrees to permit the Insurer to (a) discuss the affairs, finances and accounts of the Metropolitan Government or any information the Insurer may reasonably request regarding the security for the Insured Bonds with appropriate officers of the Metropolitan Government, and (b) to have

access to the Project and have access to and to make copies of all books and records relating to the Insured Bonds at any reasonable time.

Defeasance.

Notwithstanding anything in the General Resolution to the contrary, in the event that the principal and/or interest due on the Insured Bonds shall be paid by the Insurer pursuant to the Insurance Policy, the Insured Bonds shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Metropolitan Government, and the pledge and assignment of the Trust Estate and all covenants, agreements and other obligations of the Metropolitan Government to the registered owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered owners.

Payment Procedures.

As long as the Insurance Policy shall be in full force and effect, the Metropolitan Government, the Trustee and any Paying Agent shall comply with the following provisions:

At least one (1) day prior to all interest payment dates, the Trustee or the Paying Agent will determine whether there will be sufficient funds in the funds and accounts to pay the principal of or interest on the Insured Bonds on such interest payment date. If the Trustee or Paying Agent determines that there will be insufficient funds in such funds or accounts, the Trustee or Paying Agent shall so notify the Insurer. Such notice shall specify the amount of the anticipated deficiency, the Insured Bonds to which such deficiency is applicable and whether such Insured Bonds will be deficient as to principal or interest, or both. If the Trustee or Paying Agent has not so notified the Insurer at least one (1) day prior to an Interest Payment Date, the Insurer will make payments of principal or interest due on the Insured Bonds on or before the first (1st) day next following the date on which the Insurer shall have received notice of nonpayment from the Trustee or Paying Agent.

The Trustee or Paying Agent, shall, after giving notice to the Insurer as provided in (1) above, make available to the Insurer and, at the Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for the Insurer or any successor insurance trustee (the "Insurance Trustee"), the registration books of the Metropolitan Government maintained by the Trustee or Paying Agent and all records relating to the funds and accounts maintained under the General Resolution.

The Trustee or Paying Agent shall provide the Insurer and the Insurance Trustee with a list of registered owners of the Insured Bonds entitled to receive principal or interest payments from the Insurer under the terms of the Insurance Policy, and shall make arrangements with the Insurance Trustee (a) to mail checks or drafts to the registered owners of the Insured Bonds entitled to receive full or partial interest payments from the Insurer and (b) to pay principal upon the Insured Bonds surrendered to the Insurance Trustee by the registered owners of the Insured Bonds entitled to receive full or partial principal payments from the Insurer.

The Trustee or Paying Agent shall, at the time it provides notice to the Insurer pursuant to (1) above, notify registered owners of the Insured Bonds entitled to receive the payment of principal or interest thereon from the Insurer (a) as to the fact of such entitlement, (b) that the Insurer will remit to them all or a part of the interest payments next coming due upon proof of holder entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee, of an appropriate assignment of the registered owner's right to payment, (c) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Insured Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee to permit ownership of such Insured Bonds to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Trustee or Paying Agent, and (d) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Insured

Bonds for payment thereon first to the Trustee or Paying Agent who shall note on such Insured Bonds the portion of the principal paid by the Trustee or Paying Agent and then, along with an appropriate instrument of assignment in form satisfactory to the Insurance Trustee, to the Insurance Trustee, which will then pay the unpaid portion of principal.

In the event that the Trustee or Paying Agent has notice that any payment of principal of or interest on an Insured Bond which has become due for payment and which is made to a holder by or on behalf of the Metropolitan Government has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee or Paying Agent shall, at the time the Insurer is notified pursuant to (1) above, notify all registered owners that in the event that any registered owner's payment is so recovered, such registered owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee or Paying Agent shall furnish to the Insurer its records evidencing the payments of principal of and interest on the Insured Bonds which have been made by the Trustee or Paying Agent and subsequently recovered from registered owners and the dates on which such payments were made.

In addition to those rights granted the Insurer under the 2002 Series A Supplemental Resolution, the Insurer shall, to the extent it makes payment of principal of or interest on the Insured Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Insurance Policy, and to evidence such subrogation (a) in the case of subrogation as to claims for past due interest, the Trustee or Paying Agent shall note the Insurer's rights as subrogee on the registration books of the Metropolitan Government maintained by the Trustee or Paying Agent upon receipt from the Insurer of proof of the payment of interest thereon to the registered owners of the Insured Bonds, and (b) in the case of subrogation as to claims for past due principal, the Trustee or Paying Agent shall note the Insurer's rights as subrogee on the registration books of the Metropolitan Government maintained by the Trustee or Paying Agent; upon surrender of the Insured Bonds by the registered owners thereof together with proof of the payment of principal thereof.

#### The Trustee.

The Trustee (or Paying Agent) may be removed at any time, at the request of the Insurer, for any breach of the Trust set forth in the General Resolution.

The Insurer shall receive prior written notice of any Trustee (or Paying Agent) resignation.

Every successor Trustee appointed pursuant to Insurance Policy shall be a trust company or bank in good standing located in or incorporated under the laws of the State, duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$75,000,000 and acceptable to the Insurer. Any successor Paying Agent, if applicable, shall not be appointed unless the Insurer approves such successor in writing.

Notwithstanding any other provision of the General Resolution, in determining whether the rights of the holders will be adversely affected by any action taken pursuant to the terms and provisions of the General Resolution, the Trustee (or Paying Agent) shall consider the effect on the holders as if there were no Insurance Policy.

Notwithstanding any other provision of the General Resolution, no removal, resignation or termination of the Trustee (or Paying Agent) shall take effect until a successor, acceptable to the Insurer shall be appointed.

Insurer a Third Party Beneficiary.

To the extent that the 2002 Series A Supplemental Resolution confers upon or gives or grants to the Insurer any right, remedy or claim under or by reason of the 2002 Series A Supplemental Resolution, the Insurer is thereby explicitly recognized as being a third-party beneficiary under the General Resolution and thereunder and may enforce any such right remedy or claim conferred, given or granted thereunder.

Interested Parties.

Nothing in the General Resolution or in the 2002 Series A Supplemental Resolution expressed or implied is intended or shall be construed to confer upon, or to give or grant to, any person or entity, other than the Metropolitan Government, the Trustee, the Insurer, the Paying Agent, and the registered owners of the Insured Bonds, any right, remedy or claim under or by reason of the General Resolution or the 2002 Series A Supplemental Resolution or any covenant, condition or stipulation thereof or of the Insurance Policy, and all covenants, stipulations, promises and agreements in the General Resolution and the 2002 Series A Supplemental Resolution contained by and on behalf of the Metropolitan Government shall be for the sole and exclusive benefit of the Metropolitan Government, the Trustee, the Insurer, the Paying Agent, if any, and the registered owners of the Insured Bonds.

**Special Provisions Relating to the Surety Bond**

In accordance with the 2002 Series A Supplemental Resolution, the Metropolitan Government has agreed with and for the benefit of, Ambac Assurance Corporation (the “Surety Provider”) that so long as the surety bond (the “Surety Bond”) shall be in full force and effect, the Metropolitan Government, the Trustee and the paying Agent shall comply with the following provisions:

Consents.

Any provision of the 2002 Series A Supplemental Resolution expressly recognizing or granting rights in or to the Surety Provider may not be amended in any manner which affects the rights of the Surety Provider thereunder without the prior written consent of the Surety Provider.

Whenever the consent of the holders of the 2002 Series A Bonds is required under the terms of the General Resolution, the consent of the Surety Provider shall also be required.

Notices.

While the Surety Bond is in effect, the Metropolitan Government shall furnish to the Surety Provider (to the attention of the Surveillance Department): (a) as soon as practicable after the filing thereof, a copy of any financial statement, audit and annual report of the Metropolitan Government; (b) a copy of any notice to be given to the registered owners of the 2002 Series A Bonds, including, without limitation, notice of any redemption of or defeasance of the 2002 Series A Bonds, and any certificate tendered pursuant to the General Resolution relating to the security for the 2002 Series A Bonds; and (c) such additional information as the Insurer may reasonably request.

While the Surety Bond is in effect, the Trustee shall (to the attention of the General Counsel Office): (a) notify the Surety Provider of any failure of the Metropolitan Government to provide relevant notices, certificates, in accordance with the General Resolution, and (b) immediately notify the Surety Provider if at any time there are insufficient moneys to make any payments of principal and/or interest as required and immediately upon the occurrence of any Event of Default under the General Resolution.

The Metropolitan Government thereby agrees to permit the Surety Provider to (a) discuss the affairs, finances and accounts of the Metropolitan Government or any information the Insurer may reasonably request regarding the security for the 2002 Series A Bonds with appropriate officers of the Metropolitan Government, and (b) to have access to the Project and have access to and to make copies of all books and records relating to the 2002 Series A Bonds at any reasonable time.

Payment Procedures.

In the event and to the extent that moneys on deposit in the funds and accounts is established by the General Resolution, plus all amounts on deposit in and credited to the Debt Service Reserve Fund in excess of the amount of the Surety Bond, are insufficient to pay the amount of principal and interest coming due, then upon the later of: (i) one (1) day after receipt by the General Counsel of the Surety Provider of a demand for payment in the form attached to the Surety Bond as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent certifying that payment due under the General Resolution has not been made to the Paying Agent; or (ii) the payment date of the 2002 Series A Bonds as specified in the Demand for Payment presented by the Paying Agent to the General Counsel of the Surety Provider, the Surety Provider will make a deposit of funds in an account with the Paying Agent, of amounts which are then due to the Paying Agent under the General Resolution (as specified in the Demand for Payment) up to but not in excess of the Surety Bond Coverage, as defined in the Surety Bond; provided, however, that in the event that the amount on deposit in, or credited to, the Debt Service Reserve Fund, in addition to the amount available under the Surety Bond, included amounts available under the letter of credit, insurance policy, Surety Bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency.

The Trustee, or Paying Agent, if appropriate, shall, after submitting to the Surety Provider the Demand for Payment as provided in the above paragraph, make available to the Surety Provider all records relating to the funds and accounts maintained under the General Resolution.

The Trustee, or Paying Agent, if appropriate, shall, upon receipt of moneys received from the draw on the Surety Bond, as specified in the Demand for Payment, credit the Debt Service Reserve Fund to the extent of moneys received pursuant to such Demand.

The Debt Service Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Surety Bond shall be paid from first available Revenues; (ii) after all such amounts are paid in full, amount necessary to fund the Debt Service Reserve Fund to the required level, after taking into account the amounts available under the Surety Bond shall be deposited from next available Revenues.

**SUMMARY OF THE MANAGEMENT CONTRACT**

Set forth below is a summary of the Contract for the Design and Construction of an Energy Generation Facility, Improvement of an Energy Distribution System, and Long Term Operation and Management of the Nashville District Energy System (the "Management Contract"). The summary is in all respects subject to and qualified in its entirety by express reference to the document or documents summarized therein in its complete form, copies of which are available from the Metropolitan Government. References to Articles and Sections of the Management Contract are for informational purposes and should not be relied upon.

**Term**

Initial Term. The Management Contract indicates that the Initial Term thereof commenced upon the execution and delivery of the Management Contract (the "Contract Date"), and shall end on the last day of the Initial Management Term. (Sections 3.01 and 3.02)

Metro Renewal Options. The Metropolitan Government has the right, at its sole option, to (a) extend the term of the Management Contract for up to five-year renewal terms following the end of the Initial Management Term (each such extension being a "Renewal Term"), in each case on the same terms and conditions as the Initial Management Term of the Management Contract. Metro may exercise more than one renewal option simultaneously, provided that the remaining Term of the Management Contract shall never exceed fifteen (15) years, unless Metro receives a legal opinion from its bond counsel that exercise of such options will not adversely affect the tax exemption of bonds issued to finance the Facility. (Section 3.03)

**Ownership and Use of System**

Ownership of System. The EGF and the EDS will be owned by Metro. Metro will make the EGF and the EDS available to the Contractor on an exclusive basis (provided that with respect to the EDS the availability of the tunnels shall be non-exclusive) for the Contractor's use during the term of the Management Contract. Any additions to or improvements to the EGF or the EDS will be owned by and be the property of Metro, unless expressly agreed to the contrary in writing by Metro and the Contractor.

The Contractor shall perform the Contract Services as an independent contractor and shall not have any legal, equitable, tax beneficial or other ownership or leasehold interest in the System. (Section 7.01)

All steam and chilled water and any other form of energy generated by the System shall be owned by and be the property of Metro until such time as ownership may transfer to a Customer pursuant to a Customer Contract. Further, all pollution offsets, credits, allowances or similar assets or subsidies related to the ownership or operation of the System shall be owned by and be the property of Metro. (Sections 7.04 and 7.05)

System Use. During the Term of the Management Contract, the Contractor may enter upon, occupy and use the System to operate, maintain, repair, replace and manage the System, and to design, construct, install, start-up and test the Facility and the Initial System Improvements, all to provide the Contract Services in accordance with the Management Contract, and for no other purpose. The Contractor shall keep the System in good and safe order and condition. The Contractor shall use the System solely for the purpose of delivery of steam and chilled water and condensate to and from the Customers. The Contractor will not directly enter into contracts with potential customers for the purchase and sale of energy from the System without the express written consent of Metro. (Section 7.02)

Liens and Encumbrances. At all times during the Term of the Management Contract, the Contractor shall keep the System free from any and all Liens and Encumbrances arising out of or in connection with (1) the Contract Services, or (2) any acts, omissions or debts of the Contractor, the Guarantor, their Affiliates and their Subcontractors, provided that the Contractor shall have the right to contest Liens in good faith by appropriate proceedings. (Section 7.03)

### **Construction of Facility and Facility Improvements**

Responsibility for Construction Work. Commencing on the Construction Commencement Date, the Contractor shall commence and proceed diligently to undertake, perform and complete the Construction Work in accordance with the Contract Standards and achieve Acceptance on or prior to the Scheduled Acceptance Date. The Contractor shall be responsible for complying with any requirements imposed by Applicable Law, including by any Governmental Body, relating to the development of the EGF. The Contractor shall not unreasonably interfere with operation of the Thermal Facilities and the Contractor shall provide a means for effective control of construction vehicle traffic. The Contractor shall develop and comply with a construction management plan for project organization, design, procurement, construction, supervision, worker safety, and testing for Acceptance of the Facility. Metro is not responsible for the Contractor's means and methods of construction. No changes to the Design Requirements are permitted without Metro approval. (Sections 10.01 and 10.02)

Fuel Delivery Systems. The Contractor shall ensure that the Facility has access to an adequate supply of natural gas and electricity (but the Contractor shall not be responsible for purchasing natural gas or electricity under the Management Contract) to operate the Facility at peak loads. The backup fuel supply shall be propane. (Section 10.03)

Title to Materials. Metro shall have legal title to all construction materials and equipment to be incorporated in the Facility or the EDS upon their delivery to the System. Prior to Acceptance, the risk of loss concerning such materials shall remain with the Contractor, subject to any loss resulting from Uncontrollable Circumstances. (Section 10.05)

Utilities and Fuels. The Contractor shall be responsible for providing adequate services for telephone, electricity, natural gas, backup fuels, potable water, nonpotable water, sanitary drainage and storm drainage, as required by its approach, during all phases of construction and operation. Verification and evaluation of existing services shall be the Contractor's sole responsibility. The Contractor shall provide supplementary or new services if required at its sole expense. The Contractor shall be responsible for installing and maintaining metering instrumentation on supplies of electricity, natural gas, backup fuels, potable water and nonpotable water used in generating steam and chilled water.

The Contractor shall provide for separate submetering for electrical loads associated with the chilled water system's electrical consumption, and electrical loads associated with the steam system. The purpose of this is to provide for an allocation of electricity usage to chilled water and steam delivery, respectively, and to allocate electricity charges against the Guaranteed Maximum Utility Usage per the Contractor's Fuel and Utility Usage Proposal.

All systems for fuel handling, storage metering and management are the responsibility of the Contractor. (Section 10.08)

General Design Responsibilities. All architect(s), engineer(s) and/or land surveyor(s) of record utilized in the performance of the Construction Work, and those individuals who review and approve the design of architectural, structural, civil, mechanical, electrical, instrumentation and other engineering features of the Facility and the Initial System Improvements, shall be legally licensed in the State. Qualified architects, engineers, land surveyors and other professionals selected and paid for by the Contractor shall perform all

design and engineering services. The Contractor also shall provide all administrative and drafting services associated with the Construction Work.

The Contractor shall fully develop all process and mechanical designs, the complete interior and exterior space planning, architectural design, building systems engineering and design, electrical and instrumentation designs, and site development engineering and design, including the preparation of construction drawings and specifications as necessary, to produce the Facility in a complete, finished and operable condition.

The Contractor's architects and engineers shall be responsible, as the architects and engineers of record, for review and approval of shop drawings, product data, and samples produced by the Contractor and its Subcontractors.

The Contractor shall be responsible for coordinating the Construction Work among all disciplines. The Contractor's architects and engineers shall visit the sites as necessary to be familiar with the progress and quality of the Construction Work and shall work with the Contractor to ensure that the Construction Work proceeds in accordance with the design intent. (Section 10.09)

Review Responsibilities and Documentation. The Contractor shall assume all risks associated with any deviations not specifically enumerated and associated with assuming that requests for deviations will be granted. (Section 10.10)

General Construction Responsibilities. The Contractor shall provide qualified personnel to supervise and direct the Construction Work. The Contractor shall be solely responsible for all construction, fabrication, delivery, erection, installation, means, methods, techniques, sequences and procedures. The Contractor shall coordinate all portions of the Construction Work. The Contractor shall be responsible to Metro for the acts and omissions of the Contractor's officers, directors, consultants, employees, architects, the Metropolitan Governments, engineers, contractors and Subcontractors, and their respective agents and employees, and any other Person(s) performing any of the Construction Work. The Contractor shall not be relieved from obligations to perform the Construction Work in accordance with Metro requirements by the inspections, tests or reviews required or performed by Persons other than the Contractor.

The Contractor shall provide and pay for all labor, materials, equipment, tools, construction equipment and machinery, water, heat, utilities, transportation and other facilities and services necessary for the proper execution and completion of the Construction Work, whether temporary or permanent.

The Contractor warrants to Metro that all materials and equipment furnished shall be new unless otherwise expressly specified and permitted by the Management Contract, and that all Construction Work shall be of good, first quality, free from faults and defects. (Section 10.11)

Construction Quality Assurance/Quality Control Plan. The Contractor shall submit a Construction Quality Assurance/Quality Control Plan (QA/QC Plan). The QA/QC Plan shall establish a protocol to be used to maintain an effective construction quality control system. (Section 10.12)

Metro Corrective Action. Metro shall have the right to perform any obligation of the Contractor relating to matters of health, safety, environmental or aesthetics that the Contractor fails to promptly perform after notice, and to charge the Contractor the cost of such corrective action, provided that Metro has given the Contractor notice of its intention to do so and a reasonable opportunity to cure the matter that is the subject of Metro's complaint. (Section 10.16)

Warranties. The Contractor shall warrant the Facility and the systems and components thereof for the manufacturer's warranty period and, to the extent permitted by such manufacturer's warranties, shall cause the warranties to run to Metro's benefit. (Section 10.18)

### **Acceptance of Facility and System Improvements**

Substantial Completion. The Contractor shall not commence start-up operations in preparation for conducting the Acceptance Tests until Substantial Completion has occurred. Substantial Completion shall occur only when the following conditions have been satisfied: (i) a preliminary or temporary certificate of occupancy has been issued for the Facility, if required by Applicable Law; (ii) the Contractor is authorized to conduct the Acceptance Tests and to operate the Facility under Applicable Law, and such authorization has not been withdrawn, revoked, superseded, suspended, or materially impaired or amended; (iii) all utilities specified or required under this Contract to be arranged for by the Contractor are connected and functioning properly; (iv) Metro has approved in writing, such approval not to be unreasonably withheld, the certification by the Contractor that all Construction Work, excepting items that will be included on the Final Punch List, is complete and in all respects is in compliance with this Contract; (v) the Contractor has submitted to Metro, and Metro has approved, a transition plan for transferring energy generating services from Thermal to the Facility with no interruption in service to Customers and no damage to either the Facility or the Thermal Facility and that such a transition plan shall address consideration of Contractor hiring Thermal Employees that may be interested in positions available at the Facility; (vi) the Contractor has delivered to Metro written certification from equipment manufacturers that all major items of machinery and equipment have been properly installed and tested in accordance with the manufacturers' recommendations and requirements; (vii) all warranties required to be obtained under the Management Contract have been delivered to Metro; (viii) the Contractor has delivered to Metro a revised, draft Operations and Maintenance Manual in accordance with the Management Contract; (ix) the Contractor has submitted to Metro and Metro has reviewed and approved the plan for Acceptance Testing as required by the Management Contract; (x) if required by Applicable Law, any Governmental Body having jurisdiction has approved the plan for Acceptance Testing; and (xi) the operation and maintenance manual shall include a separate manual for safety procedures and emergency plans in case of fire, explosion, energy escape, fuel leaks or similar catastrophes. (Section 11.01)

Acceptance Date. The Acceptance Date shall be the date on which all of the following shall have occurred: (i) the System has achieved Substantial Completion, (ii) the Contractor has certified to Metro that the entire System is ready for Acceptance Testing, (iii) the Contractor has certified to Metro that the entire System is capable of demonstrating that it can pass the Acceptance Tests, (iv) the Transition Date (as defined in the Initial Customer Contracts) shall have occurred, and (v) either (a) the System has passed both portions of the Acceptance Test (Steam Facilities Acceptance Test and Chilled Water Facilities Acceptance Test) at the full Acceptance Standard or (b) the System has passed both portions of the Acceptance Test at the full Acceptance Standard for all guarantees other than those set forth in the Management Contract, and the payments required by the Management Contract as a condition of Acceptance have been made. Procedures set forth below under the heading "Acceptance Date Disagreement" shall apply to resolving disagreements as to whether the Acceptance Date has occurred. (Section 11.04)

Acceptance Date Conditions. The following conditions shall constitute the "Acceptance Date Conditions," each of which must be satisfied in all material respects by the Contractor in order for the Acceptance Date to occur, and each of which must be and remain satisfied as of the Acceptance Date: (i) the Contractor shall have completed the Acceptance Tests and such tests shall have demonstrated that the Facility and the Initial System Improvements have met the Acceptance Standards; (ii) the Contractor shall demonstrate that Substantial Completion has occurred; (iii) all Governmental Approvals for long-term operation of the Facility and the Initial System Improvements have been duly obtained and are in full force and effect. Copies of all such Governmental Approvals, to the extent not in Metro's possession, certified by the Contractor shall have been delivered to Metro; (iv) the Contractor shall have delivered to Metro final as-built record drawings and shall have certified that the Facility and the Initial System Improvements were constructed in accordance

with the Design Requirements; (v) the Contractor shall be in possession of, and shall have delivered to Metro, copies of applicable warranties and maintenance manuals; (vi) there shall be no Event of Default by the Contractor under the Management Contract or by the Guarantor under the Guaranty, or event which with the giving of notice or the passage of time would constitute an Event of Default by the Contractor thereunder or an Event of Default by the Guarantor under the Guaranty; (vii) the Contractor shall have submitted to Metro an emergency response plan; (viii) the Contractor has delivered to Metro a claims statement setting forth all claims of the Contractor connected with, or arising out of, the Construction Work; and (ix) the Contractor shall submit a proposed Final Punch List to Metro when the Contractor believes that the Construction Work has been substantially completed in compliance with the Management Contract. (Section 11.05)

Test Report. Following conclusion of each part of the Acceptance Tests, the Contractor shall furnish Metro with a certified written report describing and certifying: (i) the Acceptance Test conducted; (ii) the results of each Acceptance Test; and (iii) the level of satisfaction of the Acceptance Standard relating thereto and all other requirements specified in the Management Contract. (Section 11.06)

If Metro concurs with the Contractor's certification that the full Acceptance Standards and the other requirements of Acceptance have been achieved, the Facility and the Initial System Improvements shall be deemed to have achieved Acceptance and the Acceptance Date shall be deemed to have been established on a permanent basis from the date of the Contractor's original certification of the Acceptance Date.

Acceptance Date Disagreement. If during the review period, Metro does not concur with such certification, Metro shall notify the Contractor of the basis for its disagreement. In such event, either party may initiate non-binding mediation in accordance with the Management Contract or, if non-binding mediation fails to resolve the issues, judicial proceedings. Acceptance shall not be deemed to have been achieved unless the Acceptance Test, conducted in a unified and continuous manner as provided in the Acceptance Test plan and the Management Contract, demonstrates that all of the Acceptance Standards have been met. (Section 11.07)

Extension Period. If Acceptance shall not have occurred on or before the Scheduled Acceptance Date for any reason other than Uncontrollable Circumstances, the Contractor may conduct or repeat the Acceptance Test as often as it desires in order to secure Acceptance of the Facility and the Initial System Improvements during the Extension Period. (Section 11.08)

Failure to Meet Acceptance Standard. If, as of the last day of the Extension Period, the Acceptance Date has not occurred, an Event of Default by the Contractor will be deemed to have occurred under the Management Contract, notwithstanding any absence of notice, further cure opportunity or other procedural rights accorded the Contractor thereunder, and Metro shall thereupon have the right to terminate the Management Contract. Upon any such termination, Metro shall have all of the rights provided in the Management Contract upon a termination of the Contractor for cause. (Section 11.09)

Final Completion. The Contractor shall achieve Final Completion within 30 days (subject to extension for Uncontrollable Circumstances) after the Acceptance Date. "Final Completion" shall occur when all of the following conditions have been satisfied: (i) the Acceptance Tests have been conducted, the Acceptance Standards have been achieved, and Acceptance has occurred; (ii) all Construction Work is complete and in all respects is in compliance with the Management Contract; (iii) all spare parts required by the original manufacturer requirements or the Design Requirements have been delivered and are in storage at the Facility; (iv) the Contractor has furnished to Metro all material required to be delivered prior to Acceptance; (v) the Contractor shall have delivered to Metro a final and complete set of record drawings and shall certify that the Facility and the Initial System Improvements were constructed in accordance with the Design Requirements; and (vii) the Contractor shall be in possession of, and shall have delivered to Metro, copies of applicable warranties, together with applicable operating and maintenance manuals. (Section 11.10)

Cost of Operations During Acceptance Testing. The Fixed Construction Price proposed by the Contractor includes all amounts necessary to pay for operations and maintenance of the Facility (other than Pass-Through Cost components and the cost of Fuels incurred to provide services after the Service Commencement Date) and the EDS during the Acceptance Tests and any period of commissioning between testing and Acceptance, as well as the basic cost of construction and any start-up operations. The cost of any retesting due to Contractor failure of the initial Acceptance Tests, including Metro costs (other than Pass-Through Cost components and the cost of Fuels incurred to provide services after the Service Commencement Date) shall be borne by the Contractor. (Section 11.12)

Seamless Transition from Thermal Plant. Prior to testing, the Contractor must submit a transition plan which must be consistent with the provisions of the Management Contract to Metro for the seamless transition from Thermal to the new Facility. The transition plan must be approved by Metro prior to commencement of Acceptance Testing. (Section 11.15)

### **Construction Performance Guarantees and Damages**

The Contractor has agreed to meet certain construction related Performance Guarantees, the failure to satisfy of which will result in damages payable to Metro by the Contractor.

Achievement of Acceptance. The Contractor has agreed to achieve Acceptance by the last day of the Extension Period. If the Facility fails to achieve Acceptance on or prior to the end of the Extension Period and Metro terminates the Management Contract by reason thereof, the Contractor shall pay liquidated damages in an amount (i) sufficient to discharge the Facility bonds plus (ii) \$5,000,000 for the benefit of Metro as compensation for the cost of Metro in procuring the Management Contract plus additional work that will be required to procure a new contract.

#### Output Acceptance Guarantees.

##### *Steam Capacity*

- (i) *At Facility:* 260,000 lb/hr at the main header of the boiler, 150.0 PSIG-saturated, nominal condition
- (ii) *At Delivery Points:* 160,000 lb/hr system peak demand, 150.0 PSIG-saturated, nominal condition

##### *Chilled Water Delivery*

- (i) *At Facility:* 42.0 degree – F nominal
- (ii) *At Delivery Points:* 42.0 degree - F

##### *Refrigeration Capacity at Facility Boundary*

- (i) 20,800 Tons, measured in accordance with ARI 550 standards, at a plant temperature differential of 14.0 degree-F, and
- (ii) 20,592 Tons, measured in accordance with ARI 550 standards, at a plant temperature differential of 10.0 degree-F.

If the Facility would otherwise achieve Acceptance under the Management Contract but for failure to satisfy the output guarantees set forth above, and provided that the Acceptance Tests demonstrate that the

Facility has satisfied each of the foregoing guarantees at a level of at least 85% of the full Acceptance Standard, the Contractor may achieve Acceptance by paying to Metro an amount equal to (i) with respect to the steam capacity guaranty, that amount that would be necessary to defease that percentage of the bonds issued to finance the System equal to the percentage of the shortfall from the full Acceptance Standard for steam generation multiplied by the percentage that System costs financed with bonds allocable to steam generation bear to total costs allocable to steam generation plus chilled water generation and, (ii) with respect to chilled water delivery or refrigeration capacity guarantees, that amount that would be necessary to defease that percentage of the bonds issued to finance the System equal to the percentage of the shortfall from the full Acceptance Standard for chilled water generation multiplied by the percentage that System costs financed with bonds allocable to chilled water generation bear to total costs allocable to steam generation plus chilled water generation.

#### Usage Guarantees

- (i) Fuel, electricity and water usage per pound of acceptable steam generated at the Facility boundary, (Btu/lbm) shall be as set forth under the caption “**Operation Performance Guarantees and Damages – Fuel and Utility Usage Efficiency Guaranty**” below
- (ii) Electricity and water usage per unit of chilled water generated at Facility boundary, (kwhr/ton) shall be as set forth under the caption “**Operation Performance Guarantees and Damages – Fuel and Utility Usage Efficiency Guaranty**” below

If the Facility would otherwise achieve Acceptance but for failure to satisfy the usage performance guarantees, the Contractor may achieve Acceptance by paying to Metro an amount equal to the present value (using the bond rate as the discount rate) of the additional energy costs projected to be incurred by Metro as a result of the reduced efficiency of the Facility. Such costs shall be projected using the financial and other assumptions included in the “base case” projections prepared in connection with the issuance of the Facility bonds. If the Facility achieves Acceptance at a performance level below the level guaranteed in the usage guarantees, the guarantee made under the caption “**Operation Performance Guarantees and Damages – Fuel and Utility Usage Efficiency Guaranty**” below shall be modified to be equal to the reduced efficiency level at which the Facility achieved Acceptance.

Environmental Guaranty. The Contractor guarantees that at all times during the Management Period the Facility shall comply with all environmental standards and Applicable Law. (Section 11.13)

#### **Contract Price; Payment for Construction Work**

Fixed Construction Price. Metro shall pay the Contractor in accordance with the Progress and Payment Schedule of the Management Contract as full compensation and in consideration of the Contractor's full and complete performance of the Construction Work and all of the Contractor's other obligations under the Management Contract, the fixed sum of \$46,904,737. which sum shall not escalate if the Construction Commencement Date occurs on or prior to January 1, 2003. The Fixed Construction Price includes all sales, use, value added, import or export and other taxes or duties levied upon the Contractor for any of the Construction Work, and all payroll, franchise and income taxes levied on the Contractor with regard to the performance of its obligations under the Management Contract, all fuels and utilities required prior to the Acceptance Date and all other costs of achieving Acceptance through the Acceptance Date. Fixed Construction Price shall also include certain costs of Insurance required by the Management Contract. The Contractor shall not be responsible for any real estate taxes on the Project or the Project Site.

The Fixed Construction Price does not include the cost of any improvements to the EDS, other than interconnections between the Facility and the existing EDS. The Management Contract, however, authorizes

an additional sum of \$3,291,416 to be used to pay for the costs of such interconnections and various other improvements set forth therein (Section 9.01)

Escalation of Fixed Construction Price. The Fixed Construction Price will escalate from October 8, 2002 to the Construction Commencement Date. The escalated Fixed Construction Price will be calculated as follows:

$$\text{Adjusted Price} = \frac{\text{Fixed Price multiplied by the Adjustment Factor, when the Adjustment Factor is}}{1 + \frac{[\text{CPI}(\text{date}_x) - \text{CPI}(\text{date}_0)]}{\text{CPI}(\text{date}_0)}}$$

where: CPI means CPI-South: Size Class B/C;  
CPI (date<sub>x</sub>) means the CPI as of the Construction Commencement Date; and  
CPI (date<sub>0</sub>) means the CPI as of October 8, 2002 (Section 9.01(B))

Adjustments to Fixed Construction Price. The Contractor shall be entitled to an adjustment to the Fixed Construction Price for any increased costs to the Contractor resulting from (i) Uncontrollable Circumstances to the extent set forth in the Management Contract, (ii) upfront costs charged by any utilities, including water, sewer, electric and natural gas for interconnections to the Facility and (iii) Metro requested change orders. If there is a Change in Law resulting in a decrease in taxes that, if increased, would constitute an Uncontrollable Circumstance, there shall be a reduction to the Fixed Construction Price in the amount of such decrease. (Section 9.01(C))

Limitation on Payments for Construction Work. The Contractor agrees that the Fixed Construction Price shall be the Contractor's entire compensation and reimbursement for the performance of the Contractor's Construction Work, including obtaining all utilities that the Contractor will require to perform the Construction Work, starting up the EGF and the EDS, transitioning from Thermal to the new Facility and operating the EGF and the EDS during the Acceptance Test and all sales, use and other taxes on any of the foregoing. In no event shall the Contractor be entitled to any payment for the Construction Work in excess of the Fixed Construction Price, except as set forth in the Management Contract, notwithstanding any cost overruns the Contractor may incur. The Contractor shall finance and pay for any such excess costs in any manner it chooses without reimbursement from or other claim upon Metro. (Section 9.01(D))

The Fixed Construction Price is apportioned 40% to steam service and 60% to chilled water service. (Section 9.01(E))

Construction Disbursement Requisition Procedure. Upon the Construction Commencement Date, the Contractor shall be entitled to submit a Requisition for the initial payment of the Fixed Construction Price set forth in the milestone payment schedule of the Management Contract. Following the initial payment, the Contractor shall be entitled to submit Requisitions on a monthly basis and receive from Metro the remainder of the milestone payments, which: (1) shall be made only upon completion of the milestone required to be completed as the basis for such payment as set forth in the Management Contract; (2) shall be subject to the maximum payment limitations specified in the maximum drawdown schedule set forth in the Management Contract; and (3) shall be subject to the conditions of payment set forth in the Management Contract. On the date that the Acceptance Date is permanently established therein the Contractor shall be entitled to receive all payments due for completed work which remain unpaid as of such date, except for the payment conditioned on Final Completion in the event Final Completion has not occurred prior to the Acceptance Date. Milestone payments are established for each separate improvement constituting part of the Construction Work, and the monthly payment of the Fixed Construction Price shall be the sum of all such milestone payments then due. The Fixed Construction Price Adjustments shall be payable monthly when and as the cost or expense constituting the Fixed Construction Price Adjustment is paid or incurred. If the Fixed Construction Price is

escalated, as described above under the heading ‘Escalation of Fixed Construction Price’ such increase shall be allocated pro rata among all milestone payments. (Section 9.02)

Retainage. Each milestone payment will be subject to a 10% retainage holdback. Such retainage shall be held in a segregated account and interest earned on the retainage holdback shall be for the Contractor's benefit only. On the Acceptance Date, Metro shall release the retainage, less that portion of the retainage that is reasonably estimated by the Contractor and agreed to by Metro as being equal to the value of the work listed on the Final Punch List prepared pursuant to the Management Contract. Metro shall release to the Contractor the balance of the accumulated funds so retained upon receipt of certification from the Contractor and confirmation by Metro that Final Completion has occurred. (Section 9.03)

Permissible Withholdings. Metro may disapprove and withhold and retain all or any portion of any payment requested in any Requisition in an amount equal to the sum of: (i) any amounts which are permitted under the Management Contract to be withheld from any payment requested in any Requisition; (ii) any delay liquidated damages which are payable as a result of failure to achieve Acceptance; (iii) any indemnification or other amounts which are due and owing to Metro under any provision of the Management Contract; (iv) any deductions which are required by Applicable Law; (v) any payments with respect to which the documents required to be delivered in connection therewith are not correct and complete; (vi) an amount equal to the cost to Metro of performing any work in the event of a failure by the Contractor to timely perform its obligations under the Management Contract; (vii) any payments with respect to which the Construction Work covered by such Requisition (or any previous Requisition) does not comply with the Management Contract; (viii) any payments with respect to which any person has filed a Lien or Encumbrance resulting from the acts or omissions of the Contractor in performing the Construction Work, where such Lien or Encumbrance remains unreleased, unbonded or undischarged; and (ix) all requisitioned payments, if an Event of Default of the Contractor has occurred under the Management Contract or if the Contractor is not in compliance with the Small Business Program. (Section 9.07)

### **Operation, Maintenance, Repair and Replacement Obligations**

Commencement of Service. Commencing on the Scheduled Service Commencement Date, the Contractor, at its expense, will operate and maintain the Facility and the EDS (including the tunnels) on a 24-hour per day, 7-day per week basis, subject to the provisions of the Management Contract which relate to maintenance, in accordance with the Contract Standards and the performance guarantees, including Applicable Law and the other requirements of the Management Contract.

If the Facility commences providing services (i) later than the Scheduled Service Commencement Date then for the period ending on the earliest to occur of the commencement of service under the Management Contract (if other than the Scheduled Service Commencement Date), the end of the Extension Period or the date of any termination of the Management Contract, the Contractor shall pay to Metro daily delay liquidated damages in the amount of the sum of (i) daily debt service occurring on the Bonds (net of daily earnings on invested proceeds of the bonds) and (ii) \$10,000 per day for each day that the commencement of service starts after the Scheduled Service Commencement Date in each case up to the end of the Extension Period or, if sooner, the date of any termination of the Management Contract or the commencement of service. (Section 12.01)

If the Service Commencement Date occurs prior to the Scheduled Service Commencement Date, Metro shall pay to the Contractor an incentive payment equal to \$10,000 for each day that the Service Commencement Date is in advance of the Scheduled Service Commencement Date. (Section 11.16)

Staffing and Training. Except upon a default, the Contractor has sole authority and responsibility to employ, discharge, and otherwise control its employees and has complete and sole responsibility as a principal for its agents, all subcontractors and all other persons and entities that the Contractor or any subcontractor hires

to perform or assist in performing any services or obligations. The Contractor shall be responsible for training the Service Manager, operations supervisors and other necessary staff to perform the services under the Management Contract. The Contractor covenants that it will interview and give priority to current Thermal employees for positions to which they are qualified when staffing the facility and the EDS, consistent with Applicable Law. (Section 12.02)

Maintenance. The Contractor, at its expense, will maintain the System in accordance with the Contract Standards, including Prudent Utility Practice, Applicable Law, Performance Guarantees and the Required Insurance; will comply with a detailed preventive and predictive maintenance plan and operation and maintenance manual; and will keep complete daily and annual maintenance logs. The Contractor will also maintain a spare parts inventory in accordance with Prudent Utility Practice. The Contractor must provide (monthly and annually) a detailed accounting and proofs of maintenance tasks undertaken and related costs and a computerized preventative maintenance management and scheduling system. All scheduled maintenance shall be done in a way that requires the minimum reduction or cessation of energy delivery services consistent with Prudent Utility Practices.

The Contractor also shall be responsible for (i) maintaining the Facility grounds, including fencing, lighting, signage, litter removal, lawn mowing, leaf raking and brush cutting; (ii) installing (to the extent not already existing), operating and maintaining the metering and interconnections of Customers with the EDS; (iii) installing and hydraulically and thermally balancing the EDS system, including any extension or modifications required to connect the EDS to the Facility; and (iv) repairing and maintaining any streets, sidewalks, public right of ways, utilities, or other property damaged by the operation and maintenance of the Facility or the EDS.

The Contractor shall maintain all maintenance records in accordance with the Computerized Maintenance Management System (CMMS) guidelines. Such records shall be accessible at all times to Metro oversight personnel and Metro's authorized agents. The Contractor shall include CMMS summaries in its monthly and annual reports.

Subject to the limitations set forth in the Management Contract, and to the related obligations of the Customer Contract, the Fuel Purchase Contract, or related customer service contracts, the Contractor is permitted to perform scheduled maintenance during the prescribed time periods. Scheduled maintenance, which is required to be performed with the EDS out of service (cold outage) is limited to two such events per calendar year, and a maximum service interruption of 12 hours each, for steam and chilled water, respectively. Such outages shall be for the express purpose of performing required maintenance on portions of the equipment or EDS which cannot otherwise be repaired, serviced, or replaced "on-line" because of personnel safety or repair feasibility. Such scheduled outages shall also be subject to a minimum of 30 days advanced notice, in writing, to all affected customers, and customer concurrence as to timing, and implementation by the Contractor of any special provisions to preclude or mitigate customer service issues. In addition, Contractor shall submit to Metro, for review and comment, a detailed outage plan and schedule at least 45 days prior to any scheduled outage. Subject to all the aforementioned conditions, outages shall be planned only during the month of April or the period from September 15 – October 15, on such weekend or holiday off-peak time selected to minimize customer impacts. (Section 12.03)

Capital Repair and Capital Replacement. The Contractor shall be responsible throughout the Term for making all repairs and replacements, including major maintenance, repairs and replacements, and upgrading or replacing obsolete equipment, machinery, facilities, structures and improvements constituting the Facility and the EDS (including the tunnel system housing portions of the EDS and direct buried piping systems). Thus, all major maintenance, repair and replacement, whether of an operating or capital nature, shall be the responsibility of the Contractor under the Management Contract, and be compensated for solely through the Management Fee. (Section 12.04)

Procedures to Assure Sufficiency of Contractor Maintenance, Repair and Replacement Work. The Contractor shall develop and maintain a comprehensive, computerized maintenance management system to plan and manage predictive and preventive maintenance and equipment inventories. The costs in excess of those budgeted are the Contractor's responsibility. Metro may, at its expense, perform a maintenance inspection every year and a comprehensive maintenance audit every three years. An exit audit of the condition of the Facility will be performed in Contract Year 14 or the final Contract Year, as appropriate. Facility and the EDS will be returned to Metro at end of contract term in well maintained, functional condition, without need for overhauls. (Section 12.05)

Safety and Security. The Contractor shall maintain the safety of the Facility and the EDS and provide a safe workplace at a level consistent with Applicable Law, all Required Insurance, the safety plan and Good Industry Practice. The Contractor shall provide for safe and orderly vehicular movement. The Contractor shall be responsible for maintaining the security of the Facility and take all responsible actions to prevent vandalism to the Facility and the EDS. (Section 12.06)

No Nuisance. The Contractor shall be responsible for keeping the Facility neat, clean, and litter-free at all times, to ensure that the operation of the Facility does not create any impermissible odor, litter, noise, fugitive dust, or other adverse environmental effects constituting, with respect to each of the foregoing, a nuisance condition (including a violation of any Applicable Law). Should any such nuisance condition occur, the Contractor shall expeditiously remedy the condition, pay any regulatory fines and indemnify Metro from any third party nuisance claims. (Section 12.07)

Compliance With Permits/Applicable Law. All of the responsibilities that the Contractor and its subcontractors perform under the Management Contract must be performed in accordance with Applicable Law (including all applicable Governmental Approvals). The Contractor will remedy any failure to comply with Applicable Law at its expense, bear all loss and expense, and pay any fines and penalties related thereto. (Section 12.08)

Utilities and Fuel. The Contractor shall arrange for all other Utilities to the Facility and while the Fuel Purchase Contract is in effect, for Fuels supplies for the Facility. Payment for Fuels shall be made under the Fuel Purchase Contract. If the Fuel Purchase Contract is terminated, then Metro shall be responsible for arranging for Fuel supplies necessary to operate the Facility in accordance herewith. (Section 12.09)

Contractor Emergency Response. The Contractor shall immediately respond to all Facility and EDS emergencies (no later than two hours during nights, weekends or holidays), according to its contingency plan, emergency response plan and safety plan promptly correct the condition, and abate any inconvenience to the public or Customers. (Section 12.10)

Prudent Utility Practice. Prudent Utility Practice shall be utilized under the Management Contract to, among other things, implement, and in no event to relieve or displace, the Contractor's obligation to comply with the specific terms and conditions of the Management Contract, including the compliance with Applicable Law, Performance Guarantees, and Required Insurance. In no event shall any evolution of Prudent Utility Practice relieve the Contractor of its specific obligations under the Management Contract. (Section 12.11)

Billing, Collection and Metering. The Contractor shall, on behalf of Metro, perform and be responsible for all billing, collection and metering services. The fees collected shall be deposited with the Trustee under the terms of the Trust Indenture. The Contractor shall install and maintain all meters and calibrate them to the level of accuracy specified in the Contract Standards. (Section 12.12)

Performance of Customer Contracts. The Contractor shall take and perform all actions in order to perform the obligations of Metro under the Customer Contracts provided that, with respect to Additional Customer Contracts that have not been approved by the Contractor, the Contractor's performance obligations

shall be limited to delivery of steam and chilled water (subject to the limitations of the Management Contract). (Section 12.14)

Damages Due to System Interruptions. In the event the Contractor fails to provide Steam and/or Chilled Water or any substitute service reasonably acceptable, for a period exceeding three consecutive days, except due to Uncontrollable Circumstances, the Contractor shall be liable to Metro for any amounts payable by Metro for such failure to provide service to the Customers. The Contractor shall pay as damages to Metro any amounts Metro owes as damages under the Customer Contracts. (Section 12.16)

Service Interruptions. To the extent there are service interruptions for maintenance or safety or any reason whatsoever, the Contractor shall (i) notify all Customers as soon as it is aware of the interruption, (ii) use all reasonable efforts to minimize the duration of such interruption, (iii) try to schedule any intentional interruption during a period of low energy usage or demands, and (iv) pay any amounts Metro becomes obligated to pay Customers in respect thereof in accordance with the terms of the Customer Contracts. (Section 12.19)

### **Operation Performance Guarantees and Damages**

The Contractor has agreed to meet certain Performance Guarantees on a continuous basis during the Term of the Management Contract the failure to satisfy of which will result in damages payable to Metro by the Contractor.

Availability Guaranty. The Contractor guarantees that except to the extent excused by Uncontrollable Circumstances the Facility will operate in accordance with the terms of the Management Contract, at all times during the Management Period, 24 hours per day seven days per week. The only permitted exceptions are for Metro approved scheduled maintenance periods as defined and limited in the Management Contract.

Damages for failure to meet the availability guaranty shall be payment by the Contractor to Metro of an amount equal to the additional cost of providing alternative energy (including costs of start-up, operation, electricity, equipment rental, standby charges and fuel) to the extent required to meet Customers' needs under the Customer Contracts during the period. Damages shall also include reimbursement to Metro for damages payable by Metro to Customers.

#### Steam Mass Flow Rate and Quality Guaranty.

- (i) *At the Facility.* The Contractor guarantees that except to the extent excused by Uncontrollable Circumstances at all times during the Management Period the Facility will be capable of producing steam at the Facility at a capacity of 221,000 lb/hr at the main header of the boilers, 150.0 psig, saturated, nominal condition.
- (ii) *At All Delivery Points on the EDS.* The Contractor guarantees that except to the extent excused by Uncontrollable Circumstances at all times during the Management Period the Facility will be capable of producing steam at the Delivery Points at a capacity of 136,000 lb/hr, system peak demand, 150.0 psig, saturated, nominal condition.

The steam mass flow rate and quality guaranty shall be reduced by the same percentage that is used to compute damages for failure to meet the output acceptance criteria discussed above under the heading “**Construction Performance Guarantees and Damages – Output Acceptance Guarantees**”.

Damages for failure to meet the steam mass flow rate and quality guaranty shall be payment by the Contractor to Metro of an amount equal to the additional cost of providing alternative energy (including costs

of start-up, operation, electricity, equipment rental, standby charges and fuel) to the extent required to meet Customers' needs under the Customer Contracts during the period. Damages shall also include reimbursement to Metro for damages payable by Metro to Customers.

*Chilled Water Guaranty.*

- (i) *At the Facility.* The Contractor guarantees that except to the extent excused by Uncontrollable Circumstances at all times during the Management Period the Facility will be capable of producing and delivering to the EDS chilled water at the Facility at a temperature of 43.3°F nominal and in a capacity of 17,680 Tons, measured in accordance with ARI standards at a plant temperature differential of 14.0 deg.-F.
- (ii) *At All Delivery Points on the EDS.* The Contractor guarantees that except to the extent excused by Uncontrollable Circumstances at all times during the Management Period the Facility will be capable of producing chilled water at the Delivery Points at a temperature of 43.3°F and in a capacity of 17,503.2 Tons, measured in accordance with ARI standards, at a plant temperature differential of 10.0 deg. - F.

The chilled water guaranty shall be reduced by the same percentage that is used to compute damages for failure to meet the output acceptance criteria discussed above under the heading **“Construction Performance Guarantees and Damages – Output Acceptance Guarantees”**.

Damages for failure to meet the chilled water guaranty shall be payment by the Contractor to Metro of the amount equal to the additional cost of providing alternative energy (including costs of start-up, operation, electricity, equipment rental and fuel) to the extent required to meet Customers' needs under the Customer Contracts during the period. Damages shall also include reimbursement to Metro for damages payable by Metro to Customers.

Fuel and Utility Usage Efficiency Guaranty. The Contractor guarantees that the Facility will generate Steam and Chilled Water using fuels and utilities set forth below in quantities no greater than the amounts set forth below, based on actual energy sold.

- (i) *Guaranteed Maximum Quantities (“Q<sub>0</sub>”)*

	<b>For Steam Service</b>	<b>For Chilled Water Service</b>
Electricity	6.0 kwh/k-lb sold	1.055 kwh/ton-hr
Natural Gas	Note 1 decatherm/ k-lb sold	N/A decatherm/ton-hr
Propane	Note 2 decatherm/ k-lb sold	N/A gal/ton-hr
Water	Note 3 gal/k-lb sold	5.25 gal/ton-hr (Note 4)

(ii) *Reference Price Indicator, Series or Tariff (“P<sub>0</sub>”)*

- a. Electricity: NES Schedule “GSB” (Note 5)
- b. Natural Gas: Nashville Gas Rate #4 (Note 6)
- c. Propane Spot Market

Notes:

- 1. 70% efficiency (HHV Basis), steam out at 150 PSIG, saturated, to fuel in with 60% condensate return at 180 deg-F minimum.
- 2. 70% efficiency (HHV Basis), steam out at 150 PSIG, saturated, to fuel in with 60% condensate return at 180 deg-F minimum.
- 3. (100% Plant steam output in lbs. less the percentage condensate return in lbs. to the plant) x 1.15.
- 4. Condenser water only; chilled water excluded.
- 5. Riders and credits as applicable.
- 6. Alternate: Rate No. 7F.

Damages for failure to meet the fuel and utility usage efficiency shall be payment by the Contractor to Metro of an amount equal to all costs of additional fuel and utility usage in excess of the guaranteed levels.

Environmental Guaranty. The Contractor guarantees that at all times during the Management Period the Facility shall comply with all environmental standards and Applicable Law.

The Contractor shall pay all fines, penalties, fees or other costs imposed on Metro, the Contractor or the DES resulting from failure to comply with the Environmental Guaranty. If reduced service levels are mandated, damages under (a) through (d) will also apply. The Contractor will have the absolute obligation to come into compliance at its own cost, unless costs are payable by Metro due to Uncontrollable Circumstances, in which case Metro will pay costs of coming into compliance. (Sections 13.01 and 13.02)

### **Management Fee**

Management Fee. From and after the Scheduled Service Commencement Date and during the Management Period, Metro shall pay the Contractor a Management Fee as compensation for the management services provided by the Contractor under the Management Contract. The Management Fee shall be calculated according to the Management Contract. (Section 14.01)

Formula. The Management Fee shall be the sum of the following:

$$MF = FOC + PTC \pm UC \pm MP \pm FEA$$

where,

MF	=	Management Fee
FOC	=	Fixed Operation and Maintenance Component
PTC	=	Pass Through Costs
UC	=	Uncontrollable Circumstances Costs/Savings
MP	=	Marketing Payments (includes both Incentive payments and Marketing and Sales annual fees)
FEA	=	Fuel Efficiency Adjustment

(Section 14.02)

### Allocation of Costs to Steam/Chilled Water.

The parties hereby agree that the Management Fee (other than that portion comprising Uncontrollable Circumstances Costs/Savings) is reasonably allocable 30% to the Steam generating facilities and 70% to the Chilled Water generating facilities. (Section 14.03)

Fixed Operation and Maintenance Component. The Fixed Operation and Maintenance Component for the initial Contract Year shall be calculated as follows:

$$FOC = \$3,551,770.00 \times 1 + \left[ \frac{CPI_{(year\ x)} - CPI_{(year\ 0)}^1}{CPI_{(year\ 0)}} \right]$$

Where = CPI means  
CPI Legend means  
CPI<sub>(year 0)</sub>

CPI-South: Size Class B/C  
CPI as of the April 1 immediately preceding the first Contract Year  
means CPI as of April 1, 2003

<sup>1</sup> or 3% per year from January 1, 2003 to the beginning of the Contract Year, whichever is less; but not less than zero.

If damages are paid by the Contractor for failure to meet the output acceptance guaranty in order to achieve Acceptance, the foregoing amounts shall be reduced by an amount equal to one-fourth of the percentage as the percentage shortfall used therein.

For each Contract Year after the first Contract Year, the FOC shall be the amount of the FOC for the preceding Contract Year multiplied by the Adjustment Factor specified below under the heading "Adjustment Factor".

The Fixed Operation and Maintenance Component shall be the Contractor's sole compensation, except as set forth below under the headings "Pass-Through Cost Component", "Uncontrollable Circumstances Costs/Savings" and "Fuel and System Efficiency Adjustment". Fixed Operation and Maintenance Component does not include (i) amounts required to be paid by Metro for purchase of fuel pursuant to the Fuel Purchase Contract and (ii) amounts required to be paid by Metro for successful energy sales and marketing efforts pursuant to the Management Contract.

Included in the FOC is an allowance of \$150,000 (escalated in the same manner as the FOC) for repairs and upgrades to the EDS. This amount (as adjusted by the Adjustment Factor each Contract Year) shall be deposited monthly (1/12 of the total each month) into a segregated account held by a fiduciary (the "EDS Repair and Improvement Account"). The Contractor shall be paid for such repairs and upgrades from the EDS Repair and Improvement Account, unless Metro approves payment of amounts in excess of the account balance, in which case such additional cost shall be added to the MF as a PTC. Notwithstanding the foregoing, if and to the extent an emergency situation arises that requires immediate repairs to the EDS, the Contractor shall be deemed authorized to proceed with such repairs and shall be entitled to reimbursement for the costs of such repairs from amounts then available in the EDS Repair and Improvement Account, and any such amount not paid to the Contractor from the account shall be added to the MF as a PTC.

Fees payable to the Contractor for marketing excess capacity of the System to new customers are not included in FOC. For such services the Contractor shall be paid in accordance with Appendix 18 of the Management Contract. In consideration of such payments the Contractor shall undertake to attract new customers to the System and develop pricing and marketing plans reasonably anticipated to attract such customers and permit Metro to sell the System's excess capacity. (Section 14.04)

Pass-Through Cost Component.

Pass-Through Costs shall be an amount equal to the actual and direct expenses (without markup for profit, administration or otherwise) paid by the contractor to unrelated third parties for the following purposes: (a) water and sewerage; (b) chemical usage for water treatment at the Facility; (c) engineering costs; (d) costs of repairing the EDS not paid from the EDS Repair and Improvement; and (e) insurance premiums for required

all-risk insurance and business interruption insurance, but in each case limited to applicable Guaranteed Maximum Quantities set forth in the Management Contract. (Section 14.05)

Adjustment Factor.

The Adjustment Factor for any Contract Year shall be:

$$1 + \frac{\text{CPI}_{(\text{year X})} - \text{CPI}_{(\text{date 0})}^1}{\text{CPI}_{(\text{year 0})}}$$

where: CPI means CPI-South: Size Class B/C;  
CPI<sub>(year X)</sub> means the CPI as of April 1 of the Contract Year immediately preceding the Contract Year for which the Management Fee is being computed; and  
CPI<sub>(year 0)</sub> means the CPI as of April 1 of the year immediately preceding year.

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<sup>1</sup> or .03, whichever is less.

The Adjustment Factor in any Contract Year shall never be less than 1.0. (Section 14.06)

Invoices and Payments. Metro shall pay the Management Fee in monthly amounts of one-twelfth of the Fixed Operation and Maintenance Component of the Management Fee plus or minus the actual amounts of the other components of the Management Fee, upon invoice by the Contractor. Simultaneously with the Contractor delivering invoices to Metro, the Contractor shall also deliver invoices to each Customer based on their respective Customer Contracts. (Section 14.07)

Estimates and Adjustments. Any computation made on the basis of a stated period shall be adjusted on a pro rata basis to take into account any initial or final period that is a partial period. For Metro budgeting purposes, no later than March 1 preceding each Contract Year, the Contractor shall provide to Metro a written statement setting forth its reasonable estimate of the aggregate Management Fee and each component thereof and the Adjustment Factor, for the next contract Year. The estimate shall not be binding on the Contractor but shall establish the basis for monthly billing for such Contract Year, subject to annual settlement as provided below (Section 14.08)

Annual Settlement. Within 60 days after the end of each Contract Year, the Contractor shall provide to Metro an annual settlement statement (the "Annual Settlement Statement") setting forth the actual aggregate Management Fee payable with respect to such Contract Year and a reconciliation of such amount with the amounts actually paid by Metro with respect to such Contract Year. (Section 14.09)

Uncontrollable Circumstance Costs/Savings. The Management Fee shall be adjusted to reflect increased or decreased costs to the Contractor resulting from Uncontrollable Circumstances, subject to the limitations set forth below under the heading "Compliance with Internal Revenue Service Rev. Proc. 97-13". To the extent such increased costs or decreased costs are with persons not affiliated with the Contractor, they shall be treated as Pass-Through Costs (positive or negative) for purposes of Rev. Proc. 97-13. To the extent such increased or decreased costs are direct costs of the Contractor, such costs shall be identified separately. (Section 14.12)

Marketing Incentive. The Management Fee shall be adjusted, subject to the limitations set forth above under the heading "Estimates and Adjustments" of the Management Contract to reflect a commission payable to the Contractor as a marketing incentive, in the amount of 10% of each monthly invoice for the first three (3) years of service (excluding taxes), for each new Customer contracting new services, payable upon collection of such invoice, provided such Commission shall not apply to Initial Customers and Customers signed by Metro pursuant to the Management Contract. (Section 14.13)

Fuel and System Efficiency Adjustment. The Management Fee shall be adjusted to reflect decreased costs to Metro of fuel and System consumption of the Facility at levels lower than the Guaranteed Maximum Utility Consumptions in the Management Contract. The Fuel and System Efficiency Adjustment shall be calculated as follows:

$$\text{Fuel Efficiency Adjustment} = \text{Cost per Unit of Fuel} \times .25 \times (\text{Q}_0 - \text{Q}) \times \text{Total Fuel Usage}$$

Where:  $\text{Q}_0$  is the Guaranteed Maximum Utility Consumption; and  
 $\text{Q}$  is the actual fuel or water usage per unit of energy sold.

If  $\text{Q}$  is less than  $\text{Q}_0$ , the Fuel and Water Efficiency Adjustment is positive (paid by Metro to the Contractor).

If  $\text{Q}$  is greater than  $\text{Q}_0$ , the Fuel and Water Efficiency Adjustment is a damage payment payable by the Contractor to Metro and is subtracted from the Management Fee.

If the Fuel and Water Efficiency Adjustment is positive, payments of the Fuel and Water Efficiency Adjustment shall be limited in all respects by the provisions of the next succeeding paragraph. Any positive Fuel and Water Efficiency Adjustment shall be paid by Metro only upon submission of a written claim by the Contractor, accompanied by documentation supporting the calculation of the amount due, as well as confirming that the amount due will not, if paid, result in a violation of the Management Contract. (Section 14.14)

Compliance with Internal Revenue Service Rev. Proc. 97-13. Any provision herein to the contrary notwithstanding, Metro and the Contractor agree that Metro shall be under no obligation to, and shall not, pay compensation for services to the Contractor for any Contract Year, if such payment, or any portion thereof, would result in less than 95% of the Contractor's compensation for services for such Contract Year being based on a periodic fixed fee or would result in any portion of the Contractor's compensation being based on net profit, as such terms are defined in Rev. Proc. 97-13. Metro and the Contractor further agree that any such payment or portion thereof that is not made by virtue of the preceding sentence shall be paid to the Contractor, without interest, during the next annual period in which such payment will not result in less than 95% of the Contractor's compensation being based on a periodic fixed fee or in which such payment will be based on net profit, all as defined by Rev. Proc. 97-13. It is the intent of Metro and the Contractor that the Management Contract shall be construed and applied so as to constitute a management contract that does not result in private business use of property financed by Metro within the meaning and intent of Rev. Proc. 97-13. (Section 14.15)

Tax Exemption of System. It is the intent of the parties that the System shall continue to be municipally owned property and not subject to property taxation, and, to the extent permitted by law, that equipment and construction materials and supplies permanently made part of the DES facilities acquired by the Contractor or any Subcontractor in connection with the Construction Work or any capital improvements to the System shall be exempt from State sales taxes. If (i) the Contractor has exercised due diligence and taken all steps necessary to obtain all such tax exemptions on a timely basis, and (ii) the Contractor is nonetheless required to pay any property tax on account of the System or any State sales tax on account of materials and supplies acquired for the Construction Work or any capital improvements to the System, such requirement shall be deemed to constitute a Change in Law and the Contractor shall be entitled to recover the amount paid in accordance with Article XIV thereof. Metro shall provide to the Contractor a sales tax exemption certificate or certificate number for use in securing the sales tax exemption. (Section 14.16)

Late Payments. Amounts payable under the Management Contract and not paid by the due date shall bear interest at the Overdue Rate from the due date until the date such overdue amounts are paid. (Section 14.18)

## **Security for Contractor's Obligations**

Guaranty. The Contractor shall cause the Guaranty Agreement, to be provided and maintained by the Guarantor in accordance with the terms thereof. If a Material Decline in Guarantor's Credit Standing occurs, the Contractor shall provide credit enhancement of its obligations by either (i) delivering to Metro a Qualifying Letter of Credit in the stated amount equal to 50% of the then remaining balance of liability of the Guarantor under the Guaranty, (ii) depositing in escrow with Metro U.S. funds equal to 50% of the then remaining balance of liability of the Guarantor under the Guaranty, (iii) delivering a new Guaranty substantially in the form of the Guaranty from an entity that is an Affiliate of the Contractor whose long-term unsecured senior debt is rated at least investment grade by a Ratings Service. Failure by the Contractor to either (i) comply with the requirements of this Section within six months following the Material Decline will permit Metro to terminate the Management Contract upon 30 days written notice if the Guarantor's rating has not been restored to investment grade within six months following the Material Decline, provided that neither party shall be required to pay damages to the other. Maintaining such credit enhancement shall only be required until either the Guarantor's credit standing has been restored to investment grade or an additional guarantee is provided by another firm or company acceptable to Metro whose credit rating would have avoided the occurrence of a Material Decline in the Guarantor's Credit Standing.

For purposes of the above paragraph, a "Material Decline in Guarantor's Credit Standing" shall be deemed to have occurred if: (i) in the event that the Guarantor has long-term senior debt outstanding which has a credit rating by either Rating Service, such rating by either Rating Service is established or is reduced below investment grade level; or (ii) in the event that the Guarantor does not have long-term senior debt outstanding or such debt is not rated by either Rating Service, the credit standing of the Guarantor declines to a level which is insufficient to support an investment grade credit rating by either Rating Service on long-term senior debt of the Guarantor, whether or not any such debt is outstanding. (Section 15.01)

Performance Bond and Labor and Materials Bond During the Construction Period. On or before the Construction Commencement Date, the Contractor shall provide financial security for the performance of its obligations hereunder through Performance Bonds and Labor and Materials Bonds issued by a surety company: (i) approved by Metro having a rating of "A" in the latest revision of the A.M. Best Company's Insurance Report; (ii) listed in the United States Treasury Department's Circular 570, "Companies Holding Certificates of Authority as Acceptable Sureties on Federal Bonds and as Acceptable Reinsurance Companies"; and (iii) properly registered and licensed to conduct business in the State pursuant to a current certificate of authority to transact surety business issued by the Tennessee Commissioner of Insurance. The Performance Bonds and Labor and Materials Bonds shall be issued in the name of the Contractor and Metro in the amount of the Fixed Construction Price, and shall remain open until Acceptance. (Section 15.02)

Cost of Providing Security for Performance. The cost and expense of obtaining and maintaining the security instruments required under this Article as security for the performance of the Contractor's obligations hereunder shall be borne by the Contractor without reimbursement from Metro. (Section 15.03)

## **System Expansion**

System Expansions at Metro's Request. Metro may at any time request the Contractor to develop and construct additions or improvements to the Facility or the EDS. The Contractor shall then be required to submit a proposal to Metro. Metro shall only pursue additions or improvements by a Person other than the Contractor after failing to reach agreement with the Contractor following the procedures set forth in this Article.

Prior to accepting a proposal, Metro and the Contractor shall agree on a method of financing the capital costs of any proposal, which method may include the issuance of additional bonds pursuant to the General Resolution. (Section 16.01)

System Expansions at Contractor's Request. The Contractor may at any time submit a proposal to Metro to develop and construct additions or improvements to the Facility or the EDS either (i) at Metro's cost and expense or (ii) at the Contractor's sole cost and expense. (Section 16.01)

System Expansions by Third Parties. Nothing in the Management Contract shall preclude Metro from contracting with a Person other than the Contractor for constructing an addition to or improvement of the System; provided that either (i) such addition or improvement does not impair the ability of the Contractor to perform its obligations under the Management Contract or (ii) if such addition would require the Contractor to incur additional costs in performing its obligations hereunder or would impair performance of the System such that the Contractor is unable to satisfy the Performance Guarantees, Metro and the Contractor agree on such cost adjustments to the Management Fee and Performance Guarantees as are reasonably required to adjust for the adverse consequences to the Contractor under the Management Contract of such addition or improvement. Metro shall only pursue additions or improvements by a Person other than the Contractor after failing to reach agreement with the Contractor following the procedures set forth in the Management Contract. (Section 16.03)

### **System Administration**

Service Coordination and Contract Administration. The Contractor shall appoint a full-time manager of the System (the "Service Manager") who shall be trained, experienced and proficient in the management and operation of energy generation and district heating and cooling systems comparable to the System and appropriately certified under Applicable Law. The Contractor acknowledges that the performance of the individual serving from time to time as the Service Manager will have a material bearing on the quality of service provided under the Management Contract, and that effective cooperation between Metro and the Service Manager will be essential to effectuating the intent and purposes of the Management Contract

Metro shall designate an individual to administer the Management Contract and act as Metro's liaison with the Contractor in connection with the Contract Services (the "Contract Administrator"). The Contractor understands and agrees that the Contract Administrator has only limited authority with respect to the implementation of the Management Contract, and cannot bind Metro with respect to any Contract amendment or to incurring costs in excess of the amounts appropriated therefor. Within such limitations, the Contractor shall be entitled to rely on the written directions of the Contract Administrator. (Section 17.01)

Damage to Customers. The Contractor shall be responsible for damage caused to the property and businesses of Customers of the System for which Metro is liable under the relevant Customer Contracts, such as damage resulting from service outages, which is caused by the failure of the Contractor to perform the Contract Services, provided that the liability of the Contractor under any Additional Customer Contract that has not been approved by the Contractor shall not exceed the nature and scope of liability of the Contractor under the Initial Customer Contracts. (Section 17.01)

Compliance with Applicable Law. The Contractor shall perform all of its obligations under the Management Contract in accordance with Applicable Law, and shall cause all Subcontractors to comply with Applicable Law. The Contractor shall comply with the terms of all Governmental Approvals applicable to the System notwithstanding the fact that the Contractor may not be a permittee or co-permittee with respect to some or all of such Governmental Approvals. (Section 17.06)

Additional Customer Contracts. Metro shall submit each proposed Additional Customer Contract to the Contractor for review, comment and approval by the Contractor. (Section 17.07)

### **Default, Termination and Dispute Resolution**

Remedies for Breach. Under the Management Contract, the parties agree that, except as otherwise provided below under the headings "Event of Default by Metro" and "Metro Convenience Termination During

the Management Period” with respect to termination rights, in the event that either party breaches the Management Contract, the other party may exercise any legal rights it has thereunder, under the Security Instruments and under Applicable Law to recover damages or to secure performance, and that such rights to recover damages and to secure performance shall ordinarily constitute adequate remedies for any such breach. Neither party shall have the right to terminate the Management Contract for cause except upon the occurrence of an Event of Default. (Section 18.01)

Events of Default by the Contractor.

*Events of Default Not Requiring Previous Notice or Further Cure Opportunity for Termination.* The following shall constitute an Event of Default by the Contractor upon which Metro, by notice to the Contractor, may terminate the Management Contract without any requirement of having given notice previously or of providing any further cure opportunity:

- (i) The insolvency of the Contractor or the Guarantor as determined under the Bankruptcy Code;
- (ii) The filing by the Contractor or the Guarantor of a petition of voluntary bankruptcy under the Bankruptcy Code; the consenting of the Contractor or the Guarantor to the filing of any bankruptcy or reorganization petition against the Contractor or the Guarantor under the Bankruptcy Code; or the filing by the Contractor or the Guarantor of a petition to reorganize the Contractor or the Guarantor pursuant to the Bankruptcy Code;
- (iii) The issuance of an order of a court of competent jurisdiction appointing a receiver, liquidator, custodian or trustee of the Contractor or the Guarantor or of a major part of the Contractor's or the Guarantor's property, respectively, or the filing against the Contractor or the Guarantor of a petition to reorganize the Contractor or the Guarantor pursuant to the Bankruptcy Code, which order shall not have been discharged or which filing shall not have been dismissed within 90 days after such issuance or filing, respectively;

Events of Default Requiring Previous Notice and Cure Opportunity for Termination. The following shall constitute a default under the Management Contract:

- (i) any representation or warranty of the Contractor hereunder was false or inaccurate in any material respect when made, and the legality of the Management Contract or the ability of the Contractor to carry out its obligations hereunder is thereby adversely affected;
- (ii) Failure of the Contractor to obtain or maintain in full force and effect any Security Instrument required by the Management Contract as security for the performance thereunder;
- (iii) The failure of the Contractor to achieve Acceptance prior to the end of the Extension Period;
- (iv) The failure of the Contractor during any twelve consecutive calendar months following the Acceptance Date, unless caused by Uncontrollable Circumstances to meet the Performance Guarantees;
- (v) The abandonment or failure to operate all or a substantial portion of the System for five or more consecutive days in any Contract Year, unless caused by Uncontrollable Circumstances;

- (vi) The failure of the Guarantor to perform any payment or other obligation under the Guaranty in a timely manner, the material untruth of any representation or warranty made by the Guarantor in the Guaranty Agreement, or the failure of the Guarantor to comply with the terms and conditions of described above under the heading “**Security for Contractor's Obligations – Guaranty**”
- (vii) The failure by the Contractor to comply in all material respects with the Contractor's Small Business Program.
- (viii) There shall be a Contractor default under the Fuel Purchase Contract and Metro shall have terminated the Fuel Purchase Contract.
- (ix) The persistent and repeated failure or refusal of the Contractor to perform a material obligation hereunder;
- (x) The failure or refusal of the Contractor to perform a material obligation hereunder such that the failure or refusal constitutes a gross misfeasance of duty;
- (xi) The Contractor fails, refuses or otherwise defaults in its duty (a) to pay any amount required to be paid to Metro thereunder within 60 days following the due date for such payment, or (b) to perform any material obligation under the Management Contract (unless such default is excused by an Uncontrollable Circumstance as and to the extent provided in the Management Contract),

except that no such default under (i) through (xi) above shall constitute an Event of Default giving Metro the right to terminate the Management Contract for cause under that subsection unless: (a) Metro has given prior written notice to the Contractor stating that in its opinion a specified default in its duty to pay or perform exists which gives Metro a right to terminate the Management Contract for cause, and describing the default in reasonable detail; and (b) the Contractor has not initiated within a reasonable time (in any event not more than 30 days from the initial default notice) and continued with due diligence to carry out to completion all actions reasonably necessary to correct the default and prevent its recurrence; except that if the Contractor shall have initiated within such reasonable time and continued with due diligence to carry out to completion all such actions, the default shall not constitute an Event of Default during such period of time (in any event not more than 120 days from the initial default notice) as the Contractor shall continue with due diligence to carry out to completion all such actions).

Notwithstanding the foregoing, with respect to (ix) and (x) if Metro has already provided notice of a default and cure opportunity thereunder, Metro may without further notice to the Contractor terminate the Management Contract if a default under clause (ix) or (x) recurs.

*Other Remedies Upon Contractor Event of Default.* The right of termination provided under this Section upon an Event of Default by the Contractor is not exclusive. If the Management Contract is terminated by Metro for an Event of Default by the Contractor, Metro shall have the right to pursue a course of action for actual damages and to exercise all other remedies which are available to it under the Management Contract, under the Security Instruments and under Applicable Law. Without limiting the foregoing, upon any termination of the Contractor for an Event of Default the damages payable by the Contractor to Metro shall include the costs of (i) making all repairs and replacements to the System, (ii) completing the Construction Work, (iii) remediating any safety problems, and (iv) paying all unpaid fines and penalties payable to any Governmental Body, in each case resulting from any breach of the Management Contract by the Contractor. Such termination damages shall also include all reasonable costs incurred by Metro in procuring, negotiating and implementing a new service agreement with a replacement operator, if any. The Contractor shall not be

entitled to any compensation for services provided subsequent to the effectiveness of any notice of termination for an Event of Default (Section 18.02)

Events of Default by Metro. Each of the following shall constitute an Event of Default by Metro upon which the Contractor, by notice to Metro, may terminate the Management Contract:

- (i) Any representation or warranty of Metro thereunder was false or inaccurate in any material respect when made, and the legality of the Management Contract or the ability of Metro to carry out its obligations hereunder is thereby adversely affected;
- (ii) The failure, refusal or other default by Metro in its duty: (a) to pay the amount required to be paid to the Contractor under the Management Contract within 30 days following the due date for such payment; or (b) to perform any other material obligation under the Management Contract (unless such default is excused by an Uncontrollable Circumstance); or
- (iii) The authorized filing by Metro of a petition seeking relief under the Bankruptcy Code, as applicable to political subdivisions which are insolvent or unable to meet their obligations as they mature.

No default described in paragraphs (i) and (ii) above shall constitute an Event of Default giving the Contractor the right to terminate the Management Contract for cause under this subsection unless: (a) the Contractor has given prior written notice to Metro stating that a specified default exists which gives the Contractor a right to terminate the Management Contract for cause under this Section, and describing the default in reasonable detail; and (b) Metro has not initiated within a reasonable amount of time (in any event not more than 30 days from the initial default notice) and continued with due diligence to carry out to completion all actions reasonably necessary to correct the default and prevent its recurrence; except that if Metro shall have initiated within such reasonable time and continued with due diligence to carry out to completion all such actions, the default shall not constitute an Event of Default during such period of time (in any event not more than 120 days from the initial default notice) as Metro shall continue with due diligence to carry out to completion all such actions.

If the Management Contract is terminated by the Contractor for cause as a result of an Event of Default by Metro, Metro shall pay the Contractor, as liquidated damages upon any such termination, exclusive of amounts owing in respect of periods prior to the date of termination, the amount payable by Metro if the Management Contract is terminated at the election of Metro for convenience and without cause sum described in the next succeeding paragraph, according to the month of termination. (Section 18.03)

Metro Convenience Termination During the Management Period. Metro shall have the right at any time during the Management Period, exercisable in its sole discretion, for its convenience and without cause, to terminate the Management Contract upon 90 days' written notice to the Contractor. If Metro exercises its right to terminate the Management Contract Metro shall pay the Contractor a convenience termination fee in accordance with the schedule set forth in the Management Contract. The Contractor has agreed that the applicable convenience termination fee provided in the Management Contract shall fully and adequately compensate the Contractor and all Subcontractors for all foregone potential profits, Loss-and-Expense, and charges of any kind whatsoever (whether foreseen or unforeseen), including demobilization, employee transition and other similar wind-down costs, attributable to the termination of the Contractor's right to perform the Management Contract, but excluding any amounts owing in respect of periods prior to the date of termination.

In the event an Uncontrollable Circumstance causes a total constructive loss of the Facility, or in the event an Uncontrollable Circumstance causes an extraordinary increase in Metro costs, and thereupon Metro

elects to exercise its right of convenience termination, the termination fee shall be zero. A “total constructive loss” for this purpose shall be deemed to have occurred: (i) if so determined by the casualty insurance carrier; or (ii) if the Facility or the EDS is substantially inoperable for a period of at least three months following the occurrence of the Uncontrollable Circumstance. “An extraordinary increase” in Metro costs shall be deemed to have occurred for this purpose if Uncontrollable Circumstances cause an increase of more than 15% from the prior Contract Year, or an increase of more than 37.5% over the full Term of the Management Contract, of the total of (a) all Management Fees and fuel costs payable under the Management Contract and the Fuel Purchasing Contract plus (b) the amortization of debt incurred by Metro for capital modifications resulting from Uncontrollable Circumstances when compared to such amounts that would have been payable during the comparable periods had no Uncontrollable Circumstances occurred. To the extent the value of removable assets from the Facility generate revenues sufficient to pay both Metro's and the Contractor's reasonable and necessary wind up costs, Metro shall pay such costs for both the Contractor and Metro. To the extent the value of removable assets from the Facility do not generate revenues sufficient to pay all such reasonable and necessary wind up costs for both Metro and the Contractor, Metro shall use such revenues to pay Metro's and Contractor's pro rata share of such costs, and each party shall bear their own reasonable and necessary costs exceeding their pro rata share.

Upon any convenience termination by Metro, the Contractor shall also be paid all amounts due for the Contract Services to be paid as part of the Management Fee but not yet paid as of the date of termination. Metro shall have no obligation to pay the convenience termination fee provided for under this Section except concurrently with the surrender of possession and control by the Contractor of the EGF and the EDS to Metro.

After the date of any termination under this Section, Metro may at any time (but without any obligation to do so) take any and all actions necessary or desirable to continue and complete the Contract Services so terminated, including, without limitation, entering into contracts with other operators and contractors. (Section 18.05)

#### Obligations of the Contractor upon Termination or Expiration.

*Contractor Obligations.* Upon a termination of the Contractor's right to perform the Management Contract, or upon the expiration of the Management Contract, the Contractor shall, as applicable: (i) stop the Contract Services on the date and to the extent specified by Metro; (ii) promptly take all reasonable action necessary to protect and preserve all materials, equipment, tools, facilities and other property; (iii) promptly remove from the Managed Assets all equipment, implements, machinery, tools, temporary facilities of any kind and other property owned or leased by the Contractor (including, but not limited to sheds, trailers, workshops and toilets), and repair any damage caused by such removal; (iv) clean the Managed Assets, and leave them in a neat and orderly condition; (v) remove all employees of the Contractor and any Subcontractors and vacate the Managed Assets; (vi) deliver to Metro promptly a list of all supplies, materials, machinery, equipment, property and special order items previously delivered or fabricated by the Contractor or any Subcontractor but not yet incorporated in the Managed Assets; (vii) deliver to Metro the Operation and Maintenance Manual and computer programs used at the Facility; (viii) deliver to Metro a copy of all books and records in its possession relating to the performance of the Contract Services; (ix) advise Metro promptly of any special circumstances which might limit or prohibit cancellation of any Subcontract; (x) promptly deliver to Metro copies of all Subcontracts, together with a statement of: (a) the items ordered and not yet delivered pursuant to each agreement; (b) the expected delivery date of all such items; (c) the total cost of each agreement and the terms of payment; and (d) the estimated cost of canceling each agreement; (xi) as directed by Metro, transfer to Metro by appropriate instruments of title, and deliver all special order items for which Metro has made or is obligated to make payment; (xii) promptly transfer to Metro all warranties given by any manufacturer or Subcontractor with respect to particular components of the Contract Services; (xiii) notify Metro promptly in writing of any Legal Proceedings against the Contractor by any Subcontractor or other third parties relating to the termination of the Contract Services (or any Subcontracts); (xiv) give written notice of termination under each policy of Required Insurance, but permit Metro to elect to continue such

policies in force thereafter at its own expense, if possible; and (xv) take such other actions, and execute such other documents as may be necessary to effectuate and confirm the foregoing matters, or as may be otherwise necessary or desirable to minimize Metro's costs, and take no action which shall increase any amount payable to Metro under the Management Contract

*Hiring of Contractor Personnel.* Upon the termination or expiration of the Management Contract Metro shall have the right to offer employment on any terms it may choose to any Contractor employee employed full time at the System.

*Continuity of Service and Technical Support.* Upon the termination of the Contractor's right to perform the Management Contract or upon the expiration of the Management Contract, the Contractor, at the request and direction of Metro, shall provide continuity of service for the smooth and orderly transition of management back to Metro or any replacement operator designated by Metro.

*Contractor Payment of Certain Costs.* If termination is due to an Event of Default by the Contractors, the Contractor shall be obligated to pay the costs and expenses of undertaking its post-termination responsibilities under this Section. If the Contractor fails to comply with any obligation under this Section, Metro may perform such obligation and the Contractor shall pay on demand all reasonable costs thereof subject to Cost Substantiation.

*Metro Payment of Certain Costs.* If termination is for the convenience of Metro or due to a Metro Event of Default, Metro shall pay to the Contractor within 60 days of the date of the Contractor's invoice supported by Cost Substantiation all reasonable costs and expenses incurred by the Contractor in satisfying the requirements of this Section. (Section 18.06)

No Consequential or Punitive Damages. Notwithstanding anything else in the Management Contract, in no event shall either party be liable to the other or obligated in any manner to pay to the other any special, incidental, consequential, punitive or similar damages based upon claims arising out of or in connection with the performance or non-performance of its obligations under the Management Contract, or the material falseness or inaccuracy of any representation made in the Management Contract, whether such claims are based upon contract, tort, negligence, warranty or other legal theory. (Section 18.09)

Forum for Dispute Resolution. Subject to any agreement to mediate, it is the express intention of the parties that all Legal Proceedings related to the Management Contract or to the Managed Assets or to any rights or any relationship between the parties arising therefrom shall be solely and exclusively initiated and maintained in the courts of Davidson County, Tennessee. The Contractor and Metro each irrevocably consents to the jurisdiction of such courts in any such actions or proceedings, waives any objection it may have to the laying of the jurisdiction of any such action or proceeding, and waives its right to a trial by jury. (Section 18.11)

## **Insurance, Uncontrollable Circumstances and Indemnification**

Insurance. At all times during the Term of the Management Contract, the Contractor shall obtain and maintain or cause to be obtained and maintained the Required Insurance in accordance with the requirements of the Management Contract and shall pay all premiums with respect thereto as the same become due and payable.

All insurance shall be obtained and maintained from financially sound and generally recognized responsible insurance companies meeting the qualifications set forth in the Management Contract. The insurers shall be selected by the Contractor with the consent of Metro, which consent shall not be unreasonably withheld, and shall be authorized to write such insurance in the State. The Contractor shall be responsible for paying deductible amounts to the extent set forth in the Management Contract. All policies evidencing such

insurance shall provide for: (i) payment of the losses to Metro and to the Contractor as their respective interests may appear; and (ii) prior written notice of the cancellation thereof.

If the Contractor fails to pay any premium for Required Insurance, or if any insurer cancels any Required Insurance policy and the Contractor fails to obtain replacement coverage so that the Required Insurance is maintained on a continuous basis, then, at Metro's election, Metro, may pay such premium or procure similar insurance coverage from another Contractor or companies and upon such payment by Metro the amount thereof shall be immediately reimbursable to Metro by the Contractor. The Contractor shall not perform Construction Work during any period when any policy of Required Insurance pertaining to the Construction Work is not in effect. The Contractor shall comply with all applicable Required Insurance and take all steps necessary to assure the System remains continuously insured in accordance with the requirements of the Management Contract during the Term thereof. Should any failure to provide continuous insurance coverage occur, the Contractor shall indemnify and hold harmless Metro against any Loss-and-Expense arising out of such failure. (Section 19.01)

Uncontrollable Circumstances. Except as expressly provided under the terms of the Management Contract, neither party to the Management Contract shall be liable to the other for any loss, damage, delay, default or failure to perform any obligation to the extent it results from an Uncontrollable Circumstance. The occurrence of an Uncontrollable Circumstance shall not excuse or delay the performance of a party's obligation to pay monies previously accrued and owing under the Management Contract, or to perform any obligation hereunder not affected by the occurrence of the Uncontrollable Circumstances. Metro shall pay the Management Fee during the continuance of any Uncontrollable Circumstance only if Service is provided or if such Uncontrollable Circumstance is a failure to have Fuels at a time when Metro is responsible for arranging for the supply thereof. If the Contractor is able to provide service but service is not provided because a Customer is unable to accept service or if such Uncontrollable Circumstance is a failure to have Fuels at a time when Metro is responsible for arranging for the supply thereof, the Management Fee continues to be payable.

Whenever an Uncontrollable Circumstance occurs, the party claiming to be adversely affected thereby shall, as promptly and as reasonably possible, use all reasonable efforts to eliminate the cause thereof, reduce costs resulting therefrom, mitigate and limit damage to the other party, and resume full performance under the Management Contract.

Conditions to Performance, Construction Price, Management Fee and Schedule Relief. If and to the extent that Uncontrollable Circumstances interfere with, delay or increase the cost of the Contractor's performing the Contract Services in accordance with the Management Contract, and the Contractor has given notice within a reasonable time, the Contractor shall be entitled to relief from its performance obligations, an increase in the Management Fee, or an extension of schedule which properly reflects the interference with performance, the amount of the increased cost, or the time lost as a result thereof, in each case only to the minimum extent forced on the Contractor by the event, and the Contractor shall perform all other Contract Services. The proceeds of any Required Insurance available to meet any such increased cost, and the payment by the Contractor of any deductible, shall be applied to such purpose prior to any determination of cost increase payable by Metro under this Section. Any cost reduction achieved through the mitigating measures undertaken by the Contractor upon the occurrence of an Uncontrollable Circumstance shall be reflected in a reduction of the amount by which the Management Fee would have otherwise been increased or shall serve to reduce the Management Fee to reflect such mitigation measures, as applicable. In the event that the Contractor believes it is entitled to any performance, price or schedule relief on account of any Uncontrollable Circumstance, it shall furnish Metro written notice of the specific relief requested and detailing the event giving rise to the claim (to the extent it can then do so) within 30 days after the giving of notice delivered pursuant to subsection (B) of this Section. Within 30 days after receipt of such a timely submission from the Contractor, Metro shall issue a written determination as to the extent, if any, it concurs with the Contractor's claim for performance, price or schedule relief, and the reasons therefor.

Before proposing any adjustment to the Management Fee, the Contractor shall determine whether any increased costs of operation and maintenance of the System resulting from an Uncontrollable Circumstance can be reduced by the undertaking of a capital improvement, in which event the Contractor shall provide Metro with a notice thereof. Metro shall determine whether such a capital improvement shall be undertaken and shall so advise the Contractor.

The Contractor shall bear the net costs, which result from the occurrence of an Uncontrollable Circumstance (other than Metro's failure to arrange for Fuels when it is responsible for doing so) to the extent of the first 20% of such net costs up to an aggregate of \$100,000 per Contract Year, but only if the causes or effects of such Uncontrollable Circumstance (other than Metro's failure to arrange for Fuels when it is responsible for doing so) would have been avoided by the Contractor if the Contractor had acted the way a prudent man would act in operating and maintaining his own property. The cost of insurance deductibles to be borne by the Contractor under the Management Contract shall not be a cost which is included in the Contractor's share of Uncontrollable Circumstances within such limits. The Contractor's share of such net costs shall be reflected in a decrease in the amount by which the Management Fee would otherwise have been increased on account of such occurrence.

The Contractor's acceptance of any performance, price or schedule relief under the contract shall be construed as a release of Metro by the Contractor for any and all Loss-and-Expense resulting from, or otherwise attributable to, the event giving rise to the relief claimed. (Section 19.02)

**SUMMARY OF CERTAIN PROVISIONS OF THE  
CUSTOMER CONTRACTS**

Set forth below is a summary of the various forms of Customer Contracts. The summary is in all respects subject to and qualified in its entirety by reference to the document or documents summarized therein in its complete form, copies of which are available from the Metropolitan Government. References to Articles and Sections of the Customer Contract are for informational purposes and should not be relied upon.

**PROVISIONS PERTAINING TO THE COMMERCIAL CUSTOMER CONTRACTS**

**Services**

Sale and Purchase. Subject to the conditions and in accordance with the Customer Contracts, commencing on the Transition Date, the Metropolitan Government will supply, and the Customer will purchase, the Services contracted for by the individual Customer to meet all of the Customer's heating and/or cooling needs for the Premises, up to the Contract Capacity for the Services. The Metropolitan Government will supply Services exceeding the Contract Capacity for non-recurring special occasions, subject to the receipt of a request from the Customer and System availability.

Throughout the Term of the Customer Contract the Metropolitan Government shall be the exclusive Metropolitan Government of the Services for the Customer's Premises and the Customer shall not operate boilers, chillers or ancillary equipment located on the Premises in lieu of the Services, except to operate its equipment for periodic testing, maintenance purposes or emergencies and during a Service Interruption by the Metropolitan Government. If The Metropolitan Government reasonably believes that a Service Interruption will last for more than an hour, the Metropolitan Government shall promptly notify the Customer of the Service Interruption with an estimate of its expected duration.

The Customer agrees that throughout the Term it will purchase from the Metropolitan Government all of its requirements up to the Contract Capacity for the Services for its Premises. If the Customer determines that its requirements for Services exceeds its Contract Capacity, the Customer may acquire the additional requirements of steam or chilled water service from any other source.

Notwithstanding anything to the contrary, the Customer is not obligated to purchase, nor is the Metropolitan Government obligated to provide, Services for any expansion of the Premises. If the Metropolitan Government agrees to provide Services for an expansion of the Customer's Premises and agrees to a New Contract Capacity requested by the Customer, except for the costs associated with any Distribution System changes necessary to serve the expanded Premises, such additional Services shall be on the same terms and conditions as are set forth in the Customer Contract.

The Metropolitan Government will use its best efforts to provide at the Delivery Point (i) for steam service, steam at a pressure no lower than 150 Psig, and (ii) for chilled water service, chilled water at a temperature no higher than 42°F. The Customer will use its best efforts to provide at the Return Point chilled water at a temperature no lower than the Customer Return Temperature, or if steam service is provided to the Customer, to return 100% of the condensate at the Return Point.

If the steam or chilled water Service fails to meet the Service Standards due to the System Operator's unexcused fault, and not the fault of any customer, and such failure by the Metropolitan Government to meet the Service Standards results in damage to the Customer's heating or cooling system, the Metropolitan Government shall reimburse the Customer for the actual damages to the Customer's heating or cooling system directly attributed to such failure. The Customer will maintain the quality of the water in the Premises heating

and cooling system in accordance with the water quality specifications listed in the Customer Contracts. (Section 2.1)

Charges. The Customer will pay the Metropolitan Government the following charges, as adjusted pursuant to the Customer Contract, for services provided by the Metropolitan Government pursuant thereto:

Contract Capacity Charge – an annual charge payable in equal monthly installments comprising:

- (a) Customer's Pro Rata Portion of the Base Steam Facilities Capital Cost,
- (b) Customer's Pro Rata Portion of the Base Chilled Water Facilities Capital Cost,
- (c) Customer's Pro Rata Portion of the Base Steam Facilities Fixed Operating Costs, and
- (d) Customer's Pro Rata Portion of the Base Chilled Water Facilities Fixed Operating Costs.

Pass Through Charges and Credits – An amount equal to the Customer's Pro Rata Portion of the following:

- (a) charges permitted under the Customer Contract for a Change in Law,
- (b) costs that are pass through costs or adjustments under a System Operating Agreement (other than pass through costs attributable to maintenance and repair of pipes and tunnels comprising the EDS), and
- (c) any other unforeseen and unbudgeted costs incurred in administering the System (provided that in no event shall the Metropolitan Government's administrative costs exceed the Incremental Costs),
- (d) credits for expenses paid out of insurance proceeds, and
- (e) any other applicable credits or cost reductions.

In lieu of paying the Customer's Pro Rata Share of costs attributable to maintenance and repair of pipes and tunnels comprising the distribution system as a pass through cost, the Customer shall pay, in addition to the Customer's Pro Rata Share of \$150,000 per year already set forth in the Initial Operating Agreement or such other operating agreement as may then be in effect, the amount per year set forth in Annex B of the Customer Contract under the heading "Customer's Allocation of EDS Maintenance Costs", escalated at the same rate.

Energy Charge – an amount equal to the actual costs payable by the Metropolitan Government to a System Operator or other Persons for fuel or energy acquisition, delivery and management services (including any firming arrangements, and other related services), based on and allocable to actual energy usage by the Customer.

Thermal Inefficiency Fuel Surcharge – an amount calculated pursuant to the Customer Contract resulting from the Customer's failure to maintain its Delta T.

The Metropolitan Government shall properly select and apply the appropriate costs and escalators as shown in the System Operating Agreement to determine the basic costs for the charges listed above. In addition to these basic costs, the Metropolitan Government may add only its Incremental Costs to administer the Customer Contract and the System Operating Agreement. (Section 2.2)

Contract Capacity Changes. Except in the case of any non-recurring special occasion or short term accident involving the Premises, if, during any Contract Year, the Customer's actual capacity requirement exceeds the Contract Capacity, then, unless the Metropolitan Government notifies the Customer otherwise, the Contract Capacity shall be adjusted for the next twelve (12) months to the Customer's Actual Capacity Requirement. After such twelve (12) month period, Customer's Contract Capacity shall revert to the Contract Capacity in effect immediately prior to the application of this section of the Customer Contract, subject to continuing adjustment as otherwise provided in Article II thereof. If the Customer's Actual Capacity Requirement continues to exceed the Contract Capacity then in effect, the Metropolitan Government shall, at its option, adjust the Customer's Contract Capacity under the Customer Contract to reflect the Customer's Actual Capacity Requirement.

If, during any Contract Year, the Customer materially reduces its actual capacity requirement as a result of an investment in energy efficiency, the Metropolitan Government shall adjust the Contract Capacity. Such reduced Services shall be on the same terms and conditions as are set forth in the Customer Contract, and all references to Contract Capacity will mean the New Contract Capacity.

In addition, in the event the Customer determines that the Contract Capacity it has nominated exceeds its needs, the Customer shall have the right to make an adjustment at any time during the Term of the Customer Contract to reduce its Contract Capacity. In such event, the Customer and the Metropolitan Government will negotiate in good faith a reasonable reduction in the Customer's Contract Capacity. Such reduced Services shall be on the same terms and conditions as are set forth in the Customer Contract (Section 2.4)

Payment. An invoice delivered by the Metropolitan Government under the Customer Contract, will be due and payable upon delivery to the Customer and the Customer will pay the total amount of such invoice to the Metropolitan Government within 30 days after the date of receipt. In addition to any actions which the Metropolitan Government may take during the continuance of any payment default by Customer, including the right to withhold Services until such default is cured to the satisfaction of the Metropolitan Government, the Customer will pay interest on the balance of each invoice which remains unpaid on the 30th day after receipt at the rate of 1.5% per month from the date of receipt until the date of payment. (Section 2.6)

Adjustments to Charges. Following the end of each Contract Year, the Metropolitan Government shall compute the actual Contract Capacity Charge, Pass-Through Charges and Credits and Energy Charge due from the Customer during such Contract Year and

- (i) if the actual payments made by the Customer during the Contract Year exceed the amounts due from such Customer, reduce the Customer's charges during the following Contract Year by an amount equal to the overpayment or, if the overpayment occurs in the last year Services are delivered to the Customer by the Metropolitan Government, make a cash refund to the Customer in an amount equal to the overpayment and
- (ii) if the actual payments made by the Customer during the Contract Year were less than the amounts that were due from such Customer, send an invoice to such Customer for such underpayments, such payments to be due within 30 days after the date of receipt of such invoice.

The Energy Charge will be recomputed each month based on actual energy usage and then-applicable energy prices, and with respect to the Contract Capacity Charges and Pass-Through Charges and Credits will be effective on July 1 of each calendar year, and with respect to the Energy Charge will be effective on the first day of each calendar month. (Section 2.7)

Taxes. The Customer will pay all Taxes, including without limitation any Taxes imposed upon the Customer that the Metropolitan Government is required to collect and a proportionate portion of Taxes related to the provision of Services generally. (Section 2.8)

Change of Law. The Metropolitan Government will adjust the Contract Capacity Charge and Pass Through Charges and Credits to reflect any increases in the Metropolitan Government's labor, operating, maintenance, environmental or other costs of providing Services (including capital expenditures) which result from the adoption of, or any change in, any applicable laws or rules or regulations of any governmental authority after the date of the Customer Contract, or from any change in the interpretation by any court, tribunal or regulatory authority of any applicable law or rule or regulation after such date. All costs passed through to the Customer under Section 2.9 of the Customer Contract shall be appropriately allocated based on the Customer's proportion of total System Customer Contract Capacities as of the date of the increase in costs. (Section 2.9)

Cessation of Operations. In the event that a Customer ceases operations at the Premises for any reason, such Customer shall be liable for all charges incurred pursuant to the Customer Contract to the date of such cessation of operations. If operations at the Premises have ceased for sixty (60) consecutive days, each party shall have the right to terminate the Customer Contract. (Notwithstanding the foregoing, if Customer notifies the Metropolitan Government in writing that the Customer intends to demolish the existing improvements at the Premises and replace them with new improvements, neither party shall have the right to terminate the Customer Contract as a result of such cessation of operations and the Customer Contract shall apply to such new improvements provided that Customer recommences operations at the Premises within two (2) years of such cessation of operations. If operations at the Premises have not recommenced within such two (2) year time period, each party shall have the right to terminate the Customer Contract by written notice to the other. (Section 2.10)

Price Protection. The parties agree that the charges are calculated based upon the Metropolitan Government's cost of providing the Services. The Metropolitan Government costs are generally defined as

- (i) cost of servicing system revenue bonds issued to finance a fixed construction cost of the System as set forth in the Initial Operating Agreement,
- (ii) fixed management fees payable by the Metropolitan Government to the System Operator under the System Operating Agreement,
- (iii) the cost of purchasing fuel, and
- (iv) the Metropolitan Government's Incremental Costs.

Any increase in the Customer charges for any year shall be made in accordance with the Initial Operating Agreement, any Replacement Operating Agreement, and the Customer Contract. In procuring any Replacement Operating Agreement, the Metropolitan Government shall comply with all applicable competitive procurement laws, and such costs will be included in the Metropolitan Government's Incremental Costs. (Section 2.11)

**Additional Agreements**

Sales of Excess Capacity. The Metropolitan Government reserves the right to market excess System capacity to new or existing customers upon such terms and conditions as it determines in its sole discretion, and shall be entitled to all revenues from such sales of energy or capacity. The Metropolitan Government shall use reasonable efforts to market and sell excess System capacity to new or existing customers. (Section 5.3)

Thermal Efficiency. The Customer acknowledges that the efficiency of the Customer's Premises in extracting energy from chilled water is directly relevant to total energy usage of the System. If after the third anniversary of the Transition Date, the Customer is not maintaining its Delta T, then the Customer shall pay a Thermal Inefficiency Fuel Surcharge. The Thermal Inefficiency Fuel Surcharge will be charged to the Customer for each month for which chilled water is delivered to the Customer that the temperature difference, in °F, between the monthly average chilled water temperature at the Return Point and 42°F is less than Delta T. The Thermal Inefficiency Fuel Surcharge shall be calculated as follows:

$$TIFS = \frac{[\text{Delta T} - (\text{CRT}_m - 42^\circ\text{F})] \times \text{CWCCC}_m}{100^\circ\text{F}}$$

- Where: TIFS = The Thermal Inefficiency Fuel Surcharge
- CRT<sub>m</sub> = The monthly average temperature of chilled water measured at the Return Point (°F)
- CWCCC<sub>m</sub> = The Chilled Water Contract Capacity Charge for that month

If a project is undertaken for improving the Customer's Delta T, then upon the project's completion the Customer and the Metropolitan Government shall reasonably agree on a New Customer Return Temperature and thereby a New Delta T. (Section 5.5)

Financial Assistance for Thermal Inefficiency Remediation. The Metropolitan Government shall establish a fund in the initial amount of \$500,000 to provide assistance in financing the costs of bringing customer systems into compliance requirements relating to the Delivery Point temperatures and Return Point temperatures. In addition, the Metropolitan Government shall make available in each year an amount equal to 25% of New Customer Surplus Revenues for the same purpose. Such funds will be made available to Initial Customers, to pay for, or to reimburse Initial Customers for, substantiated costs of complying with Return Point requirements contained in the Customer Contract (based on priorities and procedures to be established by the Metropolitan Government). (Section 5.6)

**Service Interruptions**

Performance Generally. The Metropolitan Government will use all reasonable efforts to make Services available to the Customer regularly and without interruption up to the Contract Capacity, but does not guarantee a constant supply of such steam or chilled water service. In the event that the Metropolitan Government fails to provide Service, or any substitute service reasonably acceptable to the Customer, for a period exceeding three consecutive calendar days due solely to the Metropolitan Government's willful misconduct or negligence, (i) the Metropolitan Government will be liable to the Customer for any direct costs of the Customer reasonably incurred by the Customer as a direct result of such failure by the Metropolitan Government and (ii) the Metropolitan Government will give the Customer a credit against the Contract Capacity Charge for steam or chilled water, as applicable, for the Pro Rata Portion of the Contract Capacity Charge during such month allocable to the period of such failure. Notwithstanding any provision of the Customer Contract, service interruptions under the Customer Contract will not in themselves constitute a default by the Metropolitan Government under the Customer Contract if the Metropolitan Government commences within the applicable cure period to use due diligence and reasonable efforts to cure such Service

interruption and if such Service Interruption is not curable within 30 days, continues using such due diligence and reasonable efforts, and, except as specifically provided in the Customer Contract, the Metropolitan Government will not be liable to the Customer or any other person under any circumstances for any Service interruptions under the Customer Contract. In no event shall the Metropolitan Government have any liability for special, exemplary or consequential damages, including without limitation, loss of profit or revenue or interference with operations, or have any liability to any Person other than the Customer. Any liability of the Metropolitan Government under the Customer Contract shall be reduced by the amount of any insurance recovery of the Customer. The remedy provided under this section shall constitute the sole and exclusive remedy of the Customer for Service Interruptions caused by the Metropolitan Government. (Section 6.1)

Other Interruptions. The Metropolitan Government will have the right at any time to interrupt steam or chilled water service:

- (i) for a reasonable duration, upon providing such notice to the Customer as is reasonably practicable, for the purpose of performing maintenance, repairs, replacements, connections or changes (on or off the Premises) to the Energy Generating Facilities or its mains, pipes or other equipment or for the purpose of complying with any order or request of any governmental authority; provided, that the Metropolitan Government will exercise due diligence and will act with reasonable dispatch in restoring service, to the extent practicable, and will schedule such interruptions during periods of low Service requirements, or
- (ii) for a duration determined by the Metropolitan Government in its sole discretion, without notice, if, in the Metropolitan Government's judgment, public safety standards or prudent operating procedures dictate such interruption, or if the Metropolitan Government has received a notice from any governmental authority requiring or mandating such interruption. (Section 6.2)

Force Majeure. Notwithstanding any other provision of the Customer Contract, if either party thereto is prevented from performing any of its obligations thereunder by reason of a Force Majeure Event, such party will notify the other party in writing as soon as practicable and thereafter will be excused from its obligations thereunder to the extent of such interference; provided, that no accrued payment obligation thereunder will be excused or delayed as the result of a Force Majeure Event, except to the extent such obligations are satisfied by insurance proceeds.

The party whose performance thereunder is prevented as the result of a Force Majeure Event will use reasonable efforts to remedy its inability to perform; provided, however, nothing in such provision under the Customer Contract will be construed to require the settlement of any strike, walkout or other labor dispute on terms which, in the reasonable judgment of the affected party, are contrary to its interest. It is understood that the settlement of a strike, walkout or other labor dispute will be entirely within the discretion of the affected party.

The Metropolitan Government will use reasonable efforts to maintain insurance for the Facility comparable to that generally obtained for similar facilities, either directly or through the System Operator, to the extent obtainable on commercially reasonable terms. To the extent proceeds of insurance are applied to pay costs of repairing or operating the System, the Metropolitan Government will not include such costs in the calculation charges to be paid by the Customer pursuant to the Customer Contract (Section 6.3)

## **Default**

Defaults. In the event either party fails to perform any material obligation under the terms of the Customer Contract (including but not limited to the obligation to use due diligence and reasonable efforts to cure any service interruptions), except as provided for a Force Majeure Event, such failure shall constitute a default under the Customer Contract. If any such default is not cured within 30 days following receipt of

notice the non-defaulting party shall have the right to terminate the Customer Contract; provided, that if the default is curable but is not curable within a 30 day period but the defaulting party commenced curing the default within said 30 day period and continues to be using due diligence and reasonable efforts to effect a cure of such default, the non-defaulting party may not terminate the Customer Contract as long as the defaulting party continues using such due diligence and reasonable efforts. In addition, a defaulting party shall have, with respect to curable defaults only, that number of additional days which is equal in number to the number of days which the defaulting party is prevented from curing a curable default solely by reasons or causes beyond its reasonable control, provided the defaulting party has commenced curing such default with such 30-day period, is proceeding diligently and continuously, and is using all reasonable efforts to cure the default. If a party has the right to terminate the Customer Contract due to a default but does not exercise that right and that default is subsequently cured, the right to terminate for that default shall cease. During any period in which the Metropolitan Government is required to supply service under the Customer Contract but is in default of such obligation thereunder and if the Customer has not exercised its right to terminate the Customer Contract, the Customer shall mitigate damages and may purchase services from an alternate source or use its own energy source for services, provided the Customer shall use reasonable efforts to minimize the cost of such alternate service. (Section 7.1)

**Term**

Term. The Customer Contract will be effective as of the date therein, and will remain in effect for the Initial Term and each Renewal Term, if any. (Section 8.1)

Renewal. Unless written notice that the Customer Contract will terminate is provided by either party at least one year prior to the end of the Initial Term or the then current Renewal Term, the Customer Contract will continue for an additional Renewal Term. (Section 8.2)

Optional Early Termination. At any time on or after the fifteenth anniversary of the Transition Date, upon 180 days' prior written notice, the Customer may terminate the Customer Contract by paying to the Metropolitan Government an amount equal to

- (A) the product of
  - (i) the Customer's Pro Rata Portion for steam service and
  - (ii) the sum of
    - (a) an amount sufficient to discharge that proportion of bonds allocable to the Base Steam Facilities Capital Cost plus
    - (b) the remaining years in the Customer Contract from the date of termination times the then current year's Base Steam Facilities Operating Costs
- plus
- (B) the product of
  - (i) the Customer's Pro Rata Portion for chilled water service and
  - (ii) the sum of
    - (a) an amount sufficient to discharge that proportion of bonds allocable to the Base Chilled Water Facilities Capital Cost plus
    - (b) the remaining years in the Customer Contract from the date of termination times the then current year's Base Chilled Water Facilities Operating Cost.

If the System's capacity is fully sold by the Metropolitan Government under long-term contracts through the end of the Initial Term (other than the capacity being terminated) and the Metropolitan Government subsequently enters into a contract for the sale of the capacity that became available as a result of the contract termination, the Metropolitan Government shall reimburse the Customer from proceeds of such energy sales for amounts paid by the Customer to the Metropolitan Government thereunder. (Section 8.3)

Effect of Termination. Upon the expiration or earlier termination of the Customer Contract, the Customer and the Metropolitan Government will have no further obligations under the Customer Contract other than obligations accruing prior to the date of such termination. Such provision shall not affect the Metropolitan Government's rights under applicable law for damages in the case of a termination after the Customer's default. (Section 8.4)

### **Amendments to Initial Operating Agreement**

Limitation of Amendments. The Metropolitan Government shall not amend the Initial Operating Agreement except as provided in accordance with and subject to the provisions of the Customer Contract (Section 9.1)

Amendments Without Customer Consent. The Metropolitan Government may, from time to time and at any time, enter into amendments to the Initial Operating Agreement without the consent of the Customer, but with notice, as follows:

- (a) To cure any formal defect, omission or ambiguity in the Initial System Operating Agreement; or
- (b) To grant to or confer upon the Metropolitan Government any additional rights, remedies, powers, authority or security with respect to the Initial Operator; or
- (c) To implement the performance of any right or obligation already existing under the terms of the Initial Operating Agreement; or
- (d) To make any other change which, in the opinion of an independent engineer, will not be expected to result in an increase in the charges that will be payable by the Customer under the Customer Contract; or
- (e) To make any change necessary to preserve or maintain the tax-exempt status of the revenue bonds issued by the Metropolitan Government to finance the cost of the System. (Section 9.2)

Amendments With Customer Consent. The Metropolitan Government may, from time to time and at any time, enter into amendments to the Initial Operating Agreement that the Metropolitan Government is not otherwise permitted to enter into as provided above, but only if all of the following conditions are met:

- (a) The Metropolitan Government delivers notice to all Initial Customers of the proposed amendment in reasonable detail;
- (b) The Metropolitan Government establishes in the notice a date (the "Record Date"), which shall not be less than ten (10) business days following the date of delivery of the notice, by which Initial Customers must either approve or reject the proposed amendment;

- (c) The Metropolitan Government establishes that either (i) the Metropolitan Government, the State and a majority of the remaining Initial Customers have consented in writing to the proposed amendment or (ii) neither the Metropolitan Government, the State nor a majority of the remaining Initial Customers have delivered to the Metropolitan Government written notice of rejection of the proposed amendment by 3:00 p.m. Nashville time on the Record Date.

If all of the conditions set forth in clauses (a), (b) and (c) have been met at the designated time on the Record Date, the Metropolitan Government shall be permitted at any time within the six-month period immediately thereafter to enter into the proposed amendment. (Section 9.3)

### **General Provisions**

The Metropolitan Government Liability Limitation. The liability of The Metropolitan Government under the Customer Contract shall be limited to the assets of the System and revenues therefrom and no recourse shall be had to the general funds and assets of the Metropolitan Government of Nashville and Davidson County. Notwithstanding anything to the contrary, any provision or provisions of this provision in the Customer Contract will not apply to the extent it is finally determined by a court of competent jurisdiction, including appellate review if pursued, to violate the law or Constitution of the State of Tennessee. (Section 11.8)

### **PROVISIONS PERTAINING TO THE SMALL CUSTOMER CONTRACTS**

To accommodate small customers, the Metropolitan Government may enter into Agreements in the form of the Commercial Customer Contract, but modified to provide for customers to pay flat and/or escalation monthly fees for services, or similar arrangements, with such fees reasonably estimating the cost of providing service to such customers without the need for metering service. Such fee shall be determined and certified by the Metropolitan Government's project administrator and approved by the Director of Finance whose signature on such Agreement shall conclusively bind the Metropolitan Government as to the amount determined and the contract modifications. Small customers are defined as those requiring contract capacities of less than or equal to 40 Tons of chilled water and/or 400 pph of steam.

### **PROVISIONS PERTAINING TO THE STATE CUSTOMER CONTRACT**

The provisions of the State Customer Contract are the same as those for the Commercial Customer Contract (as summarized above), except as noted below. To the extent a provision specific to the State conflicts with any provision in the Commercial Customer Contract, the provision specific to the State shall govern:

Modifications to Pricing Applicable to the State. The State is not subject to the computations of the Contract Capacity Charge and Pass Through Charges and Credits contained under the heading "Services Sale and Purchase" of the Summary of the Commercial Customer Contract.

The State Customer Contract sets forth the following pricing structure for the State.

Capital Charge. – The Capital Charge will be \$1,668,001 per year (\$1,368,001 base charge plus \$300,000 allocable to State distribution system upgrades).

The Capital Charge will not be subject to escalation. The Capital Charge assumes an All In True Interest Cost of 5.0% on a financing amortized over 30 years. If the All In True Interest Cost (including costs of bond insurance, if any) is greater than or less than 5%, the Capital Charge will be adjusted to reflect the different cost of capital.

Operating Charge. – There will be a Fixed Operating Charge of \$975,615 per year.

The Fixed Operating Charge will be applicable in the Contract Year ending June 30, 2004, and will be subject to escalation in succeeding Contract Years based on the Consumers Price Index - South: Size Class B/C (provided that escalation will not exceed 3.0% in any one year, as long as the Metropolitan Government has the same cap on its escalation in the System Operating Agreement, and will not be less than zero in any one year).

The Capital Charge of \$1,368,001 per year (excluding the \$300,000 allocable for the State distribution system upgrade) and the Fixed Operating Charge of \$975,615 per year are based on a total chilled water demand of 7,344 Tons and a steam demand of 99,883 pph, representing the aggregate demand for the fourteen buildings currently served by the System.

Pass Through Costs. – The State will pay as a Pass Through Cost its Pro Rata Share of all-risk and business interruption insurance. The State will pay as Pass Through Costs water and sewer costs, chemicals used for water treatment and fuel and electricity (taking into account any energy efficiency bonuses payable by the Metropolitan Government to a System Operator and any damage payments for fuel inefficiency paid by a System Operator to the Metropolitan Government) based on the State's actual usage. The State will not pay for the following: engineering costs included as a pass through cost in the Initial Operating Agreement, costs of repairs to the energy distribution system and the Metropolitan Government's Incremental Costs.

The State Customer Contract provides that such costs shall be all inclusive and subject to adjustment only to the extent required pursuant to (i) the provisions of the Commercial Customer Contracts relating to Change in Law, (ii) Force Majeure (but expressly excluding therefrom any repairs to the energy distribution system attributable to normal breakage and wear and tear), and (iii) damages payable under the Commercial Customer Contract relating to Thermal Efficiency.

The Capital Charge and the Fixed Operating Charge for any year shall be payable in 12 equal monthly installments.

The State shall have no responsibility for maintenance, repair or capital costs associated with the distribution system. All pass through costs associated with the operations, maintenance and/or capital improvements of the steam and chilled water distribution system shall be the responsibility of the Metropolitan Government. (Section 1)

Successors and Assigns. The State shall not transfer its rights and obligations under the State Customer Contract to any Person. (Section 2)

State Reductions in Contract Capacity. The Capital Charge and Fixed Operating Charge and the Pass Through Cost for insurance (“Fixed Charges”) set forth under the heading “Modifications to Pricing Applicable to the State” are applicable to the Fixed Charges for steam units and chilled water units set forth in Annex B of the Customer Contract. The State agrees to pay these Fixed Charges even if it reduces its requirements at the Premises. If the State's requirements at the Premises are reduced, the State may either (i) allocate such capacity to other new or existing premises owned by the State, provided that if such additional premises are not connected to the EDS the State will pay for the cost of interconnection and metering (in which case such premises shall be included in the definition of Premises) or (ii) request the Metropolitan Government to market said excess capacity to other customers. If the capacity designated as excess capacity by the State is resold, the revenues received by the Metropolitan Government from such sale that are attributable to the fixed capital cost and the fixed operational cost (net of any commissions due) shall be credited towards the State's payment requirement. In determining whether marketed capacity is the Metropolitan Government's or the State's, marketed capacity shall first be allocated to the Metropolitan Government's excess capacity from the original allocation of System costs, and second shall be allocated among the State and capacity derived from

other customers on a first in first out basis. The provisions of the Commercial Customer Contracts regarding Contract Capacity Changes shall not apply to the State. (Section 4)

Energy Efficiency Program. The Metropolitan Government will establish the fund described under the heading “Financial Assistance for Thermal Inefficiency Remediation “ in the summary of the Commercial Customer Contracts. From this fund the Metropolitan Government will make available an amount up to \$400,000 to improve the thermal efficiency of certain buildings listed in the Customer Contract. The State and Metro will cooperate on those improvements, and proceed with making those improvements with the funding provided by the Metropolitan Government, and the parties will make all reasonable efforts to complete such improvements prior to the Transition Date. (Section 5)

Improvements to State's Steam Distribution System. The Metropolitan Government shall make funding available for the purpose of making improvements to the State's steam distribution system and installing individual steam and chilled water meters on each of the buildings included in the Premises. Improvements may include replacing existing underground steam pipes and installing an underground tunnel system, where appropriate. The State may review and approve, and such approval shall not be unreasonably withheld, any improvements and shall provide such access as may be reasonably required by the Metropolitan Government or its contractor to implement the foregoing improvements. It is the Metropolitan Government's current intention to implement these improvements through a change order under its Initial Operating Agreement, and the parties agree to make all reasonable efforts to complete such improvements prior to the Transition Date. (Section 6)

Ownership of State's Steam Distribution System. Prior to commencement of operation of the new System, the State shall convey all right, title and interest of the State in the State's existing steam distribution system, together with such improvements as shall have been made thereto by or on behalf of the Metropolitan Government, to the Metropolitan Government, subject to the Metropolitan Government receiving adequate assurances and agreements as to matters relating to liability for environmental matters such as asbestos and other potentially hazardous substances. (Section 7)

Substitute Service. Notwithstanding anything to the contrary herein, if the Metropolitan Government is unable to perform and supply the Services required that constitute a material obligation required under the Customer Contract in Article II thereof and if the Metropolitan Government is unable to cure said default upon the giving of notice of default and the lapse of the thirty (30)-day cure period as specified in the Customer Contract, then the Customer shall have the right to (i) purchase the Services from an alternative source and/or (ii) use its own energy source for Services during the period(s) when the Metropolitan Government is unable to provide the Services in each case during the period of continuing nonperformance. (Section 8)

Appropriations. All terms and conditions of this Contract constituting obligations of the State are made subject to the continued appropriations by the appropriate legislative body. (Section 9)

#### **PROVISIONS RELATING TO THE METROPOLITAN GOVERNMENT CUSTOMER CONTRACT**

The provisions of the Metropolitan Government Customer Contract are the same as those for the Commercial Customer Contract as described above, except as noted below:

In addition to the Contract Capacity Charge payable pursuant to the Customer Contract relating to the Contract Capacity Charge, the Metropolitan Government shall pay an Additional Available System Capacity Charge equal to the difference between (i) total System costs less (ii) the sum of (a) revenues from Initial Customers and (b) revenues from sales of energy to any other customers (the “Metro Funding Amount”).

All payment obligations of the Metropolitan Government under the Metropolitan Government Customer Contract are made subject to the continued appropriations by the Metropolitan Government.

# **APPENDIX C**

## **PROJECT FEASIBILITY REPORT FOR THE**



**Metro Nashville**  
**DISTRICT ENERGY SYSTEM**

*Prepared by:*



**Gershman, Brickner & Bratton, Inc.**  
**8550 Arlington Boulevard, Suite 203**  
**Fairfax, Virginia 22031**  
**703-573-5800**  
**[www.gbbinc.com](http://www.gbbinc.com)**

**September 18, 2002**

**PROJECT FEASIBILITY REPORT  
FOR THE  
METROPOLITAN NASHVILLE AND DAVIDSON COUNTY  
DISTRICT ENERGY SYSTEM**

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September 18, 2002

To: The Metropolitan Government of Nashville and Davidson County

Subject: Consultant's Report of our Review and Analysis of District Energy System Revenue Bonds (DES Project), 2002 Series (the "Bonds")

## 1.0 INTRODUCTION

Presented herein is the Consultant's Report ("Report") of our review and analysis concerning the redevelopment of a District Energy System ("DES") owned by The Metropolitan Government of Nashville and Davidson County ("Metro"). The DES redevelopment includes: 1) the design and construction of a new building and energy generating equipment ("Energy Generation Facility" or "EGF") in the Urban Services District (USD) of downtown Nashville for the production of steam and chilled water; 2) the design and construction of certain modifications and improvements to the Energy Distribution System (the "EDS"); 3) the acquisition of the land required for the EGF; 4) making improvements to the thermal efficiency of certain energy customers; 5) certain other related engineering and construction activities; 6) developing, permitting, start-up/acceptance; and 7) manage, operate and maintain all hereinafter referred to as the "Project." Artist renderings of the new EGF are presented in Exhibit C-1.

The Project will be constructed pursuant to a Contract for the Design and Construction of an Energy Generation Facility, Improvement of the Energy Distribution System, and Long-term Operation and Management of the Nashville District Energy System (the "Management Contract") between Constellation Energy Source, Inc. ("CES") and Metro.

Pursuant to the Management Contract, following completion of the development, permitting and construction phase of the Project, CES will manage, operate and maintain the DES for a period of 15 years. Metro has the option to renew CES operations for three (3) additional 5-year terms. The Project is authorized by Metro for the purpose of continuing, improving and expanding the existing district energy system in downtown Nashville.

Gershman, Brickner & Bratton, Inc. ("GBB") was retained by Metro to prepare this Report for the purpose of providing Metro an analysis and evaluation of the feasibility of the Project. GBB consents to the use of this Report as an integral part of the offering of securities to finance the Project and makes no representation or warranties with regard to its use for any other purpose. GBB has served as an advisor and consultant to Metro during its negotiations of the Management Contract with CES for development of the Project, and GBB expects to continue in an advisory and consulting role to Metro and as the Project Consultant during the design, construction, testing, and operation of the Project. GBB has been appointed to lead Metro's Project Administration during the development, construction period, and initial operating years of the Project and to complete the transition and decommissioning of the existing energy generation facility.

**Exhibit C-1 – Artist Renderings of New EGF**



**View from Gateway Boulevard Bridge**



**View from Hermitage Avenue**

## **1.1 Purpose of this Report**

The purpose of this Report is to provide Metro with knowledgeable opinions regarding the technical and economic feasibility of the Project and the District Energy System (DES) and knowledgeable projections of the magnitude of Metro's potential future commitments to the Project as further described below. Certain capitalized terms used in this Report are defined in the Management Contract or the Fuel Purchase Agreement.

## **1.2 Project Background**

### **1.2.1 Introduction**

Nashville Thermal Transfer Corporation ("NTTC") was chartered in 1970 and has provided district heating and/or cooling services to downtown Nashville building owners for almost thirty years as a solid waste-fired system. Currently, the NTTC system serves 38 buildings within the greater downtown Nashville area, including the Coliseum (home of the National Football League Tennessee Titans) across the Cumberland River. The decision to modify the DES from a solid waste-fired system to a fossil fuel-fired system was based in part on the results of a comprehensive study begun in July 2000 to review Metro's solid waste management system that included NTTC's solid waste incinerator as Metro's primary disposal means.

Metro's participation in NTTC is established under an Acquisition and Operating Agreement ("A&O Agreement"). The A&O Agreement establishes the methodology and guidelines for setting rates for energy and solid waste disposal so that adequate revenue is provided to cover equipment replacement requirements, at least 110% of debt service payments issued to finance NTTC capital improvements, and operational expenses budgeted for the applicable fiscal year. The energy rates established are to consider alternatives that customers, including Metro, would incur otherwise. The payment that Metro is required to make under the A&O Agreement, NTTC termed the Metro Fee, was calculated to allow for the above costs and revenues to balance each year. A history of the Metro Fee paid since NTTC's inception through the end of Fiscal Year 2002 (estimated) is provided in Table C-1. Each year, Metro has made an initial budget for the estimated Metro Fee and supplemented it, as necessary, to meet its financial obligations to NTTC. Because of a supplemental request made by NTTC to Metro in Fiscal Year 2000, Metro decided to look into the operations and cost of NTTC relative to other options. Since placed in operation in Fiscal Year 1975, the Metro Funding Amount has aggregated to approximately \$110 million and has escalated considerably in the recent five years. Each year, Metro has appropriated the necessary funding to meet its NTTC obligations.

Metro hired several specialty advisors to assist with all matters of Project feasibility, procurement, development and financing. GBB has served as Metro's overall management consultant for developing the Project with engineering services provided by Gresham Smith and Partners ("GS&P"). FVB Energy Inc. is providing specialized district heating and cooling system consulting services. Hawkins, Delafield & Wood is transaction counsel, providing legal assistance during the procurement process and contract negotiations with CES. Public Financial Management ("PFM") is Financial Advisor, providing review of the proposed debt structure and any related impacts of the Project on Metro's ability to meet its projected future capital needs.

**Table C-1 – History of Metro Fee Paid to NTTC**

<u>Fiscal Year</u>	<u>Amount (\$)</u>
1975	50,000
1976	650,000
1977	1,275,000
1978	1,300,000
1979	1,300,000
1980	1,300,000
1981	1,300,000
1982	1,500,000
1983	1,500,000
1984	1,500,000
1985	2,500,000
1986	2,500,000
1987	2,545,000
1988	2,636,620
1989	2,684,079
1990	2,748,496
1991	2,814,456
1992	3,183,708
1993	3,955,413
1994	4,540,584
1995	5,006,842
1996	5,796,763
1997	5,796,763
1998	6,208,799
1999	7,636,273
2000	7,788,316
2001	11,637,203
2002	14,495,282*

\*Shown as budgeted in NTTC Board of Directors Report.

### **1.2.2 Development of New System**

In the spring of 2001, Metro issued an RFP seeking private companies to take over the operation, maintenance and management of the DES, including the design and construction of a new fossil fuel-fired steam and chilled water generating facility to replace NTTC. After a competitive evaluation of respondents, CES was selected as Metro's developer and operator for the new DES.

The NTTC Board of Directors adopted an Interim Business Plan on April 19, 2001 for the purpose of providing a plan for conducting business through the remaining time the NTTC facilities are in operation. The closing date for the waste-to-energy facility as a whole was originally estimated to be April 2004. Subsequent to the adoption of the Interim Business Plan and the issuance of a consent decree by Metro's Health Department, NTTC agreed to shut down the waste burning components of the waste-to-energy facility by September 30, 2002 and generate steam and chilled water using natural gas fired boilers,

instead. A fire in the waste receiving area of the facility occurred on May 23, 2002 and caused an early closing of waste burning as of the day of the fire. Currently, the NTTC facility uses only natural gas to supply four boilers (two original/two temporaries) to generate steam and is expected to continue to do so until the new EGF becomes available in spring 2004.

The land for the EGF and adjacent areas for construction lay down has been acquired by Metropolitan Development and Housing Agency ("MDHA") and will be transferred to Metro prior to Bond closing. On September 16, 2002, Metro is scheduled to close on the purchase of the land on which the EGF will be built.

### **1.3 Report Methodology**

This Report presents data, findings, and opinions regarding the Project. During the preparation of this Report, GBB has reviewed such information and documentation as it has deemed relevant, including but not limited to: historical and projected energy system demand data, including that portion which represents steam versus chilled water, steam/chilled water fee system, and method for establishing capital and operating budgets; building and occupancy projections for the Metro area; estimates of Project capital and operating costs and revenues provided by Metro and CES; the executed Management Contract between CES and Metro, the Fuel Purchase Contract between Metro (as owner) and CES (for coordinating the fuel procurement efforts) and the contract between CES and the construction contractor for the EGF; various contracts CES subcontractors have with major equipment suppliers; existing contracts and the recently executed Initial System Customer contracts for the purchase of energy from the EGF; a site assessment report for the property purchased for development of the EGF; correspondence to CES from the design engineer, the construction contractor and key equipment suppliers regarding delay costs; certain information, materials, and descriptive data on CES and its contractors and Metro; the Site Lease and Final Purchase Site Agreement and other information.

GBB has met with representatives of CES, Metro, NTTC, the Construction Contractor, the design engineers and CES's legal counsel; reviewed (for coordinating the fuel procurement efforts) the scope of supply of the major equipment suppliers, Trane, English Boiler, Baltimore Air Coil and Gould Pumps; and met with the Underwriter. We have also visited two of CES's existing operations in Baltimore, MD and Pittsburgh, PA; as well as the proposed site for the EGF and the point of the EDS interconnection. We have reviewed with CES the operating and maintenance procedures, estimated costs, management approach, projections of selected operating data, and plans and specifications for the Project. GBB has also reviewed documentation associated with permits and approvals for the Project provided by Metro and/or the architect/engineer working as a subcontractor to CES, and we have discussed the service needs, delivery schedule, and performance of energy generation equipment with the operators at several U.S. locations where such equipment is installed.

During the development of the Project, GBB has also relied upon the engineering expertise of Metro's consulting engineering firm, Gresham Smith and Partners (GS&P). GS&P's engineering staff has reviewed the details of the site use, permit requirements, mechanical equipment/system layout and performance expectations of the entire Project's technical package. GBB staff has participated in numerous review sessions of the Project with GS&P and CES.

In preparing this Report and arriving at the opinions expressed herein, we have used and relied on certain information made available to us by sources which we believe to be reliable, and we have drawn on our knowledge about the planning, procurement, design, permitting, construction, acceptance testing, and operation of energy generation facilities and other district heating and cooling facilities.

## **2.0 THE PROJECT**

CES has entered into an agreement with Metro to (1) design and build the new EGF to replace the existing NTTC facility, including improvements to the electrical substation, and provide steam and chilled water to Metro's specifications to the Initial System Customers and Additional Customers; (2) design and build a new connection between the EGF and the existing EDS; (3) operate, maintain and manage the EGF and EDS, including all property, equipment, operations and maintenance, oversight, and customer relations; (4) make capital improvements to the existing and State Energy Distribution System as needed at this time to maintain its operability; and (5) make metering and certain energy conservation improvements to individual customer buildings.

### **2.1 New Metro DES Project**

#### **2.1.1 Energy Generation Facility (EGF)**

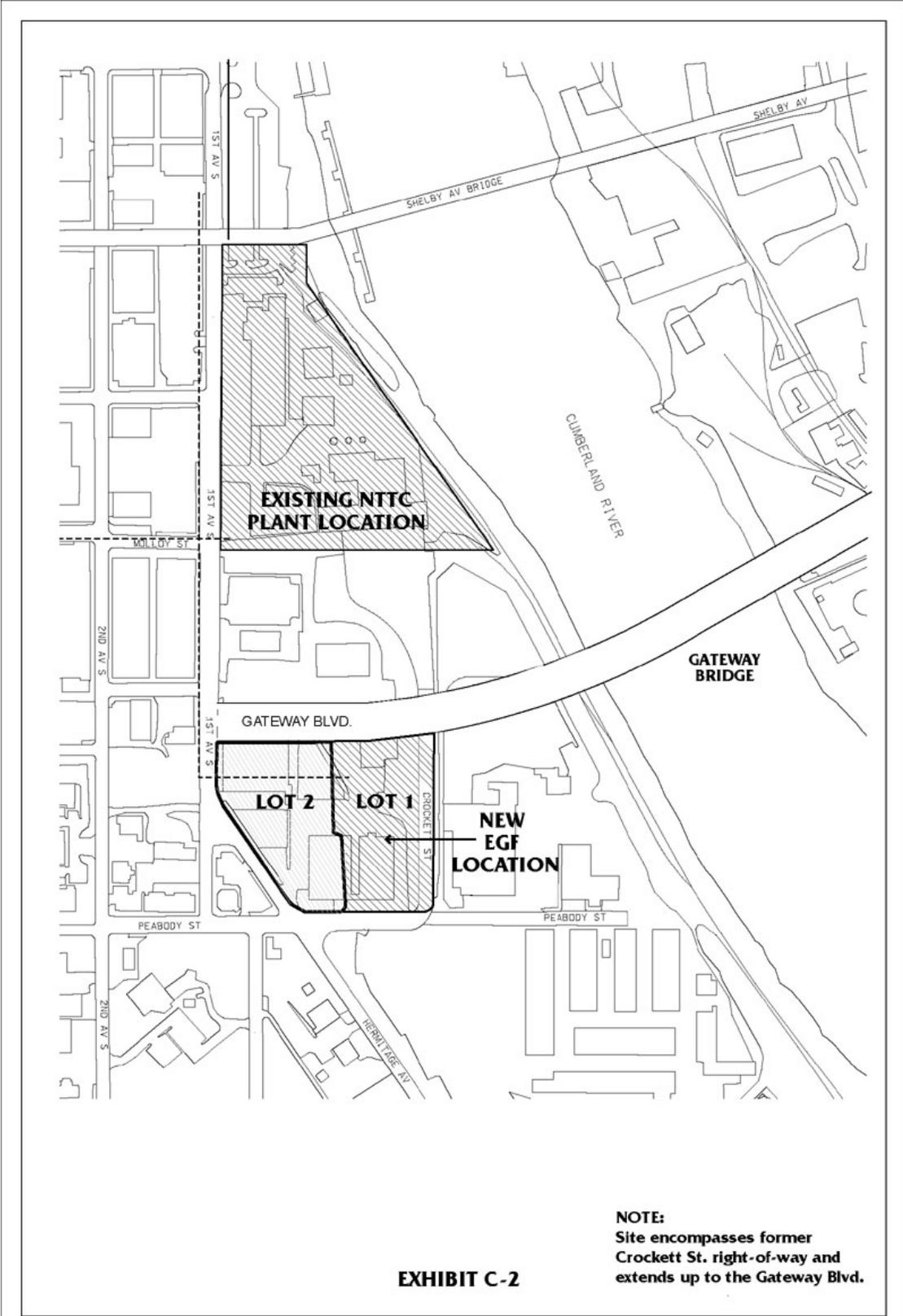
##### **2.1.1.1 The Facility Site**

The site of the new EGF (also referred to herein as Site B) is to the south of the existing NTTC plant site and abuts the southerly margin of the new Gateway Boulevard now under construction by the Tennessee Department of Transportation ("TDOT")(See Exhibit C-2). The site is located within the Rutledge Hill Redevelopment Area administered by MDHA. The plant site is bounded by the new Gateway Boulevard on the north, Peabody Street on the south, Hermitage Avenue on the west, and the easterly margin of the former Crockett Street right-of-way to the east. The site was previously acquired by the MDHA and has been subdivided into two development lots. Lot 1, the eastern lot, is 86,729.5 square feet in area, approximately 1.99 acres. Under the terms of a Memorandum of Understanding ("MOU") between Metro and MDHA dated March 5, 2002, Lot 1 is to be made available to Metro for development of the EGF. Lot 1 will be sold to Metro prior to the issuance of Bonds to finance the Project. Lot 2, comprising approximately 1.65 acres, will be retained by MDHA for future redevelopment. Metro will also lease the western portion of the site during the Construction Period as a laydown area for CES's use. Additionally, a small Metro site on the south side of Peabody Street will be used by CES for the siting of construction trailers and project management offices during construction.

After entering into a Memorandum of Understanding with MDHA for the land for the new EGF, Metro executed a contract to demolish a large building within the EGF footprint. Additionally, the contractor for the Gateway Bridge construction activity being completed by the TDOT is scheduled to complete the demolition of the other buildings that encroach onto the Project site before the scheduled start of Project construction, expected on or before October 30, 2002. Therefore, agreements are in place for Metro to assume long-term responsibility for the site and, in turn, make it available to CES for development of the EGF.

In preparation of the site for the EGF, CES will be re-routing two large existing Metro water and sewer lines (sanitary and storm) that run through the Facility Site. CES will be installing new sewer lines within a newly dedicated public utility and drainage easement that runs north to south within the Facility Site along the western edge of Lot 1. The ends of the existing line will be capped and left abandoned in place below the Project site.

GBB is of the opinion that the size and location of the available site is suitable for construction of the EGF. The Facility site has reasonable access to all water, sewer, electrical and other utilities sufficient for construction and operation of the Project. GBB is not aware of any subsurface conditions that would adversely affect construction or operation of the EGF.



**EXHIBIT C-2**

**NOTE:**  
 Site encompasses former  
 Crockett St. right-of-way and  
 extends up to the Gateway Blvd.

 **GRESHAM, SMITH AND PARTNERS**  
 Nashville, TN

**SITE LOCATION OF THE NEW EGF**  
 NASHVILLE, TENNESSEE

SHT. NO. MB01A  
 PROJ. NO. 21033.01  
 DATE 9/9/2002

### **2.1.1.2 The EGF Building**

The EGF will be housed in a new 43,450 square-foot, two-story building. The new building (approximately 142' wide x 189' long x 63' high) will be designed and constructed to blend in with the existing vernacular architecture of the surrounding neighborhood and to match the "urban design" features used in recent and planned future urban developments for the area. The building will have a brick exterior, tall arched-top windows, and landscape buffering. There will be 8" concrete block walls behind the brick exterior to contain noise transmission. The cooling towers will be located on the roof of the EGF and will be screened by a brick screen wall. This wall will be a continuation of the vertical wall of the EGF on all four sides in both character and material. The electrical switchgear will be located on the back side of the property, shielded by the building to the north and screen walls to the south, east and west side of the property. The screen walls will match the architecture of the EGF's façade in order to block visibility of the electrical switchgear from Hermitage Avenue, Peabody Street and from the remaining green space along the river's edge.

### **2.1.1.3 Primary Technical Components of EGF**

The technical approach chosen by the CES Project Team is based on proven central plant design strategies and consists of the following subsystems:

#### **Steam Production System**

The steam production facility subsystem of the EGF consists of all mechanical and electrical systems to produce a total installed capacity of 260,000 pounds per hour ("PPH") of 150 pounds per square inch gauge ("psig") saturated steam for delivery to the EDS. Specifically, the subsystem consists of four (4) English Boilers 65,000 PPH forced draft, pressurized boilers each with a single integral burner capable of dual fuel firing, i.e., natural gas and propane. Each boiler has an individual boiler flue gas exhaust stack. The guaranteed unit emissions are:

- 0.062 lbs. NO<sub>x</sub> per MMBtu input when firing either natural gas or propane

The boilers have continuous boiler blowdown, and the system includes boiler feedwater economizers. Each boiler is also provided with an in-situ, flue gas (oxygen) monitoring system. The combustion control system will electronically communicate with the overall plant controls.

Metro's water will be utilized at the EGF, and the Project includes a duplex soft water system capable of producing a total of 600 gallons per minute of soft water from Metro's water feed. This system includes appropriate softening and brine tanks and control systems, including automatic backwashing controls.

GBB has reviewed the manufacturing capability of the boiler supplier selected by CES. GBB is of the opinion that the design and number of steam production units provided by CES will reliably meet the EGF design requirements if manufactured, installed, operated and maintained by CES according to the manufacturer's recommendations and industry practice.

#### **Chilled Water System**

CES will design and construct a chilled water system using electric-drive chillers. The chilled water system consists of a total installed capacity of 20,800 tons. The chilled water system will supply 42°F chilled water to the EDS. Specifically, this chilled water system will consist of eight (8), 2,600-ton electrical-drive TRANE duplex centrifugal chillers, plus all ancillary mechanical and electrical equipment. Included in the ancillary equipment will be sixteen (16) single-cell, induced draft, Baltimore Air Coil (BAC) cooling towers.

Six (6) Goulds chiller water pump/motor sets will be provided along with five (5) Goulds condenser water pumps/motor sets. An important factor in the selection of pumps and chillers is System Delta T ("ΔT"),

defined as the temperature difference between chilled water supplied to and returned from the EDS (i.e., the System  $\Delta T$  is the term used to measure the collective impact of all of the individual customer building  $\Delta T$ s). There are benefits associated with an increased System  $\Delta T$ , and there is a program for improvement described later in this report. In regards to equipment selection and design, chilled water piping and pumping systems are designed for the current 10°F System  $\Delta T$ . Chiller selections are based on an improved 14°F  $\Delta T$ , which is the goal of the  $\Delta T$  improvement program described later. However, chiller capacity remains the same at the current 10°F  $\Delta T$ , and the chillers can successfully operate over a wide range of water/evaporator side  $\Delta T$  without maximum flow constraints.

The  $\Delta T$  improvements for the buildings (i.e., the temperature difference between chilled water supply and return to and from individual buildings) will have two key benefits which are: (1) lowered pumping at the EGF and (2) less energy use within the customer buildings. The design of the EGF anticipates these changes.

The condenser water system is designed for 15°F  $\Delta T$ . All piping/pumping arrangements are in reverse-return arrangement to eliminate water-balancing disparities. The cooling towers are equipped with individual basin heaters for protection during winter operation.

GBB has reviewed the design criteria and experience of Trane as the chiller supplier, as well as BAC and Goulds. GBB is of the opinion that the chilled water system provided by CES will reliably meet the EGF design requirements if manufactured, installed, operated and maintained according to the manufacturer's recommendations and industry practice.

### **Facility Piping System**

The operating pressure/temperatures for the piping systems within the EGF are as follows:

- Chilled Water - 200 psig/60°F max.
- Condenser Water - 50 psig/105°F max.
- Makeup Water/Non-potable/Domestic Water - 100 psig/70°F max.
- Steam - 150 psig/ 425°F max.
- Feedwater - 250 psig/425°F max.
- Condensate Return (Gravity and Pumped) - 150 psig/200°F max.

GBB is of the opinion that the design conditions of the Facility piping system provided by CES will reliably meet the EGF design requirements if manufactured, installed, operated and maintained according to the manufacturer's recommendations and industry practice.

### **Electrical Supply**

For electricity, CES will tie into the Nashville Electric Service ("NES") system with a major service point owned by NES sited at the EGF plant site. Metro has entered into an electrical supply agreement with NES.

The design of the CES electric system provides for 100 percent redundancy through the use of two (2), independent, 69 kV utility feeds of 100 percent capacity from NES connected to the main NES 69 kV ring bus that is supported by numerous feed points.

The CES distribution system consists of six (6) distribution panels whose voltage and capacity ratings are segregated for load served. Each distribution panel is double-ended with crosstie and fully redundant transformers and bus. All high voltage and medium voltage gear is manufactured by General Electric Corporation. All control power systems have battery backups. All substations and switchgear include automatic changeover tiebreakers.

Electric service includes a new 69/13.8 kV supply substation with dual independent 69 kV utility supplies from the NES 69 kV ring bus, and two 69/13.8 kV transformers, each rated to carry the full load of the facility and automatic changeover on the 13.8 kV side of the transformer.

GBB is of the opinion that the electrical supply subsystem of the EGF consists of electrical power substations that will provide reliability and redundancy to the EGF if operated and maintained according to the supplier's recommendations and industry practice.

### **Interconnection to the Existing EDS**

The piping from the EGF to the existing EDS will be accomplished by CES engineering, designing, installing, starting-up and maintaining the underground distribution piping for connecting the chilled water and steam and condensate subsystems in the EGF to the existing EDS at NTTC's Manhole M.

The steam supply will be a direct-buried, 20" diameter pipeline (Class A Conduit system), and 10" diameter pre-insulated and jacketed condensate return line each of which will be installed running from the EGF under Gateway Boulevard to an enlarged Manhole M for tie-in with the existing EDS system. The Chilled Water supply and Chilled Water return lines will be in two direct-buried, 42" diameter pipelines also running from the EGF under Gateway Boulevard to the enlarged Manhole M for tie-in with the existing EDS system. FVB Energy conducted a hydraulic analysis that verified the adequacy of the sizing of the pipes exiting and returning to the EGF.

GBB is of the opinion that the piping system proposed to be constructed from the EGF to the EDS will reliably meet the EGF design requirements if designed/fabricated, installed, operated and maintained according to the manufacturer's recommendations and industry practice.

### **Instrumentation and Metering Systems**

The overall control system shall be distributed controls, based on individual equipment/process controllers for major equipment/processes integrated to a digital control backbone for remote operation. A PC-based Supervisory Control and Data Acquisition (SCADA) system, on an Ethernet network with Wide-Area-Network (WAN) connectivity, shall interface with the digital control backbone. The SCADA shall also interface/communicate with EDS building metering systems. The major equipment/processes shall be equipped with individual stand-alone controllers such that the equipment/process can be monitored and controlled from a local panel.

GBB is of the opinion that the instrumentation and metering system provided by CES will reliably meet the EGF design requirements if designed, fabricated, installed, operated and maintained according to the manufacturer's recommendations and industry practices.

#### **2.1.1.4 Fuel Delivery and On-site Storage**

In accordance with the Fuel Purchase Contract as agreed to and entered into by Metro and CES, CES is responsible for assisting with procuring and coordinating the supply of fuel and energy requirements of the DES. For the EGF, the primary fuels will be natural gas (steam system) and electricity (chilled water system). The back-up fuel for the EGF will be propane, if natural gas is unavailable or uneconomical.

For natural gas supply, CES has made arrangements for tie-in to the Nashville Gas ("NG") system. NG will route a new line (approximately 700 feet long) from an existing 12" high pressure main in Peabody Street to the southeast corner of the EGF building.

The propane system will consist of 12,000-gallon, above-ground storage tank(s) on the EGF site. The backup propane system will consist of the tanks, a vaporizer and supply lines that will meet 100% of the maximum boiler required flow rate. At an EGF send-out of 160,000 PPH steam, this storage will last approximately four (4) hours, which will allow time for dispatching additional local propane supply trucks to the EGF.

GBB is of the opinion that the design of the backup fuel system allows adequate supply and firing time to allow the dispatching of additional supply sources to meet the EGF fuel needs if operated and maintained according to current supply sources, manufacturer's recommendations and industry practices.

## **2.1.2 Energy Distribution System (EDS)**

### **2.1.2.1 Overview**

The existing EDS consists of approximately 48,000 linear feet of underground chilled water supply and return piping, and underground steam supply and condensate return piping. The system has 26,000 feet of direct buried pipe and 22,000 feet contained in tunnels. The tunnel system includes manholes, valves, ventilation equipment, and ground water maintenance pumps. The chilled water piping terminates in each building at the inlet and discharge of the building distribution system. The steam supply system terminates in each building at a pressure reducing station, while the condensate return begins at the outlet of the condensate return pump. All buildings have NTTC-installed and maintained metering systems.

### **2.1.2.2 Tunnel Network**

Approximately 46 percent of the EDS is housed in tunnels. Exhibit C-3 presents a layout of the existing EDS pipeline system. Three main 8½-foot diameter tunnels provide the corridor through which the piping is run. The first tunnel begins at First Avenue and Broadway and runs southwest under Broadway until it terminates at Seventh Avenue. The second tunnel branches from the first main and runs northeast under Seventh Avenue until it finally terminates at Union Street. The third tunnel branches off the first main at Fourth Avenue and runs northeast until it terminates at Deaderick Street. All additional piping runs branching to the buildings are under grade. The tunnel network is ventilated with a series of supply and exhaust fans for space ventilation and condensation control. The tunnels are accessible only through a series of manholes. Ground water infiltrates the tunnels and must be pumped out to maintain applicable safety procedures and entry.

### **2.1.2.3 Chilled Water System**

The chilled water main leaving EGF is 42 inches in diameter and reduces down to as small as two (2) inches in diameter. All piping is insulated with either calcium silicate or fiberglass insulation. The piping material is carbon steel with either butt-welded or mechanically flanged joints and Class 50 restrained joint ductile iron pipe.

### **2.1.2.4 Steam System**

Steam is delivered through a series of mains, which vary in size throughout the network from 20 inches in diameter down to two (2) inches into the buildings. The steam distribution system contains various condensate traps and controls within the tunnel structure. All steam piping is insulated with either calcium silicate or fiberglass insulation. The piping material is carbon steel with either butt weld or mechanically flanged joints.

A new addition to the existing steam system is a steam network previously owned, operated, and maintained by the State of Tennessee. This system redistributes steam to a number of State buildings located in the northwestern segment of the Thermal steam network, and title to which will be transferred to Metro pursuant to Metro's contract with the State. It amounts to about 10% of the steam piping of the total EDS. The following paragraph contains more information about acquisition of this system, its condition, and maintenance and repairs required.




**GRESHAM, SMITH AND PARTNERS**  
 Nashville, TN

**EXISTING EDS PIPELINE SYSTEM**  
**NASHVILLE, TENNESSEE**

SHT. NO. M8018  
 PROJ. NO. 21033.01  
 DATE 9/9/2002

### **2.1.2.5 EDS Improvements**

Analysis of the EDS began in July 2000. The examination of the existing EDS determined that it was well maintained and in good condition for its age. Requirements to repair tunnels, replace insulation, and fix leaks are negligible. Furthermore, it was determined that the pipe sizes leaving the plant do not restrict growth, and with a reasonable investment in improvements, it can continue indefinitely into the future. The improvements currently anticipated by Metro are replacement of: (1) up to 75 chilled water valves, (2) 3 main steam valves, and (3) approximately 600-700 feet of fiberglass condensate return line, all of which are required primarily from an operations standpoint.

NTTC currently supplies steam to certain State of Tennessee buildings, and the State system redistributes that steam to various other State buildings. A visual inspection of the State's piping system found that this system was in generally good condition, and that little was required with respect to repairing tunnels, fixing leaks, or replacing insulation. Some testing of fiberglass condensate return piping was recommended, the cost of which is minimal. Maintenance and repair records for this system were also obtained. Based on the outcome of this investigation, Metro decided to proceed with the acquisition of State's redistribution system. As of the effective date of the new contract, State will pay Metro \$300,000 per year to transfer the responsibility of maintaining the distribution system owned by the State.

### **2.1.2.6 Energy Conservation and Decoupling Projects**

Metro budgeted certain Bond proceeds for energy conservation projects. These amounts will be spent on  $\dot{A}T$  improvement projects. To achieve the improved  $\dot{A}T$ , changes are required within customer buildings. A survey was conducted to estimate  $\dot{A}T$  improvement (1) capital costs, (2) DES benefit, and (3) customer benefit for all existing customer buildings. The current  $\dot{A}T$  for the NTTC is approximately 8.5°F to 9.5°F. The decoupling,  $\dot{A}T$  and pumping changes are expected to raise the  $\dot{A}T$  to 11.8°F @ 178.6 ft. of head and a maximum chilling load of 20,732 tons. The survey also yielded a prioritization of benefit versus cost, which will be used as another basis for selecting customers for this energy conservation improvement. The decoupling projects remove the pressure head associated with these certain high-rise buildings from the DES and greatly improves operations.

### **2.1.2.7 Conclusion**

GBB is of the opinion that the existing EDS, when coupled with the repair, replacement and maintenance program provided for within the Project, will be able to provide a reliable steam, chilled water and condensate return distribution system if operated and maintained according to manufacturer's recommendations, industry practice and terms of the Management Contract.

## **2.2 Project Agreements**

### **2.2.1 Management Contract between Metro and CES**

#### **2.2.1.1 Introduction**

On January 15, 2002, the Metro Council adopted a resolution authorizing the execution of the Management Contract. On January 16, 2002, the parties executed the Management Contract.

The contracted services include the design work, construction work and management services for the development and operation of the new DES. Three distinct phases of this agreement include (a) the Development Period from the contract date to and including the day preceding the Construction Commencement Date ("CCD"), (b) the Construction Period meaning the time from and including the CCD up to and including the day preceding the Acceptance Date, and (c) the Management Period, the period of time commencing on the Scheduled Service Commencement Date and ending on the Termination Date. Based on current plans and schedules, the expected CCD will be on or about October 30, 2002.

The CES-managed assets will include the EGF, the EDS and all other DES improvements, expansions and modifications that have been agreed upon by CES and Metro during both the construction period and the Management Period. CES is responsible for preparing all permit applications and permit modifications required for the new DES. Unless otherwise approved by Metro or required by applicable law, all permits will be held in Metro's name.

While the DES will be owned by Metro, the EGF will be designed, constructed, started up, acceptance tested, operated, maintained, equipment replaced and/or repaired and managed by CES. CES is responsible to conduct preliminary site work, surveys, environmental reviews, subsurface testing and other tests necessary for CES to commence Construction. CES's design, engineering, construction, start-up, Acceptance Testing, and related obligations with respect to the Facility, and the EDS improvements during the construction period, are included in the Management Contract.

The Project will be constructed so as not to interfere with or interrupt the current NTTCC operation. CES is required to use "Prudent Utility Practice" during the term of the Management Contract, including those practices, methods and procedures, as modified from time to time, that are currently and commonly used in utilities to design, engineer, select, construct, operate and maintain energy generating facilities and equipment for providing steam and chilled water in the mainland United States dependably, reliably, safely, efficiently, and economically, with due regard to the state-of-the-art in the energy generating industry.

#### **2.2.1.2 Schedule and Acceptance**

The Scheduled Service Commencement Date ("SSCD") is 610 consecutive days following the CCD, with extensions for excused delays due to Uncontrollable Circumstances. The Service Commencement Date ("SCD") is the date upon which CES commences delivery of steam and/or chilled water service to the energy customers in sufficient quality and quantity to satisfy the demand requirements of Metro under all of the Customer Contracts, which include those of the Initial System Customers, the Holdover Customers, and the Additional Customers as discussed in Section 2.9.

Assuming a CCD of October 30, 2002, the SSCD will be July 2, 2004. As an early completion incentive, if the SCD occurs prior to the SSCD, Metro has agreed to pay CES an incentive payment equal to \$10,000 for each day that the SCD is in advance of the SSCD. Based upon current plans and schedules, GBB expects that the SCD could be as early as May 7, 2004.

On the other hand, CES has to pay for liquidated damages delay if the Facility commences providing steam and/or chilled water services later than the SSCD, the end of the Extension Period or the date of any termination of the Management Contract. The amount of such liquidated damages are equal to the sum of (i) daily debt service occurring on the Bonds (net of daily earnings on invested proceeds of the bonds) and (ii) \$10,000 per day for each day that the commencement of service starts after the SSCD in each case up to the end of the Extension Period or, if sooner, the date of any termination of the Management Contract or the commencement of service.

The initial management term of the Management Contract commences on the SCD and will end on the fifteenth (15<sup>th</sup>) anniversary of the SCD. Metro also has the right, at its sole option, to (a) extend the term of the Management Contract for five (5) years following the end of the initial management term and (b) further extend the term of the Management Contract two (2) more times each for additional five (5) year terms on the same terms and conditions as the initial management term of the Management Contract.

CES will not commence start-up operations in preparation for conducting the Acceptance Tests until Substantial Completion has occurred. Thereafter, CES shall conduct Acceptance Tests in accordance with the Management Contract and the Acceptance Test Plan.

The Acceptance Date is the date on which all of the following shall have occurred: (i) the system has achieved Substantial Completion, (ii) CES has certified to Metro that the entire system is ready for

Acceptance Testing and is capable of demonstrating that it can pass the Acceptance Tests, (iii) the Transition Date (as defined in the Initial Customer Contracts) shall have occurred, and (iv) either (a) the system has passed both parts of the Acceptance Test – Chilled Water and Steam – at the full Acceptance Standard, or (b) the system has passed both portions of the Acceptance Test at full Acceptance Standard for all guarantees other than the throughput, temperature and pressure, or capacity standards, and the appropriate buydown of such standard(s) shall have been made to Metro.

If Acceptance has not occurred on or before the Scheduled Acceptance Date for any reason other than Uncontrollable Circumstances, CES shall be entitled to conduct or repeat the Acceptance Test as often as it desires in order to secure Acceptance of the Facility, including any Initial System Improvements made during the Extension Period. If, as of the last day of the Extension Period, the Acceptance Date has not occurred, an Event of Default by CES will be deemed to have occurred, and Metro has the right to terminate the Contract upon written notice to CES.

The Fixed Construction Price of CES includes all amounts necessary to pay for operations and maintenance of the Facility (other than Pass-Through Cost components and the cost of Fuels incurred to provide services after the SCD) and the EDS during the Acceptance Tests and any period of commissioning between testing and Acceptance, as well as the basic cost of construction and any start-up operations. The cost of any retesting due to CES failure of the initial Acceptance Tests, including Metro costs (other than Pass-Through Cost components and the cost of Fuels incurred to provide services after the SCD) shall be borne by CES.

If the Facility would otherwise have achieved Acceptance but for failure to satisfy the performance guaranty in the Management Contract related to steam capacity and chilled water delivery, and provided that the Acceptance Tests demonstrate that the Facility has satisfied each of the key guarantees at a level of at least 85% of the full Acceptance Standard, CES may achieve Acceptance by paying to Metro an amount equal to that amount that would be necessary to defease that percentage of the Bonds equal to the percentage of the shortfall from the full Acceptance Standard allocable for steam and/or chilled water generation.

Prior to testing, CES will submit a transition plan to Metro for the seamless transition from NTTC to the new Facility. The plan will be submitted by CES to Metro not later than 90 days prior to the proposed testing for review by Metro. Metro must approve the transition plan prior to commencement of Acceptance Testing.

The EGF and all improvements will be owned by Metro, with Metro making the EGF available to CES on an exclusive basis during the term of the Management Contract. All steam and chilled water and any other form of energy generated by the DES shall be owned by and be the property of Metro until such time as ownership may transfer to a customer pursuant to a customer contract.

GBB is of the opinion that the time for construction and acceptance testing is adequate for this Facility if CES applies appropriate construction management techniques, including ordering equipment in a timely fashion and providing appropriate staff for construction, installation and start-up activities.

### **2.2.1.3 Construction Price and Adjustments**

The Fixed Construction Price and any Fixed Construction Price Adjustments will be payable solely from the proceeds of the Bonds. The Fixed Construction Price includes the interconnections between the Facility and the existing EDS, but no other improvements to the EDS.

Metro will pay CES a Fixed Construction Price in the sum of \$46,904,737 if the CCD occurs on or prior to January 1, 2003. The Fixed Construction Price includes all fuels and utilities required prior to the SCD and all other costs of achieving Acceptance through the Acceptance Date.

The Fixed Construction Price is apportioned 40% to steam service and 60% to chilled water service. Any cost overruns associated with the construction of the Facility shall be the responsibility of CES except to the extent actual construction costs are increased due to Uncontrollable Circumstances.

Each milestone payment requested by CES is subject to a 10% retainage holdback, with interest earned on the retainage holdback to be held for CES's benefit. On the Acceptance Date, Metro shall release the retainage, less that portion of the retainage that is reasonably estimated by CES and agreed to by Metro as being equal to the value of the work listed on the final punch list.

CES and Metro have agreed to a range of additional projects that could be added by executing change orders to the Management Contract without needing additional Metro Council authorization, subject to a specified maximum cost on the total. Projects such as the EDS improvements and the building energy conservation, decoupling and metering projects will be accommodated with this mechanism.

GBB is of the opinion that the Fixed Construction Price is reasonable and provides adequate funds for CES to design, build and perform Acceptance Tests of the Facility.

#### **2.2.1.4 Utility Services and Metering**

CES will provide adequate services for telephone, electricity, natural gas, backup fuel, potable water, nonpotable water, sanitary drainage and storm drainage during all phases of construction and operation. CES will also install and maintain metering instrumentation on supplies of electricity, natural gas, backup fuel, potable water and nonpotable water used in generating steam and chilled water.

So as to allocate electricity charges against the Guaranteed Maximum Utility Usage per CES's Fuel and Utility Usage for chilled water and steam, CES will provide for separate submetering for electrical loads associated with the chilled water system's electrical consumption, and electrical loads associated with the steam system. CES is also responsible for installing (to the extent not already existing), operating and maintaining the metering and interconnections of the energy customers on the EDS.

#### **2.2.1.5 Operations and Customer Billings**

As of the SSCD, CES is responsible for operating and maintaining the Facility and the EDS (including the tunnels) on a 24-hour per day, 7-day per week basis in accordance with the Contract Standards and the performance guarantees. Scheduled maintenance, that is required to be performed with the EDS out of service (cold outage), is limited to two such events per calendar year, with a maximum service interruption of 12 hours each, for steam and chilled water, respectively.

CES is responsible for making all repairs and replacements, including major maintenance, repairs and replacements, and upgrading or replacing obsolete equipment, machinery, facilities, structures and improvements constituting the EGF and the EDS (including the tunnel system housing portions of the EDS and direct buried piping systems). All major maintenance, repair and replacement, whether of an operating or capital nature, is the responsibility of CES, and compensated for solely through the Management Fee. Most of the Management Fee is a fixed operating charge of \$3,401,770, subject to annual escalation, with certain adjustable and pass-through costs.

CES is responsible for arranging for all other utilities services required for the operation of the Facility and, while the Fuel Purchase Contract is in effect, for fuel supplies for the Facility. Payments for fuel are made under the Fuel Purchase Contract. If the Fuel Purchase Contract were terminated, Metro would assume responsibility for arranging for fuel supplies necessary to operate the Facility.

In the event CES fails to provide Steam and/or Chilled Water or any substitute service reasonably acceptable for a period exceeding three consecutive days, except for failure due to Uncontrollable Circumstances, CES is liable to Metro for any amounts payable by Metro for such failure to provide service to the energy customers. CES has access to customer premises for determining whether any

abnormal leakage of steam, steam condensation and/or chilled water is occurring from the customer piping system within the customer's premises.

CES is responsible for damage caused to the property and businesses of energy customers for which Metro is liable under the relevant customer contracts, such as damage resulting from service outages, which is caused by the failure of CES to perform the contract services, provided that the liability of CES under any additional customer contract that has not been approved by CES shall not exceed the nature and scope of liability of CES under the Initial Customer Contracts.

CES, on behalf of Metro, is responsible for all billing, collection and metering services required for the new DES. The fees collected shall be deposited with the Trustee under the terms of the Trust Indenture.

#### **2.2.1.6 Additions or Improvements to Facility or Project**

Metro may at any time request CES to develop and construct additions or improvements to the EGF or the EDS. For preparing preliminary proposals in response to such requests, CES is to be reimbursed up to \$25,000 for each request made by Metro. Metro may pursue additions or improvements by a party other than CES, but only after failing to reach agreement with CES following the procedures set forth in the Contract.

Prior to acceptance of a proposal by Metro, Metro and CES must agree on a method of financing the capital costs of any proposal, which may include the issuance of additional bonds on terms and conditions similar to those set forth in the Management Contract. The Management Contract also contains provisions that allow CES, at any time, to submit a proposal to Metro to develop and construct additions or improvements to the Facility or the EDS either (i) at Metro's cost and expense or (ii) at CES's sole cost and expense. No system expansion/improvement is intended to alter CES's obligations to operate and maintain the EGF, including performing planned and unplanned maintenance, repairs and replacements thereto, at CES's own cost and expense, of which obligations of CES are absolute and unconditional and are not subject to approval by Metro.

As it relates to additions to the System by new potential energy customers, Metro has responsibility to submit each proposed Additional Customer Contract to CES for review, comment and approval at least 15 days prior to the proposed date of execution and delivery of such Additional Customer Contract. CES may comment on the Additional Customer Contract but shall approve the Additional Customer Contract unless (i) the contract includes liabilities of a nature and scope that is materially greater than those in the Initial System Customer Contracts, or (ii) the contract would result in a demand on the system greater than the capacity of the DES to reliably serve. Failure by CES to either approve a proposed Additional Customer Contract during such 15 day period or to deliver notice of non-approval specifying in reasonable detail the reasons for non-approval shall be deemed to be an approval by CES of the proposed Additional Customer Contract.

#### **2.2.1.7 Security Instruments**

In addition to the Guaranty Agreement discussed in Section 2.2.3 below, Metro has other instruments in place to provide security for CES's payment obligations under the Management Contract. If the Guarantor suffers a material decline in its credit standing (generally a credit standing unable to support an investment grade credit rating), the Guarantor must provide either an escrow account or irrevocable letter of credit in the amount of 50% of its remaining balance of liability of the Guarantor under the Guaranty until either its credit rating is restored to investment grade or it provides to Metro an acceptable additional Guarantor.

On or before the CCD, CES shall provide financial security for the performance of its obligations under the Management Contract through a performance bond and labor and materials bonds (hereinafter referred to as "Surety Bonds") issued by a surety company meeting Metro's acceptability criteria. The two Surety Bonds shall be issued in the names of CES and Metro in the amount of the Fixed Construction Price, and shall remain open until Acceptance.

### **2.2.1.8 Other Miscellaneous Conditions**

At all times during the term of the Management Contract, CES must obtain and maintain (or cause to be obtained and maintained) the Required Insurance in accordance with the requirements of the Contract and is responsible to pay all premiums for such insurance.

Metro will pay the Management Fee to CES during the continuance of any Uncontrollable Circumstance only if service is provided, or if such Uncontrollable Circumstance is a failure to have Fuels at a time when Metro is responsible for arranging for the supply thereof. It should be noted that, for purposes of the Management Contract, a failure to provide service for less than seventy-two (72) hours is deemed providing service. Furthermore, such payments of the Management Fee to CES will be adjusted to account for any cost reductions achieved through CES mitigation measures, as well as for any cost increases to which CES is entitled. If CES is able to provide service, but service is not provided because an energy customer is unable to accept service, the Management Fee continues to be payable to CES.

To the extent that Uncontrollable Circumstances interfere with, delay or increase the cost of CES's performing the Contract services, and CES has given notice within a reasonable time, CES may be entitled to relief from its performance obligations, an increase in the Management Fee, or an extension of schedule which properly reflects the interference with performance. However, the amount of the increased cost, or the time lost as a result thereof, in each case shall be only to the minimum extent forced on CES by the event, and CES shall perform all other Contract Services. The proceeds of any Required Insurance available to meet any such increased cost, and the payment by CES of any deductible, shall be applied to such purpose prior to any determination of cost increase payable by Metro.

Before proposing an adjustment in the Management Fee, CES is responsible for determining whether any increased costs of operation and maintenance of the System resulting from an Uncontrollable Circumstance can reasonably and prudently be reduced by the undertaking of a capital improvement. However, Metro, in its sole discretion, determines whether such a capital improvement shall be undertaken and advises CES of its decision. In no event is CES allowed to undertake such a capital improvement except at the express written direction of Metro.

CES bears the net costs, after insurance proceeds are realized (if any), resulting from the occurrence of an Uncontrollable Circumstance (other than Metro's failure to arrange for fuel supplies when it is responsible for doing so) to the extent of the first 20% of such net costs up to an aggregate of \$100,000 per Contract Year, but only if the causes or effects of such Uncontrollable Circumstance (other than Metro's failure to arrange for fuels when it is responsible for doing so) would have been avoided by CES if CES had acted the way a prudent person would act in operating and maintaining his own property.

### **2.2.2 Fuel Purchase Agreement between Metro and CES**

Metro and CES have entered into a Fuel Purchase Contract ("Fuel Contract"). Under the Fuel Contract, CES is responsible for facilitating the supply of the fuel and energy requirements of the DES through fuel and energy procurement services. The term of the Fuel Contract is coterminous with the term of the Management Contract unless specifically terminated for cause in accordance with the Fuel Contract.

CES is responsible for issuing a fuel procurement document to competitively solicit fuel supplies for the EGF. CES is responsible for arranging for the supplies of the fuels for use at the EGF meeting 100 percent of the EGF requirements of both Primary Fuels (natural gas and electricity) and Back-up Fuel (propane).

The payment to CES for their undertakings of the Fuel Contract are included in the Management Fees due CES under the Management Contract. Additionally, the possession and title of all fuel delivered under the Fuel Contract passes to Metro at the fuel delivery point. While CES is responsible for arranging the purchase of the fuels, Metro assumes responsibility for payment for such fuels after CES has reviewed and approved invoices for fuels tendered to CES under the provisions of the Fuel Contract.

Regarding electricity supply, the Fuel Contract indicates that until such time, if ever, as the electricity is deregulated in the State of Tennessee, CES must obtain electric power from Nashville Electric Service or any successor at the applicable tariff rate for industrial users with comparable demand profiles to the EGF. However, in the event of deregulation, CES will use good faith efforts to obtain electricity on terms which reduce the cost therefor without increasing Facility operational risk or compromising reliability of electricity supply to the EGF.

Regarding natural gas, the Fuel Contract states that CES will use reasonable efforts to obtain natural gas at or below the price being charged by Nashville Gas Company at its industrial interruptible transport gas tariff for short-term (less than one year) contracts. Regarding backup fuel, the Fuel Contract states that CES shall obtain supplies on terms and at prices CES deems reasonable from time to time under the circumstances.

### **2.2.3 Guaranty Agreement**

Coincident with the execution of the Management Contract between CES and Metro, Constellation Energy Group ("CEG" or "Guarantor") executed a Guaranty Agreement for Metro. Constellation Energy Group, as the Guarantor agreed to guarantee absolutely, presently and irrevocably each and all of the payments to Metro by or on behalf of CES. The Guarantor specifically agreed that in the event of a failure by CES to pay an obligation guaranteed by the Guaranty Agreement, Metro has the right to proceed directly against the Guarantor. The Guaranty is absolute and unconditional and is in full force and effect during the entirety of the Initial Term of the Management Contract, but not, without the Guarantor's agreement, during any Renewal Term.

The aggregate liability of the Guarantor is limited to \$5.0 million during the Development Period, \$12.0 million during the Construction Period through the Acceptance Date, and \$12.0 million during the first five years of the Management Period, declining to \$8.0 million for the next five years of the Management Period, and to \$4.0 million for the last five years of the Management Period. On or after the fifth anniversary of the Service Commencement Date, the Guarantor shall have the right to substitute a standby Letter of Credit in the stated amount of \$8.0 million for the Guaranty, with a provision for automatic renewal for a one-year term, unless 30 days prior to the upcoming expiration date written notice of termination is delivered to Metro. The Letter of Credit will remain in force through the remaining initial term of the Management Period. Metro is permitted to draw upon it in its entirety by sight draft upon notice by the bank of non-renewal.

## **2.3 Transition Activities from Existing System to New DES**

### **2.3.1 Overview**

The location of the tie-in of the EGF with the EDS will be in the vicinity of Manhole M (existing), in the existing NTTC parking lot (See Exhibit C-2). This location provides a suitable underground point near the EGF, which minimizes capital cost and considers that the existing plant will be demolished to facilitate the re-vitalization effort in the area of NTTC. This location also provides a relatively straight run on current Metro property. With the exception of the steam and chilled water distribution return lines running under Gateway Boulevard, this route does not cross or interfere with any public roadways, which lowers the cost associated with road closures, restricted hours of work and project coordination.

During the construction of the new chilled water and steam interconnection, CES will need to temporarily relocate the existing underground NTTC electrical connection to keep NTTC in operation at the same time. NES has agreed to a plan to accomplish this by constructing a temporary overhead connection of its joint feeds to the NTTC plant. Because the service has redundant feeds into the plant, it can be relocated with no interruption of service during the pipe laying construction process.

### **2.3.2 Timeframe of Physical Work Associated with the Tie-In**

Within the timeframe of start of construction and the beginning of equipment start-up and testing there is a degree of flexibility for scheduling the necessary shutdowns to the chilled water system and the steam and condensate system. It is expected that considering a 20-month +/- construction period, the tie-in is planned to coincide with a chilled water shutdown over the course of a weekend during the winter months and a steam and condensate shutdown over a weekend during the summer months.

For the steam line and condensate return tie-in, CES will bleed the system and a section of existing condensate and steam piping will be removed to facilitate the installation of a tee in each line. An isolation valve will be installed in the tee feeding the new distribution piping installed/to be installed from the new EGF. Assuming that the distribution system valves will isolate, the steam system outage is expected to be approximately 48 hours.

Similarly, for the chilled water system tie-in, a section of existing chilled water supply and return piping will be removed to facilitate the installation of a tee in each line. An isolation valve will be installed in the tee feeding the new distribution piping from the new EGF. The chilled water system outage is expected to be approximately 72 hours.

GBB is of the opinion that the transition plan from the NTTC system to the new DES is reasonable and, if conducted as presented, will provide a proper level of transitional activities.

### **2.3.3 Other Transition Activities**

Prior to the start-up of the Project, CES is required to submit a transition plan to Metro for the seamless transition from the NTTC operations to the new DES operations. The plan includes the following elements.

Six months prior to turnover of control of the DES, CES will have completed a detailed set of startup and testing procedures, and will have completed its site-specific safety program. Five months prior to turnover of control of the DES, CES will post operations and maintenance job positions for NTTC personnel. Following the NTTC internal job posting, CES will advertise locally. At that time, CES will also complete the operating and maintenance manuals for the new EGF.

Four months prior to turnover of control of the DES, CES will post the remaining administration and finance job opportunities for NTTC personnel, and will complete remaining procedures applicable to the EDS and coordination with the EGF. Three months prior to turnover of control of the DES, CES will begin hiring and training the new operating and maintenance employees, as well as ordering and receiving of inventory, supplies, tools etc. Two months prior to turnover of control of the DES, all new CES operations and maintenance employees will be on site as startup and commissioning begins. Utilizing the CES communications plan, all parties internally and externally will be notified of upcoming activities, including the anticipated date for official DES turnover.

One month prior to turnover of control of the DES, final commissioning of the new EGF begins, including load testing, as the final underground pipe work is completed and all energy isolation valves between the NTTC plant, the new EGF and the EDS are opened. Communication between the NTTC plant, Metro personnel and the new EGF personnel is critical during this time frame. Operating transition procedures for both plants will be implemented during this month.

When control of the DES is turned over to CES, CES will have total responsibility for the NTTC plant and the new EGF plant, as well as the EDS. The NTTC plant will be in standby status for a minimum of thirty days as back-up for the new facility until the commissioning plan is completed.

## 2.4 CES Facility Performance Expectation, Guarantees, and Warranties

### 2.4.1 Introduction

The highest estimated NTTC output for 1999 and 2000 was 17,900 tons for cooling and 169,000 pounds per hour (PPH) for send-out steam during the heating season. CES based the technical design upon the peak loads.

#### Chilled Water:

CES will install 8 duplex compressor chillers with a total installed capacity of 20,800 Tons.

Estimated Peak Current System Load: 17,900 tons  
Plant Design: 8 duplex chillers (2,600 tons per unit)  
1,300 tons per compressor with independent refrigerant circuits  
20,800 tons installed capacity  
18,200 tons capacity to serve customers (with one chiller off-line)

#### Steam:

Estimated Peak Current System Load: 170,000 PPH  
Plant Design: 4 boilers (65,000 PPH per boiler)  
260,000 PPH installed capacity  
195,000 PPH available capacity (with one boiler off-line)  
175,500 PPH capacity to serve customers (assumes 10% used for de-aerator make-up, boiler blowdown and minor system losses)

### 2.4.2 System Performance Guarantees

CES has agreed to meet several key Performance Guarantees on a continuous basis during the term of the Management Contract.

#### 2.4.2.1 Availability Guaranty

CES guarantees that except to the extent excused by Uncontrollable Circumstances the Facility will operate in accordance with the terms of the Management Contract, at all times during the Management Period, 24 hours per day seven days per week. The only permitted exceptions are for Metro approved scheduled maintenance periods.

#### 2.4.2.2 Steam Mass Flow Rate and Quality Guaranty

At the Facility. CES guarantees that, except to the extent excused by Uncontrollable Circumstances, or during periods of scheduled outages approved by Metro, at all times during the Management Contract, the Facility will be capable of producing steam at the Facility at a capacity of 221,000 PPH at the main header of the boilers, 150.0 psig, saturated, nominal condition.

At All Delivery Points on the EDS. CES guarantees that except to the extent excused by Uncontrollable Circumstances, or during periods of scheduled outages approved by Metro, at all times during the Management Contract the Facility will be capable of producing steam at the Delivery Points at a capacity of 136,000 PPH, 150.0 psig, saturated, nominal condition.

#### 2.4.2.3 Chilled Water Guaranty

At the Facility. CES guarantees that except to the extent excused by Uncontrollable Circumstances, or during periods of scheduled outages approved by Metro, at all times during the Management Contract the Facility will be capable of producing and delivering to the EDS chilled water at the Facility at a

temperature of 43.3°F nominal and in a capacity of 17,680 Tons, measured in accordance with ARI standards at a plant 14.0°F \_T.

At All Delivery Points on the EDS. CES guarantees that except to the extent excused by Uncontrollable Circumstances, or during periods of scheduled outages approved by Metro, at all times during the Management Contract the Facility will be capable of producing chilled water at the Delivery Points at a temperature of 43.3°F and in a capacity of 17,503.2 Tons, measured in accordance with ARI standards, at a plant 10.0°F \_T.

#### 2.4.2.4 Fuel and Utility Usage Efficiency Guaranty

CES guarantees that the Facility will generate Steam and Chilled Water using fuels and utilities set forth below in quantities no greater than the amounts set forth below, based on actual energy sold.

1. Guaranteed Maximum Quantities ("Q<sub>0</sub>")

	<u>For Steam Service</u>	<u>For Chilled Water Service</u>
<b>Electricity</b>	6.0 kwh/k-lb sold	1.055 kwh/ton-hr
<b>Natural Gas</b>	decatherm/ k-lb sold (Note 1)	N/A
<b>Propane</b>	decatherm/k-lb sold (Note 2)	N/A
<b>Water</b>	gal/k-lb sold (Note 3)	5.25 gal/ton-hr (Note 4)

2. Reference Price Indicator, Series or Tariff ("P<sub>0</sub>")

- a. Electricity: per Applicable NES Schedule "GSC" (Note 5)
- b. Natural Gas: Nashville Gas Rate #4 (Note 6)
- c. Propane: Spot Market

Notes:

- 1. 70% efficiency (HHV Basis), steam out at 150 psig, saturated, to fuel in with 60% condensate return at 180 deg-F minimum.
- 2. 70% efficiency (HHV Basis), steam out at 150 psig, saturated, to fuel in with 60% condensate return at 180 deg-F minimum.
- 3. (100% Plant steam output in lbs. less the percentage condensate return in lbs. to the plant) x 1.15.
- 4. Condenser water only; chilled water excluded.
- 5. Riders and credits as applicable.
- 6. Alternate: Rate No. 7F.

#### 2.4.3 Performance Monitoring

CES will provide Metro and energy customers with monthly reports about chilled water use, as well as electric, gas, and steam use. The State of Tennessee has a right to audit these reports.

GBB is of the opinion that the steam and chilled water design parameters for the EGF and CES's performance guarantees will provide an acceptable Project as described herein and that CES will be able to meet the needs of the current energy customers as described later in this Report. However, the specific CES hourly steam production guarantee of 221,000 PPH contained in the Management Contract (as presented in Section 2.4.2.2 of this Report) cannot be met by CES at all times since, with one of the four steam boilers down, only 195,000 PPH of steam can be produced. Due to the variable nature of the energy customers' peak hourly steam demands (as described further in the last paragraph of Section 2.9.2 of this Report), a reduced generating capacity, with any one of the four boilers out of service, should not impact the EGF's ability to meet current energy customers' demands. Scheduled maintenance on the

units will be conducted when total loads do not require all four units to be online, and NTTC's reported historical peak steam load has been 170,000 PPH to date.

## 2.5 Facility Acceptance and Acceptance Test

Acceptance Tests must demonstrate that the Contractor's work, when integrated with the remaining components of the DES, function as intended and meet the Performance Guarantees of the Management Contract. CES must demonstrate continuous operation of the improved DES in compliance with the Management Contract, including all Governmental Approvals, for 10 days of continuous operation during the Acceptance Test period as a prerequisite for Acceptance.

Testing shall be performed by CES, to achieve Acceptance Standards in the following general categories:

1. Steam and chilled water temperature and pressure tests;
2. Equipment performance tests;
3. NPDES permit compliance test;
4. Ambient Noise;
5. Alternate fuel operation;
6. Emissions tests;
7. Reliability test;
8. Hi-pot cable testing for medium voltage cables;
9. Insulation resistance test on conductors of feeder circuits 600V and below;
10. Transformer testing for power distribution transformers;
11. Switch gear operation testing;
12. Lighting and emergency lighting systems; and
13. Fire alarm system, security system.

**The standards are set forth in the Management Contract, and CES is required to submit an Acceptance Test report to Metro setting forth the results of all tests to demonstrate compliance with all contract requirements. Key provisions of the major tests that must be met are as follows:**

- Steam and chilled water temperature and pressure tests: Temperature and pressure tests shall be performed to demonstrate that the steam and chilled water produced by the Facility meet the guarantees at all points throughout the EDS. Acceptance Standards for the steam system is the continuous demonstration of the ability to control steam pressures at the Customer delivery point at a pressure of 150 psig. The Acceptance Standard for the chilled water system is the continuous delivery of chilled water at a temperature not to exceed 42° F throughout the range of customer demands.
- Equipment performance tests: Prior to the start of the Acceptance Testing period, each mechanical unit shall be operated for a period of not less than eight hours under peak design conditions. The Acceptance Testing period shall not begin prior to CES's certification that all equipment is operating properly.
- NPDES permit compliance test: The permit compliance test shall be performed for a 30-day period to demonstrate that the System can meet the NPDES Permit effluent limitations.
- Ambient noise: Ambient noise measurements shall be made to verify that the Construction Work does not increase background noise levels above applicable noise criteria.
- Alternate fuel option: CES will complete a functional test to demonstrate that the Facility meets the performance guarantees while being powered by CES's alternate fuel option (i.e., propane). Such tests shall be at least 4 hours in continuous duration, followed by demonstration of successful switch back to primary fuel operation. During this test, the Facility shall continue to meet all steam and chilled water system delivery requirements.

- Emissions tests: source (stack): Demonstrate air emissions compliance with the final permits through source testing for the Facility at each of the operating conditions required by applicable permit requirements.
- Reliability test: Prior to the initiation of Acceptance Tests, CES shall demonstrate the continuous delivery of steam and chilled water output during a continuous 100 hour period.

## **2.6 Planned Operation of the Facility**

The CES President, Vice President of Engineering and Vice President of Business Development will provide the review and final approval of the construction, operation and marketing plans.

Meeting the timing requirements of the Development Period will be the responsibility of the Development Manager who will direct the organization from the start of the contract through the transition to operations including the permitting and construction phases as well as commissioning of the new EGF.

Prior to EGF start-up, the General Manager will be dedicated to NTTC and begin the transition to the Operation Period. During the Operation Period, the General Manager will be responsible for running the new DES. The General Manager will be responsible for the day-to-day business activities and developing a long-term strategy for growing the business.

The staffing and operational plans for both the Development Period and the Operation Period are similar to Comfort Links successful operation in Baltimore (See Section 3.1).

The General Manager has ultimate responsibility for all aspects of the project. In this position, the individual reports directly to the Constellation corporate office.

The Operations and Maintenance staff will consist of 24 employees including the Operations Manager. This department is responsible for the operation and maintenance of the District Energy System in a manner consistent with our goal of being a safe, reliable and efficient provider of energy and energy related services. This department will provide these services 24 hours a day and 365 days a year, therefore requiring around the clock operations.

Required employees will operate and maintain the DES on a scheduled four-person rotating shift schedule. This schedule allows 24-hour, 7-day-a-week coverage. Other employees will rotate between a Monday through Friday daylight and evening schedule.

The Stationary Engineers are responsible to the Plant Supervisor for the proper operation of all equipment, ensuring the safety of others through the lockout / tagout program, water quality treatment and testing, responding to customer inquiries, performing preventive maintenance within the plant as assigned by the CMMS workstation and/or shift duty sheet and facility housekeeping.

The maintenance staff is responsible to the Maintenance Supervisor for the preventive maintenance (as directed by the CMMS program) and corrective maintenance on the plant, the distribution system and to the point of delivery within the customers building.

Commencing on the Scheduled Service Commencement Date, CES will operate and maintain the EGF and the EDS (including the tunnels) on a 24-hour per day, 7-day per week basis. CES is responsible for training the service manager, operations supervisors and other necessary staff to perform the services under the Management Contract. CES will maintain the DES in accordance with the Contract Standards, including Prudent Utility Practice, Applicable Law, Performance Guarantees and certain insurance listing in the Contract. Additionally, all scheduled maintenance shall be done in a way that requires the minimum reduction or cessation of energy delivery services consistent with Prudent Utility Practices.

Key responsibilities of CES during operations will include the following:

- Customer connections: Installing (to the extent not already existing), operating and maintaining the metering and interconnections of Customers with the EDS.
- EDS system interconnections: Installing and hydraulically and thermally balancing the EDS system, including any extension or modifications required to connect the EDS to the Facility.
- Computerized maintenance management system: Maintaining all maintenance records in accordance with the Computerized Maintenance Management System (CMMS) guidelines.
- Scheduled outages: Scheduled maintenance, which is required to be performed with the EDS out of service (cold outage), will be limited to two such events per calendar year, and a maximum service interruption of 12 hours each, for steam and chilled water, respectively and be performed on such weekend or holiday off-peak time selected to minimize customer impacts.
- Contractor capital repair and capital replacement: CES will be responsible for making all repairs and replacements, including major maintenance, repairs and replacements, and upgrading or replacing obsolete equipment, machinery, facilities, structures and improvements constituting the EGF and the EDS (including the tunnel system housing portions of the EDS and direct buried piping systems).
- Procedures to assure sufficiency of contractor maintenance, repair and replacement work: CES will develop and maintain a comprehensive, computerized maintenance management system to plan and manage predictive and preventive maintenance and equipment inventories.
- Utilities and fuel: CES will arrange for all other utilities to the EGF and while the Fuel Purchase Contract is in effect, for fuels supplies for the EGF.
- Contractor emergency response: CES will immediately respond to all EGF and EDS emergencies (no later than two hours during nights, weekends or holidays), according to its contingency plan, emergency response plan and safety plan so as to abate any inconvenience to the public or Customers.
- Billing, collection and metering: On behalf of Metro, CES will perform and be responsible for all billing, collection and metering services, installing and maintaining all meters and calibrate them to the level of accuracy specified in the Management Contract and perform all meter reading and billing services on a monthly basis.
- Customer service: CES will maintain a qualified customer service representative to respond to questions and complaints on a 24 hour per day, 7 days per week basis.
- Performance of Customer Contracts: CES will perform all actions in order to perform the obligations of Metro under the energy customer contracts.
- Water loss: CES will have the right of access to customer premises for determining whether any abnormal leakage of steam, steam condensation and/or chilled water is occurring from the customer piping system within the customer's premises.
- Service interruptions: CES will be responsible to (i) notify all Customers as soon as it is aware of the interruption, (ii) use all reasonable efforts to minimize the duration of such interruption, (iii) try to schedule any intentional interruption during a period of low energy usage or demands, and (iv) pay any amounts Metro becomes obligated to pay customers in respect thereof in accordance with the terms of the energy customer contracts.
- Monthly report: CES will provide an operating report describing the operations during the immediately preceding month including CES's responses to deficiencies or issues raised by Metro.
- Annual report: CES will provide an annual report to Metro containing: (i) an assessment of the condition of the System, (ii) details of modifications made to the System, (iii) analysis of the efficacy of all repairs, replacements and upgrades made during the applicable Contract Year, (iv) a summary of information provided in the monthly reports submitted during the applicable Contract Year, (v) a summary of environmental, safety and regulatory compliance, (vi) an outline and assessment of outstanding issues and any recommendations to Metro for changes to operations, (vii) projections for the following year's rates, (viii) plans for fuel procurement, (ix) review of revenues charged and rebates made in the past year, (x) plans for new energy customers and (xi) a summary of the operating budget.

- Records: CES will maintain documentation for all charges against Metro, the State and other energy customers under the Management Contract and Metro's energy contract with the State. Financial statements will be prepared in accordance with generally accepted accounting principles.

## 2.7 Estimated Life of Facility

Service life is the time value in years for the expected life of a specific component. Life expectancy is highly variable due to the particular application involved, maintenance and repair practices, operating conditions, and technical advancements. Some American Society of Heating, Refrigeration and Air-conditioning Engineers (ASHRAE) service life listings for selected major mechanical and electrical components are as follows:

- |                          |          |
|--------------------------|----------|
| 1. Steam boilers         | 30 years |
| 2. Centrifugal chillers  | 23 years |
| 3. Cooling towers        | 20 years |
| 4. Electric transformers | 30 years |

For the new EGF, the life of major components should exceed the values shown above due to several key factors. Included among these is the seasonal duty cycle involved, which allows ample time for thorough maintenance procedures as well as limited hours of operation. Natural gas and propane (backup) are the boiler fuels used, both of which are clean burning with minimal impact on boiler surfaces. Also, the boilers operate under less severe conditions since they deliver saturated steam instead of superheated steam. Because of these conditions, it is GBB's conclusion that expected life of major components used in the new EGF should exceed 30 years.

In regard to distribution piping, the service life of piping in tunnels or culverts is extensive with proper design, installation, and maintenance. Maintaining dry conditions in the tunnel or culvert and proper water treatment are the important factors involved. For direct buried steam and/or chilled water piping, proper design and installation is critical to long life, with corrosion protection being a particularly important factor. Examples of aged steam and chilled water businesses with original steam and/or chilled water piping still in service abound throughout the district energy industry. For example, the 100-year-old steam system in Milwaukee has much of its original steam piping still in service (about 5,000 feet) and there are no plans to replace it.

For the EDS, it is GBB's opinion that the service life for the *new* direct buried piping should be at least 40 to 50 years and for piping in culverts or tunnels 50 to 60 years. Based on the inspections of the *existing* piping in tunnels and the examination of maintenance records, it is estimated that there is about 30 years of life remaining. It is more difficult to estimate the useful life remaining for the *existing* direct buried piping, because only limited maintenance records were available to draw any conclusions. However, based on the inspection of the records and the lack of any existing problems, we conclude that this system was properly installed with proper corrosion protection. It is GBB's opinion that, with some selective replacement, existing direct buried piping has about 30 years of remaining useful life.

## 2.8 Fuel Supply Analysis

### 2.8.1 Introduction

The costs of electricity and natural gas will be major components to the overall cost of operations for the new DES. In order to provide information about the anticipated long-term trends in the availability and general cost of electricity and natural gas on a national basis, long-term forecasts developed annually by the U.S. Energy Information Administration ("EIA") were reviewed. Each year, the EIA releases an annual long-term outlook for various energy sectors, including the electricity and natural gas markets. A review of the EIA Annual Energy Outlook 2002 report (2002 EIA Outlook) released December 2001 and covering the years 2000 through 2020, was conducted. The next scheduled release of this document is December 2002.

## **2.8.2 Electricity**

### **2.8.2.1 Projected U.S. Electricity Market Data - Availability**

Based on the 2002 EIA Outlook forecasts, a number of key trends were identified for the US electricity market related to use and sales of electricity and generation capacity.

Regarding electricity sales and usage projections, projected annual growth is slightly lower than has historically been observed. The demand for electricity has typically been related to economic growth. Whereas, historically, annual growth in the demand for electricity has outstripped the annual rate of economic growth (as represented by the Gross Domestic Product, or "GDP"), the forecast of electricity demand, however, is projected to increase from approximately 3,324 billion kilowatthours in 2000 to approximately 4,916 billion kilowatthours in 2020, an average annual rate of approximately 1.8%, while the GDP is projected to grow at about 3.0% per year. This is due largely to the continuing saturation of electric appliances, the availability and adoption of more efficient equipment and efficiency standards. The EIA acknowledges, however, that changing consumer markets could mitigate the slowing of electricity demand growth reflected in the long-term projections through, for example, new uses of electricity due to new appliances, products and technologies. Furthermore, EIA projections show that the continued growth in the electricity demand is anticipated in all sectors (residential, commercial and industrial).

According to EIA estimates, retirements of existing facilities and rising demand are expected to require new capacity over the projection period. Specifically, approximately 355 gigawatts of new generating capacity (excluding cogenerators) is expected to be required to meet growing demand and replacement of retiring units. Before building new capacity, electricity generators are anticipated to use other options to meet demand growth, such as maintenance of existing plants, power imports from Canada and Mexico and purchases from cogenerators. Given the new requirements of 355 gigawatts, however, new facilities are expected to be required. Of this new capacity, approximately 88% is projected to be combined-cycle or combustion turbine technology, including distributed generation capacity fueled by natural gas. Approximately 31 gigawatts of new capacity is projected to be generated by coal-fired facilities between 2000 and 2020. Renewable technologies (primarily wind, geothermal, and municipal solid waste units) are anticipated to account for about 3% of new generation capacity, while about 5% of new capacity should come from distributed generation capacity and less than 1% of fuel cell capacity. Oil-fired steam plants are expected to account for very little of the new capacity through 2020.

Thus, as observed historically, coal-fired power plants are expected to remain the key source of electricity through 2020. However, given the concerns about the environmental impact of coal plants, their relatively long construction lead times and the availability of affordable natural gas as an alternative, EIA predicts that it is unlikely that many new coal plants will be built before 2005. Natural-gas-fired generation is expected to show the largest increase over time, from about 16% of total generation in 2000 to about 32% in 2020. As a result, natural gas is expected to surpass nuclear power to become the second largest source of electricity in the U.S. by 2004.

Total estimated electric generation capability (peak load) is expected to increase from about 753.6 gigawatts (net summer demand) in 2000 to about 1,369.8 gigawatts in 2020, an average annual compound growth rate of about 3% per year. Thus, as can be seen, the total generation capability (peak load) is anticipated to be increasing at a higher rate than sales, and it is projected that the capacity available will be adequate to meet the consumption needs during the projection period.

### **2.8.2.2 Projected U.S. Electricity Market Data – Prices**

The 2002 EIA Outlook also provided forecast information for the price of electricity for different sectors through 2020. In addition, further breakdowns of prices were provided for both geographic regions and class of end-user. Tennessee falls within the East South Central Region for EIA purposes. In addition, the market segment reviewed was for the industrial end-user. Based on constant 2000 dollars, the

projected electricity prices for the industrial customers is projected to decrease slightly at a rate of approximately 0.2% per year. This incremental change does not reflect any adjustment for the estimated rate of inflation. The overall average electricity prices for all users in the East South Central Region is estimated to decrease at an average annual rate of about 0.3%. As discussed in further detail later in this Report, electricity unit prices were projected based on the existing Nashville Electric Service rate schedules and adjusted for an average annual inflation rate of 3% per year.

### **2.8.3 Natural Gas**

#### **2.8.3.1 Historical U.S. Natural Gas Market Data**

In order to provide some historical context for the natural gas market for the projections utilized herein, a review of data provided by the EIA was examined. These data, from 1996 through 2001, showed that production (the gross withdraws) had increased from 24,114 billion ft<sup>3</sup> to 24,703 billion ft<sup>3</sup>, respectively, an average annual compound growth rate of approximately 0.5% per year. Net imports to the US increased by an average annual rate of approximately 6% per year during this same period. Consumption, on the other hand, was relatively steady during the period, ranging from a low of 21,277 billion ft<sup>3</sup> in 1998 to a high of 22,547 billion ft<sup>3</sup> in 2000. Thus, while demand during the period was relatively stable, available supply was increasing. Wellhead prices for natural gas fluctuated widely during the period, from an average annual low of \$1.96/1,000 ft<sup>3</sup> to a high of \$4.12/1,000 ft<sup>3</sup> in 2001. Average wellhead prices through May 2002 have been approximately \$2.51/1,000 ft<sup>3</sup>. Delivered natural gas prices for industrial customers, while more stable during the years 1996 through 1999 (ranging from \$3.10 in 1999 to \$3.59 in 1997), also experienced unusually high prices in 2000 and 2001. The annual average for 2001 was approximately \$4.85/1,000 ft<sup>3</sup>. The average delivered natural gas price for the industrial sector through May 2002 has been approximately \$3.55/1,000 ft<sup>3</sup>. Thus, although the natural gas market has experienced variability in recent years, the prices appear to be stabilizing somewhat at lower rates than those seen in the 2000-2001 timeframe.

#### **2.8.3.2 Projected U.S. Natural Gas Market Data - Availability**

As with electricity, the 2002 EIA Outlook was reviewed in order to have some understanding of the long-term future of the U.S. natural gas market.

Based on the 2002 EIA Outlook forecasts, production of natural gas is expected to increase over the forecast period due in large part to a growing number of new production wells. In addition to increased production, the 2002 EIA Outlook also projects high levels of natural gas reserves due to the expected increase in exploratory and developmental drilling resulting from increasing natural gas prices. Reserves also reflect assumed productivity gains due to technological improvements, as well. Total production is anticipated to grow from 19.66 trillion ft<sup>3</sup> in 2002 to approximately 28.59 trillion ft<sup>3</sup> in 2020. This equates to an annual average compound growth rate of approximately 2.1% per year. Much of this increase in production is due to a growing number of new wells and technological advances.

Finally, net imports to the US of natural gas are also expected to grow during the projection period, from approximately 3.74 trillion ft<sup>3</sup> in 2002 to 5.51 trillion ft<sup>3</sup> in 2020. This is an average annual compound growth rate of approximately 2.2% per year. Thus, total supply is projected to increase from 23.41 trillion ft<sup>3</sup> in 2002 to approximately 34.10 trillion ft<sup>3</sup> in 2020, an average annual compound growth rate of about 2.11% per year.

In order to examine the ability of natural gas pipeline infrastructure to accommodate projected supply and demand, a review of the capacity utilization of pipeline transmission infrastructure entering the East South Central region as well as the pipeline distribution infrastructure located within the East South Central region was conducted. Capacity utilization is determined by dividing projected annual pipeline volume throughput by the design capacity of the pipeline.

Based on EIA forecasts, the capacity utilization of pipeline transmission infrastructure entering the East South Central region is estimated to be approximately 0.67, or 67%, in 2002. This is projected to

increase to about 0.88, or 88%, in 2020. This represents an annual average compound growth rate in utilization of about 1.5% per year. Even with this increased utilization in 2020, the system entering the East South Central region is still projected to have 12% excess capacity.

The capacity utilization of the pipeline distribution infrastructure located within the East South Central region is estimated to be about 0.69, or 69%, in 2002 and 0.77, or 77%, in 2020. This represents an average annual compound growth rate of about 0.61% per year. Thus, the pipeline capacity within the East South Central region is projected to have about 23% excess capacity available in 2020.

Regarding consumption of natural gas, the 2002 EIA Outlook anticipates increased consumption in all sectors (electricity generators – excluding cogenerators, residential, commercial, industrial and transportation). In particular, electricity generators (excluding cogenerators) are anticipated to account for approximately 55% of the total consumption growth through 2020 as most new electric generation facilities are expected to be fueled by natural gas. Total consumption is projected to be approximately 23.89 trillion ft<sup>3</sup> in 2002 and about 33.78 trillion ft<sup>3</sup> in 2020.

Thus, as can be seen, both the total supply of natural gas and the capacity (or ability) of pipeline infrastructure are anticipated to be adequate to meet the consumption needs during the projection period. It should be noted that the total natural gas demand for the DES in 2005 is estimated to be only approximately 494,725,000 Ft<sup>3</sup> (based on expected levels of usage of natural gas) of the total US consumption projected in 2005 of about 25.5 Trillion Ft<sup>3</sup>. Thus, the impact on the overall natural gas market of the requirements of the DES system is quite small.

It should be noted that the EGF will be interconnecting to the Nashville Gas distribution system for natural gas supply. The location of the EGF in relation to the distribution system is such that there is little likelihood of interruption since the location is on the higher-pressure end of the distribution system.

### **2.8.3.3 Projected U.S. Natural Gas Market Data – Prices**

The 2002 EIA Outlook also provided forecast information for the price of natural gas through 2020. Further breakdowns of prices were provided for both geographic regions and class of end-user. In addition, the market segment reviewed was for the industrial end-user.

In reviewing natural gas prices, the first step in estimating the final delivered cost to the DES was to project the estimated wellhead price for natural gas in FY 2004. This was accomplished by using the Henry Hub natural gas prices for futures during this period. However, this does not incorporate the estimated transportation costs for delivering the natural gas to the plant nor does it reflect the additional costs paid to the local marketer of the gas or applicable taxes. Based on current contracts for purchasing natural gas at the existing NTTCC facility, it is estimated that these components (transportation, marketing, and taxes) add approximately 15% to the wellhead price in order to arrive at the final end-user delivered natural gas price. The adjustment for these additional cost components and for the estimated wellhead price for FY 2004 resulted in an adjusted end-user delivered natural gas price of approximately \$4.29/1,000 ft<sup>3</sup> for FY 2004 for an industrial user. For FY 2005 and beyond, the final delivered natural gas prices for this industrial customer were estimated by adjusting the prior year's estimated natural gas price for both the incremental change in the nominal EIA price and an estimated inflation factor of 3% in order to project prices in each future year which would reflect both inflationary and non-inflationary market factors. For years subsequent to 2020, annual natural gas prices thereafter are projected to increase at a constant rate equal to the projected total adjustment in FY 2020 for the change in nominal prices and for inflation.

Thus, as can be seen on Table C-2, the forecast of delivered natural gas price anticipated to be paid by the DES and reflected in the projected operating results developed later in this Report are estimated to increase from approximately \$4.53 in FY 2005 to approximately \$8.57 in FY 2020. The 2002 EIA Outlook attributes increasing natural gas prices to (1) rising demand for natural gas; (2) the progression of the discovery process from larger, shallower and more profitable fields to smaller, deeper and less profitable

fields; and (3) increasing production from higher cost sources such as unconventional natural gas (tight sands, shale and coalbed methane).

**Table C-2 - Projected Annual Natural Gas Delivered Prices for Industrial Sector, FY 2005 - FY 2020 National and East South Central Region, \$/1,000 Cubic Feet - Nominal and Adjusted Prices**

Fiscal Year	Future EIA Projections, Unadjusted Constant 2000 Nominal Prices (1)		Adjusted Projected Delivered Natural Gas Prices			
	National	East South Central Region (2)	Prior Year's Adjusted Projected Gas Prices (3)	Adjustment for % Change in Nominal Prices (4)	Adjustments for Inflation (5)	Current Year Projected Delivered Gas Prices (6)
2005	\$3.39	\$3.18	\$4.29 (3)	2.58%	3.00%	\$4.53
2006	\$3.42	\$3.20	\$4.53	0.63%	3.00%	\$4.70
2007	\$3.44	\$3.23	\$4.70	0.94%	3.00%	\$4.88
2008	\$3.50	\$3.30	\$4.88	2.17%	3.00%	\$5.14
2009	\$3.53	\$3.34	\$5.14	1.21%	3.00%	\$5.36
2010	\$3.57	\$3.39	\$5.36	1.50%	3.00%	\$5.60
2011	\$3.63	\$3.48	\$5.60	2.65%	3.00%	\$5.92
2012	\$3.68	\$3.52	\$5.92	1.15%	3.00%	\$6.17
2013	\$3.73	\$3.55	\$6.17	0.85%	3.00%	\$6.41
2014	\$3.75	\$3.58	\$6.41	0.85%	3.00%	\$6.66
2015	\$3.79	\$3.61	\$6.66	0.84%	3.00%	\$6.92
2016	\$3.82	\$3.63	\$6.92	0.55%	3.00%	\$7.16
2017	\$3.86	\$3.69	\$7.16	1.65%	3.00%	\$7.50
2018	\$3.91	\$3.74	\$7.50	1.36%	3.00%	\$7.83
2019	\$3.95	\$3.80	\$7.83	1.60%	3.00%	\$8.19
2020	\$4.01	\$3.86	\$8.19	1.58%	3.00%	\$8.57

(1) Amounts shown are the forecasted nominal prices (constant 2000 \$/1000 Cubic Feet) for delivered natural gas to industrial customers per the EIA Annual Energy Outlook 2002. As such, annual differences in prices are due to non-inflation related market influences.

(2) Tennessee is listed as part of the East South Central region by the Energy Information Administration.

(3) Adjusted FY 2004 delivered natural gas price was estimated in order to reflect current market conditions for wellhead prices per futures in FY 2004 with additional adjustments made to include local marketing, transportation costs and taxes for the Nashville area and inflation.

(4) Adjustments for annual changes in EIA nominal prices made in order to produce a forecast trendline which incorporates the non-inflationary related market forces.

(5) Adjustments for an assumed inflation rate of 3% per year.

(6) Adjusted projected delivered prices for natural gas in then current year dollars reflect both changes in forecast nominal prices, local market conditions and inflation. For projections beyond FY 2020, a constant annual adjustment equal to the change in nominal prices and adjustment for inflation as reflected for FY 2020 is assumed.

## **2.8.4 Propane Gas Availability**

In order to purchase natural gas for boiler fuel use on an advantageous, interruptible basis, it is necessary to have a secondary fuel included for the EGF. Propane has been selected as the secondary fuel for the boilers in the EGF. The selection of propane was based on several factors. First, EGF stack height requirements were lowest using propane, and, secondly, it is readily available on the local market. Propane would only be used in the event of natural gas supply interruption. As mentioned earlier, CES is responsible for facilitating fuel procurement for the EGF and will make the necessary arrangements, both supply and pricing, to have supplier(s) available in the eventuality propane supply is required. There are several local propane suppliers in the Greater Nashville region that CES can call upon to truck deliver propane to the EGF.

## **2.9 Energy Customers**

### **2.9.1 General**

Most of the energy and energy-related sales of the district energy system, for both the existing system and the Project, is sold pursuant to long-term contracts between Metro and system customers. As energy customers are changed or added over time, new and amended contracts will be executed. Currently, the NTTC system has contracts covering 38 buildings. When the new DES comes on line, it will have, at a minimum, new long-term contracts for 34 of those buildings – known as Initial System Customers or ISC's – and at least one additional building, bringing the new total to 35 buildings, as described below. Three of the current customers, now known as Holdover Customers, did not execute new long-term contracts, and the new DES will need to serve those buildings until their existing contracts with NTTC expire, or they elect to terminate. One such Holdover Customer, Washington Square, has indicated no need for service as of spring 2003. Metro and CES are actively soliciting new customers and plan to pursue such customers until all of the new DES capacity is under long-term contract.

There are three types of customers served by the system: State of Tennessee ("State") buildings, Metro buildings and private commercial buildings. The State buildings and Metro buildings are mostly office buildings housing a variety of public functions, including the State Capitol and other legislative and judicial functions. Other Metro buildings include convention and entertainment complexes, such as the National Football League Tennessee Titans' stadium. The private buildings are mostly office buildings but also include three hotels, a church, and two entertainment venues, including the historic Ryman Auditorium (original home of the Grand Ole Opry). Table C-3 summarizes both the current NTTC and future Project DES customer bases.

### **2.9.2 Existing NTTC Customers**

The existing NTTC customer base consists of 38 downtown buildings: 16 private, 14 State and 8 Metro. The buildings are each located on the map in Exhibit C-4. A list of the current NTTC customers and their demands is contained in Exhibit C-5. Many of the buildings converted their systems to get heating and cooling from NTTC when it was constructed in the mid-1970s, and the rest have either converted or were originally constructed to use NTTC since that time.

The district energy system in Nashville has had a long and stable sales history. Over the past five fiscal years, NTTC's sales have averaged 319 million pounds of steam and 53.7 million ton-hours of chilled water. The NTTC steam and chilled water sales over the last five fiscal years is displayed in Table C-4. Chiller plant sales for the ten fiscal years from 1992 - 2001 are presented in Exhibit C-6. The steam sales of the plant for the ten fiscal years from 1992 – 2001 are presented in Exhibit C-7. Annual variations are due mostly to variations in weather, as well as buildings coming on or going off the system.

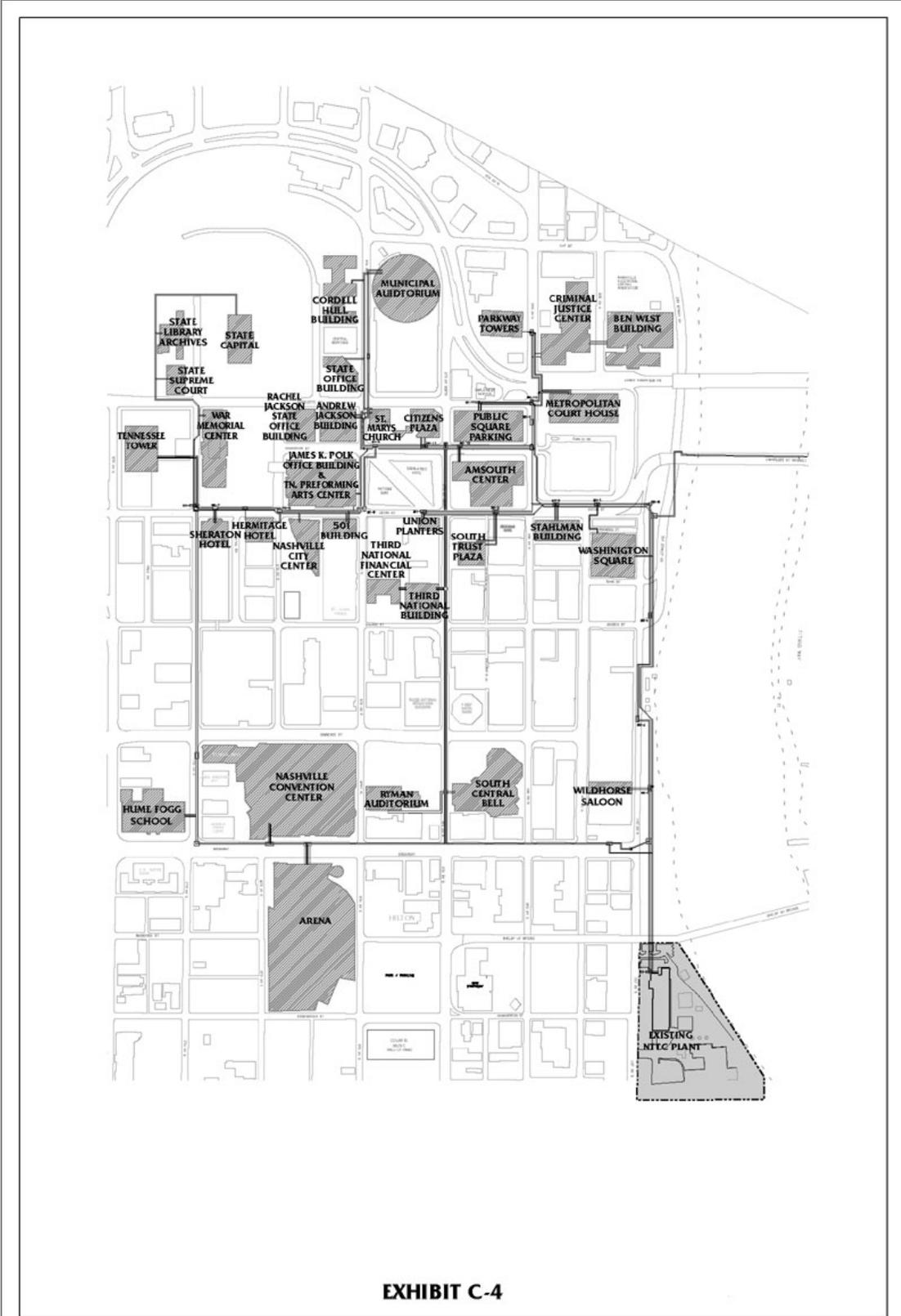
**Table C-3 - Distribution of DES Customers Contract Capacities**

	<u>Type of Customer Building</u>			
	<u>State</u>	<u>Metro</u>	<u>Private</u>	<u>Total</u>
<b><u>Current NTTC Customers</u></b>				
Number of buildings	14	8	16	38
Cooling capacity (tons)	7,909	8,980	8,479	25,368
Cooling capacity (%)	31.2%	35.4%	33.4%	100.0%
Heating capacity (PPH)	124,800	84,035	85,627	294,462
Heating capacity (%)	42.4%	28.5%	29.1%	100.0%
<b><u>New DES Customers</u></b>				
Number of buildings	14	8*	13	35
Cooling capacity (tons)	7,344	8,900	6,324	22,568
Cooling capacity (%)	32.5%	39.4%	28.1%	100.0%
Heating capacity (PPH)	99,883	75,715	50,598	226,196
Heating capacity (%)	44.2%	33.5%	22.3%	100.0%

\*Seven Initial System Customer buildings; one additional Metro building (Hume-Fogg Academic School).

**Table C-4 – Annual NTTC Sales, FY 1997-FY 2001**

<u>Year Ending June 30</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Chilled water sold (1,000 Ton-Hrs)	55,155	57,236	55,018	50,785	50,433
Steam sold (1,000 Pounds)	340,072	301,329	301,700	319,880	330,418



**Exhibit C-5 – Existing NTTC Customers**

<u>Building Ownership/ Name/Services</u>	<u>Building Sq Feet</u>	<u>Contract End Date</u>	<u>Steam (lbs./hr.)</u>	<u>Contract Demand Chilled Water (tons)</u>
<b>State of Tennessee</b>				
Andrew Jackson Building (S) (C/W)	545,000	2004	83,000	1,784
James J. Polk Building (S) (C/W)	758,000	2008	12,000	1,500
Central Service Building (S) (C/W)	90,000	2005	Included in Andrew Jackson Bldg	400
Cordell Hull Building (S) (C/W)	358,000	2005	Included in Andrew Jackson Bldg	1,000
Library & Archive Building (S) (C/W)	80,000	2005	Included in Andrew Jackson Bldg	150
State Capitol Building (S) (C/W)	66,000	2005	Included in Andrew Jackson Bldg	200
Supreme Court Building (S) (C/W)	40,000	2005	Included in Andrew Jackson Bldg	125
War Memorial Building (S) (C/W)	316,242	2005	Included in Andrew Jackson Bldg	550
Tennessee State University Building (S) (C/W)		2005	Included in Andrew Jackson Bldg	Included in Andrew Jackson Bldg
Legislative Plaza Building (S) (C/W)		2004	Included in Andrew Jackson Bldg	Included in Andrew Jackson Bldg
John Sevier Building (S) (C/W)		2004	Included in Andrew Jackson Bldg	Included in Andrew Jackson Bldg
Rachel Jackson Building (S) (C/W)		2004	Included in Andrew Jackson Bldg	Included in Andrew Jackson Bldg
Citizens Plaza Building (S) (C/W)	295,115	2005	4,600	700
Tennessee Tower (S) (C/W) (I)	<u>850,000</u>	2006	<u>25,200</u>	<u>1,500</u>
<b>Total State Customers</b>	<b>3,398,357</b>		<b>124,800</b>	<b>7,909</b>
<b>Metro Buildings</b>				
Court House (S) (C/W)	239,616	2004	8,000	500
*Stahlman Building (S) (C/W)	157,000	2004	4,425	500
Criminal Justice Building (S) (C/W)	386,000	2004	14,710	645
Safety Building (S) (C/W)		2004	Included w/ Criminal Justice Bldg	Included w/ Criminal Justice Bldg
Municipal Auditorium (S) (C/W)	142,000	2005	14,000	1,100
Convention Center (S) (C/W)	650,000	2006	18,750	1,400
Nashville Arena (S) (C/W)	529,341	1999	24,150	2,835
The Coliseum	N/a		<u>0</u>	<u>2,000</u>
<b>Total Metro Customers</b>	<b>2,103,957</b>		<b>84,035</b>	<b>8,980</b>

**Exhibit C-5 – Existing NTTC Customers (Continued)**

<u>Building Ownership/ Name/Services</u>	<u>Building Sq Feet</u>	<u>Contract End Date</u>	<u>Steam (lbs./hr.)</u>	<u>Contract Demand Chilled Water (tons)</u>
<b>Private Buildings</b>				
*Washington Square (S) (C/W)	288,000	2007	4,300	500
Parkway Towers (S) (C/W)	215,000	2004	8,000	550
Union Planters Bank (S) (C/W)	75,000	2005	3,000	250
Sheraton Hotel (S) (C/W)	476,000	2005	15,000	860
South Trust Bank (S) (C/W)	82,000	2006	2,000	190
**Public Square Parking (S) (C/W)	36,700	2004	1,500	110
Hermitage Suites Hotel (S) (C/W)	80,000	2005	4,000	300
501 Building (S) (C/W) (I)	86,000	2012	2,500	250
**Sun Trust Bank (S) (C/W)	301,200	2004	18,200	765
Sun Trust Center (S) (C/W)	490,000	2006	0	900
Renaissance Hotel (S) (C/W)	650,000	2006	21,250	1,000
The Tower (C/W) (included in Convention Center)	100,000	2007	0	600
City Centre (C/W)	420,000	2008	0	1,600
St. Mary's Church (S) (C/W)	13,200	2006	490	40
Ryman Auditorium (S) (C/W)	35,860	2013	2,587	294
Wild Horse Saloon (S) (C/W)	<u>52,091</u>	2013	<u>2,800</u>	<u>270</u>
<b>Total Private Customers</b>	<b>3,401,051</b>		<b>85,627</b>	<b>8,479</b>
<b>Consolidation:</b>				
<b>Total State Customers</b>	3,398,357		124,800	7,909
<b>Total Metro Customers</b>	2,103,957		84,035	8,980
<b>Total Private Customers</b>	<u>3,401,051</u>		<u>85,627</u>	<u>8,479</u>
<b>Total</b>	<b>8,903,365</b>		<b>294,462</b>	<b>23,368</b>

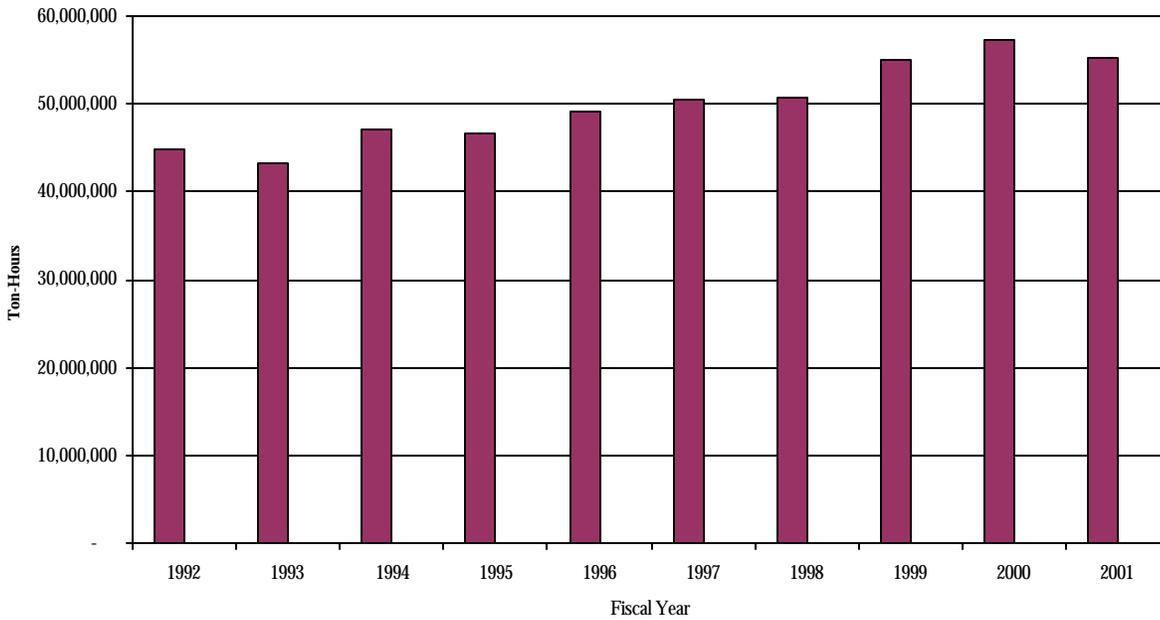
**Legend:**

- (S) Steam Service
- (C/W) Chilled Water Service
- (I) Interruptible Type Contract

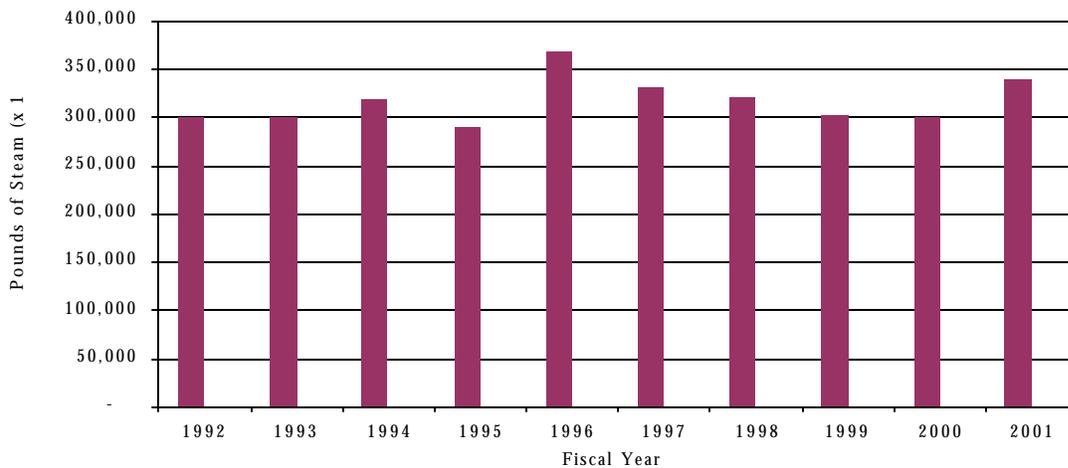
\*Leaving the DES.

\*\*Holdover – still deciding.

### Exhibit C-6 – 10-Year Chilled Water Sales History



### Exhibit C-7 – 10-Year Steam Sales History



Average usage among the existing customers is broken down as follows: the 16 private buildings account for approximately 28% of the total steam sold and 33% of the chilled water sold; the State buildings account for approximately 54% of the steam sold and 44% of the chilled water sold; and the Metro buildings account for approximately 18% of the steam sold and 23% of the chilled water sold. The monthly steam and chilled water usage of each of the buildings for the three past 12-month periods, as well as the total monthly system usage for those same three periods is contained in Exhibit C-7.

The highest NTTC reported cooling load is estimated to be 17,900 tons and corresponding heating load at about 170,000 PPH. However, the contract capacities for cooling and heating were 25,618 tons and 298,962 PPH, respectively, based on Exhibit C-3. The difference is due primarily to customer contract capacities that are in excess of actual building peak requirements, and to a lesser extent, diversity of demand between customers. For the existing system, the peak cooling load is approximately 70% of the sum of the new DES customer contract capacities, and for heating it is an estimated 57%.

### 2.9.3 Initial System Customers

As soon as the Project was announced in 2001, Metro and CES began soliciting all of the existing customers to sign new 30-year customer contracts to receive service from the new DES and replace the existing NTTC contracts. As an incentive to those customers, Metro agreed to treat them all equally, guaranteed that their rates would be developed on a cost recovery, non-profit basis, and arranged to give them price increase protection through formula-based escalation factors that include annual caps on price increases by CES. Metro also agreed to pass on to the initial set of customers the benefit of any performance guarantees it received from CES through the Management Contract. The details of the Initial System Customer Service Agreement are discussed in Section 2.9.4.

As of the June 14, 2002 deadline established by Metro for signing the Service Agreement and becoming an Initial System Customer, 34 buildings were signed up, the State's 14 buildings, 7 of Metro's 8 buildings (the Stahlman Building is scheduled to be sold by Metro prior to the commencement of service from the Project), and 13 of the 16 private buildings (SunTrust Bank, Public Square Parking and Washington Square did not sign up; Washington Square opted to discontinue service; the other two are now Holdover Customers). In cooperation with Metro's advisors and CES, each building was allowed to revise its chilled water and steam capacities so they would be more in line with its actual usages and anticipated requirements. Table C-5 shows the roster of Initial System Customers and the new capacities that they contracted for in their respective new DES Service Agreements.

**Table C-5 – New DES Contract Capacities for Initial System Customers for the Project**

<u>No.</u>	<u>Private Buildings</u>	<u>Cooling Tons</u>	<u>Heating PPH</u>
1	Parkway Towers	550	4,500
2	Union Planters	300	1,995
3	Sheraton Hotel	950	12,660
4	South Trust Bank	233	2,000
5	Hermitage Hotel	400	7,000
6	501 Building	175	2,500
7	SunTrust Financial Center	1,043	No steam
8	Renaissance Hotel	1,000	17,287
9	Renaissance Offices	300	No steam
10	Nashville City Center	1,000	No steam
11	Saint Mary's Church	26	317
12	Ryman Auditorium	180	954
13	Wildhorse Saloon	<u>167</u>	<u>1,385</u>
	<b>Subtotal</b>	6,324	50,598

**Table C-5 (Continued) – New DES Contract Capacities for Initial System Customers for the Project**

<u>No</u>	<u>State Buildings</u>	<u>Cooling Tons</u>	<u>Heating PPH</u>
1	Andrew Jackson	1,425	65,808
2	James K Polk	1,309	14,560
3	John Sevier	404	In Andrew
4	Cordell Hull	498	In Andrew
5	Library and Archives	156	In Andrew
6	State Capitol	222	In Andrew
7	Supreme Court	78	In Andrew
8	War Memorial	704	In Andrew
9	Tennessee State Univ	No CHW	In Andrew
10	Legislative Plaza	In War Mem	In Andrew
11	Central Services	In Sevier	In Andrew
12	Rachel Jackson	In Andrew	In Andrew
13	Citizen's Plaza	788	7,350
14	Tennessee Tower	<u>1,760</u>	<u>12,165</u>
<b>Subtotal</b>		7,344	99,883

<u>No</u>	<u>Metro Buildings</u>	<u>Cooling Tons</u>	<u>Heating PPH</u>
1	Metro Courthouse	350	7,000
2	Criminal Justice Center	800	13,800
3	Ben West	1,050	13,800
4	Municipal Auditorium	500	4,096
5	Convention Center	1,400	18,750
6	Gaylord Entertainment Center	2,500	15,269
7	The Coliseum	<u>2,000</u>	<u>No steam</u>
<b>Subtotal</b>		8,600	72,715

<u>Summary</u>	<u>Cooling Tons</u>	<u>Heating PPH</u>
13 Private Buildings	6,324	50,598
14 State Buildings	7,344	99,883
7 Metro Buildings	<u>8,600</u>	<u>72,715</u>
<b>Grand Total</b>	22,268	223,196

#### **2.9.4 Initial System Customer Service Agreement**

**Terms and Conditions.** Each of the Initial System Customers (with exceptions noted in sections below for State and Metro) signed substantially identical 30-year service agreements with Metro for the new DES to provide all of their steam and or chilled water requirements up to the contract capacities stated for their respective building. Beginning on the first day of service, Metro will become the exclusive steam and chilled water provider to the building except for service interruptions and emergencies, for capacities greater than those contracted for, or for any expansion of the premises served.

If the building routinely exceeds its contract capacity, Metro can adjust the building's contract capacity upward to reflect that usage pattern. Similarly, if a building finds it needs less capacity, or makes improvements to its building systems to lower its demands, the building can reduce its contract capacity. If a building ceases operations for any reason, it is no longer required to make payments for services under the contract. At any time after the 15<sup>th</sup> year of service, a customer may terminate its contract by buying out its proportionate share of the remaining capital and fixed operating costs in such a way as to keep the remaining DES whole in its obligations to bondholders and CES (or any successor to CES).

The customer charges will be calculated on a cost-recovery basis, with Metro's cost of supplying the services based on actual and documented costs, accurately accounted for and appropriately modified and adjusted under the terms of the contract. The performance of the new DES will be evaluated annually by outside consultants with the results made generally available. In addition, the State has the right to audit the new DES at any time. In addition to the pass-through costs agreed upon by the parties and described within each customer's contract (see following section), Metro can adjust customer charges to recover any costs due to changes in law and/or unforeseen circumstances.

Services supplied to customers may be resold or redistributed to tenants at cost, with the customer retaining the responsibility to make payments for all charges. Any customer (except the State) may transfer its rights and obligations under the service agreement to successors in interest in its building(s).

As an efficiency incentive, customers are on an individual basis subject to additional charges for any month in which the temperature difference between supply and return chilled water falls below the level specified in their contract. By controlling the difference between the temperature of the water entering and leaving its building, customers can avoid this penalty, and system-chilled water pumping costs are therefore minimized. In addition, Metro is committed to use a portion of any excess revenues received annually from new customers to add to a fund for conducting thermal efficiency projects in customer buildings. The initial fund balance is set at \$500,000, with \$400,000 of that slated for the State's buildings.

The contract establishes two other customer protections. First, it has a mechanism for the Initial System Customers to review and approve any amendments to the Management Contract that affect them by providing a procedure to obtain their consent. Second, it outlines a process for informal non-binding dispute resolution between the parties.

**Customer Charges, Including Pass-through Costs.** The components of the monthly fee that will be charged to Metro's Initial System Customers (except for the State – see below) for energy services under the new model contracts are described below. Each of the provisions of the Initial System Customer Service Agreement is backed by a similar provision in the Management Contract.

According to the Initial System Customer Service Agreement, each month each such customer will be charged its pro rata share of the following:

1. A Contract Capacity Charge, consisting of:

1(a) Steam/Chilled Water Facilities Capital Cost: This component will be fixed for each initial customer for 30 years. The initial customers will not be responsible for any of the financing costs of either the excess capacity of the system (15% of the total system cost) or Metro's costs of developing the new DES system configuration.

1(b) Steam/Chilled Water Fixed Operations Cost ("FOC"): The FOC of the system has three components: (i) the Management Fee FOC, (ii) fixed amount subject to escalation for EDS repairs and replacements, and (iii) Metro's Incremental Costs. The details are as follows:

- (i) The Management Fee FOC includes most all of the operations and maintenance costs of the system, and has been fixed in the Management Contract for the first year of system

operation. Thereafter, the FOC will escalate annually by the lower of inflation (applicable CPI) or 3%.

- (ii) The EDS replacement and repair amount is set at \$150,000 per year as part of the Management Fee FOC to be distributed among Metro (which also picks up the State's share) and private customers; plus \$59,900 in the aggregate to be received from Initial Private Customers only on a pro rata basis. These amounts escalate annually by the lower of inflation (applicable CPI) or 3%. Any spending in any year on the EDS in excess of these amounts escalated appropriately will be absorbed by Metro.
- (iii) The Incremental Costs of Metro, which have been identified in the Initial System Customer Service Agreement as only those costs that are "actual, reasonable and necessary" over and above current Metro operating costs due to the need to manage the DES system and contractor. Metro will absorb the State's pro rata share of this cost item.

Fixed Operating Costs do not include any costs for marketing the excess capacity of the system or any costs of system expansion. Such costs would be either included as part of rate setting for new customers or absorbed by Metro.

## 2. Pass-through Charges and Credits consisting of an initial customer's pro rata portion of:

2(a) Insurance Pass-through Cost: CES is required to maintain all-risk property insurance and business insurance coverages over the life of the contract. The cost of the premiums for these two coverages will be passed on to all of the initial customers on a pro rata basis. All other insurance costs are already contained in the CES FOC.

2(b) Water and Sewer Pass-through Cost: The actual cost of providing Metro water and sewer services to the new DES system will be passed on to the Initial Customers based on each Initial Customer's actual use of the system (ton-hours or pounds per year as appropriate). The cost of the service will be based on Metro's published rates for water and sewer services for all customers in the same rate class as the new DES. The water and sewer usage rates that CES can recover are capped (in gallons per ton-hour and gallons per pound of steam) by the Performance Guarantees contained in the Management Contract.

2(c) Water Treatment Chemical Pass-through Cost: The actual annual cost of chemicals for treating water for the new DES system will be passed onto Initial System Customers based on each Initial System Customer's actual use of the system (ton-hours or pounds per year as appropriate). The actual use of chemicals will be limited to treating the amount of water in the CES Performance Guarantee for water use per ton and pound of steam.

2(d) Engineering Pass-through Cost: The engineering costs related to any required capital repair or replacement project for the EDS will be passed onto the initial customers on a pro rata basis, with Metro absorbing the State's share of the cost.

2(e) Change in Law and Force Majeure Pass-through Costs: Subject to the requirements of the Initial Customer Contracts and the Management Contract, all extraordinary costs (or credits) due to the occurrence of these two types of events will be passed onto the Initial Customers on a pro rata basis.

## 3. Energy Costs for natural gas (or propane), and electricity.

All electricity and fuel costs will be passed on to customers based on their usage of the system (in ton-hours and pounds of steam per year), with no markup, based on the actual fuel and electricity usage rates and cost for those units of steam/chilled water consumed by the initial customer. (Note: The usage rates for gas and electricity are limited by the efficiency performance guarantees in the Management Contract, and the costs will be capped at the available applicable tariff rates of NES and NG or other supplier).

4. Any surcharges for failing to maintain the Initial System Customer's contractual  $\dot{A}T$ . This cost item is not generally applied to all initial customers on a regular basis and the Initial System Customer Agreement should be referenced for applicability and cost.

Those four items are the sum total of the monthly charge for steam and/or chilled water. Note: Metro will be apportioned 15% of the capital, and O&M costs for the "at-risk" portion of the system that it has assumed. These costs would be absorbed by new customers in their rates as they become part of the system.

**Amendments to Management Contract.** As part of its agreement to provide price protection for the Initial System Customers, Metro agreed to require Initial System Customer notification and approval of certain Management Contract amendments before Metro could execute them with CES. Any Management Contract amendment that isn't proposed for the purpose of curing a defect, omission or ambiguity; granting or conferring on Metro additional rights, remedies, powers, authority, or security; implementing the performance of any existing Metro right or CES obligation; making any other change which, in the opinion of the Independent Engineer, would not be expected to result in an increase in charges payable by the Initial System Customers; or maintaining the tax-exempt nature of the Project would require the consent of the consent of the State and a majority of the private ISC's, in addition to Metro approval, before becoming effective.

**State Agreement.** Metro and the State signed a Service Agreement on April 1, 2002 ("State Service Agreement") under which Metro will be the exclusive supplier of steam and chilled water services, up to the contract capacity specified, for 14 State-owned buildings as described in the agreement for an initial term of thirty (30) years. The State Service Agreement is the same in all material respects to the other Initial System Customer Service Agreements with the following exceptions:

1. In lieu of their pro rata share of the fixed capital and operating costs of the system, and based on the All-in True Interest Cost of 4.814%, the State payments to Metro include a non-escalating capital charge of \$1,639,073 per year, and an escalating annual operating charge payment of \$975,615, applicable to Contract Year beginning July 1, 2003 and ending June 30, 2004 and subject to CPI adjustment with a three percent (3%) cap.
2. The State will also pay for its pro rata share of all risk and business interruption insurance and will pay as a pass-through for its actual usage for water and sewer costs, chemicals for water treatment, fuel and electricity. The State will not pay for its pro rata share of engineering costs, Metro Incremental Costs and EDS repair costs, all of which will be paid for by Metro.
3. The agreement transfers the ownership and operations responsibility of the State Steam Distribution System to Metro, pending Metro receiving certain environmental related assurances and indemnities from the State. In consideration thereof, the annual capital charge payments from the State to Metro include a fixed payment of \$300,000 per year for Metro to complete State distribution system upgrades, as required.
4. The State is precluded from transferring its rights and obligations under the Agreement to any other person(s). It is also precluded from lowering its annual operating and fixed capital costs by lowering its service requirements for its buildings. Should the State need to lower the contract demands of any building served by the DES, it would be allowed to reallocate the surplus to new or other existing buildings in its system, or request that Metro market the surplus capacity on a best efforts basis.

**Metro Agreement.** Metro has committed to purchasing energy from the DES for specified buildings and capacity at substantially the same price as that applicable to private Initial System Customers. In addition, Metro has agreed to pay an amount sufficient to cover system deficits, if any, referred to herein as the Metro Funding Amount. All such payments by Metro are subject to annual appropriation.

## 2.9.5 System Capacity and New Customers

The combination of customer contract capacities in excess of actual peak loads and the marked variations among building energy usage patterns (See Section 2.9.2) allows the Project to contract for more than the 18,200 tons of chilled water and 175,500 PPH of steam that is available from the installed capacity, with one chiller or one boiler off-line. This phenomenon is referred to as the “diversity factor.” For the Project, Metro is using a conservative 70% diversity factor for both services. As displayed in Table C-6, this results in Metro being able to contract for 26,000 tons of chilled water and 250,714 PPH of steam. Table C-6 demonstrates that 3,732 tons of cooling and 27,518 PPH of heating are available to be sold to Additional and Holdover Customers.

**Table C-6 – Capacity Available to be Sold**

	<u>Chilled Water (tons)</u>	<u>Steam (PPH)</u>
Maximum Load Allowable =		
Installed available capacity with one unit in reserve	18,200	175,500
Maximum Diversified Load/0.7 = Maximum Contract Capacities	26,000	250,714
Initial System Customers Contractual Capacities	22,268	223,196
Available Capacity Remaining for Sale	3,732	27,518
% of Maximum Contract Capacities Represented by the Initial System Customers	85.65%	89.02%

**Additional and Holdover Customers.** Metro targeted the Project to have 15% more capacity available than that taken by the Initial System Customers, so that adequate capacity would be available for growth and initial expansion. From Table C-6, Metro has 14.35% of the total available chilled water capacity and 10.98% of the total available steam capacity for such purposes. Some of that available capacity is already needed for identified priorities.

In addition to the Initial System Customers, Metro has added another of its buildings to the Project as an Additional Customer – the Hume-Fogg Academic School, with contract capacities of 300 tons of cooling and 3,000 PPH of heating. The two Holdover Customers who did not sign Initial System Customer contracts (Public Square Parking and SunTrust Bank) represent another 875 tons of cooling and 8,987 PPH of heating. Metro will actively work to convert those Holdover Customers to Additional Customers for the Project. Table C-7 summarizes the remaining capacity that can be sold.

**Table C-7 – Capacity Available for New Customers**

	<u>Chilled Water (tons)</u>	<u>Steam (PPH)</u>
Net Available Capacity to Sell	3,732	27,518
New Building: Hume-Fogg Academic School (Metro)	300	3,000
Holdovers: Public Square	110	976
SunTrust Bank	<u>765</u>	<u>8,011</u>
Subtotal New/Holdover	<u>1,175</u>	<u>11,987</u>
<b>Net Capacity Remaining for New Customers</b>	<b>2,557</b>	<b>15,531</b>

**Potential New Customers.** Gresham Smith and Partners performed a study of the downtown Nashville area to identify potential new district heating and cooling customers. The study limited the market potential to buildings that would be feasible to add to the system, primarily on the basis of building size and proximity to the existing distribution system. It was assumed that only buildings in excess of 14,000 square-feet should be listed as potential customers, and that only buildings within two blocks of the existing distribution system should be included. Significant buildings or clusters of buildings that were slightly further than two blocks from the existing distribution system were also included. The sum of those

129 potential customers totals approximately 11,250,000 square-feet, which would more than double the demand of existing customers, who total approximately 10,100,000 square-feet.

Significant among those potential customers are the AmSouth Building (1,500 tons/3,850 PPH), BankAmerica Building (2,000 tons/4,000 PPH) and the Doubletree Hotel (400 tons/9,500 PPH), each of which has considerable loads and appears predisposed, for a variety of reasons, to join the new DES. Metro is finalizing terms of an agreement with the Nashville Symphony Orchestra (600 tons/4,224 PPH) to service its new home. The addition of these four buildings (4,500 tons/21,574 PPH) to the DES would more than absorb most to all of the remaining capacity available.

## **2.10 Permits and Easements for the Project**

### **2.10.1 Status of Permits and Approvals**

In order to apply for the necessary permits and approvals for the Project, various engineering and planning documents were prepared. The current status of permits and approval documents are described in Exhibit C-8. There are no special State permits required for the Project. Metro has obtained necessary permits to commence construction of the Project.

In correspondence dated August 12, 2002 to CES, the Metro Department of Codes Administration has stated that the existing Core Frame (CF) zoning of the subject property permits the construction of a power plant upon demonstrated compliance with applicable provisions of the Zoning Regulations and obtaining associated permits for construction (see Exhibit C-8 below).

The Project site lies within the Rutledge Hill Redevelopment District that is administered by the MDHA. MDHA is a designated Redevelopment Authority empowered to review and approve the proposed use and exterior design of all new construction within the redevelopment district. On August 13, 2002, the Design Review Committee of the Rutledge Hill Redevelopment District approved both the use of the subject property as a district energy system facility and the exterior design of the building without condition.

Metro and CES have all permits required to commence construction. Except for those permits that are routinely obtained during the construction period or upon completion of the Project, Metro and CES have all permits required to complete the project.

### **2.10.2 Easements**

Construction of the EGF on the Facility Site requires the construction of replacement sanitary and storm sewer lines that currently lie beneath the proposed building pad. Replacement sewer lines will be constructed along the westerly edge of the development site within a newly dedicated forty (40) foot wide Public Utility and Drainage Easement. Following construction of the new replacement sewer lines and acceptance by Metro Water and Sewer, easements associated with the closed Metro Sewer lines will be abandoned. A fifteen- (15) foot-wide "Slope Easement" currently exists along the southerly boundary of the site coincident with the Peabody Street right-of-way. This easement was dedicated to Metro by a preceding owner of the subject property and will be abandoned by Metro for construction of the EGF. The Tennessee Department of Transportation ("TDOT") has acquired both a Slope Easement of varying width along the northerly boundary of the property to accommodate the construction of the new Gateway Boulevard, along with an associated ten (10) foot wide "Temporary Construction Easement." Both the design and construction schedule of the EGF have been coordinated with TDOT so as to allow for the abandonment of these easements by TDOT.

### Exhibit C-8 - Table of Permits

<u>PERMIT</u>	<u>AGENCY</u>	<u>NOTES</u>
Foundation Permit	Metro Codes	Permit has been issued
Building Permit	Metro Codes	Required for construction of structure
Electrical Permit	Metro Codes	Permit will be pulled by a licensed electrical contractor
Plumbing Permit	Metro Codes	Permit will be pulled by a licensed plumbing contractor
HVAC Permit	Metro Codes	Permit will be pulled by a licensed HVAC contractor
Tree Removal Permit	Metro Urban Forester	Permit has been issued
Demolition Permit	Metro Codes	Permits have been issued
Asbestos Abatement Notification	Metro Health Dept.	Complete
Air Emissions Construction Permit	Metro Health Dept.	Permit has been issued
Air Emissions Operating Permit	Metro Health Dept.	Required prior to expiration of Air Emissions Construction Permit
Grading Permit	Metro Water and Sewer	Permit has been issued
Water & Sewer relocation/extension	Metro Water & Sewer & TDEC	Permits have been issued
Curb Cut Permit	Metro Public Works	Location approval by Metro Traffic Engineer required for building permit; construction plan approval by Metro Public Works Engineering Division required prior to ramp construction
Street Closures (temporary)	Metro Public Works	Plan review & approval by Metro Public Works Engineering Division prior to closure of Peabody Street for utility relocations
Sign Permit	Metro Codes	Required prior to sign installation
Use & Occupancy Permit	Metro Codes	A U&O permit is required prior to the beginning of operations. An as-built set of drawings must be submitted for review
Sidewalk – ADA Compliance	Metro Public Works	Compliant construction required prior to issuance of U&O permit

### **3.0 THE CONTRACTOR - CONSTELLATION ENERGY SOURCE, INC.**

Constellation Energy Source, Inc. ("CES"), a corporation incorporated under the laws of Delaware, is an indirect subsidiary of Constellation Energy Group ("Constellation") based in Baltimore, Maryland. The Constellation companies operate more than 36 energy plants and are the 5<sup>th</sup> largest power marketer in the United States, having sold over 160 million megawatt hours of electricity in Year 2000, as well as owning and operating more than 4000 Megawatts of steam generation facilities throughout the United States.

Constellation was created in 1999 as a holding company overseeing a group of regulated and non-regulated energy businesses, focused mostly on power marketing and merchant generation in North America and retail energy businesses focused primarily in the Mid-Atlantic region. Constellation has unconditionally guaranteed the payment of the obligations of CES under the Management Contract.

Constellation is a public company with common stock traded on the New York, Chicago and Pacific Stock exchanges. Constellation's power marketing and merchant generation business include Constellation Power Source and Constellation Nuclear, Constellation Energy Group's retail energy businesses include Baltimore Gas & Electric ("BG&E") founded in 1816, CES, and BGE Home, which operates Commercial Building Systems.

Constellation subsidiary BGE serves more than one million business and residential electric customers and over 500,000 gas customers in a 2,300 square mile area encompassing Baltimore City and all or part of 10 central Maryland counties. For more than 60 years, BGE operated a downtown Baltimore system serving over 300 customers with heating services and chilled water, and the distribution system included over 17 miles of pipe. This system supplied the buildings with heating services, but also, through an innovative rate structure, supplied cooling service through adsorption chilling. This system was eventually sold in 1985.

Constellation owns 14 power plants that generate more than 6,200 megawatts of electricity (4,500 megawatts from fossil fuel and hydro reflecting \$4.4 billion in investments, and 1,700 megawatts from nuclear). The Constellation electric distribution system includes more than 1,200 miles of transmission lines and more than 21,000 miles of overhead and underground distribution lines.

Constellation entered the district chilled water business through Comfort Link in July 1996 with the operation of the Baltimore Convention Center Chiller Station, the first of three new facilities built in the last five years. Comfort Link, a partnership between BG&E (with a 60% ownership interest) and Monumental Investment Corp., operates this district energy system in downtown Baltimore. The three-facility Comfort Link system has a total installed capacity of approximately 40,000 tons of cooling. Additionally, Comfort Link operates a fourth chiller plant located at Camden Yards ballpark serving both Oriole Park and the Raven's Stadium, as well as a 4-megawatt Electric Peak shaving plant also serving the ballparks.

The staff of CES responsible for the design and operations of the new DES have been involved in the development of many other district energy plants including those in Chicago, Boston, New Orleans and Baltimore.

CES has selected two local firms among the key subcontractors. Pursuant to a Construction Agreement (the "Construction Agreement"), CES and Nashville Machine Company (the "Construction General Contractor"), currently ranked among the top 75 mechanical contractors in the nation, have executed a contract for the construction of the Energy Generation Facility and the modifications and improvements to the District Energy System. Pursuant to a Design Agreement (the "Engineers Agreement"), CES and Smith Seckman Reid (the "Engineer") have executed a final contract for the design of the Energy Generation Facility and the modifications and improvements to the District Energy System. SSR has designed many central chilled water-cooling and steam heating plants. SSR is currently ranked 229<sup>th</sup> among design firms in the United States by ENR Magazine. Building Design and Construction Magazine ranks SSR 14<sup>th</sup> among consulting engineers.

GBB is of the opinion that CES has adequate experience in managing the development, permitting and construction of district heating and cooling systems. CES has assembled a group of contractors, architects, and engineers with adequate experience to complete permitting, design and construction of the facility and has presented a plan of operating the system that is reasonable and provides adequate supervisory staff and operating personnel.

#### **4.0 PRINCIPAL ASSUMPTIONS USED IN THE REPORT**

##### **4.1 Principal Considerations and Assumptions Used in the Projection of Operating Results**

In preparation of this Report and the opinions that follow, GBB has made certain assumptions with respect to conditions that may exist or events that may occur in the future. While GBB believes these assumptions to be reasonable for the purpose of this Report, they are dependent upon future events and as such actual conditions may differ from those assumed herein. In addition, GBB has also used and relied upon certain information provided to it by sources that GBB believes to be reliable but have not made any independent verification of such information and as such can offer no further assurances with respect thereto. To the extent that actual future conditions differ from those assumed by GBB herein or from information or assumptions provided to GBB, or prepared by others, the actual results will vary from those estimated and projected herein. Furthermore, this Report summarizes GBB's work up to the date of the Report. Thus, changed conditions occurring or becoming known after such date could affect the projections and information contained herein.

The principal assumptions (either made by GBB or provided to GBB by other sources) in developing these projected operating results are described in detail below.

- 1) The Construction Commencement Date is November 10, 2002.
- 2) The Project is assumed to begin providing heating and cooling to customers on July 11, 2004 (i.e., the day immediately following the Construction Completion Date).
- 3) The Fiscal Year (FY) 2005 (July 1, 2004 through June 30, 2005) will be the first full year of operation for the Project and as such served as the base year for projecting operating results.
- 4) A thirty-year projection period was assumed in order to coincide with the term of the Bonds. Thus, projections of operating results for FY 2005 through FY 2034 are provided herein. Metro is provided an opportunity to extend the Management Contract with the same terms and conditions contained therein after Year 15 for up to three 5-year terms.
- 5) Operating Revenues projected for the Project are based on estimated heating and cooling rates required in each year to fully recover that year's estimated costs of operation (both fixed and variable) and debt service requirements on the new Bonds from Initial System Customers, new customers under contract at the time of this Report and Metro (through the Metro Funding Amount).
- 6) The projections of heating and cooling revenues from Initial System Customers under contract at the time of this Report are based on provisions contained within the Initial System Customer Service Agreements signed between each customer and Metro. These agreements specify the various rate components to be charged to the Initial System Customers as of the effective date of the start-up of the Project.
- 7) In addition to the projection of heating and cooling revenues from Initial System Customers, revenues from additional customers also under contract at the time of this Report are included within the projected operating results. At this time, the Hume-Fogg Academic School will be under contract as a new customer. Heating and cooling revenue derived from this customer is

based on the customer having the same provisions in its contract as the other Metro buildings have in theirs.

- 8) The other source of revenue for the Project, called the Metro Funding Amount, is the payment from Metro pursuant to the Initial System Customer Service Agreements and the Resolution, in which Metro agrees to pay an additional charge equal to the difference between (i) total System costs less (ii) the sum of (a) revenues from Initial System Customers and (b) revenues from sales of energy to any other customers.
- 9) In projecting both operating revenues and applicable operating expenses, the average annual usage and contract capacities for all System customers were assumed to remain constant throughout the thirty-year projection period.
- 10) Projected operating expenses have been developed and escalated based upon several assumptions, dependent on the nature of the expenditure. These expenses were broken down into fixed, variable pass-through and energy costs to match properly the projected costs to the appropriate rate recovery mechanism as provided for in the Initial System Customer Service Agreements. Furthermore, in projecting expenses for the heating and cooling systems, pursuant to the Management Contract between Metro and CES, 30% of operating expenses have been allocated to the heating system while the remaining 70% of expenses is recoverable from the cooling system.
- 11) Unless otherwise stated, the escalation of operating expenses due to inflation was assumed to be 3% per year during the projection period. This general rate was used since most operating expenses can be adjusted annually for inflation in the Management Contract at the lower of either the change in CPI or 3%.
- 12) Fixed operating costs include the following major components:
  - a. The CES Management Fee (as provided for in the Management Contract between Metro and CES and described in Section 2.2.1 of this Report). Using the Management Fee specified in the Management Contract as stated in 2002 dollars, the inflationary adjustment of 3% was applied per year to arrive at the projected FY 2005 CES Management Fee. This 3% inflationary adjustment was applied each year thereafter during the projection period.
  - b. The incremental Metro administrative costs required to manage the Project, escalated by 3% per year. This was estimated as approximately \$150,000 in 2002 dollars.
  - c. Certain customer service expenses related to Initial System Customers as specified in the Management Contract between Metro and CES. The expenses for such customer service during the first two years have been included as part of the Bonds, while the expenses for the remaining years are to be recovered directly from customer revenues. These expenses have been assumed to increase by 3% per year for inflation.
  - d. Pursuant to the Initial System Customer Service Agreements signed between the private customers and Metro, costs for maintenance and repair of the EDS after the first \$150,000 spent each year (which is part of the FOC) are recoverable as part of the fixed cost component and allocable to private customers only, subject to a cap of \$59,900 in FY 2002 (escalated at 3% per year). Any spending on EDS maintenance and repair above that limit will be absorbed by Metro.
- 13) Pursuant to the Initial System Customer Service Agreements, certain variable operating costs are to be passed-through directly to the customers. These variable pass-through expenses include the following major components:

- a. Water and sewer expenses. The water expenses were estimated by applying the expected unit quantities for this “commodity” to the projected annual usage of the steam and chilled water systems and applying an estimated unit price. The expected unit quantity for water was determined by the Metro/CES team projections and performance requirements under the Management Contract. The expected quantity of sewer treatment services is set at 5% of the volume of water service being returned to the Metro sewer system, based on a review of historical NTTC water/sewer billing data and engineering judgment. The unit prices for water and sewer are based on the estimated unit prices under the current Metro Water Service customer rates adjusted for inflation at 3% per year.
  - b. Chemical expenses. Pursuant to the Initial System Customer Service Agreements, it is estimated that the cost for chemical expenses under the new DES will be approximately \$225,000 (in 2002 dollars). However, due to the uncertainty involved in projecting such commodities in the future, both in unit price and quantity, all parties have agreed that chemicals expenses will be a direct pass-through to customers. An annual inflation adjustment of 3% has been assumed.
  - c. Insurance and engineering expenses. As with the water/sewer and chemicals expenses, due to the uncertainty in projecting such expenses and the dependence of these expenses on the actual conditions at the time of operation of the Project, engineering and certain insurance expenses are also to be passed directly through to the customers of the System. The projections contained herein have assumed insurance and engineering expenses of approximately \$37,500 and \$50,000, respectively (in 2002 dollars). Annual inflation adjustments of 3% for both expenses have been assumed.
- 14) Pursuant to the Initial System Customer Service Agreements, certain variable energy operating costs are to be passed-through directly to the customers. These energy pass-through expenses include the following major components:
- a. Electricity expenses. While CES has provided Project guarantees, for the base case, the electricity expenses were estimated by applying the expected unit quantities for this “commodity” to the projected annual usage of the steam and chilled water systems and applying an estimated unit price. The expected unit quantity for electricity was determined by the Metro/CES team projections and performance requirements under the Management Contract. The unit prices for electricity are based on the estimated unit prices under the current NES customer rates adjusted for inflation at 3% per year.
  - b. Natural gas expenses. As with the projection of electricity expenses, the base case projections of natural gas expenses were developed by applying the expected (versus the guaranteed) unit quantities for this “commodity” to the projected annual usage of the steam and chilled water systems and applying an estimated unit price. The expected unit quantity for natural gas was determined by the Metro/CES team projections and performance requirements under the Management Contract. The unit prices for natural gas are based on the estimated unit wellhead prices available from the futures market through FY 2004 and adjusted for additional transportation/delivery related costs. For the years thereafter, long-term natural gas prices were tied to long-term forecasts (through 2020) developed by the Energy Information Administration in its 2002 Energy Outlook. Specifically, each year’s total delivered natural gas price for the DES was determined by multiplying the previous year’s estimated delivered natural gas price by (1) the change in annual nominal (2000 dollars) delivered price projections for industrial customers located within the East South Central region and (2) by an annual inflation rate of 3%. This ensures that both inflationary non-inflationary related market factors are reflected in the natural gas price projections.

- 15) In addition to those operating expenses described above, certain marketing expenses related to attracting new customers to connect to the new System have also been included within the projections. These costs, as agreed to by Metro and the Initial System Customers, are to be paid solely by Metro and have been estimated to be approximately \$65,000 per year. Annual inflationary adjustments of 3% per year have been assumed.
- 16) In addition to the projection and recovery of System operating expenses, the Project must also fully recover the costs associated with the debt service requirements on the Bonds. In order to fund the estimated cost to design and construct the EGF as well as other certain capital improvements of the combined System and other related costs as authorized by the Bond Resolution, it is estimated that Metro will be issuing the Bonds at a par amount of \$66,700,000. However, it should be noted that the Bonds are anticipated to be issued at a premium. Total Bond proceeds equal approximately \$69.1 million. This will be described in further detail later in this Report.

Based on information provided by the Metropolitan Government's Financial Advisor, it has been assumed relative to the issuance of the Bonds that i) the Bonds will be dated October 24, 2002 and will be for a term of 31 years; ii) the Bonds will have an all-in-total interest cost of approximately 4.81%; iii) approximately 23 months of interest expense will be capitalized, and the issue will have essentially level debt service payments for the term of the issue; iv) a combination of a Surety Policy and a Debt Service Reserve Fund will be utilized in the Bonds and will be fully funded from proceeds of the Bonds; and v) the bonds will be insured in order to receive the highest quality rating possible and to reduce the overall interest rates associated with the issue. The average net annual debt service requirements, equal to the total principal and interest payments less earnings on the Debt Service Reserve Fund and less the capitalized interest, is approximately \$4.1 million. This is illustrated in further detail later in this Report.

- 17) In incorporating the recovery of annual debt service payments, the agreements between Metro and the Initial System Customers provided the allocation of the individual components of the uses of the Bond proceeds to parties responsible for such costs. These allocations result in approximately 30% of total debt service requirements being allocable solely to Metro and the remaining 70% recoverable from Initial System Customer rates (including Metro as one of those Initial System Customers). Furthermore, based on the provisions of the Management Contract, 40% of annual debt service requirement is allocable to the steam system and the remaining 60% recoverable from the chilled water system.
- 18) Metro is issuing the Bonds to finance the construction of the EGF and to make overall improvements to the existing energy distribution and energy monitoring systems. In addition, a portion of the proceeds of the Bonds will be used for other purposes authorized in the Bond Resolution, including the funding of the Debt Service Reserve Fund, a debt service reserve surety policy, capitalized interest, bond issuance costs, underwriter's discount and bond insurance costs. This section provides a description of the capital costs associated with the elements of the Construction Account financed by the Bonds. The cost components of the Construction Account are summarized in Table C-8.
  - a. Design and Construction of New Energy Generation Facility. Based on the Fixed Design/Build Cost in the CES response to Metro's RFP, and negotiations between Metro and CES, and pursuant to the terms and conditions of the Management Contract, a fixed construction cost totaling \$46,904,737 has been agreed to by all parties and will be funded through proceeds of the sale of the Bonds.
  - b. Site B Acquisition Costs. Metro's move of the EGF site from the existing NTTC site to Site B entailed \$1,054,864 in acquisition costs payable to the MDHA which negotiated the purchase price with three existing landowners.

- c. Site B Demolition Costs. The demolition of the building formerly owned by Guardian Insurance cost \$275,000.
  - d. EDS Improvements and Re-Metering. Metro has agreed to fund initial improvements to the existing EDS out of Bond proceeds, including the rehabilitation of the State's steam distribution system and the replacement and upgrading of all customer meters and monitoring devices so as to automate the system. In its Initial System Customer Service Agreement with the State, Metro agreed to take ownership and responsibility for maintaining the State's existing energy distribution system. In return, Metro agreed to make certain improvements to the State steam system. Metro has budgeted \$3,300,000 overall for these purposes.
  - e. Customer Energy Conservation and De-Coupling Projects. Metro has agreed to fund out of Bond proceeds a series of projects at various customer buildings to improve their thermal efficiency for cooling (known as the AT projects), as well as three building-specific projects to make the chilled water systems for those buildings indirect rather than direct systems (so-called de-coupling projects). These building-specific projects will not only benefit the customers through more efficient use of resources and decreased heating and cooling costs but will also provide system-wide efficiency and an investment payback that will be shared by all DES customers. The budget for these projects to be funded through the Bonds is \$2,600,000.
  - f. Utility Interconnection Costs at the EGF. According to agreements reached with Nashville Electric Service and Metro Water/Sewer for the construction of new utility connections to the EGF site, the cost of the connections is not to exceed \$800,000.
  - g. Metro Development Costs. Proceeds of the Bonds are to be used to reimburse Metro for certain of its eligible development costs associated with the Project. The estimated cost for these purposes is approximately \$2,800,000.
  - h. Metro Construction Administration. Approximately \$400,000 is included in the Project costs to be used for payment of anticipated administrative and construction management costs to be incurred by Metro during the Project's construction period.
  - i. Contingency. Due to the uncertainty inherent with projecting costs into the future and in particular with the design and construction of such a complex Project, approximately \$1,277,195 has been included for contingency purposes. This sum includes an allowance of \$790,000 for the addition of a ninth chiller if it proves to be necessary.
- 19) In preparing this Report and associated forecasts, a projected construction and drawdown schedule was developed based on the anticipated development plans for the Project. Specifically, the construction period is anticipated to be 610 days long – approximately 20 months, beginning on the Construction Commencement Date, which is 17 days after the scheduled closing of the Bonds. The construction period and the drawdown schedule for the CES Fixed Design/Construction Price portion of the Construction Account were proposed by CES in response to Metro's RFP and were negotiated by the parties in the Management Contract. The schedule of payments for the other Construction Account line items was added to that drawdown schedule. Table G9 provides the resulting monthly drawdown schedule of the Construction Account during the construction period. The table includes draws on the Bond Closing Date, the Construction Commencement Date and on a partial twenty-first month of construction, in addition to the scheduled 20 months of construction.

**Table C-8 - Summary of Project Capital Costs Comprising the Construction Account**

<u>Description</u>	<u>Amount (\$)</u>
<b>Construction Account</b>	\$46,904,737
CES Facility Design/Construction	1,054,864
Site B Acquisition Costs to MDHA	275,000
Site B Clearance Costs	800,000
Utility Interconnection Costs	3,300,000
EDS Improvements Change Order	2,600,000
Customer Energy Conservation & System Expansion	2,800,000
Metro Development Costs	400,000
Metro Construction Administration	1,277,195
<b>Total Construction Account</b>	<b>\$59,411,796</b>

(1) The contingency includes interest earnings on the Construction Account estimated to be \$583,834.

**Table C-9 - Construction Account Drawdown Schedule**

<u>Month</u>	<u>Drawdown Percentage</u>
Bond Closing Date	4.3%
Construction Commencement Date	14.3%
1	5.3%
2	8.3%
3	5.9%
4	4.5%
5	4.8%
6	4.4%
7	3.2%
8	3.0%
9	2.9%
10	3.2%
11	3.2%
12	3.2%
13	4.9%
14	3.1%
15	3.2%
16	3.2%
17	3.2%
18	2.8%
19	2.7%
20	3.9%
21 (Partial)	<u>2.5%</u>
<b>Total</b>	<b>100.0%</b>

- 20) In projecting operating revenues to be received from the State, certain adjustments were made in order to meet the provisions of the Initial System Customers Service Agreement reached between Metro and the State. These adjustments/contract provisions were the result of negotiations between Metro and the State and the resulting agreement that Metro would take ownership of certain State distribution facilities and make certain improvements to those facilities in exchange for certain negotiated rate components related to the cost recovery for these provisions. In addition, other related adjustments, such as not allocating engineering expenses to the State and adjusting the State's Contract Capacity Charge for the final All-in True Interest Cost, were also incorporated. Note that any impact on cost recovery from these adjustments in comparison to what the State would have paid under its Initial System Customers Service Agreement otherwise have been allocated to Metro in order to relieve the remaining Initial System Customers from any potential negative impact of the agreements between Metro and the State.
- 21) All contracts, agreements, statutes, rules and regulations that have been relied upon by GBB or others providing information to GBB in preparing this financial analysis and the projected operating results contained herein will be fully enforceable and remain in effect in accordance with their terms and conditions, and such terms and conditions will be complied with by the parties involved throughout the projection period. GBB makes no representations or warranties and provides no opinion concerning the enforceability or legal interpretations of such contractual and legal requirements.

## **5.0 PROJECTED OPERATING RESULTS**

### **5.1 Overview**

GBB has prepared projections of the operating results of the Project for thirty (30) Fiscal Years (July 1 through June 30) from 2005 through 2034. Projections were based generally on: i) final negotiations between Metro and CES regarding various requirements and responsibilities of all parties as contained within both the Management Contract and the Fuel Purchase Agreement, ii) requirements reflected in the various Customer Agreements between Metro and the customers for the purchase of energy products, iii) requirements and agreements contained in the Metro General Bond Resolution authorizing the redevelopment of the DES, iv) projected requirements associated with the issuance of the Bonds for financing for projects and uses specified within the authorizing Bond Resolution, v) discussions with the management and advisors of Metro, customer representatives (both Initial System Customers and Additional Customers) and other consultants and experts.

Presented in Appendix A at the end of this Report are thirty-year (30) financial projections for the new DES under various assumptions. The Base Case assumes performance at expected levels of system performance and reflects the expected or most likely usage of various commodities, such as electricity, natural gas, water, sewer and chemicals. The expected unit quantities for these commodities were determined by the Metro/CES team projections and performance requirements under the Management Contract. The performance requirements in the Management Contract also specify the guaranteed or "worst-case" unit quantities to be purchased for these commodities. Two sensitivities were developed to reflect performance at expected levels with greater levels of sales, one with additional energy customers taking all of the available capacity of the base facility, and the other with sales from a fully loaded system, including additional energy sales from the addition of a ninth chiller. All scenarios include annual projections of revenue from operation of the DES, projected operating expenses (including fixed operations and maintenance expenses, as well as variable pass-through energy, chemical and utility expenses), other operation and maintenance related expenses, debt service requirements and net revenue available for other purposes.

Projected revenues include those from retail steam and chilled water energy sales, as well as funding received solely from the Metro Funding Amount as provided for in its Initial System Customer Agreement. The projected energy revenues have been forecast based on the terms and conditions of the Initial System Customer Service Agreements, including the escalation factors governing rate increases. Projections of Net Revenues and debt service requirements during the projection period are shown on a

combined system (i.e., steam and chilled water) basis. For any new customers of the DES assumed, projections of revenues and cost were developed through discussions among potential customers, Metro and Metro's advisors.

Projected operating expenses are based on various factors such as projected expense increases due to inflation (and as provided for in the Management Contract), projected changes in expenses due to anticipated changes in Project operations and outside market conditions.

## **5.2 Operating Revenues and Expenses**

The purpose of this section is to provide additional information regarding the projected operating revenue and operating expenses of the Project under the Base Case. This information is provided in detail for Fiscal Year 2005.

### **5.2.1 Annual Operating Revenues**

The projected operating results under the various scenarios in Appendix A include a breakdown of estimated operating revenues to be received from the sale of steam and chilled water services to customers of the Project by general customer class (State buildings, private buildings and Metro buildings). Additional funding projected to be received through the Metro Funding Amount pursuant to its Initial System Customer Agreement is also included within operating revenues. Table C-10 provides a summary of the Base Case operating revenues for Fiscal Year 2005, the first full year of operation for the DES, and includes a further breakdown of System sales revenues by steam and chilled water rate component (capacity charges and usage charges). In addition, revenue projections for a new customer, the Hume-Fogg Academic School, is also included within this projection. While not considered an Initial System Customer, a contract has been signed for the School to become a customer of the existing NTTC system, and it is therefore included in the Base Case analysis.

As shown in Table C-10, operating revenue resulting from the sale of steam services provides approximately 40% of total sales revenue, while chilled water sales provides the remaining 60%. Combined sales revenue provides approximately 93% of all operating revenue, with the remaining 7% coming from the Metro Funding Amount. Furthermore, sales revenue from steam and chilled water capacity charges accounts for 50% of total sales revenue while usage charges for the steam and chilled water system accounts for the remaining 50%.

By customer class, Table C-10 shows that revenue from the State accounts for approximately 45% of total sales revenue, while Metro and private buildings account for 30% and 25% of total sales revenue, respectively. Note that revenue shown for additional customers in this Base Case is for the Hume-Fogg Academic School, which is a Metro building. It should also be noted that if the Metro Funding Amount is added to the revenue mix, the allocations of revenues received from the State, Metro and private buildings becomes 44%, 31%, and 25%, respectively.

### **5.2.2 Annual Operating Expenses**

The projected operating results shown in Appendix A also provide a breakdown of fixed, variable and other operating expenses. The fixed operation and maintenance expenses shown for steam and chilled water services are based on fixed amounts provided for within the Management Contract for 2002 escalated to FY 2005 by inflation as provided for within that agreement. Included within these fixed operation and maintenance expenses are such items as personnel costs, materials and supplies, contractual services, customer services provided for the Initial System Customers, as well as overhead and profit for CES and additional administrative costs anticipated to be incurred by the Metro as a result of administering and monitoring the Management Contract and the System.

**Table C-10 - Breakdown of Projected FY 2005 Operating Revenues**

<b>Revenue Source</b>	<b>Capacity Charges</b>	<b>Usage Charges</b>	<b>Total Revenue</b>
From ISCs:			
Steam Service			
State Buildings	\$975,453	\$1,373,928	\$2,349,381
Metro Buildings	630,336	540,853	1,171,189
Private Buildings	458,249	595,166	1,053,415
Total Steam Service	2,064,038	2,509,947	4,573,986
Chilled Water Service			
State Buildings	\$1,729,700	\$1,606,993	\$3,336,694
Metro Buildings	1,460,647	1,174,720	2,635,367
Private Buildings	1,119,903	977,692	2,097,596
Total CW Service	4,310,251	3,759,406	8,069,657
From Additional Customers:			
Steam Service	\$26,006	\$22,314	\$48,320
Chilled Water Service	50,953	40,979	91,931
Total Sales Revenue	\$6,451,248	\$6,332,645	\$12,783,893
Metro Funding Amount	N/A	N/A	\$1,028,591
Total Operating Revenue	N/A	N/A	<u>\$13,812,485</u>

The variable component of operation and maintenance expenses are related to certain pass-through costs associated with the purchase of such commodities as electricity, natural gas, chemicals and water/sewer services, as well as certain other related costs. These commodity expenses have been established as pass-through costs in the Management Contract due to the uncertainty inherent in projecting actual usage in the future as well as the uncertainty associated with their market pricing in the future. It should be noted that the projected operating results under the Base Case and both sensitivities (Cases B and C) reflects the impact of the expected levels of usage of these pass-through commodities pursuant to the terms and conditions of the Management Contract.

Table C-11 is a summary of the Base Case operating expenses for Fiscal Year 2005, the first full year of operation for the DES. As can be seen in Table C-11, the fixed operation and maintenance expenses are estimated to account for approximately 40% of total FY 2005 operating expenses. The two largest variable operating expenses of the Project are for electricity and natural gas. For Fiscal Year 2005, these two components alone account for approximately 50% of the total operating expenses.

**Table C-11 - Breakdown of Projected FY 2005 Operating Expenses**

<u>Category</u>	<u>Operating Expenses</u>
Fixed O&M Expenses	
Steam Related:	\$1,261,804
Chilled Water Related:	\$2,944,209
Total, Fixed O&M Expenses	\$4,206,013
Variable Pass-Thru Expenses	
Steam Related:	
Electricity - ISC Only	\$109,755
Natural Gas - ISC Only	2,242,489
Chemicals - ISC Only	73,759
Water/Sewer - ISC Only	64,259
Other - ISC Only	28,684
Additional Customers Only	22,314
Total, Steam Related	\$2,541,260
Chilled Water Related:	
Electricity - ISC Only	\$2,957,362
Natural Gas - ISC Only	0
Chemicals - ISC Only	172,105
Water/Sewer - ISC Only	579,453
Other - ISC Only	66,930
Additional Customers Only	40,979
Total, Chilled Water Related	\$3,816,828
Total, Variable Pass-thru Expenses	\$6,358,088
Other O&M Expenses	
Marketing Expenses	\$63,690
Total Operating Expenses	<u>\$10,627,791</u>

### 5.3 Debt Service

#### 5.3.1 Projected Sources and Uses of Bond Funds

In addition to the projection and recovery of System operating expenses, the Project must also fully recover the costs associated with the debt service requirements on the Bonds. In order to fund the cost to design and construct the EGF, as well as certain other capital improvements of the System and other related costs as authorized by the General Bond Resolution, it is estimated that Metro will issue the Bonds in the par amount of \$66,700,000.

Table C-12 below provides a summary of the projected sources and uses of proceeds from the sale of the Bonds.

**Table C-12 – Summary of Sources and Uses of Proceeds of Bonds**

**SOURCES:**

Bond Proceeds:	
Par Amount	\$66,700,000
Original Issue Discount	(194,518)
Premium	2,581,266
<b>TOTAL SOURCES</b>	<u><u>\$69,086,748</u></u>

**USES:**

System Improvement Fund Deposits:	
Construction Account	\$58,821,962
Capitalized Interest Account	5,957,330
Subtotal System Improvement Fund	<u>\$64,779,292</u>
Other Fund Deposits:	
Debt Service Reserve Fund	2,608,187
Delivery Date Expenses:	
Cost of Issuance	807,550
Underwriter's Discount	387,580
Bond Insurance (40 basis points)	438,933
Surety Policy <sup>1</sup>	65,205
Subtotal Deliver Date Expenses	<u>\$1,699,268</u>
<b>TOTAL USES</b>	<u><u>\$69,086,748</u></u>

<sup>1</sup> 2.5% x maximum annual debt service x 50%

#### 5.3.2 Annual Debt Service Requirements

Table C-13 presents the annual net debt service amounts due in each year (pro-rated on a Fiscal Year basis) the Bonds are outstanding. Those debt service amounts were used in the projection of operating results for the Base Case and the Sensitivity Cases and are net of any interest earnings and capitalized interest payments.

**Table C-13 - Annual Debt Service Payments**

<u>Fiscal Year</u>	<u>Total Annual Debt Service</u>
2005	\$3,184,694
2006	4,279,194
2007	4,292,835
2008	4,291,735
2009	4,292,048
2010	4,292,448
2011	4,169,079
2012	4,306,710
2013	4,310,085
2014	4,291,962
2015	4,291,932
2016	4,292,023
2017	4,291,516
2018	4,291,910
2019	4,290,126
2020	4,289,673
2021	4,289,366
2022	4,292,176
2023	3,980,066
2024	4,189,391
2025	4,291,516
2026	4,932,141
2027	4,504,488
2028	4,291,538
2029	4,293,516
2030	4,293,329
2031	4,293,454
2032	4,290,954
2033	2,335,626
2034	421,035

#### **5.4 Base Case Projected Operating Results**

As mentioned previously, Appendix A presents the detailed projected operating results for the Base Case and two sensitivities of the Project. Table C-14-A provides a summary of the first five (5) years of the operating results under the Base Case, assuming the expected levels of usage of the variable pass-through commodities.

**TABLE C-14-A - Projected Operating Results - Base Case  
(Performance at Expected Levels of Commodity Usage)**

Description	For the Fiscal Years Ending June 30,				
	2005	2006	2007	2008	2009
<b>OPERATING REVENUES</b>					
From Initial System Customers Only					
Steam Service	\$4,573,986	\$4,858,528	\$4,989,564	\$5,153,718	\$5,300,823
Chilled Water Service	8,069,657	8,559,811	8,755,268	8,952,385	9,155,817
From Additional Customers					
Steam Service	48,320	53,607	54,989	56,634	58,138
Chilled Water Service	91,931	100,269	102,637	104,992	107,425
Metro Funding Amount	1,028,591	1,669,938	1,704,868	1,732,350	1,761,467
<b>TOTAL OPERATING REVENUES</b>	<b>\$13,812,485</b>	<b>\$15,242,153</b>	<b>\$15,607,326</b>	<b>\$16,000,079</b>	<b>\$16,383,671</b>
<b>OPERATING EXPENSES</b>					
Fixed O&M Expenses	\$4,206,013	\$4,333,201	\$4,463,197	\$4,597,093	\$4,735,006
Variable Pass-Thru O&M Expenses	995,548	1,025,415	1,056,177	1,087,863	1,120,499
Energy Pass-Thru O&M Expenses	5,362,539	5,538,071	5,726,856	5,953,080	6,163,701
Other O&M Expenses	63,690	66,272	68,260	70,308	72,417
<b>TOTAL OPERATING EXPENSES</b>	<b>\$10,627,791</b>	<b>\$10,962,959</b>	<b>\$11,314,491</b>	<b>\$11,708,344</b>	<b>\$12,091,623</b>
<b>NET REVENUE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>
<b>TOTAL DEBT SERVICE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

As shown in Table G-14-A, total operating revenues under the Base Case (performance at expected levels of usage for commodities) is projected to increase from \$13,812,485 in FY 2005 to \$16,383,671 in FY 2009. Beginning in 2006, of the total operating revenue, steam services account for generally 32%, chilled water for about 57% and the Metro Funding Amount approximately 11% per year.

Total operating expenses under the Base Case are projected to increase from \$10,627,791 in FY 2005 to \$12,091,623 in FY 2009. Fixed operating costs account for approximately 40% of total operating expenses.

Debt service requirements shown are net of capitalized interest payments and interest earnings. Debt service begins a generally level payment pattern in FY 2006. Total debt service is approximately 28% of total revenue requirements during the period FY 2005 through FY 2009.

As discussed previously, the Base Case and both sensitivities developed herein are based on the assumption that the expenses for various pass-through "commodities" such as electricity, natural gas, water and wastewater are consistent with the expected or most likely levels of purchases for these commodities. The factors used to develop these expected quantities were negotiated between Metro and CES and are specified within the performance requirements under the Management Contract.

However, the performance requirements specified within the Management Contract also provide for a maximum quantity of these commodities that CES must agree to purchase and pass through to the customers. Thus, under a scenario in which these maximum guaranteed commodities amounts are purchased, the costs for operation and maintenance of the DES would increase appropriately. In reviewing the potential impact of this guaranteed commodities usage scenario on the overall operation of the DES, the total operating revenue from steam and chilled water customers (both ISC's and the Hume-Fogg Academic School) would increase by approximately \$867,000 in FY 2005. This represents an increase in rates to those customers of about 6.78% over the Base Case scenario in FY 2005. The Metro Funding Amount under the guaranteed commodities usage scenario would remain the same since the increased expenses are passed through to the customers. Thus, the total increase in revenue required from rates and the Metro Funding Amount under a guaranteed commodities usage scenario is about \$867,000 in FY 2005 over the revenue under the expected commodities scenario, about 6.28%.

Likewise, since rates and Metro Funding Amounts are determined based on projected operating and capital (i.e., debt) expenses, the total increase in operating expenses and debt service expense is also about \$867,000 in FY 2005 for this guaranteed commodities usage scenario. All of this increase in expense is attributable to the variable pass-through and energy pass-through operating costs. This increase represents about 7.54% of total operating expenses in FY 2005. When the debt service for FY 2002 is factored in, the increase in total expenses under the guaranteed commodities usage scenario is also about 6.28% in FY 2005.

## **5.5 Sensitivity Analyses**

Summaries for FY 2005 through FY 2009 for the two sensitivities are presented below. These two sensitivities include:

Table C-14-B: Sensitivity Case A – Additional Energy Customers

Table C-14-C: Sensitivity Case B – Add Ninth Chiller with Additional Energy Customers

### **5.5.1 Sensitivity Case A: Additional Energy Customers**

This sensitivity summarizes the projections assuming expected performance levels and usage of commodities as in the Base Case but reflects the impact of adding additional customers to the DES until all existing available capacity (utilizing eight chillers) is sold. This means that the Project would be receiving sales revenues from the sale of 26,000 tons of chilled water capacity and 250,714 PPH of steam, instead of the capacities sold for the Base Case: 23,443 tons of chilled water and 235,83 PPH of steam.

The contract capacity charges for new non-ISC customers differ from ISC customer charges pursuant to the agreements made between Metro and the ISCs during negotiations. In particular, as an incentive for new customers to sign on for the DES system, Metro agreed to provide such customers a 10% rate reduction compared to what such customers are estimated to have paid for self-generation of steam and chilled water service. This adjustment is reflected solely in their contract capacity charges.

At this time, it is estimated that the contract capacity charges in FY 2005 will be approximately \$11.60/lb-hr for steam service and \$212.70/ton for chilled water service. The other steam and chilled water rate components – the variable and energy pass through costs – will remain the same for both the ISCs and any subsequent customers of the DES since all such costs will be passed directly through from the DES system to all customers.

Based on the Management Contract between Metro and CES, CES will receive additional compensation when it successfully helps contract with new customers for the DES. A commission of 10 percent of invoiced amounts to the new customers is paid to CES on a monthly basis during the first three years of the new customer's contract. The additional compensation is capped at 5 percent of CES's current FOC less the allowance included in the FOC for EDS maintenance and repair. Furthermore, should the commission payable to CES be in excess of this capped amount in any particular year, the amount over

the cap will be paid (without interest) to CES in the next year in which the commission cap has yet to be reached. Applicable commission amounts are included in Sensitivity A and B operating results since both assume additional revenue from new customers. It should also be noted that all commission amounts to be paid are allocable solely to Metro and provided for in the Metro Funding Amount calculation.

As shown in Table 14-B, total operating revenues under this sensitivity (performance at expected levels and sales of all available capacity associated with the existing eight chillers and four boilers) are projected to increase from \$14,814,807 in FY 2005 to \$17,319,984 in FY 2009. The primary impact of the sales of additional steam and chilled water services is to provide an offset to the Metro Funding Amount since this capacity is currently paid for by Metro already, as set forth in the various agreements between Metro and the system customers. Likewise, the commission payments are also reflected in the Metro Funding Amount. Thus, the sale of the remaining system available capacity is projected to result in a negative net Metro Funding Amount of \$197,534 in FY 2005 and \$619,756 in FY 2009.

Total operating expenses under this sensitivity are projected to increase from \$11,630,114 in FY 2005 to \$13,027,937 in FY 2009. Fixed operating costs account for approximately 36% of total operating expenses.

Debt service requirements shown are the same as in the Base Case.

**TABLE C-14-B - Projected Operating Results - Sensitivity Case A  
(Performance at Expected Levels of Commodity Usage, Additional Customers - 8 Chillers)**

Description	For the Fiscal Years Ending June 30,				
	2005	2006	2007	2008	2009
<b>OPERATING REVENUES</b>					
From Initial System Customers Only					
Steam Service	\$4,573,986	\$4,858,528	\$4,989,564	\$5,153,718	\$5,300,823
Chilled Water Service	8,069,657	8,559,811	8,755,268	8,952,385	9,155,817
From Additional Customers					
Steam Service	621,125	645,260	666,960	693,141	717,375
Chilled Water Service	1,352,506	1,398,661	1,439,981	1,482,456	1,526,213
Metro Funding Amount	197,534	814,116	823,628	623,893	619,756
<b>TOTAL OPERATING REVENUES</b>	<b>\$14,814,807</b>	<b>\$16,276,375</b>	<b>\$16,675,401</b>	<b>\$16,905,592</b>	<b>\$17,319,984</b>
<b>OPERATING EXPENSES</b>					
Fixed O&M Expenses	\$4,206,013	\$4,333,201	\$4,463,197	\$4,597,093	\$4,735,006
Variable Pass-Thru O&M Expenses	1,129,649	1,163,539	1,198,445	1,234,398	1,271,430
Energy Pass-Thru O&M Expenses	6,047,423	6,245,165	6,457,732	6,712,058	6,949,083
Other O&M Expenses	247,028	255,277	263,192	70,308	72,417
<b>TOTAL OPERATING EXPENSES</b>	<b>\$11,630,114</b>	<b>\$11,997,181</b>	<b>\$12,382,566</b>	<b>\$12,613,857</b>	<b>\$13,027,937</b>
<b>NET REVENUE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>
<b>TOTAL DEBT SERVICE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

### 5.5.2 Sensitivity Case B: Add Ninth Chiller with Additional Energy Customers

This last sensitivity assumes performance at expected levels for purchase of commodities but includes a ninth 2,600-ton chiller, thereby increasing capacity available for sale. This sensitivity, with the projected operating results shown in Table C-14-C, reflects the projected revenue from the sale of this increased capacity as well as a slight increase in annual operating expenses associated with the new chiller.

As shown in Table G14-C, total operating revenues under this sensitivity (performance at expected levels for purchase of commodities, installation of one additional chiller and sales of all available capacity associated with the nine chillers) is projected to increase from \$15,232,791 in FY 2005 to \$17,872,468 in FY 2009.

**TABLE C-14-C – Projected Operating Results - Sensitivity Case B  
(Performance at Expected Levels of Commodity Usage, Additional Customers - 9 Chillers)**

<b>Description</b>	<b>For the Fiscal Years Ending June 30,</b>				
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>OPERATING REVENUES</b>					
From Initial System Customers Only					
Steam Service	\$4,573,986	\$4,858,528	\$4,989,564	\$5,153,718	\$5,300,823
Chilled Water Service	8,077,347	8,567,732	8,763,427	8,960,789	9,164,473
From Additional Customers					
Steam Service	621,125	645,260	666,960	693,141	717,375
Chilled Water Service	2,307,642	2,382,450	2,453,284	2,526,158	2,601,227
Metro Funding Amount	(347,309)	252,761	245,176	228,867	88,570
<b>TOTAL OPERATING REVENUES</b>	<b>\$15,232,791</b>	<b>\$16,706,732</b>	<b>\$17,118,411</b>	<b>\$17,562,672</b>	<b>\$17,872,468</b>
<b>OPERATING EXPENSES</b>					
Fixed O&M Expenses	\$4,219,513	\$4,347,106	\$4,477,519	\$4,611,845	\$4,750,200
Variable Pass-Thru O&M Expenses	1,216,782	1,253,285	1,290,884	1,329,611	1,369,499
Energy Pass-Thru O&M Expenses	6,362,252	6,569,438	6,791,733	7,056,079	7,303,425
Other O&M Expenses	249,550	257,708	265,440	273,403	157,296
<b>TOTAL OPERATING EXPENSES</b>	<b>\$12,048,097</b>	<b>\$12,427,538</b>	<b>\$12,825,576</b>	<b>\$13,270,937</b>	<b>\$13,580,421</b>
<b>NET REVENUE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>
<b>TOTAL DEBT SERVICE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

As with Sensitivity A, this sensitivity incorporates revenue and expenses associated with the sale of all available capacity, as well as commissions paid by Metro to CES related to the sale of this available capacity. However, in Sensitivity B, one additional chiller is installed, thereby increasing the total amount of capacity available and, thus, additional revenues, variable expenses and commissions paid to CES. Once again, the primary impact of the sales of additional steam and chilled water services is to provide an offset to the Metro Funding Amount (net of commissions and variable expenses) since this capacity is currently paid for by Metro as set forth in the various agreements between Metro and CES, as well as between Metro and the Initial System Customers. Thus, the sale of this increased available capacity is projected to result in a negative net Metro Funding Amount, or a payment to Metro, in essence, of \$347,309 in FY 2005 (due to only a partial year of debt service required) and positive net Metro Funding Amount of \$88,570 in FY 2009.

Total operating expenses under this sensitivity are projected to increase from \$12,048,097 in FY 2005 to \$13,580,421 in FY 2009. Note that this analysis incorporates both increased variable/energy operating expenses and very slight increase in fixed operating expense due to the installation/operation of the ninth chiller. Fixed operating costs account for approximately 35% of total operating expenses.

### 5.5.3 Summary: Effect of Sensitivities on Metro Funding Amounts

The most significant change between the Base Case and the Sensitivity Cases, both A and B, is in the amount of the Metro Funding Amount in each of the projection years. In the Base Case, the Metro Funding Amount is positive, meaning that Metro would need to appropriate funds at the outset of each year to meet an expected shortfall in revenues. As can be seen in Table C-15 below, the Metro Funding Amount is generally around \$1,800,000 for the years 2006 through 2015. FY 2006 is the first full year of debt service in the projections.

**Table C-15 - Summary of Metro Funding Amounts**

<u>Fiscal Year</u>	<u>Base Case</u>	<u>Sensitivity A</u>	<u>Sensitivity B</u>
2005	\$1,028,591	\$197,534	(\$347,309)
2006	1,669,938	814,116	252,761
2007	1,704,868	823,628	245,176
2008	1,732,350	623,893	228,867
2009	1,761,467	619,756	88,570
2010	1,791,501	615,539	(19,008)
2011	1,753,023	541,782	(111,801)
2012	1,861,828	614,250	(58,940)
2013	1,896,295	611,289	(82,097)
2014	1,919,683	596,127	(118,060)
2015	1,954,224	590,961	(144,651)

When the remaining 15,531 PPH of available steam capacity (6.19% of total) and 2,557 tons of remaining chilled water capacity (9.83% of total) are sold, however, the Metro Funding Amount declines significantly, that is, Metro needs to appropriate between about 50% to 75% less each year than in the Base Case. With that small change in sales levels in Sensitivity A, the Metro Funding Amount goes from its positive annual balance (shortfall) of about \$1,800,000 from 2006 to 2015 in the Base Case to a positive balance which averages around \$645,000 between 2006 and 2015. The primary reasons for the volatility in the years 2005 through 2007 in Sensitivity A is the payment of commissions to CES and the partial year of debt service in FY 2005.

For Sensitivity B, as more capacity gets added to the Project, the outlook for Metro improves further because the marginal amount of sales of the additional capacity outweighs the marginal cost of providing, operating and maintaining the additional equipment. This is especially the case for adding a ninth chiller to the System, because the Construction Account for the Project already has the additional capital cost of that chiller included as a Contingency item. Thus, Metro's average Funding Amount goes from a deficit of approximately \$250,000 from 2006 to near breakeven in 2010. As mentioned previously, the Metro Funding Amount is somewhat variable for year 2005 due to CES commissions and a partial year of debt in 2005. After 2009, the Funding Amount turns into an actual annual surplus that grows in each successive year to the end of the Term in 2034.

The incentive for Metro to continue to grow and expand the DES is clear from these three sets of projections. As a part of its responsibilities for the Project, CES already has a budget (included in the projections) and a program outlined in the Management Contract to pursue new customers for the DES. CES is incentivized in the Management Contract on a commission basis for obtaining new sales contracts, so the prospects of additional sales are good. It is the opinion of GBB that, assuming all Facility capacity is sold and all parties meet their obligations, the total revenue during each of the contract years following the Service Commencement Date during which bonds are outstanding will equal or exceed the Annual Debt Service payment, without the Metro Funding Amount, starting in FY 2010.

## **6.0 CONCLUSIONS**

### **6.1 Development**

1. Metro and CES have all permits required to commence construction. Except for those permits that are routinely obtained during the construction period or upon completion of the Project, Metro and CES have all permits required to complete the Project.
2. The Facility Site is of a size and location adequate to build the Project. After reasonable diligence, we are not aware of any subsurface conditions or environmental conditions at the site that would adversely affect construction or operation of the EGF.
3. The Facility Site has reasonable access to all water, sewer, electric and other utilities sufficient for construction and operation of the Project.
4. Satisfactory arrangements have been made for physical interconnection with supply of natural gas sufficient to operate the EGF.
5. The EGF site is properly zoned for construction and operation of the EGF.
6. The facility site is situated so that it can be connected to the existing energy distribution system.
7. The laydown area adjacent to the site is adequate for purposes of constructing the Project.

### **6.2 Construction**

1. The Fixed Construction Cost is reasonable when compared to construction costs for similar facilities of similar size.
2. The period of 610 days is a suitable period of time for CES to achieve the Scheduled Service Commencement Date.
3. The construction period performance guarantees of CES are reasonable, and CES can be expected to achieve acceptance at the guaranteed performance levels.
4. The liquidated damages payable by CES for delay in achieving the Service Commencement Date are sufficient to pay debt service on the Bonds during such period.
5. Liquidated damages for failure to achieve acceptance at the guaranteed levels are reasonably calculated to compensate Metro for the economic harm caused by such failure.
6. The amount available under the CEG Guaranty to support the construction period obligations of CES are reasonably sufficient to pay damages to which CES may become subject during the construction period under most foreseeable circumstances.
7. The acceptance tests are a reasonable and adequate test of whether the Project can perform reliably at the guaranteed levels.

### **6.3 The EGF**

1. The EGF, as proposed and designed by CES, has adequate capacity to satisfy CES performance obligations under the Management Contract.
2. The EGF, if operated and maintained in accordance with general utility operating practice, will have a useful life greater beyond the final maturity date of the term of the bonds.

3. The EGF has sufficient redundancy to provide service without interruption during the term of the Bonds assuming operated and maintained according to generally accepted utilities standards.

#### **6.4 Service**

1. The FOC of CES is reasonable for operating similar facilities of similar size. We believe that CES can operate and maintain the facility, and replace equipment as may be necessary, during the term of the Management Contract at costs within the fixed operation and maintenance fee.
2. The service period performance guarantees of CES are reasonable and CES can be expected to operate the EGF at least at the guaranteed performance levels.
3. Liquidated damages for failure to operate the facility at the guaranteed levels are reasonably calculated to compensate Metro for the economic harm caused by such failure.
4. The amount available under the CEG Guaranty to support the operating period obligations of CES are reasonably sufficient to pay damages to which CES may become subject during the operating period under most foreseeable circumstances.
5. CES' plan of maintenance and its proposed repair and maintenance budget process (during the 15-year term of the management contract) are reasonable and consistent with operating and maintaining the EGF for a life in excess of 30 years.
6. If Metro exercises its option to renew the Management Contract for an additional 15-year term, the foregoing conclusions will apply during the renewal terms, assuming CES continues to operate and maintain the equipment and system in accordance with prudent utility practices, recognizing additional maintenance and associated costs will be required as the equipment gets older.

#### **6.5 EDS**

1. The existing EDS (including the portion of the EDS to be acquired from the State) are in reasonable condition and repair.
2. The projected \$3,300,000 capital budget to be spent from the proceeds of the Bonds to repair, expand and upgrade the EDS is reasonable based on the current assessment of the EDS.
3. The amounts included in FOC plus revenues for State and private Initial System Customers for EDS maintenance is a reasonable estimate of the projected costs to the system of annual repair and maintenance for the EDS.

#### **6.6 Service Charges**

1. The proposed energy charge to customers is expected to be significantly below projected market rates and below what it would cost customers to install their own energy systems.
2. We believe that based on projected system costs, it is reasonable to assume that CES/Metro will be successful in marketing any uncommitted capacity of the EGF within two (2) years following the service commencement date.
3. If the initial unused capacity is sold and used, assuming Metro pays the same price for energy as private customers, it is expected that system revenues will be sufficient to pay all system expenses, without the Metro Funding Amount.

## **6.7 Fuel**

1. CES is responsible for procuring fuel for the EGF. CES has adequate expertise and resources in fuel procurement to fulfill its obligations.
2. There are adequate natural gas supply and distribution systems available to the EGF to satisfy the EGF's fuel requirements.

## **6.8 Contractor Capability**

1. CES has adequate experience in managing the development, permitting and construction of district heating and cooling systems.
2. CES has assembled a group of contractors, architects, and engineers with adequate experience to complete permitting design and construction of the facility.
3. CES has adequate experience in operating district heating and cooling systems.
4. CES has presented a plan of operating the system that is reasonable and provides adequate supervisory staff and operating personnel.

## **6.9 Economic Projections**

1. Based on the assumptions set forth herein, which we believe are reasonable, in each of the contract years following the Service Commencement Date during which Bonds are outstanding, and assuming performance and meeting all obligations of all parties involved, revenues, including Metro Funding Amounts, will equal or exceed operating expenses and debt service.
2. Assuming all Facility capacity is sold and all parties meet their obligations, the total revenue during each of the contract years following the Service Commencement Date during which bonds are outstanding will equal or exceed the Annual Debt Service payment, without the Metro Funding Amount, starting in FY 2010.

Respectfully submitted,

Gershman, Brickner & Bratton, Inc.

## APPENDIX A

### 30-YEAR PROFORMAS OF PROJECTED OPERATING RESULTS FOR:

- A-1 **Base Case Projected Operating Results**
- A-2 **Sensitivity Case A: Additional Energy Customers**
- A-3 **Sensitivity Case B: Add Ninth Chiller with Additional Energy Customers**

**APPENDIX A - 1**  
**The Metropolitan Government of Nashville and Davidson County, Tennessee**

**Projected Operating Results - Base Case**  
**(Performance at Expected Levels of Commodity Usage)**  
**for the Fiscal Years 2005 through 2034**

For the Fiscal Years Ending June 30,

Description	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
<b>OPERATING REVENUES</b>											
Steam Service - ISCs Only											
State Buildings	\$2,349,381	\$2,408,169	\$2,473,067	\$2,557,204	\$2,631,681	\$2,713,404	\$2,816,742	\$2,900,622	\$2,982,685	\$3,067,651	\$3,155,620
Metro Buildings	1,171,189	1,299,349	1,332,832	1,372,720	1,409,170	1,448,680	1,485,740	1,538,890	1,579,498	1,619,553	1,662,665
Private Buildings	1,053,415	1,151,010	1,183,665	1,223,793	1,259,972	1,299,398	1,340,510	1,389,707	1,429,858	1,470,052	1,512,813
Chilled Water Service - ISCs Only											
State Buildings	3,336,694	3,407,291	3,480,007	3,554,904	3,632,047	3,711,505	3,793,347	3,877,644	3,964,470	4,053,901	4,146,015
Metro Buildings	2,635,367	2,874,377	2,942,264	3,009,766	3,079,523	3,151,386	3,205,614	3,303,790	3,382,787	3,460,699	3,543,929
Private Buildings	2,097,596	2,278,142	2,332,997	2,387,716	2,444,247	2,502,483	2,547,913	2,625,827	2,689,808	2,753,169	2,820,623
Revenue From Additional Customers											
Steam Service	48,320	53,607	54,989	56,634	58,138	59,768	61,297	63,490	65,165	66,818	68,596
Chilled Water Service	91,931	100,269	102,637	104,992	107,425	109,932	111,824	115,249	118,004	120,722	123,625
Metro Funding Amount	1,028,591	1,669,938	1,704,868	1,732,350	1,761,467	1,791,501	1,753,023	1,861,828	1,896,295	1,919,683	1,954,224
<b>TOTAL OPERATING REVENUES</b>	<b>\$13,812,485</b>	<b>\$15,242,153</b>	<b>\$15,607,326</b>	<b>\$16,000,079</b>	<b>\$16,383,671</b>	<b>\$16,788,056</b>	<b>\$17,116,010</b>	<b>\$17,677,048</b>	<b>\$18,108,570</b>	<b>\$18,532,248</b>	<b>\$18,988,111</b>
<b>OPERATING EXPENSES</b>											
<b>Fixed O&amp;M Expenses</b>											
Steam	\$1,261,804	\$1,299,960	\$1,338,959	\$1,379,128	\$1,420,502	\$1,463,117	\$1,507,010	\$1,552,221	\$1,598,787	\$1,646,751	\$1,696,153
Chilled Water	\$2,944,209	\$3,033,241	\$3,124,238	\$3,217,965	\$3,314,504	\$3,413,939	\$3,516,357	\$3,621,848	\$3,730,503	\$3,842,419	\$3,957,691
<b>Total Fixed O&amp;M Expenses</b>	<b>\$4,206,013</b>	<b>\$4,333,201</b>	<b>\$4,463,197</b>	<b>\$4,597,093</b>	<b>\$4,735,006</b>	<b>\$4,877,056</b>	<b>\$5,023,368</b>	<b>\$5,174,069</b>	<b>\$5,329,291</b>	<b>\$5,489,169</b>	<b>\$5,653,845</b>
<b>Variable Pass-Thru O&amp;M Expenses</b>											
Steam	\$168,178	\$173,224	\$178,421	\$183,773	\$189,286	\$194,965	\$200,814	\$206,838	\$213,043	\$219,435	\$226,018
Chilled Water	827,370	852,191	877,757	904,090	931,212	959,149	987,923	1,017,561	1,048,088	1,079,530	1,111,916
<b>Total Variable Pass-Thru O&amp;M Exp.</b>	<b>\$995,548</b>	<b>\$1,025,415</b>	<b>\$1,056,177</b>	<b>\$1,087,863</b>	<b>\$1,120,499</b>	<b>\$1,154,113</b>	<b>\$1,188,737</b>	<b>\$1,224,399</b>	<b>\$1,261,131</b>	<b>\$1,298,965</b>	<b>\$1,337,934</b>
<b>Energy Pass-Thru O&amp;M Expenses</b>											
Steam	\$2,373,081	\$2,458,929	\$2,555,340	\$2,686,418	\$2,799,040	\$2,924,248	\$3,088,430	\$3,216,081	\$3,339,600	\$3,467,636	\$3,600,348
Chilled Water	2,989,458	3,079,142	3,171,516	3,266,661	3,364,661	3,465,601	3,569,569	3,676,656	3,786,956	3,900,565	4,017,582
<b>Total Energy Pass-Thru O&amp;M Exp.</b>	<b>\$5,362,539</b>	<b>\$5,538,071</b>	<b>\$5,726,856</b>	<b>\$5,953,080</b>	<b>\$6,163,701</b>	<b>\$6,389,849</b>	<b>\$6,657,999</b>	<b>\$6,892,738</b>	<b>\$7,126,556</b>	<b>\$7,368,201</b>	<b>\$7,617,930</b>
<b>Other O&amp;M Expenses</b>											
Customer Service (New Cust.)	\$63,690	\$66,272	\$68,260	\$70,308	\$72,417	\$74,590	\$76,828	\$79,132	\$81,506	\$83,952	\$86,470
<b>Total Other O&amp;M Expenses</b>	<b>\$63,690</b>	<b>\$66,272</b>	<b>\$68,260</b>	<b>\$70,308</b>	<b>\$72,417</b>	<b>\$74,590</b>	<b>\$76,828</b>	<b>\$79,132</b>	<b>\$81,506</b>	<b>\$83,952</b>	<b>\$86,470</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$10,627,791</b>	<b>\$10,962,959</b>	<b>\$11,314,491</b>	<b>\$11,708,344</b>	<b>\$12,091,623</b>	<b>\$12,495,609</b>	<b>\$12,946,931</b>	<b>\$13,370,338</b>	<b>\$13,798,484</b>	<b>\$14,240,287</b>	<b>\$14,696,178</b>
<b>NET REVENUE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>	<b>\$4,292,448</b>	<b>\$4,169,079</b>	<b>\$4,306,710</b>	<b>\$4,310,085</b>	<b>\$4,291,962</b>	<b>\$4,291,932</b>
<b>DEBT SERVICE</b>											
Series 2002 Metro DES Bonds	\$3,184,694	\$4,279,194	\$4,292,835	\$4,291,735	\$4,292,048	\$4,292,448	\$4,169,079	\$4,306,710	\$4,310,085	\$4,291,962	\$4,291,932
<b>TOTAL DEBT SERVICE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>	<b>\$4,292,448</b>	<b>\$4,169,079</b>	<b>\$4,306,710</b>	<b>\$4,310,085</b>	<b>\$4,291,962</b>	<b>\$4,291,932</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>										

**APPENDIX A - 1**  
**The Metropolitan Government of Nashville and Davidson County, Tennessee**

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**Projected Operating Results - Base Case**  
**(Performance at Expected Levels of Commodity Usage)**  
**for the Fiscal Years 2005 through 2034**

For the Fiscal Years Ending June 30,

Description	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>OPERATING REVENUES</b>											
Steam Service - ISCs Only											
State Buildings	\$3,241,338	\$3,352,029	\$3,461,348	\$3,580,656	\$3,704,598	\$3,833,931	\$3,968,897	\$4,109,744	\$4,256,734	\$4,410,140	\$4,570,248
Metro Buildings	1,705,167	1,757,652	1,809,958	1,866,261	1,924,789	1,985,743	2,049,491	2,087,545	2,175,217	2,256,101	2,388,376
Private Buildings	1,554,760	1,607,569	1,659,999	1,716,753	1,775,750	1,837,247	1,901,539	1,948,839	2,031,594	2,110,595	2,226,370
Chilled Water Service - ISCs Only											
State Buildings	4,240,892	4,338,615	4,439,271	4,542,945	4,649,731	4,759,719	4,873,007	4,989,694	5,109,882	5,233,675	5,361,182
Metro Buildings	3,629,675	3,717,897	3,808,913	3,902,309	3,998,728	4,098,065	4,200,882	4,256,420	4,398,490	4,526,678	4,744,320
Private Buildings	2,890,114	2,961,619	3,035,378	3,111,091	3,189,239	3,269,750	3,353,044	3,401,801	3,514,427	3,617,091	3,785,785
Revenue From Additional Customers											
Steam Service	70,350	72,515	74,673	76,996	79,411	81,926	84,556	86,126	89,743	93,080	98,537
Chilled Water Service	126,617	129,694	132,869	136,127	139,491	142,956	146,542	148,480	153,436	157,907	165,500
Metro Funding Amount	1,989,869	2,026,248	2,064,230	2,102,125	2,141,933	2,183,025	2,227,102	2,095,855	2,258,329	2,362,041	2,769,125
<b>TOTAL OPERATING REVENUES</b>	<b>\$19,448,782</b>	<b>\$19,963,839</b>	<b>\$20,486,640</b>	<b>\$21,035,264</b>	<b>\$21,603,668</b>	<b>\$22,192,362</b>	<b>\$22,805,060</b>	<b>\$23,124,504</b>	<b>\$23,987,853</b>	<b>\$24,767,309</b>	<b>\$26,109,442</b>
<b>OPERATING EXPENSES</b>											
<b>Fixed O&amp;M Expenses</b>											
Steam	\$1,747,038	\$1,799,449	\$1,853,433	\$1,909,036	\$1,966,307	\$2,025,296	\$2,086,055	\$2,148,636	\$2,213,095	\$2,279,488	\$2,347,873
Chilled Water	\$4,076,422	\$4,198,715	\$4,324,676	\$4,454,416	\$4,588,049	\$4,725,690	\$4,867,461	\$5,013,485	\$5,163,889	\$5,318,806	\$5,478,370
<b>Total Fixed O&amp;M Expenses</b>	<b>\$5,823,460</b>	<b>\$5,998,164</b>	<b>\$6,178,109</b>	<b>\$6,363,452</b>	<b>\$6,554,355</b>	<b>\$6,750,986</b>	<b>\$6,953,516</b>	<b>\$7,162,121</b>	<b>\$7,376,985</b>	<b>\$7,598,294</b>	<b>\$7,826,243</b>
<b>Variable Pass-Thru O&amp;M Expenses</b>											
Steam	\$232,798	\$239,782	\$246,976	\$254,385	\$262,017	\$269,877	\$277,973	\$286,313	\$294,902	\$303,749	\$312,861
Chilled Water	1,145,274	1,179,632	1,215,021	1,251,471	1,289,015	1,327,686	1,367,516	1,408,542	1,450,798	1,494,322	1,539,152
<b>Total Variable Pass-Thru O&amp;M Exp.</b>	<b>\$1,378,072</b>	<b>\$1,419,414</b>	<b>\$1,461,996</b>	<b>\$1,505,856</b>	<b>\$1,551,032</b>	<b>\$1,597,563</b>	<b>\$1,645,490</b>	<b>\$1,694,855</b>	<b>\$1,745,700</b>	<b>\$1,798,071</b>	<b>\$1,852,013</b>
<b>Energy Pass-Thru O&amp;M Expenses</b>											
Steam	\$3,728,055	\$3,900,756	\$4,070,017	\$4,256,684	\$4,450,888	\$4,653,994	\$4,866,413	\$5,088,572	\$5,320,920	\$5,563,925	\$5,818,077
Chilled Water	4,138,109	4,262,252	4,390,120	4,521,823	4,657,478	4,797,202	4,941,119	5,089,352	5,242,033	5,399,294	5,561,272
<b>Total Energy Pass-Thru O&amp;M Exp.</b>	<b>\$7,866,164</b>	<b>\$8,163,008</b>	<b>\$8,460,137</b>	<b>\$8,778,507</b>	<b>\$9,108,366</b>	<b>\$9,451,197</b>	<b>\$9,807,531</b>	<b>\$10,177,924</b>	<b>\$10,562,952</b>	<b>\$10,963,218</b>	<b>\$11,379,349</b>
<b>Other O&amp;M Expenses</b>											
Customer Service (New Cust.)	\$89,064	\$91,736	\$94,488	\$97,323	\$100,243	\$103,250	\$106,347	\$109,538	\$112,824	\$116,209	\$119,695
<b>Total Other O&amp;M Expenses</b>	<b>\$89,064</b>	<b>\$91,736</b>	<b>\$94,488</b>	<b>\$97,323</b>	<b>\$100,243</b>	<b>\$103,250</b>	<b>\$106,347</b>	<b>\$109,538</b>	<b>\$112,824</b>	<b>\$116,209</b>	<b>\$119,695</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$15,156,760</b>	<b>\$15,672,322</b>	<b>\$16,194,730</b>	<b>\$16,745,138</b>	<b>\$17,313,996</b>	<b>\$17,902,995</b>	<b>\$18,512,884</b>	<b>\$19,144,438</b>	<b>\$19,798,461</b>	<b>\$20,475,792</b>	<b>\$21,177,301</b>
<b>NET REVENUE</b>	<b>\$4,292,023</b>	<b>\$4,291,516</b>	<b>\$4,291,910</b>	<b>\$4,290,126</b>	<b>\$4,289,673</b>	<b>\$4,289,366</b>	<b>\$4,292,176</b>	<b>\$3,980,066</b>	<b>\$4,189,391</b>	<b>\$4,291,516</b>	<b>\$4,932,141</b>
<b>DEBT SERVICE</b>											
Series 2002 Metro DES Bonds	\$4,292,023	\$4,291,516	\$4,291,910	\$4,290,126	\$4,289,673	\$4,289,366	\$4,292,176	\$3,980,066	\$4,189,391	\$4,291,516	\$4,932,141
<b>TOTAL DEBT SERVICE</b>	<b>\$4,292,023</b>	<b>\$4,291,516</b>	<b>\$4,291,910</b>	<b>\$4,290,126</b>	<b>\$4,289,673</b>	<b>\$4,289,366</b>	<b>\$4,292,176</b>	<b>\$3,980,066</b>	<b>\$4,189,391</b>	<b>\$4,291,516</b>	<b>\$4,932,141</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>										

**APPENDIX A - 1**  
**Metropolitan Government of Nashville and Davidson County, Tennessee**

**Projected Operating Results - Base Case**  
**(Performance at Expected Levels of Commodity Usage)**  
**for the Fiscal Years 2005 through 2034**

	For the Fiscal Years Ending June 30,							
Description	2027	2028	2029	2030	2031	2032	2033	2034
<b>OPERATING REVENUES</b>								
Steam Service - ISCs Only								
State Buildings	\$4,737,355	\$4,911,773	\$5,093,827	\$5,283,859	\$5,482,223	\$5,689,292	\$5,905,453	\$6,131,114
Metro Buildings	2,427,695	2,489,551	2,574,103	2,661,975	2,753,542	2,848,695	2,772,248	2,703,623
Private Buildings	2,278,523	2,347,464	2,433,356	2,522,768	2,616,014	2,713,079	2,692,118	2,678,044
Chilled Water Service - ISCs Only								
State Buildings	5,492,514	5,627,786	5,767,116	5,910,627	6,058,442	6,210,692	6,367,509	6,529,031
Metro Buildings	4,794,618	4,882,803	5,009,019	5,138,665	5,272,252	5,409,427	5,238,502	5,078,342
Private Buildings	3,831,683	3,905,709	4,007,976	4,113,050	4,221,313	4,332,515	4,217,467	4,110,653
Revenue From Additional Customers								
Steam Service	100,159	102,711	106,200	109,825	113,603	117,529	114,375	111,543
Chilled Water Service	167,254	170,330	174,733	179,256	183,916	188,701	182,738	177,151
Metro Funding Amount	2,578,578	2,509,910	2,563,291	2,617,026	2,672,551	2,728,268	1,690,598	677,538
<b>TOTAL OPERATING REVENUES</b>	<b>\$26,408,378</b>	<b>\$26,948,038</b>	<b>\$27,729,622</b>	<b>\$28,537,050</b>	<b>\$29,373,856</b>	<b>\$30,238,196</b>	<b>\$29,181,008</b>	<b>\$28,197,040</b>
<b>OPERATING EXPENSES</b>								
<b>Fixed O&amp;M Expenses</b>								
Steam	\$2,418,309	\$2,490,858	\$2,565,584	\$2,642,552	\$2,721,828	\$2,803,483	\$2,887,588	\$2,974,215
Chilled Water	\$5,642,721	\$5,812,003	\$5,986,363	\$6,165,954	\$6,350,932	\$6,541,460	\$6,737,704	\$6,939,835
<b>Total Fixed O&amp;M Expenses</b>	<b>\$8,061,030</b>	<b>\$8,302,861</b>	<b>\$8,551,947</b>	<b>\$8,808,506</b>	<b>\$9,072,761</b>	<b>\$9,344,944</b>	<b>\$9,625,292</b>	<b>\$9,914,051</b>
<b>Variable Pass-Thru O&amp;M Expenses</b>								
Steam	\$322,247	\$331,915	\$341,872	\$352,128	\$362,692	\$373,573	\$384,780	\$396,324
Chilled Water	1,585,326	1,632,886	1,681,873	1,732,329	1,784,299	1,837,828	1,892,963	1,949,752
<b>Total Variable Pass-Thru O&amp;M Exp.</b>	<b>\$1,907,574</b>	<b>\$1,964,801</b>	<b>\$2,023,745</b>	<b>\$2,084,457</b>	<b>\$2,146,991</b>	<b>\$2,211,401</b>	<b>\$2,277,743</b>	<b>\$2,346,075</b>
<b>Energy Pass-Thru O&amp;M Expenses</b>								
Steam	\$6,083,890	\$6,361,899	\$6,652,667	\$6,956,779	\$7,274,852	\$7,607,526	\$7,955,474	\$8,319,399
Chilled Water	5,728,111	5,899,954	6,076,953	6,259,261	6,447,039	6,640,450	6,839,664	7,044,854
<b>Total Energy Pass-Thru O&amp;M Exp.</b>	<b>\$11,812,000</b>	<b>\$12,261,853</b>	<b>\$12,729,619</b>	<b>\$13,216,041</b>	<b>\$13,721,891</b>	<b>\$14,247,976</b>	<b>\$14,795,137</b>	<b>\$15,364,253</b>
<b>Other O&amp;M Expenses</b>								
Customer Service (New Cust.)	\$123,286	\$126,984	\$130,794	\$134,718	\$138,759	\$142,922	\$147,210	\$151,626
<b>Total Other O&amp;M Expenses</b>	<b>\$123,286</b>	<b>\$126,984</b>	<b>\$130,794</b>	<b>\$134,718</b>	<b>\$138,759</b>	<b>\$142,922</b>	<b>\$147,210</b>	<b>\$151,626</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$21,903,890</b>	<b>\$22,656,500</b>	<b>\$23,436,105</b>	<b>\$24,243,721</b>	<b>\$25,080,402</b>	<b>\$25,947,242</b>	<b>\$26,845,382</b>	<b>\$27,776,004</b>
<b>NET REVENUE</b>	<b>\$4,504,488</b>	<b>\$4,291,538</b>	<b>\$4,293,516</b>	<b>\$4,293,329</b>	<b>\$4,293,454</b>	<b>\$4,290,954</b>	<b>\$2,335,626</b>	<b>\$421,035</b>
<b>DEBT SERVICE</b>								
Series 2002 Metro DES Bonds	\$4,504,488	\$4,291,538	\$4,293,516	\$4,293,329	\$4,293,454	\$4,290,954	\$2,335,626	\$421,035
<b>TOTAL DEBT SERVICE</b>	<b>\$4,504,488</b>	<b>\$4,291,538</b>	<b>\$4,293,516</b>	<b>\$4,293,329</b>	<b>\$4,293,454</b>	<b>\$4,290,954</b>	<b>\$2,335,626</b>	<b>\$421,035</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$0)</b>

**APPENDIX A - 2**  
**The Metropolitan Government of Nashville and Davidson County, Tennessee**

**Projected Operating Results - Sensitivity Case A**  
**(Performance Assuming Expected Usage of Commodities, Additional Customers - 8 Chillers)**  
**for the Fiscal Years 2005 through 2034**

For the Fiscal Years Ending June 30,

Description	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>OPERATING REVENUES</b>										
Steam Service - ISCs Only										
State Buildings	\$2,349,381	\$2,408,169	\$2,473,067	\$2,557,204	\$2,631,681	\$2,713,404	\$2,816,742	\$2,900,622	\$2,982,685	\$3,067,651
Metro Buildings	1,171,189	1,299,349	1,332,832	1,372,720	1,409,170	1,448,680	1,485,740	1,538,890	1,579,498	1,619,553
Private Buildings	1,053,415	1,151,010	1,183,665	1,223,793	1,259,972	1,299,398	1,340,510	1,389,707	1,429,858	1,470,052
Chilled Water Service - ISCs Only										
State Buildings	3,336,694	3,407,291	3,480,007	3,554,904	3,632,047	3,711,505	3,793,347	3,877,644	3,964,470	4,053,901
Metro Buildings	2,635,367	2,874,377	2,942,264	3,009,766	3,079,523	3,151,386	3,205,614	3,303,790	3,382,787	3,460,699
Private Buildings	2,097,596	2,278,142	2,332,997	2,387,716	2,444,247	2,502,483	2,547,913	2,625,827	2,689,808	2,753,169
Revenue From Additional Customers										
Steam Service	621,125	645,260	666,960	693,141	717,375	743,462	774,178	801,729	828,620	856,336
Chilled Water Service	1,352,506	1,398,661	1,439,981	1,482,456	1,526,213	1,571,284	1,617,016	1,665,596	1,714,863	1,765,486
Metro Funding Amount	197,534	814,116	823,628	623,893	619,756	615,539	541,782	614,250	611,289	596,127
<b>TOTAL OPERATING REVENUES</b>	<b>\$14,814,807</b>	<b>\$16,276,375</b>	<b>\$16,675,401</b>	<b>\$16,905,592</b>	<b>\$17,319,984</b>	<b>\$17,757,140</b>	<b>\$18,122,842</b>	<b>\$18,718,057</b>	<b>\$19,183,877</b>	<b>\$19,642,975</b>
<b>OPERATING EXPENSES</b>										
<b>Fixed O&amp;M Expenses</b>										
Steam	\$1,261,804	\$1,299,960	\$1,338,959	\$1,379,128	\$1,420,502	\$1,463,117	\$1,507,010	\$1,552,221	\$1,598,787	\$1,646,751
Chilled Water	\$2,944,209	\$3,033,241	\$3,124,238	\$3,217,965	\$3,314,504	\$3,413,939	\$3,516,357	\$3,621,848	\$3,730,503	\$3,842,419
<b>Total Fixed O&amp;M Expenses</b>	<b>\$4,206,013</b>	<b>\$4,333,201</b>	<b>\$4,463,197</b>	<b>\$4,597,093</b>	<b>\$4,735,006</b>	<b>\$4,877,056</b>	<b>\$5,023,368</b>	<b>\$5,174,069</b>	<b>\$5,329,291</b>	<b>\$5,489,169</b>
<b>Variable Pass-Thru O&amp;M Expenses</b>										
Steam	\$187,264	\$192,882	\$198,669	\$204,629	\$210,768	\$217,091	\$223,603	\$230,311	\$237,221	\$244,337
Chilled Water	942,385	970,657	999,776	1,029,770	1,060,663	1,092,483	1,125,257	1,159,015	1,193,785	1,229,599
<b>Total Variable Pass-Thru O&amp;M Exp.</b>	<b>\$1,129,649</b>	<b>\$1,163,539</b>	<b>\$1,198,445</b>	<b>\$1,234,398</b>	<b>\$1,271,430</b>	<b>\$1,309,573</b>	<b>\$1,348,860</b>	<b>\$1,389,326</b>	<b>\$1,431,006</b>	<b>\$1,473,936</b>
<b>Energy Pass-Thru O&amp;M Expenses</b>										
Steam	\$2,642,392	\$2,737,983	\$2,845,334	\$2,991,288	\$3,116,691	\$3,256,108	\$3,438,922	\$3,581,060	\$3,718,597	\$3,861,163
Chilled Water	3,405,031	3,507,182	3,612,398	3,720,770	3,832,393	3,947,364	4,065,785	4,187,759	4,313,392	4,442,793
<b>Total Energy Pass-Thru O&amp;M Exp.</b>	<b>\$6,047,423</b>	<b>\$6,245,165</b>	<b>\$6,457,732</b>	<b>\$6,712,058</b>	<b>\$6,949,083</b>	<b>\$7,203,473</b>	<b>\$7,504,707</b>	<b>\$7,768,819</b>	<b>\$8,031,989</b>	<b>\$8,303,956</b>
<b>Other O&amp;M Expenses</b>										
Customer Service (New Cust.)	\$63,690	\$66,272	\$68,260	\$70,308	\$72,417	\$74,590	\$76,828	\$79,132	\$81,506	\$83,952
Commission to CES for New Customers	183,338	189,004	194,932	0	0	0	0	0	0	0
<b>Total Other O&amp;M Expenses</b>	<b>\$247,028</b>	<b>\$255,277</b>	<b>\$263,192</b>	<b>\$70,308</b>	<b>\$72,417</b>	<b>\$74,590</b>	<b>\$76,828</b>	<b>\$79,132</b>	<b>\$81,506</b>	<b>\$83,952</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$11,630,114</b>	<b>\$11,997,181</b>	<b>\$12,382,566</b>	<b>\$12,613,857</b>	<b>\$13,027,937</b>	<b>\$13,464,692</b>	<b>\$13,953,763</b>	<b>\$14,411,347</b>	<b>\$14,873,792</b>	<b>\$15,351,014</b>
<b>NET REVENUE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>	<b>\$4,292,448</b>	<b>\$4,169,079</b>	<b>\$4,306,710</b>	<b>\$4,310,085</b>	<b>\$4,291,962</b>
<b>DEBT SERVICE</b>										
Series 2002 Metro DES Bonds	\$3,184,694	\$4,279,194	\$4,292,835	\$4,291,735	\$4,292,048	\$4,292,448	\$4,169,079	\$4,306,710	\$4,310,085	\$4,291,962
<b>TOTAL DEBT SERVICE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>	<b>\$4,292,448</b>	<b>\$4,169,079</b>	<b>\$4,306,710</b>	<b>\$4,310,085</b>	<b>\$4,291,962</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>									

**APPENDIX A - 2**  
**The Metropolitan Government of Nashville and Davidson County, Tennessee**

**Projected Operating Results - Sensitivity Case A**  
**(Performance Assuming Expected Usage of Commodities, Additional Customers - 8 Chillers)**  
**for the Fiscal Years 2005 through 2034**

For the Fiscal Years Ending June 30,

Description	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>OPERATING REVENUES</b>										
Steam Service - ISCs Only										
State Buildings	\$3,155,620	\$3,241,338	\$3,352,029	\$3,461,348	\$3,580,656	\$3,704,598	\$3,833,931	\$3,968,897	\$4,109,744	\$4,256,734
Metro Buildings	1,662,665	1,705,167	1,757,652	1,809,958	1,866,261	1,924,789	1,985,743	2,049,491	2,087,545	2,175,217
Private Buildings	1,512,813	1,554,760	1,607,569	1,659,999	1,716,753	1,775,750	1,837,247	1,901,539	1,948,839	2,031,594
Chilled Water Service - ISCs Only										
State Buildings	4,146,015	4,240,892	4,338,615	4,439,271	4,542,945	4,649,731	4,759,719	4,873,007	4,989,694	5,109,882
Metro Buildings	3,543,929	3,629,675	3,717,897	3,808,913	3,902,309	3,998,728	4,098,065	4,200,882	4,256,420	4,398,490
Private Buildings	2,820,623	2,890,114	2,961,619	3,035,378	3,111,091	3,189,239	3,269,750	3,353,044	3,401,801	3,514,427
Revenue From Additional Customers										
Steam Service	885,056	913,538	947,906	982,254	1,019,132	1,057,358	1,097,107	1,138,454	1,180,285	1,225,771
Chilled Water Service	1,817,732	1,871,547	1,926,972	1,984,066	2,042,859	2,103,425	2,165,808	2,230,080	2,294,524	2,363,861
Metro Funding Amount	590,961	585,709	579,963	574,557	567,761	561,538	555,218	550,461	368,915	479,581
<b>TOTAL OPERATING REVENUES</b>	<b>\$20,135,414</b>	<b>\$20,632,741</b>	<b>\$21,190,222</b>	<b>\$21,755,744</b>	<b>\$22,349,768</b>	<b>\$22,965,155</b>	<b>\$23,602,589</b>	<b>\$24,265,856</b>	<b>\$24,637,767</b>	<b>\$25,555,558</b>
<b>OPERATING EXPENSES</b>										
<b>Fixed O&amp;M Expenses</b>										
Steam	\$1,696,153	\$1,747,038	\$1,799,449	\$1,853,433	\$1,909,036	\$1,966,307	\$2,025,296	\$2,086,055	\$2,148,636	\$2,213,095
Chilled Water	\$3,957,691	\$4,076,422	\$4,198,715	\$4,324,676	\$4,454,416	\$4,588,049	\$4,725,690	\$4,867,461	\$5,013,485	\$5,163,889
<b>Total Fixed O&amp;M Expenses</b>	<b>\$5,653,845</b>	<b>\$5,823,460</b>	<b>\$5,998,164</b>	<b>\$6,178,109</b>	<b>\$6,363,452</b>	<b>\$6,554,355</b>	<b>\$6,750,986</b>	<b>\$6,953,516</b>	<b>\$7,162,121</b>	<b>\$7,376,985</b>
<b>Variable Pass-Thru O&amp;M Expenses</b>										
Steam	\$251,668	\$259,218	\$266,994	\$275,004	\$283,254	\$291,752	\$300,504	\$309,519	\$318,805	\$328,369
Chilled Water	1,266,487	1,304,481	1,343,616	1,383,924	1,425,442	1,468,205	1,512,251	1,557,619	1,604,347	1,652,478
<b>Total Variable Pass-Thru O&amp;M Exp.</b>	<b>\$1,518,154</b>	<b>\$1,563,699</b>	<b>\$1,610,610</b>	<b>\$1,658,928</b>	<b>\$1,708,696</b>	<b>\$1,759,957</b>	<b>\$1,812,756</b>	<b>\$1,867,138</b>	<b>\$1,923,152</b>	<b>\$1,980,847</b>
<b>Energy Pass-Thru O&amp;M Expenses</b>										
Steam	\$4,008,936	\$4,151,135	\$4,343,436	\$4,531,905	\$4,739,756	\$4,955,999	\$5,182,156	\$5,418,681	\$5,666,052	\$5,924,768
Chilled Water	4,576,077	4,713,360	4,854,760	5,000,403	5,150,415	5,304,928	5,464,075	5,627,998	5,796,838	5,970,743
<b>Total Energy Pass-Thru O&amp;M Exp.</b>	<b>\$8,585,013</b>	<b>\$8,864,495</b>	<b>\$9,198,196</b>	<b>\$9,532,309</b>	<b>\$9,890,171</b>	<b>\$10,260,927</b>	<b>\$10,646,231</b>	<b>\$11,046,679</b>	<b>\$11,462,890</b>	<b>\$11,895,511</b>
<b>Other O&amp;M Expenses</b>										
Customer Service (New Cust.)	\$86,470	\$89,064	\$91,736	\$94,488	\$97,323	\$100,243	\$103,250	\$106,347	\$109,538	\$112,824
Commission to CES for New Customers	0	0	0	0	0	0	0	0	0	0
<b>Total Other O&amp;M Expenses</b>	<b>\$86,470</b>	<b>\$89,064</b>	<b>\$91,736</b>	<b>\$94,488</b>	<b>\$97,323</b>	<b>\$100,243</b>	<b>\$103,250</b>	<b>\$106,347</b>	<b>\$109,538</b>	<b>\$112,824</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$15,843,482</b>	<b>\$16,340,718</b>	<b>\$16,898,706</b>	<b>\$17,463,834</b>	<b>\$18,059,642</b>	<b>\$18,675,482</b>	<b>\$19,313,223</b>	<b>\$19,973,680</b>	<b>\$20,657,701</b>	<b>\$21,366,166</b>
<b>NET REVENUE</b>	<b>\$4,291,932</b>	<b>\$4,292,023</b>	<b>\$4,291,516</b>	<b>\$4,291,910</b>	<b>\$4,290,126</b>	<b>\$4,289,673</b>	<b>\$4,289,366</b>	<b>\$4,292,176</b>	<b>\$3,980,066</b>	<b>\$4,189,391</b>
<b>DEBT SERVICE</b>										
Series 2002 Metro DES Bonds	\$4,291,932	\$4,292,023	\$4,291,516	\$4,291,910	\$4,290,126	\$4,289,673	\$4,289,366	\$4,292,176	\$3,980,066	\$4,189,391
<b>TOTAL DEBT SERVICE</b>	<b>\$4,291,932</b>	<b>\$4,292,023</b>	<b>\$4,291,516</b>	<b>\$4,291,910</b>	<b>\$4,290,126</b>	<b>\$4,289,673</b>	<b>\$4,289,366</b>	<b>\$4,292,176</b>	<b>\$3,980,066</b>	<b>\$4,189,391</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>									

**APPENDIX A - 2**  
**The Metropolitan Government of Nashville and Davidson County, Tennessee**

**Projected Operating Results - Sensitivity Case A**  
**(Performance Assuming Expected Usage of Commodities, Additional Customers - 8 Chillers)**  
**for the Fiscal Years 2005 through 2034**

For the Fiscal Years Ending June 30,

Description	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>OPERATING REVENUES</b>										
Steam Service - ISCs Only										
State Buildings	\$4,410,140	\$4,570,248	\$4,737,355	\$4,911,773	\$5,093,827	\$5,283,859	\$5,482,223	\$5,689,292	\$5,905,453	\$6,131,114
Metro Buildings	2,256,101	2,388,376	2,427,695	2,489,551	2,574,103	2,661,975	2,753,542	2,848,695	2,772,248	2,703,623
Private Buildings	2,110,595	2,226,370	2,278,523	2,347,464	2,433,356	2,522,768	2,616,014	2,713,079	2,692,118	2,678,044
Chilled Water Service - ISCs Only										
State Buildings	5,233,675	5,361,182	5,492,514	5,627,786	5,767,116	5,910,627	6,058,442	6,210,692	6,367,509	6,529,031
Metro Buildings	4,526,678	4,744,320	4,794,618	4,882,803	5,009,019	5,138,665	5,272,252	5,409,427	5,238,502	5,078,342
Private Buildings	3,617,091	3,785,785	3,831,683	3,905,709	4,007,976	4,113,050	4,221,313	4,332,515	4,217,467	4,110,653
Revenue From Additional Customers										
Steam Service	1,272,650	1,323,395	1,372,121	1,423,668	1,478,124	1,534,770	1,593,708	1,655,023	1,711,580	1,770,881
Chilled Water Service	2,434,646	2,510,540	2,582,646	2,658,184	2,737,222	2,818,619	2,902,460	2,988,802	3,066,842	3,147,778
Metro Funding Amount	529,931	882,051	634,892	507,913	501,234	493,107	484,915	475,003	(630,265)	(1,712,951)
<b>TOTAL OPERATING REVENUES</b>	<b>\$26,391,507</b>	<b>\$27,792,266</b>	<b>\$28,152,045</b>	<b>\$28,754,852</b>	<b>\$29,601,978</b>	<b>\$30,477,440</b>	<b>\$31,384,869</b>	<b>\$32,322,526</b>	<b>\$31,341,454</b>	<b>\$30,436,515</b>
<b>OPERATING EXPENSES</b>										
<b>Fixed O&amp;M Expenses</b>										
Steam	\$2,279,488	\$2,347,873	\$2,418,309	\$2,490,858	\$2,565,584	\$2,642,552	\$2,721,828	\$2,803,483	\$2,887,588	\$2,974,215
Chilled Water	\$5,318,806	\$5,478,370	\$5,642,721	\$5,812,003	\$5,986,363	\$6,165,954	\$6,350,932	\$6,541,460	\$6,737,704	\$6,939,835
<b>Total Fixed O&amp;M Expenses</b>	<b>\$7,598,294</b>	<b>\$7,826,243</b>	<b>\$8,061,030</b>	<b>\$8,302,861</b>	<b>\$8,551,947</b>	<b>\$8,808,506</b>	<b>\$9,072,761</b>	<b>\$9,344,944</b>	<b>\$9,625,292</b>	<b>\$9,914,051</b>
<b>Variable Pass-Thru O&amp;M Expenses</b>										
Steam	\$338,220	\$348,367	\$358,818	\$369,582	\$380,670	\$392,090	\$403,853	\$415,968	\$428,447	\$441,301
Chilled Water	1,702,052	1,753,114	1,805,707	1,859,878	1,915,675	1,973,145	2,032,339	2,093,310	2,156,109	2,220,792
<b>Total Variable Pass-Thru O&amp;M Exp.</b>	<b>\$2,040,272</b>	<b>\$2,101,481</b>	<b>\$2,164,525</b>	<b>\$2,229,461</b>	<b>\$2,296,345</b>	<b>\$2,365,235</b>	<b>\$2,436,192</b>	<b>\$2,509,278</b>	<b>\$2,584,556</b>	<b>\$2,662,093</b>
<b>Energy Pass-Thru O&amp;M Expenses</b>										
Steam	\$6,195,350	\$6,478,345	\$6,774,324	\$7,083,883	\$7,407,649	\$7,746,274	\$8,100,443	\$8,470,871	\$8,858,306	\$9,263,531
Chilled Water	6,149,865	6,334,361	6,524,392	6,720,124	6,921,727	7,129,379	7,343,261	7,563,558	7,790,465	8,024,179
<b>Total Energy Pass-Thru O&amp;M Exp.</b>	<b>\$12,345,215</b>	<b>\$12,812,706</b>	<b>\$13,298,716</b>	<b>\$13,804,007</b>	<b>\$14,329,376</b>	<b>\$14,875,653</b>	<b>\$15,443,703</b>	<b>\$16,034,429</b>	<b>\$16,648,771</b>	<b>\$17,287,710</b>
<b>Other O&amp;M Expenses</b>										
Customer Service (New Cust.)	\$116,209	\$119,695	\$123,286	\$126,984	\$130,794	\$134,718	\$138,759	\$142,922	\$147,210	\$151,626
Commission to CES for New Customers	0	0	0	0	0	0	0	0	0	0
<b>Total Other O&amp;M Expenses</b>	<b>\$116,209</b>	<b>\$119,695</b>	<b>\$123,286</b>	<b>\$126,984</b>	<b>\$130,794</b>	<b>\$134,718</b>	<b>\$138,759</b>	<b>\$142,922</b>	<b>\$147,210</b>	<b>\$151,626</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$22,099,991</b>	<b>\$22,860,125</b>	<b>\$23,647,557</b>	<b>\$24,463,313</b>	<b>\$25,308,462</b>	<b>\$26,184,111</b>	<b>\$27,091,415</b>	<b>\$28,031,572</b>	<b>\$29,005,829</b>	<b>\$30,015,480</b>
<b>NET REVENUE</b>	<b>\$4,291,516</b>	<b>\$4,932,141</b>	<b>\$4,504,488</b>	<b>\$4,291,538</b>	<b>\$4,293,516</b>	<b>\$4,293,329</b>	<b>\$4,293,454</b>	<b>\$4,290,954</b>	<b>\$2,335,626</b>	<b>\$421,035</b>
<b>DEBT SERVICE</b>										
Series 2002 Metro DES Bonds	\$4,291,516	\$4,932,141	\$4,504,488	\$4,291,538	\$4,293,516	\$4,293,329	\$4,293,454	\$4,290,954	\$2,335,626	\$421,035
<b>TOTAL DEBT SERVICE</b>	<b>\$4,291,516</b>	<b>\$4,932,141</b>	<b>\$4,504,488</b>	<b>\$4,291,538</b>	<b>\$4,293,516</b>	<b>\$4,293,329</b>	<b>\$4,293,454</b>	<b>\$4,290,954</b>	<b>\$2,335,626</b>	<b>\$421,035</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>									

**APPENDIX A - 3**  
**The Metropolitan Government of Nashville and Davidson County, Tennessee**

**Projected Operating Results - Sensitivity Case B**  
**(Performance Assuming Expected Usage of Commodities, Additional Customers - 9 Chillers)**  
**for the Fiscal Years 2005 through 2034**

For the Fiscal Years Ending June 30,

Description	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>OPERATING REVENUES</b>										
Steam Service - ISCs Only										
State Buildings	\$2,349,381	\$2,408,169	\$2,473,067	\$2,557,204	\$2,631,681	\$2,713,404	\$2,816,742	\$2,900,622	\$2,982,685	\$3,067,651
Metro Buildings	1,171,189	1,299,349	1,332,832	1,372,720	1,409,170	1,448,680	1,485,740	1,538,890	1,579,498	1,619,553
Private Buildings	1,053,415	1,151,010	1,183,665	1,223,793	1,259,972	1,299,398	1,340,510	1,389,707	1,429,858	1,470,052
Chilled Water Service - ISCs Only										
State Buildings	3,336,694	3,407,291	3,480,007	3,554,904	3,632,047	3,711,505	3,793,347	3,877,644	3,964,470	4,053,901
Metro Buildings	2,639,799	2,878,942	2,946,966	3,014,608	3,084,511	3,156,524	3,210,906	3,309,241	3,388,400	3,466,481
Private Buildings	2,100,855	2,281,499	2,336,454	2,391,277	2,447,915	2,506,261	2,551,804	2,629,835	2,693,936	2,757,422
Revenue From Additional Customers										
Steam Service	621,125	645,260	666,960	693,141	717,375	743,462	774,178	801,729	828,620	856,336
Chilled Water Service	2,307,642	2,382,450	2,453,284	2,526,158	2,601,227	2,678,547	2,757,498	2,840,293	2,924,800	3,011,721
Metro Funding Amount	(347,309)	252,761	245,176	228,867	88,570	(19,008)	(111,801)	(58,940)	(82,097)	(118,060)
<b>TOTAL OPERATING REVENUES</b>	<b>\$15,232,791</b>	<b>\$16,706,732</b>	<b>\$17,118,411</b>	<b>\$17,562,672</b>	<b>\$17,872,468</b>	<b>\$18,238,773</b>	<b>\$18,618,924</b>	<b>\$19,229,021</b>	<b>\$19,710,170</b>	<b>\$20,185,058</b>
<b>OPERATING EXPENSES</b>										
<b>Fixed O&amp;M Expenses</b>										
Steam	\$1,261,804	\$1,299,960	\$1,338,959	\$1,379,128	\$1,420,502	\$1,463,117	\$1,507,010	\$1,552,221	\$1,598,787	\$1,646,751
Chilled Water	\$2,957,709	\$3,047,146	\$3,138,560	\$3,232,717	\$3,329,698	\$3,429,589	\$3,532,477	\$3,638,451	\$3,747,605	\$3,860,033
<b>Total Fixed O&amp;M Expenses</b>	<b>\$4,219,513</b>	<b>\$4,347,106</b>	<b>\$4,477,519</b>	<b>\$4,611,845</b>	<b>\$4,750,200</b>	<b>\$4,892,706</b>	<b>\$5,039,487</b>	<b>\$5,190,672</b>	<b>\$5,346,392</b>	<b>\$5,506,784</b>
<b>Variable Pass-Thru O&amp;M Expenses</b>										
Steam	\$187,264	\$192,882	\$198,669	\$204,629	\$210,768	\$217,091	\$223,603	\$230,311	\$237,221	\$244,337
Chilled Water	1,029,518	1,060,403	1,092,215	1,124,982	1,158,731	1,193,493	1,229,298	1,266,177	1,304,162	1,343,287
<b>Total Variable Pass-Thru O&amp;M Exp.</b>	<b>\$1,216,782</b>	<b>\$1,253,285</b>	<b>\$1,290,884</b>	<b>\$1,329,611</b>	<b>\$1,369,499</b>	<b>\$1,410,584</b>	<b>\$1,452,901</b>	<b>\$1,496,488</b>	<b>\$1,541,383</b>	<b>\$1,587,625</b>
<b>Energy Pass-Thru O&amp;M Expenses</b>										
Steam	\$2,642,392	\$2,737,983	\$2,845,334	\$2,991,288	\$3,116,691	\$3,256,108	\$3,438,922	\$3,581,060	\$3,718,597	\$3,861,163
Chilled Water	3,719,859	3,831,455	3,946,399	4,064,791	4,186,735	4,312,337	4,441,707	4,574,958	4,712,207	4,853,573
<b>Total Energy Pass-Thru O&amp;M Exp.</b>	<b>\$6,362,252</b>	<b>\$6,569,438</b>	<b>\$6,791,733</b>	<b>\$7,056,079</b>	<b>\$7,303,425</b>	<b>\$7,568,445</b>	<b>\$7,880,629</b>	<b>\$8,156,018</b>	<b>\$8,430,804</b>	<b>\$8,714,736</b>
<b>Other O&amp;M Expenses</b>										
Customer Service (New Cust.)	\$63,690	\$66,272	\$68,260	\$70,308	\$72,417	\$74,590	\$76,828	\$79,132	\$81,506	\$83,952
Commission to CES for New Customers	185,860	191,436	197,179	203,095	84,879	0	0	0	0	0
<b>Total Other O&amp;M Expenses</b>	<b>\$249,550</b>	<b>\$257,708</b>	<b>\$265,440</b>	<b>\$273,403</b>	<b>\$157,296</b>	<b>\$74,590</b>	<b>\$76,828</b>	<b>\$79,132</b>	<b>\$81,506</b>	<b>\$83,952</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$12,048,097</b>	<b>\$12,427,538</b>	<b>\$12,825,576</b>	<b>\$13,270,937</b>	<b>\$13,580,421</b>	<b>\$13,946,325</b>	<b>\$14,449,845</b>	<b>\$14,922,311</b>	<b>\$15,400,085</b>	<b>\$15,893,096</b>
<b>NET REVENUE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>	<b>\$4,292,448</b>	<b>\$4,169,079</b>	<b>\$4,306,710</b>	<b>\$4,310,085</b>	<b>\$4,291,962</b>
<b>DEBT SERVICE</b>										
Series 2002 Metro DES Bonds	\$3,184,694	\$4,279,194	\$4,292,835	\$4,291,735	\$4,292,048	\$4,292,448	\$4,169,079	\$4,306,710	\$4,310,085	\$4,291,962
<b>TOTAL DEBT SERVICE</b>	<b>\$3,184,694</b>	<b>\$4,279,194</b>	<b>\$4,292,835</b>	<b>\$4,291,735</b>	<b>\$4,292,048</b>	<b>\$4,292,448</b>	<b>\$4,169,079</b>	<b>\$4,306,710</b>	<b>\$4,310,085</b>	<b>\$4,291,962</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>									

**APPENDIX A - 3**  
**The Metropolitan Government of Nashville and Davidson County, Tennessee**

**Projected Operating Results - Sensitivity Case B**  
**(Performance Assuming Expected Usage of Commodities, Additional Customers - 9 Chillers)**  
**for the Fiscal Years 2005 through 2034**

For the Fiscal Years Ending June 30,

Description	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>OPERATING REVENUES</b>										
Steam Service - ISCs Only										
State Buildings	\$3,155,620	\$3,241,338	\$3,352,029	\$3,461,348	\$3,580,656	\$3,704,598	\$3,833,931	\$3,968,897	\$4,109,744	\$4,256,734
Metro Buildings	1,662,665	1,705,167	1,757,652	1,809,958	1,866,261	1,924,789	1,985,743	2,049,491	2,087,545	2,175,217
Private Buildings	1,512,813	1,554,760	1,607,569	1,659,999	1,716,753	1,775,750	1,837,247	1,901,539	1,948,839	2,031,594
Chilled Water Service - ISCs Only										
State Buildings	4,146,015	4,240,892	4,338,615	4,439,271	4,542,945	4,649,731	4,759,719	4,873,007	4,989,694	5,109,882
Metro Buildings	3,549,885	3,635,809	3,724,216	3,815,421	3,909,012	4,005,632	4,105,177	4,208,207	4,263,965	4,406,261
Private Buildings	2,825,002	2,894,625	2,966,266	3,040,163	3,116,020	3,194,316	3,274,979	3,358,430	3,407,349	3,520,142
Revenue From Additional Customers										
Steam Service	885,056	913,538	947,906	982,254	1,019,132	1,057,358	1,097,107	1,138,454	1,180,285	1,225,771
Chilled Water Service	3,101,355	3,193,678	3,288,767	3,386,714	3,487,587	3,591,495	3,698,520	3,808,774	3,920,578	4,038,697
Metro Funding Amount	(144,651)	(171,972)	(200,449)	(229,267)	(260,178)	(291,239)	(323,142)	(354,250)	(562,937)	(480,227)
<b>TOTAL OPERATING REVENUES</b>	<b>\$20,693,759</b>	<b>\$21,207,835</b>	<b>\$21,782,570</b>	<b>\$22,365,862</b>	<b>\$22,978,190</b>	<b>\$23,612,429</b>	<b>\$24,269,282</b>	<b>\$24,952,549</b>	<b>\$25,345,062</b>	<b>\$26,284,071</b>
<b>OPERATING EXPENSES</b>										
<b>Fixed O&amp;M Expenses</b>										
Steam	\$1,696,153	\$1,747,038	\$1,799,449	\$1,853,433	\$1,909,036	\$1,966,307	\$2,025,296	\$2,086,055	\$2,148,636	\$2,213,095
Chilled Water	\$3,975,834	\$4,095,109	\$4,217,962	\$4,344,501	\$4,474,836	\$4,609,081	\$4,747,354	\$4,889,774	\$5,036,468	\$5,187,562
<b>Total Fixed O&amp;M Expenses</b>	<b>\$5,671,987</b>	<b>\$5,842,147</b>	<b>\$6,017,411</b>	<b>\$6,197,934</b>	<b>\$6,383,872</b>	<b>\$6,575,388</b>	<b>\$6,772,650</b>	<b>\$6,975,829</b>	<b>\$7,185,104</b>	<b>\$7,400,657</b>
<b>Variable Pass-Thru O&amp;M Expenses</b>										
Steam	\$251,668	\$259,218	\$266,994	\$275,004	\$283,254	\$291,752	\$300,504	\$309,519	\$318,805	\$328,369
Chilled Water	1,383,586	1,425,093	1,467,846	1,511,881	1,557,238	1,603,955	1,652,074	1,701,636	1,752,685	1,805,266
<b>Total Variable Pass-Thru O&amp;M Exp.</b>	<b>\$1,635,253</b>	<b>\$1,684,311</b>	<b>\$1,734,840</b>	<b>\$1,786,885</b>	<b>\$1,840,492</b>	<b>\$1,895,707</b>	<b>\$1,952,578</b>	<b>\$2,011,155</b>	<b>\$2,071,490</b>	<b>\$2,133,635</b>
<b>Energy Pass-Thru O&amp;M Expenses</b>										
Steam	\$4,008,936	\$4,151,135	\$4,343,436	\$4,531,905	\$4,739,756	\$4,955,999	\$5,182,156	\$5,418,681	\$5,666,052	\$5,924,768
Chilled Water	4,999,180	5,149,155	5,303,630	5,462,739	5,626,621	5,795,420	5,969,282	6,148,361	6,332,812	6,522,796
<b>Total Energy Pass-Thru O&amp;M Exp.</b>	<b>\$9,008,116</b>	<b>\$9,300,291</b>	<b>\$9,647,066</b>	<b>\$9,994,644</b>	<b>\$10,366,377</b>	<b>\$10,751,419</b>	<b>\$11,151,438</b>	<b>\$11,567,042</b>	<b>\$11,998,864</b>	<b>\$12,447,564</b>
<b>Other O&amp;M Expenses</b>										
Customer Service (New Cust.)	\$86,470	\$89,064	\$91,736	\$94,488	\$97,323	\$100,243	\$103,250	\$106,347	\$109,538	\$112,824
Commission to CES for New Customers	0	0	0	0	0	0	0	0	0	0
<b>Total Other O&amp;M Expenses</b>	<b>\$86,470</b>	<b>\$89,064</b>	<b>\$91,736</b>	<b>\$94,488</b>	<b>\$97,323</b>	<b>\$100,243</b>	<b>\$103,250</b>	<b>\$106,347</b>	<b>\$109,538</b>	<b>\$112,824</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$16,401,827</b>	<b>\$16,915,813</b>	<b>\$17,491,054</b>	<b>\$18,073,952</b>	<b>\$18,688,064</b>	<b>\$19,322,756</b>	<b>\$19,979,915</b>	<b>\$20,660,373</b>	<b>\$21,364,995</b>	<b>\$22,094,679</b>
<b>NET REVENUE</b>	<b>\$4,291,932</b>	<b>\$4,292,023</b>	<b>\$4,291,516</b>	<b>\$4,291,910</b>	<b>\$4,290,126</b>	<b>\$4,289,673</b>	<b>\$4,289,366</b>	<b>\$4,292,176</b>	<b>\$3,980,066</b>	<b>\$4,189,391</b>
<b>DEBT SERVICE</b>										
Series 2002 Metro DES Bonds	\$4,291,932	\$4,292,023	\$4,291,516	\$4,291,910	\$4,290,126	\$4,289,673	\$4,289,366	\$4,292,176	\$3,980,066	\$4,189,391
<b>TOTAL DEBT SERVICE</b>	<b>\$4,291,932</b>	<b>\$4,292,023</b>	<b>\$4,291,516</b>	<b>\$4,291,910</b>	<b>\$4,290,126</b>	<b>\$4,289,673</b>	<b>\$4,289,366</b>	<b>\$4,292,176</b>	<b>\$3,980,066</b>	<b>\$4,189,391</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>									

**APPENDIX A - 3**  
**The Metropolitan Government of Nashville and Davidson County, Tennessee**

**Projected Operating Results - Sensitivity Case B**  
**(Performance Assuming Expected Usage of Commodities, Additional Customers - 9 Chillers)**  
**for the Fiscal Years 2005 through 2034**

For the Fiscal Years Ending June 30,

Description	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
<b>OPERATING REVENUES</b>										
Steam Service - ISCs Only										
State Buildings	\$4,410,140	\$4,570,248	\$4,737,355	\$4,911,773	\$5,093,827	\$5,283,859	\$5,482,223	\$5,689,292	\$5,905,453	\$6,131,114
Metro Buildings	2,256,101	2,388,376	2,427,695	2,489,551	2,574,103	2,661,975	2,753,542	2,848,695	2,772,248	2,703,623
Private Buildings	2,110,595	2,226,370	2,278,523	2,347,464	2,433,356	2,522,768	2,616,014	2,713,079	2,692,118	2,678,044
Chilled Water Service - ISCs Only										
State Buildings	5,233,675	5,361,182	5,492,514	5,627,786	5,767,116	5,910,627	6,058,442	6,210,692	6,367,509	6,529,031
Metro Buildings	4,534,682	4,752,564	4,803,109	4,891,549	5,018,028	5,147,944	5,281,810	5,419,271	5,248,641	5,088,785
Private Buildings	3,622,976	3,791,848	3,837,927	3,912,141	4,014,601	4,119,873	4,228,341	4,339,754	4,224,923	4,118,333
Revenue From Additional Customers										
Steam Service	1,272,650	1,323,395	1,372,121	1,423,668	1,478,124	1,534,770	1,593,708	1,655,023	1,711,580	1,770,881
Chilled Water Service	4,159,726	4,287,373	4,412,784	4,543,226	4,678,816	4,818,461	4,962,297	5,110,434	5,252,123	5,398,618
Metro Funding Amount	(458,671)	(136,209)	(413,916)	(572,359)	(611,446)	(652,954)	(695,528)	(740,853)	(1,882,597)	(3,002,852)
<b>TOTAL OPERATING REVENUES</b>	<b>\$27,141,876</b>	<b>\$28,565,146</b>	<b>\$28,948,111</b>	<b>\$29,574,800</b>	<b>\$30,446,525</b>	<b>\$31,347,323</b>	<b>\$32,280,848</b>	<b>\$33,245,385</b>	<b>\$32,291,999</b>	<b>\$31,415,576</b>
<b>OPERATING EXPENSES</b>										
<b>Fixed O&amp;M Expenses</b>										
Steam	\$2,279,488	\$2,347,873	\$2,418,309	\$2,490,858	\$2,565,584	\$2,642,552	\$2,721,828	\$2,803,483	\$2,887,588	\$2,974,215
Chilled Water	\$5,343,188	\$5,503,484	\$5,668,589	\$5,838,646	\$6,013,806	\$6,194,220	\$6,380,046	\$6,571,448	\$6,768,591	\$6,971,649
<b>Total Fixed O&amp;M Expenses</b>	<b>\$7,622,677</b>	<b>\$7,851,357</b>	<b>\$8,086,898</b>	<b>\$8,329,505</b>	<b>\$8,579,390</b>	<b>\$8,836,772</b>	<b>\$9,101,875</b>	<b>\$9,374,931</b>	<b>\$9,656,179</b>	<b>\$9,945,864</b>
<b>Variable Pass-Thru O&amp;M Expenses</b>										
Steam	\$338,220	\$348,367	\$358,818	\$369,582	\$380,670	\$392,090	\$403,853	\$415,968	\$428,447	\$441,301
Chilled Water	1,859,424	1,915,206	1,972,662	2,031,842	2,092,798	2,155,581	2,220,249	2,286,856	2,355,462	2,426,126
<b>Total Variable Pass-Thru O&amp;M Exp.</b>	<b>\$2,197,644</b>	<b>\$2,263,573</b>	<b>\$2,331,480</b>	<b>\$2,401,425</b>	<b>\$2,473,467</b>	<b>\$2,547,671</b>	<b>\$2,624,101</b>	<b>\$2,702,825</b>	<b>\$2,783,909</b>	<b>\$2,867,427</b>
<b>Energy Pass-Thru O&amp;M Expenses</b>										
Steam	\$6,195,350	\$6,478,345	\$6,774,324	\$7,083,883	\$7,407,649	\$7,746,274	\$8,100,443	\$8,470,871	\$8,858,306	\$9,263,531
Chilled Water	6,718,480	6,920,034	7,127,635	7,341,464	7,561,708	7,788,560	8,022,216	8,262,883	8,510,769	8,766,092
<b>Total Energy Pass-Thru O&amp;M Exp.</b>	<b>\$12,913,830</b>	<b>\$13,398,379</b>	<b>\$13,901,959</b>	<b>\$14,425,348</b>	<b>\$14,969,357</b>	<b>\$15,534,833</b>	<b>\$16,122,659</b>	<b>\$16,733,753</b>	<b>\$17,369,075</b>	<b>\$18,029,624</b>
<b>Other O&amp;M Expenses</b>										
Customer Service (New Cust.)	\$116,209	\$119,695	\$123,286	\$126,984	\$130,794	\$134,718	\$138,759	\$142,922	\$147,210	\$151,626
Commission to CES for New Customers	0	0	0	0	0	0	0	0	0	0
<b>Total Other O&amp;M Expenses</b>	<b>\$116,209</b>	<b>\$119,695</b>	<b>\$123,286</b>	<b>\$126,984</b>	<b>\$130,794</b>	<b>\$134,718</b>	<b>\$138,759</b>	<b>\$142,922</b>	<b>\$147,210</b>	<b>\$151,626</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$22,850,359</b>	<b>\$23,633,004</b>	<b>\$24,443,623</b>	<b>\$25,283,261</b>	<b>\$26,153,008</b>	<b>\$27,053,994</b>	<b>\$27,987,395</b>	<b>\$28,954,431</b>	<b>\$29,956,373</b>	<b>\$30,994,541</b>
<b>NET REVENUE</b>	<b>\$4,291,516</b>	<b>\$4,932,141</b>	<b>\$4,504,488</b>	<b>\$4,291,538</b>	<b>\$4,293,516</b>	<b>\$4,293,329</b>	<b>\$4,293,454</b>	<b>\$4,290,954</b>	<b>\$2,335,626</b>	<b>\$421,035</b>
<b>DEBT SERVICE</b>										
Series 2002 Metro DES Bonds	\$4,291,516	\$4,932,141	\$4,504,488	\$4,291,538	\$4,293,516	\$4,293,329	\$4,293,454	\$4,290,954	\$2,335,626	\$421,035
<b>TOTAL DEBT SERVICE</b>	<b>\$4,291,516</b>	<b>\$4,932,141</b>	<b>\$4,504,488</b>	<b>\$4,291,538</b>	<b>\$4,293,516</b>	<b>\$4,293,329</b>	<b>\$4,293,454</b>	<b>\$4,290,954</b>	<b>\$2,335,626</b>	<b>\$421,035</b>
<b>NET REVENUE AVAILABLE</b>	<b>\$0</b>	<b>(\$0)</b>	<b>(\$0)</b>							

**YEARLY INFORMATION STATEMENT OF THE METROPOLITAN GOVERNMENT**

**DATED AS OF JUNE 30, 2001**

This Yearly Information Statement of The Metropolitan Government of Nashville and Davidson County (the "Metropolitan Government") contains information current through June 30, 2001. The Metropolitan Government expects to update this Yearly Information Statement each year following the release of the Metropolitan Government's audited financial statements.

**Subsequent Events**

Subsequent to the release of this Yearly Information Statement, the Metropolitan Government has issued its (i) \$16,265,000 Special Limited Obligation Correctional Facilities Revenue Refunding Bonds Series 2002, dated February 1, 2002, and (ii) \$31,065,000 General Obligation Energy Production Facilities Revenue Refunding Bonds Series 2002A and \$27,000,000 General Obligation Energy Production Facilities Revenue Refunding Bonds (Federally Taxable) Series 2002B, each dated April 1, 2002.

## **THE METROPOLITAN GOVERNMENT**

### **ORGANIZATION**

On June 28, 1962, the voters of Nashville and Davidson County approved the Charter of the Metropolitan Government. The Tennessee Supreme Court upheld the validity of the Charter in October 1962. On April 1, 1963 the governments of the City of Nashville and of Davidson County were consolidated to form "The Metropolitan Government of Nashville and Davidson County," under which the boundaries of Nashville and Davidson County are co-extensive.

The executive and administrative powers are vested in the Metropolitan County Mayor (the "Mayor"), who is elected at-large for a four-year term. The Mayor is authorized to administer, supervise and control all departments and to appoint all members of boards and commissions created by the Metropolitan Charter or by ordinance enacted pursuant to the Metropolitan Charter unless otherwise accepted. A two-thirds vote of the Council is required to override the Mayor's veto. The Charter also provides for a Vice Mayor, who is elected at large for a four-year term and is the presiding officer of the Council. The Council is the legislative body of the Metropolitan Government and is composed of 40 members who are elected for four-year terms: 35 are elected from council districts and five are elected at large.

The Charter provides a framework for local government in Nashville to serve the needs of two service districts: (i) the General Services District ("GSD") and (ii) the Urban Services District ("USD"). The GSD embraces the entire area of Davidson County and is taxed to support those services, functions and debt obligations which are deemed properly chargeable to the whole population. Such services include general administration, police, fire protection, courts, jails, health, welfare, hospitals, streets and roads, traffic, schools, parks and recreation, auditoriums, public housing, urban renewal, planning and public libraries. The original USD conformed to the corporate limits of the City of Nashville as they existed on April 1, 1963, the date of consolidation. The residents of the USD are charged an additional tax to support those services, functions and debt obligations which benefit only the USD. Such services include additional police and fire protection, storm sewers, street lighting and refuse collection. The Charter provides: "The area of the Urban Services District may be expanded and its territorial limits extended by annexation whenever particular areas of the General Services District come to need urban services, and the Metropolitan Government becomes able to provide such services within a reasonable period which shall be not greater than one year after ad valorem taxes in the annexed area become due." Since April 1, 1963, the area of the USD has been expanded from 27 square miles to 170 square miles. The map on the previous page illustrates the geographic area encompassing each of the districts.

### **Fiscal Year**

The Metropolitan Government operates on a fiscal year which commences July 1 and ends June 30.

## **Budgeting Procedures**

Operating Budget. The Charter requires the Director of Finance to obtain information necessary to compile the annual operating budget of the Metropolitan Government from all officers, departments, boards, commissions and other agencies for which appropriations are made by the Metropolitan Government or which collect revenues for the Metropolitan Government.

The Mayor reviews the operating budget submitted by the Director of Finance, and may make such revisions in the budget deemed necessary or desirable before it is submitted to the Council for consideration. In no event can the total appropriations from any fund exceed the total anticipated revenues plus the estimated unappropriated fund balance and applicable reserves. After the Council has passed the budget ordinance on first reading, it will hold public hearings. After the conclusion of the public hearings, the Council may amend the operating budget prepared by the Mayor. The budget as finally amended and adopted, however, must provide for all expenditures required by law or by provisions of the Charter and for all debt service requirements for the ensuing fiscal year as certified by the Director of Finance.

The Charter requires that following the adoption of the Metropolitan Government's annual operating budget, an annual tax is to be levied on all taxable property within the GSD and an additional annual tax on all taxable property within the USD. These annual taxes must be at rates sufficient to finance the GSD and USD budgets adopted for their respective service districts.

Capital Improvements Budget. As provided by the Charter, the capital improvements budget and program for the Metropolitan Government is prepared annually to "include a program of proposed capital expenditures for the ensuing fiscal year and the five fiscal years thereafter...." The Mayor submits the capital improvements budget, based on information from all officers, departments, boards, commissions and other agencies requesting funds from the Metropolitan Government for capital improvements, to the Council and recommends those projects to be undertaken during the ensuing fiscal year and the method of financing them. The Mayor's recommendation notes the impact of proposed projects on the debt structure of the Metropolitan Government and includes in the appropriate current operating budget any projects to be financed from current revenues for the ensuing fiscal year.

The Council has the power to accept, with or without amendment, or reject, the proposed program and proposed means of financing. The Council cannot authorize an expenditure for the construction of any building, structure, work or improvement, unless the appropriation for such project is included in its capital improvements budget, except to meet a public emergency threatening the lives, health or property of the inhabitants, when passed by two-thirds vote of the membership of the Council.

The following information identifies capital projects in the 2001-2002 Capital Improvements Budget which are given priority for funding by the Mayor and the Council for fiscal year 2001-2002 and the following three years.

Priority Capital Projects Planning

	Four Year				
	Total	2001-2002	2002-2003	2003-2004	2004-2005
<b>G.S.D.</b>					
Circuit Court Clerk	\$ 250,000	\$ 250,000	\$ -	\$ -	\$ -
Codes Administration	1,000,000	-	700,000	300,000	-
District Atty. General	420,000	150,000	210,000	-	60,000
Election Commission	1,087,000	1,087,000	-	-	-
Finance Department	70,501,000	57,901,000	5,000,000	3,800,000	3,800,000
Fire Department	8,620,000	3,640,000	1,750,000	1,990,000	1,240,000
General Services	38,382,000	18,207,000	5,700,000	6,900,000	7,575,000
Health Department	660,000	660,000	-	-	-
Historical Commission	345,000	170,000	75,000	50,000	50,000
Hospital Authority: General	1,320,000	1,095,000	225,000	-	-
Information Systems	8,552,000	8,552,000	-	-	-
Justice Information System	4,350,000	2,850,000	1,500,000	-	-
Juvenile Court	1,000,000	1,000,000	-	-	-
Metro Arts Commission	1,600,000	500,000	500,000	300,000	300,000
Metro Development and Housing Agency	295,872,000	116,622,000	96,900,000	54,500,000	27,850,000
Metropolitan Transit Authority	69,034,000	69,034,000	-	-	-
Municipal Auditorium	3,643,000	1,848,000	1,095,000	700,000	-
Nashville Arena	1,475,000	1,415,000	20,000	20,000	20,000
Nashville Electric Service	281,968,000	72,832,000	66,056,000	72,136,000	70,944,000
Parks and Recreation	83,410,000	45,225,000	16,476,000	15,901,000	5,808,000
Planning Commission	1,250,000	1,250,000	-	-	-
Police Department	12,000,000	-	8,800,000	3,200,000	-
Public Defender	315,000	315,000	-	-	-
Public Library Board	39,847,000	25,225,000	3,529,000	6,219,000	4,874,000
Public Works	635,630,000	312,755,000	105,251,000	125,085,000	92,539,000
Sheriff's Department	143,557,000	79,557,000	64,000,000	-	-
Social Services	6,082,000	3,736,000	740,000	966,000	640,000
Tennessee State Fair Board	2,750,000	2,750,000	-	-	-
Water & Sewerage Services	241,830,000	95,280,000	53,015,000	56,533,000	37,002,000
<b>Total G.S.D.</b>	<b>\$ 1,956,750,000</b>	<b>\$ 923,906,000</b>	<b>\$ 431,542,000</b>	<b>\$ 348,600,000</b>	<b>\$ 252,702,000</b>
<b>U.S.D.</b>					
Fire Department	\$ 22,235,000	\$ 11,561,000	\$ 5,355,000	\$ 4,969,000	\$ 350,000
Public Works	181,308,000	71,558,000	37,750,000	36,750,000	35,250,000
<b>Total U.S.D.</b>	<b>\$ 203,543,000</b>	<b>\$ 83,119,000</b>	<b>\$ 43,105,000</b>	<b>\$ 41,719,000</b>	<b>\$ 35,600,000</b>
Board of Education	\$ 544,629,000	\$ 435,780,000	\$ 57,753,000	\$ 29,839,000	\$ 21,257,000
<b>Grand Total</b>	<b>\$ 2,704,922,000</b>	<b>\$ 1,442,805,000</b>	<b>\$ 532,400,000</b>	<b>\$ 420,158,000</b>	<b>\$ 309,559,000</b>

## **Accounting**

Pursuant to the Charter, independent auditors annually audit the financial statements of the Metropolitan Government. The general purpose financial statements and other financial information are prepared in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and with those standards and procedures recommended by the State Comptroller of the Treasury. Copies of the CAFR for the past three years are available through the office of the Director of Finance, Metropolitan Government of Nashville and Davidson County, 106 Metropolitan Courthouse, Nashville, Tennessee 37201.

The Metropolitan Government manages its financial reporting through the use of categories of fund types and account groups. The major fund types and groups are as follows:

The governmental fund types include the General Fund to account for all financial resources not otherwise accounted for; Debt Service Funds to account for the accumulation of resources for, and the payment of, general long-term debt payments; Special Revenue Funds to account for specific revenues designated to finance the operations of the Metropolitan Board of Education and specific revenues to be utilized in carrying out the special terms of statutes, ordinances, grant requirements, or other governing regulations; and Capital Project Funds to account for financial resources used to acquire or construct all major government fixed assets.

The proprietary fund types include Enterprise Funds to account for the operations of self-sustaining agencies rendering services to the general public on a user charge basis and Internal Service Funds to account for the operations of self-sustaining agencies rendering services to other agencies of the Metropolitan Government on a cost reimbursement basis.

The fiduciary fund types include Expendable and Nonexpendable Trust Funds to account for assets held in a fiduciary capacity; Pension Funds to account for assets held in a fiduciary capacity for employees and former employees; and Agency Funds to account for assets held as agents for individuals or agencies.

The account groups include the General Fixed Assets Account Group which accounts for fixed assets used in governmental fund type operations and the General Long-term Debt Account Group which accounts for the principal on all outstanding debt and other long-term obligations, such as compensated absences and unfunded pension costs, except obligations secured by revenues of the Proprietary Funds.

## Revenues

The Metropolitan Government derives its revenues from a direct tax levy on real property, sales tax, earned income, fees, and State of Tennessee (the "State") and Federal payments. Property taxes accounted for 40.9% of all revenues available to the GSD General Fund and 79.9% of the USD General Fund during the fiscal year ended June 30, 2001. Sales tax collections totaled \$237.2 million in the fiscal year ended June 30, 2001. A description of each major revenue category available to both the GSD and USD follows:

Property Taxes - The levy is without legal limit. For a discussion of this tax, see "PROPERTY TAXES" herein.

Sales Tax - A local option sales tax is collected at the rate of 2-1/4% on all sales of tangible personal property and certain services, except for sales of certain energy sources and other limited exemptions. This local option sales tax is currently levied, in accordance with State law, only on the first \$1,600 of a transaction.

Other Taxes, Licenses, and Permits - This category includes charges for licenses and permits issued by departments, agencies, boards and commissions of the Metropolitan Government. Also included is the Hotel/Motel Tax which is assessed against the gross receipts of hotels and motels within the Metropolitan Government based on occupancy. Currently, there is a 4% tax levied by Council ordinance with revenues derived from such tax distributed as follows: 3% to the Hotel and Tourism Fund divided equally for tourist promotion, tourist-related activities and the convention center; and 1% to the general fund. Of the 1% distributed to the general fund, \$3.2 million is transferred to debt service for Stadium debt requirements.

Fines, Forfeits and Penalties - This category includes collections of obligations imposed by the courts, law enforcements and agencies charged with the care of prisoners.

Revenue from Use of Money or Property - This category includes interest on investments, rental and commissions for use of Metropolitan Government property or rights.

Revenue from Other Governments, Governmental Agencies and Citizens Groups - Under this revenue category are payments to the Metropolitan Government by other public divisions (Federal, State or other governmental units or agencies) and gifts or donations received from individuals or citizens groups.

Charges for Current Services - These are fees and charges for activities and services provided by agencies of the Metropolitan Government.

Revenues from Enterprise, Utility and Working Capital Funds - These are amounts received from the above types of funds as compensation for services rendered or as contributions.

Other Revenue - Includes (i) commissions and fees collected by certain officials for certain activities of the Metropolitan Government; (ii) proceeds from confiscation of property; (iii) compensation for loss, sale or damage to property; and (iv) miscellaneous.

## PROPERTY TAXES

### RATES OF TAX LEVY

An annual tax is levied on all taxable property within the GSD and an additional tax is levied on all taxable property within the USD. The following table is a statement of the composition of rates of tax levy for the last ten fiscal years.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
ANALYSIS OF THE COMPOSITION OF RATES OF TAX LEVY  
Ten Year Summary

Fiscal Year	General Services District					Urban Services District		
	Total GSD Rate	GSD General Fund	General Purpose School Fund	GSD Debt Service Fund	School Debt Service Fund	Total USD Rate	USD General Fund	USD Debt Service Fund
1992-93	3.48	1.76	1.29	0.43	n/a	1.33	1.18	0.15
1993-94 (1)(2)	3.38	1.83	1.01	0.43	0.11	1.12	0.99	0.13
1994-95	3.38	1.83	1.01	0.43	0.11	1.12	0.99	0.13
1995-96 (3)	3.38	1.79	1.01	0.47	0.11	1.12	1.00	0.12
1996-97	3.38	1.79	1.01	0.47	0.11	1.12	1.00	0.12
1997-98 (4)	3.17	1.59	0.96	0.49	0.13	0.95	0.84	0.11
1998-99 (5)	3.29	1.58	0.96	0.50	0.25	0.95	0.84	0.11
1999-00	3.29	1.58	0.96	0.50	0.25	0.95	0.84	0.11
2000-01	3.29	1.58	0.96	0.50	0.25	0.95	0.84	0.11
2001-02 (6)	3.75	1.88	1.24	0.43	0.20	0.83	0.73	0.10

Tax rates are per \$100 of assessed valuation. Payments may be made in two equal installments, the first not later than October 31st in the year of assessment and levy, the second by February 28th of the following year without penalty.

- (1) In fiscal year 1993-94 the combined GSD-USD tax rate was reduced from \$4.81 to \$3.76 per \$100 of assessed value. Also, the levy for fire protection service was changed from \$.16 to \$.12 per \$100 assessed valuation in fiscal year 1993-94. The reduction in the rates of tax levy between fiscal year 1993 and fiscal year 1994 was the result of a State mandated reappraisal valuation of property in Davidson County. Such rate reduction, when applied against the reappraised valuation of all taxable property, could not result in a material increase in property tax revenues to the Metropolitan Government when compared with the revenues of the immediately preceding fiscal year. Subsequent to the rate reduction for reappraisal the property tax rate was increased to \$4.50.
- (2) Beginning in fiscal year 1993-94 the School Debt Service Fund was included in those funds which receive property tax revenue.
- (3) In fiscal year 1995-96 the GSD and USD property tax rate was reallocated among the funds receiving property tax revenue.
- (4) In fiscal year 1997-98 the combined GSD-USD tax rate was reduced from \$4.50 to \$3.58 per \$100 of assessed value. Also, the levy for fire protection service was changed from \$.12 to \$.10 per \$100 assessed valuation in fiscal year 1997-98. The reduction in the rates of tax levy between fiscal year 1997-98 was the result of a State mandated reappraisal valuation of property in Davidson County. Also, in fiscal year 1997-98 the combined GSD-USD tax rate was increased from \$3.58 to \$4.12 per \$100 of assessed value. The net reduction in the fiscal year 1997-98 GSD-USD tax rate was from \$4.50 to \$4.12.
- (5) In fiscal year 1998-99 the combined GSD-USD tax rate increased \$0.12 per \$100 of assessed value, to be applied toward school debt service. Also \$0.01 was reallocated from GSD General Fund to GSD Debt Service.
- (6) In fiscal year 2001-02 the combined GSD-USD tax rate was reduced from \$4.24 to \$3.70 per \$100 of assessed value. Also, the levy for fire protection service was changed from \$.10 to \$.09 per \$100 assessed valuation in fiscal year 2001-02. The reduction in the rates of tax levy between fiscal year 2001-02 was the result of a State mandated reappraisal valuation of property in Davidson County. Also, in fiscal year 2001-02 the combined GSD-USD tax rate was increased from \$3.70 to \$4.58 per \$100 of assessed value. The net increase in the fiscal year 2001-02 GSD-USD tax rate was from \$4.24 to \$4.58.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
ANALYSIS OF ORIGINAL (INCLUDING SUPPLEMENTAL) ASSESSMENT  
OF ALL TAXABLE PROPERTY  
Unaudited - See Accompanying Accountants' Report  
Ten Year Summary

Fiscal Year	General Services District				USD Total	Urban Services District			Total Estimated Property Value (1)
	GSD Total	Realty	Personalty	Public Utility		Realty	Personalty	Public Utility	
1991-92	\$ 5,974,950,528	\$ 5,206,855,217	\$ 439,579,327	\$ 328,515,984	\$ 4,407,929,531	\$ 3,790,002,819	\$ 348,866,185	\$ 269,060,527	\$ 23,986,047,588
1992-93	6,031,782,580	5,206,574,441	466,910,155	358,297,984	4,438,090,931	3,768,171,088	374,529,094	295,390,749	23,710,812,574
1993-94	7,645,927,094	6,564,860,490	588,900,423	492,166,181	5,536,342,048	4,660,546,128	468,042,087	407,753,833	24,154,889,503
1994-95	7,809,222,537	6,665,738,964	604,633,877	538,849,696	5,542,872,889	4,604,202,408	487,181,673	451,488,808	24,554,554,540
1995-96	7,949,116,583	6,854,887,568	616,396,850	477,832,165	5,567,272,438	4,695,089,938	472,017,573	400,164,927	26,686,385,238
1996-97	8,192,586,699	7,050,026,895	668,743,347	473,816,457	5,691,540,025	4,784,362,948	515,583,782	391,593,295	27,908,069,594
1997-98	10,647,933,789	9,360,046,370	813,501,653	474,385,766	7,303,138,660	6,280,076,965	634,766,710	388,294,985	33,706,470,792
1998-99	10,895,717,859	9,483,759,205	873,944,396	538,014,258	7,491,537,089	6,372,341,408	681,039,272	438,156,409	34,408,511,843
1999-00	11,087,336,546	9,625,554,203	954,014,066	507,768,277	7,579,090,297	6,420,180,086	747,640,155	411,270,056	38,576,009,345
2000-01	11,390,199,691	9,878,827,579	953,834,854	557,537,258	7,752,879,515	6,544,802,327	745,794,683	462,282,505	39,576,025,308
2001-02	13,373,373,440	11,649,748,674	1,059,163,097	664,461,669	9,029,225,021	7,681,717,993	794,416,879	553,090,149	

Assessment date: January 1 (Pick-up assessments and cancellations for each year in minor amounts are not reflected in above figures)

Tax Levy: General Services District tax is levied on the entire Metropolitan area. Urban Services District tax is an additional tax levied on properties within the Urban Services District. Personalty and public utilities taxes are levied on September 1<sup>st</sup> of each year, based upon assessed valuation at January 1<sup>st</sup> of that year. Real property taxes are levied on September 1<sup>st</sup> of each year, based upon assessed valuation through January 1<sup>st</sup> of that year. In addition, for the period January 1<sup>st</sup> through September 1<sup>st</sup>, supplemental assessments are made and related taxes are levied for improved, demolished or damaged property during such period, in accordance with T.C.A. Section 67-607.

Ratio of assessed value to appraised value:  
Commercial and industrial properties - 40% for real property and 30% for tangible personal property  
Farm and residential properties - 25%  
Public utilities - 55%

(1) Source: Tax Aggregate Reports for Tennessee State Board of Equalization

State law exempts from property taxes any property (i) owned by the Federal, State, or local government and used exclusively for public, county, or municipal purposes or (ii) which purely and exclusively is used for religious, scientific, non-profit educational or charitable purposes. Currently in Nashville, there are approximately 5,513 tax-exempt parcels. For the current fiscal year, the excluded properties of the Electric Power Board of the Metropolitan Government amounted to an assessed valuation of \$473,501,262 and the exempt properties of the Industrial Development Board of the Metropolitan Government amounted to an assessed valuation of \$36,038,200 for which a tax equivalent was paid by both to the Metropolitan Government on the basis of the actual rates of tax levy.

State law requires a complete reappraisal of all property in the State except those properties centrally assessed by the State such as utilities and railroads. Beginning in 1993, reappraisals have been done on a four year cycle in Davidson County in accordance with State law. Under this plan there were reappraisals in 1993, 1997, and in 2001. The 2001 values will be in place until completion of the 2005 reappraisal. Those values will be published in the spring of 2005 and will reflect current market values.

### Tax Collection

Personalty and public utility taxes are levied each year based upon assessed valuation at January 1 of that year. Real property taxes are levied each year based upon assessed valuation at January 1 of that year. In addition, for the period January 1 through September 1, supplemental assessments of real property taxes are made and related taxes are levied for improved, demolished or damaged property during such period, in accordance with State law.

Property taxes may be paid in installments without penalty, as long as the total tax is paid by February 28 of the following year.

On March 1 of the calendar year following the levy, taxes become delinquent and a penalty of 1/2 of 1% is assessed. Interest on outstanding obligations is assessed at a rate of 1% per month. The Trustee is designated as the collection official for delinquent property taxes, tax equivalents, and merchant's ad valorem taxes. Property taxes which become twelve months delinquent are transferred to the custody of the Department of Law Division of Tax Litigation for collection through Chancery Court action. The following table is a summary of the tax levies and collections of the last ten fiscal years.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
ANALYSIS OF TAX LEVIES AND COLLECTIONS  
Unaudited - See Accompanying Accountants' Report  
Ten Year Summary

Fiscal Year	Amount GSD Levy	Amount USD Levy	Total Tax Levied	Uncollected at End of the Fiscal Year	Percentage Uncollected
1991-92	\$ 210,435,612	\$ 58,625,501	\$ 269,061,113	\$ 17,084,608	6.35 %
1992-93	212,456,040	59,026,648	271,482,688	13,343,925	4.92
1993-94	261,672,066	62,007,102	323,679,168	15,115,451	4.67
1994-95	266,673,700	62,080,249	328,753,949	9,983,997	3.04
1995-96	271,538,720	62,353,526	333,892,246	9,577,285	2.87
1996-97	279,911,056	63,745,322	343,656,378	10,220,782	2.97
1997-98	340,884,594	69,379,882	410,264,476	14,191,035	3.46
1998-99	361,873,598	71,169,667	433,043,265	15,815,445	3.65
1999-00	368,281,927	72,001,424	440,283,351	15,885,751	3.61
2000-01	378,375,194	73,652,420	452,027,614	15,936,299	3.50

The following table shows the status of the property taxes remaining to be collected at June 30, 2001.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 SCHEDULE OF DELINQUENT PROPERTY TAXES RECEIVABLE - BY TYPE  
 June 30, 2001

	Year of Levy	Realty	Personalty	Public Utility	Total
General Services District	2000	\$ 10,111,808	\$ 2,334,005	\$ 749,166	\$ 13,194,979
	1999	1,500,152	891,786	778,218	3,170,156
	1998	451,535	180,973	915,112	1,547,620
	1997	253,868	126,551	69,505	449,924
	1996	132,027	391,907	59,205	583,139
	1995	94,989	435,634	39,651	570,274
	1994	91,838	177,690	14,181	283,709
	1993	59,321	359,796	32,412	451,529
	1992	90,223	417,158	61,715	569,096
	1991	51,084	452,585	50,643	554,312
	1990	44,171	515,743	51,993	611,907
Total General Services District		<u>12,881,016</u>	<u>6,283,828</u>	<u>2,821,801</u>	<u>21,986,645</u>
Urban Services District	2000	1,982,710	577,093	181,517	2,741,320
	1999	327,419	222,430	194,099	743,948
	1998	115,807	106,810	223,660	446,277
	1997	71,480	77,043	13,328	161,851
	1996	38,365	113,524	13,227	165,116
	1995	29,527	134,110	8,995	172,632
	1994	28,484	297,514	4,219	330,217
	1993	18,386	100,099	10,042	128,527
	1992	33,508	137,991	22,375	193,874
	1991	12,325	145,516	18,764	176,605
	1990	16,028	164,125	14,390	194,543
Total Urban Services District		<u>2,674,039</u>	<u>2,076,255</u>	<u>704,616</u>	<u>5,454,910</u>
Total Delinquent Property Taxes Receivable		<u>\$ 15,555,055</u>	<u>\$ 8,360,083</u>	<u>\$ 3,526,417</u>	<u>\$ 27,441,555</u>

## PRINCIPAL TAXPAYERS

The following table presents information concerning the principal taxpayers of the Metropolitan Government.

### METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

#### PRINCIPAL TAXPAYERS

Unaudited - See Accompanying Accountants' Report

December 31, 2000

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2000 Assessed Valuation</u>	<u>% of Total 2000 Assessed Valuation</u>	<u>Amount of Tax</u>	<u>% of Total Levy</u>
Electric Power Board	Utility	\$ N/A	N/A %	\$ 14,099,152	3.12 %
Gaylord	Music, Entertainment and Hotel	353,920,000	3.11	9,984,967	2.21
BellSouth	Communications	167,542,384	1.47	6,899,987	1.53
Columbia/HCA	Health Facilities Management	113,433,133	1.00	3,773,372	0.83
CBL & Associates	Mall Management	82,841,880	0.73	3,162,271	0.70
PREFCO XIV Ltd.	Communications	58,415,390	0.51	2,535,445	0.56
Piedmont Natural Gas Company	Utility	81,058,944	0.71	2,335,713	0.52
Ford Motor Co	Glass Plant	40,909,450	0.36	1,734,561	0.38
E.I Dupont De Nemours and Company	Manufacturing Textile Mill Products	52,363,360	0.46	1,644,878	0.36
SunTrust Bank	Financial	<u>35,951,379</u>	<u>0.32</u>	<u>1,557,635</u>	<u>0.34</u>
		<u>\$ 986,435,920</u>	<u>8.67 %</u>	<u>\$ 47,727,981</u>	<u>10.55 %</u>

THE METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY, TENNESSEE  
GENERAL FUND  
AUDITED  
FIVE YEAR SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

	Years Ended June 30				
	2001	2000	1999	1998	1997
<b>REVENUES:</b>					
Property taxes	\$ 266,534,541	\$ 255,958,467	\$ 250,095,609	\$ 245,392,041	\$ 217,934,679
Local option sales tax	78,323,804	78,072,027	74,452,947	72,214,977	70,270,730
Licenses and permits	78,457,620	77,221,770	73,304,945	68,547,321	66,576,576
Fines, forfeits and penalties	9,886,470	11,623,769	11,382,032	10,734,283	9,177,892
Revenue from use of money of property	2,634,827	2,435,785	3,960,366	2,790,543	3,489,548
Revenue from other governmental agencies	93,730,534	96,819,242	98,164,129	93,885,607	85,724,966
Commissions and fees	13,516,675	13,756,439	14,577,828	14,416,683	13,250,103
Charges for current services	19,681,031	18,924,947	18,433,071	18,304,523	20,017,505
Compensation for loss, sale or damage to property	1,313,367	1,301,870	1,800,520	1,119,673	228,504
Contributions and gifts	844,515	720,840	-	-	-
Miscellaneous	774,285	1,580,231	1,731,687	1,284,012	1,295,352
Total Revenues	<u>565,697,669</u>	<u>558,415,387</u>	<u>547,903,134</u>	<u>528,689,663</u>	<u>487,965,855</u>
<b>EXPENDITURES</b>					
General Government	23,780,866	23,575,104	24,269,182	22,913,073	22,867,859
Fiscal Administration	17,128,581	15,835,754	18,309,022	15,574,998	14,785,153
Administration of Justice	39,377,240	41,327,826	39,563,106	36,313,336	34,575,945
Law enforcement and care of prisoners	140,935,478	140,897,348	147,489,469	139,199,642	129,158,087
Fire prevention and control	67,145,761	68,744,162	68,780,838	67,462,700	64,118,707
Regulation and inspection	5,890,959	6,211,955	6,849,852	6,186,478	6,025,183
Conservation of natural resources	354,787	300,301	292,287	277,869	247,155
Public welfare	12,758,996	16,941,661	16,519,502	15,535,398	12,322,659
Public health	28,794,563	27,810,992	27,388,492	27,713,999	26,146,411
Public library system	11,815,438	10,275,471	9,882,149	10,335,377	10,484,299
Public works, highway, and street	30,886,707	32,731,146	36,271,472	43,575,786	34,794,575
Recreational and cultural	27,826,667	27,751,742	27,709,921	27,510,024	27,532,832
Employee benefits	44,796,706	43,186,268	41,326,087	41,318,534	39,917,068
Miscellaneous	12,533,657	10,979,389	5,821,492	6,569,187	3,043,599
Total Expenditures	<u>464,026,406</u>	<u>466,569,119</u>	<u>470,472,871</u>	<u>460,486,401</u>	<u>426,019,532</u>
Excess (Deficiency) of revenues over expenditures	<u>101,671,263</u>	<u>91,846,268</u>	<u>77,430,263</u>	<u>68,203,262</u>	<u>61,946,323</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	7,517,128	10,338,000	9,961,239	7,818,691	19,456,336
Operating transfers out	(47,882,027)	(45,459,934)	(41,484,572)	(77,868,859)	(73,698,043)
Operating transfers from component units	501,200	532,851	1,721,614	1,478,345	1,657,494
Operating transfers to component units	(51,098,967)	(48,244,784)	(48,054,652)	(12,358,412)	(10,972,962)
Total Other Financing Sources (Uses)	<u>(90,962,666)</u>	<u>(82,833,867)</u>	<u>(77,856,371)</u>	<u>(80,930,235)</u>	<u>(63,557,175)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	10,708,597	9,012,401	(426,108)	(12,726,973)	(1,610,852)
FUND BALANCE, beginning of year, restated*	88,195,572	57,969,671	58,395,779	71,017,606	72,628,458
EQUITY TRANSFER	1,146,485	90,652	-	105,146	-
FUND BALANCE, end of year	<u>\$ 100,050,654</u>	<u>\$ 67,072,724</u>	<u>\$ 57,969,671</u>	<u>\$ 58,395,779</u>	<u>\$ 71,017,606</u>

\* For fiscal year 2001, beginning fund balance was restated due to GASB 33, Accounting and Reporting for Non-exchange Transactions.

THE METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY, TENNESSEE  
Special Revenue Funds

AUDITED

FIVE YEAR SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

	Years Ended June				
	2001	2000	1999	1998	1997
<b>REVENUES:</b>					
Property taxes	\$ 111,206,690	\$ 110,610,784	\$ 109,211,904	\$ 109,191,849	\$ 92,545,514
Local option sales tax	141,948,976	142,681,260	135,799,771	133,049,822	128,289,580
Other taxes, licenses and permits	19,239,743	34,764,271	26,395,401	37,120,550	48,740,368
Fines and costs	2,859,655	4,289,185	3,370,377	2,788,968	1,296,185
Revenue from the use of money or property	5,113,227	5,486,721	4,801,730	5,686,676	5,533,905
Revenue from other governmental agencies	214,255,669	203,788,422	231,550,400	211,479,510	180,768,311
Charges for current services	27,514,419	30,896,363	28,404,978	28,422,781	27,903,161
Compensation for loss, sale or damage to property	1,507,523	753,891	1,104,051	1,324,765	1,323,557
Grants, contributions and gifts	8,605,279	8,563,416	7,213,169	6,694,816	5,638,342
Miscellaneous	79,984	36,895	11,573	163,163	19,033
Total revenues	<u>532,331,165</u>	<u>541,871,208</u>	<u>547,863,354</u>	<u>535,922,900</u>	<u>492,057,956</u>
<b>EXPENDITURES</b>					
Schools:					
Administration	9,713,025	9,341,101	5,558,170	5,591,481	5,719,626
Instruction	339,942,525	335,771,893	325,306,262	325,797,548	299,592,010
Attendance service	2,460,845	2,464,394	2,261,989	2,162,067	2,081,420
Pupil transportation	19,827,681	19,460,950	19,194,088	16,775,325	15,298,628
Plant operations	40,097,147	37,291,061	37,007,885	36,747,017	35,305,961
Plant maintenance	11,123,039	11,063,603	11,185,255	11,057,404	10,983,530
Fixed charges	7,713,085	7,067,785	10,875,346	6,391,610	5,586,494
Community services	3,334,699	2,637,794	2,895,057	2,649,256	2,645,299
Services and supplies	24,471,645	24,597,053	23,365,179	22,750,444	25,734,657
Capital outlay	3,145,621	3,693,897	5,553,325	3,790,646	1,584,062
Other funds:					
Personal services	21,451,687	21,308,259	14,842,520	13,298,925	12,200,768
Contractual services	37,117,519	38,483,935	37,478,633	25,292,617	44,074,526
Supplies and materials	12,230,354	6,790,803	4,960,751	2,105,332	3,620,929
Other	2,729,048	3,146,329	4,360,511	26,418,198	9,099,153
Educational programs	544,731	192,163	876,949	-	-
Capital outlay	6,202,663	11,521,825	62,555,462	24,947,572	12,228,719
Total Expenditures	<u>542,105,314</u>	<u>534,832,845</u>	<u>568,277,382</u>	<u>525,775,442</u>	<u>485,755,782</u>
Excess (Deficiency) of revenues over expenditures	<u>(9,774,149)</u>	<u>7,038,363</u>	<u>(20,414,028)</u>	<u>10,147,458</u>	<u>6,302,174</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Operating transfers in	45,110,728	49,257,526	38,872,726	34,874,333	32,549,314
Operating transfers out	(15,753,623)	(27,357,587)	(25,745,239)	(22,821,576)	(20,072,215)
Operating transfers from component units	439,796	870,911	285,493	1,148,897	1,153,092
Operating transfers to component units	(12,806,383)	(9,653,874)	(9,012,770)	(9,630,781)	(7,627,649)
Total Other Financing Sources (Uses)	<u>16,990,518</u>	<u>13,116,976</u>	<u>4,400,210</u>	<u>3,570,873</u>	<u>6,002,542</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>7,216,369</u>	<u>20,155,339</u>	<u>(16,013,818)</u>	<u>13,718,331</u>	<u>12,304,716</u>
FUND BALANCE, beginning of year (restated)*	109,968,273	100,677,848	121,010,530	107,292,199	94,987,483
EQUITY TRANSFER	(10,172)	(1,177,371)	(4,334,478)	-	-
FUND BALANCE, end of year	<u>\$ 117,174,470</u>	<u>\$ 119,655,816</u>	<u>\$ 100,662,234</u>	<u>\$ 121,010,530</u>	<u>\$ 107,292,199</u>

\* For fiscal year 2000, a prior period audit adjustment in the School Activity Fund restated total special revenue funds' balance as of June 30, 1999 by \$15,614.

For fiscal year 2001, beginning fund balance was restated due to GASB 33, Accounting and Reporting for Non-exchange Transactions.

THE METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY, TENNESSEE  
Debt Service Funds (1) (2)  
AUDITED  
FIVE YEAR SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

	Years Ended June 30				
	2001	2000	1999	1998	1997
<b>REVENUES:</b>					
Property taxes	\$ 93,121,235	\$ 89,467,041	\$ 87,689,394	\$ 71,409,284	\$ 52,949,248
Local option sales tax	16,930,017	16,439,343	14,745,540	11,886,519	13,239,527
Commissions and fees	897,489	50,000	-	-	-
Revenue from use of money of property	5,892,842	5,651,070	4,436,985	4,830,017	3,963,604
Revenue from other governmental agencies	3,878,324	4,171,045	4,113,196	2,255,149	827,619
Compensation for loss, sale or damage to property	<u>1,500,050</u>	<u>-</u>	<u>-</u>	<u>19,000</u>	<u>-</u>
<b>Total Revenues</b>	<u>122,219,957</u>	<u>115,778,499</u>	<u>110,985,115</u>	<u>90,399,969</u>	<u>70,979,998</u>
<b>EXPENDITURES</b>					
Principal retirement	56,825,000	51,925,000	51,530,000	46,990,000	39,235,000
Interest	49,834,336	59,563,984	53,182,744	49,423,775	45,005,772
Fiscal charges	457,179	427,424	28,286	40,309	178,953
Refunding bond issue costs	<u>-</u>	<u>-</u>	<u>91,252</u>	<u>847,014</u>	<u>211,036</u>
<b>Total Expenditures</b>	<u>107,116,515</u>	<u>111,916,408</u>	<u>104,832,282</u>	<u>97,301,098</u>	<u>84,630,761</u>
Excess (Deficiency) of revenues over expenditures	<u>15,103,442</u>	<u>3,862,091</u>	<u>6,152,833</u>	<u>(6,901,129)</u>	<u>(13,650,763)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds of refunding bonds, net of discount	73,745,000	-	7,355,000	110,990,000	34,305,000
Payments to refunded bond escrow agent	(77,885,410)	-	(7,377,668)	(107,695,881)	(35,707,001)
Bond issue premium (discount)	4,620,921	-	56,061	(2,574,747)	1,719,439
Operating transfers in	17,020,103	18,901,002	21,828,096	21,282,435	19,354,481
Operating transfers out	(2,320,000)	(9,746,801)	(5,203,181)	(5,900,000)	(3,645,206)
Operating transfers from component units	2,800,000	4,200,000	4,200,000	-	-
Operating transfers to component units	<u>(1,247,645)</u>	<u>(1,149,228)</u>	<u>(1,235,223)</u>	<u>-</u>	<u>-</u>
<b>Total Other Financing Sources (Uses)</b>	<u>16,732,969</u>	<u>12,204,973</u>	<u>19,623,085</u>	<u>16,101,807</u>	<u>16,026,713</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	31,836,411	16,067,064	25,775,918	9,200,678	2,375,950
FUND BALANCE, beginning of year	125,469,631	111,670,929	85,626,497	76,412,874	74,036,924
EQUITY TRANSFER	<u>4,513,496</u>	<u>7,937,061</u>	<u>268,514</u>	<u>12,945</u>	<u>-</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 161,819,538</u>	<u>\$ 135,675,054</u>	<u>\$ 111,670,929</u>	<u>\$ 85,626,497</u>	<u>\$ 76,412,874</u>

(1) Includes the Correctional Facility Revenue Bonds.

(2) FY 1997 through 2000 included Sports Authority Stadium Revenue Bonds and Sports Authority Arena Revenue Bonds. In FY 2001, the Sports Authority was reclassified from a blended component unit to a discretely presented component unit.

COMPUTATION OF NET GENERAL OBLIGATION DEBT

June 30, 2001

See Accompanying Accountant's Report

Gross General Obligation Debt		
General Obligation Bonds Payable		
General Services District:		
For School Purposes	\$	421,890,712
For General Purposes		717,305,524
Urban Services District:		
For General Purposes		<u>57,123,764</u>
Total Gross General Obligation Debt		\$ 1,196,320,000
Less:		
Amounts available in debt service funds		
General Services District:		
For School Purposes	\$	77,264,207
For General Purposes		68,222,587
Urban Services District:		
For General Purposes		<u>10,914,932</u>
Total amounts available in debt service funds (1)		156,401,726
Debt payable from other sources		
Hotel Occupancy Tax (1)		
Convention Center Project		
G.O. Refunding Bonds of 1993	\$	21,815,741
G.O. Multi-Purpose Improvement Bonds, Series 1997A		<u>5,123,243</u>
Total debt payable from other sources		<u>26,938,984</u>
Net General Obligation Debt		<u>\$ 1,012,979,290</u>

(1) Excludes the Correction Facility revenue bonds.

DEBT RATIOS (1)  
AS OF JUNE 30, 2001  
See Accompanying Accountant's Report

Total Debt		3.02	%
Debt to Estimated Market Value		10.50	%
Debt to Assessed Value		\$ 2,076.94	
Net Debt			
Debt to Estimated Market Value		2.56	%
Debt to Assessed Value		8.89	%
Debt per Capita		\$ 1,758.64	
(1) The above table is based upon:			
Estimated Market Value	\$ 39,576,025,318		(2000 Estimated market value)
Assessed Value	\$ 11,390,199,691		(2000 assessed value)
Population	576,000		(2000)

CALCULATION OF SELF-SUPPORTING DEBT

Hotel Occupancy Tax:							
	<u>As of</u> <u>June 30, 1996</u>						
Convention Center Project (2 G.O. Refunding Bonds of 1993 G.O. Refunding Bonds of 1997A	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">\$ 21,815,741</td> </tr> <tr> <td></td> <td style="text-align: right;">5,123,243</td> </tr> <tr> <td></td> <td style="text-align: right;"><u>\$ 26,938,984</u></td> </tr> </table>		\$ 21,815,741		5,123,243		<u>\$ 26,938,984</u>
	\$ 21,815,741						
	5,123,243						
	<u>\$ 26,938,984</u>						

- (1) Source: Projected based on existing population and growth rates.
- (2) General Improvement bonds represent outstanding general obligation bonds issued for the convention center, the debt service payments on which are reimbursed from the hotel-motel room occupancy tax.
- (3) Water and Sewer bonds represent outstanding general obligation bonds of the Metropolitan Government, the debt service payments on which are reimbursed by the Water and Sewage Services Department.

## Historical Debt Ratios

The following table illustrates certain debt ratios for the past ten fiscal years.

### RATIO OF NET GENERAL OBLIGATION DEBT TO ASSESSED VALUE AND NET DEBT PER CAPITA

Ten Year Summary  
See Accompanying Accountant's Report

Fiscal Year Ending June 30	Population (1)	Assessed Valuation (in thousands)	Gross Debt	Debt Service Monies Available	Debt Payable From Sources Other Than Property Taxes	Net Debt	Ratio of Net Debt to Assessed Valua- tion	Net Debt Per Capita
1992	516,000	\$ 5,974,950	\$ 499,840,219	\$ 66,756,578	\$ 49,043,316	\$ 384,040,325	6.43 %	\$ 744.26
1993	520,000	6,031,782	503,341,423	64,099,430	46,571,371	392,670,622	6.51	755.14
1994	523,000	7,645,927	473,283,540	77,566,919	43,981,255	351,735,366	4.60	672.53
1995	525,700	7,809,223	693,075,000	68,292,173	41,294,896	583,487,931	7.47	1,109.93
1996	530,000	7,949,117	733,955,000	70,330,323	40,711,969	622,912,708	7.84	1,175.31
1997	536,700	8,192,587	792,420,000	70,552,736	36,978,998	684,888,266	8.36	1,276.11
1998	538,800	10,647,934	908,095,000	79,899,351	39,815,699	788,379,950	7.40	1,463.21
1999	541,500	10,895,718	1,038,960,000	103,509,799	35,728,961	899,721,240	8.26	1,661.54
2000	539,500	11,087,336	989,705,000	120,991,318	31,507,203	837,206,479	7.55	1,551.82
2001	576,000	11,390,200	1,196,320,000	156,401,726	26,938,984	1,012,979,290	8.89	1,758.64

(1) Source: Population for 1991-99 provided by Nashville Area Chamber of Commerce end of calendar year estimates.  
2001 population projection based on existing population and growth rates.

The following table sets forth annual debt service requirements by district of the Metropolitan Government on outstanding general obligation notes and bonds (excluding this issue) secured by ad valorem taxes.

Total Debt Service as of June 30, 2001				
Secured by Ad Valorem Taxes				
Year Ending 30-Jun	GSD		USD	Total GSD and USD
	School Purposes	General Purposes	General Purposes	
2002	\$ 44,742,269	\$ 77,698,885	\$ 8,599,112	\$ 131,040,266
2003	43,349,232	76,359,036	8,317,258	128,025,526
2004	43,340,144	75,436,963	8,303,268	127,080,375
2005	42,549,961	75,003,548	8,175,127	125,728,636
2006	41,391,228	74,967,432	8,153,327	124,511,987
2007	38,127,916	62,030,876	5,068,735	105,227,527
2008	36,027,759	59,013,971	4,551,962	99,593,692
2009	33,341,751	52,208,152	4,190,571	89,740,474
2010	31,013,027	50,708,372	4,193,955	85,915,354
2011	29,845,325	49,240,314	3,607,342	82,692,981
2012	28,650,036	42,877,697	2,639,875	74,167,608
2013	27,478,317	41,367,044	2,638,850	71,484,211
2014	26,314,857	40,601,966	2,054,900	68,971,723
2015	25,151,023	39,836,382	2,053,763	67,041,168
2016	23,989,097	38,340,105	1,758,338	64,087,540
2017	22,825,932	37,568,405	1,464,188	61,858,525
2018	21,364,810	30,382,401	-	51,747,211
2019	21,338,771	26,691,471	-	48,030,242
2020	14,357,073	26,679,588	-	41,036,661
2021	10,272,736	23,573,857	-	33,846,593
2022	10,281,095	22,852,826	-	33,133,921
2023	10,287,787	22,850,854	-	33,138,641
2024	10,293,953	22,849,198	-	33,143,151
2025	10,303,361	22,850,423	-	33,153,784
2026	1,957,808	13,092,792	-	15,050,600
2027	1,953,446	7,782,495	-	9,735,941
2028	1,946,936	7,771,311	-	9,718,247
2029	-	5,531,981	-	5,531,981
2030	-	5,526,356	-	5,526,356
	<u>\$ 652,495,650</u>	<u>\$ 1,131,694,701</u>	<u>\$ 75,770,571</u>	<u>\$ 1,859,960,922</u>

### INVESTMENT POLICY

Metro Council has approved a comprehensive Investment Policy governing the overall administration and investment management of those funds held in the Short-Term Investment Portfolio. The policy applies to all short-term financial assets of Metro from the time of receipt until the time the funds ultimately leave Metro accounts. These assets include, but are not limited to, all operating funds, bond funds, debt service reserve funds, water and sewer funds, Urban Services District and General Services District funds, those pension monies not yet allocated to money managers, all float and certain school funds.

The Short-Term Investment Portfolio of the Metropolitan Government is managed to accomplish the following hierarchy of objectives:

- 1) Preservation of principal
- 2) Maintenance of liquidity
- 3) Maximize returns

The Investment Committee meets at least quarterly to review the position of the portfolio and to discuss investment strategies. The Committee reviews investment policy and procedures at least once each year. The Metropolitan Treasurer is responsible for the investment process, carries out the daily operational requirements, and maintains written administrative procedures for the operation of the investment program that are consistent with the Investment Policy.

The Metropolitan Investment Pool has been established to meet investment objectives in the most cost-effective way. The pool is managed in a way that allows it to maintain a constant net asset value of \$1.00. The average maturity of the portfolio is monitored and managed so that changing interest rates will cause only minimal deviations in the net asset value. All payments and receipts of income on pool investments are allocated on a pro rata basis among the accounts invested in the pool on the daily invested balance in each fund. Earnings are calculated and distributed on a monthly basis.

### **MASS TRANSIT EXPENDITURES**

In 1973, the Metropolitan Government acquired the net assets of the Nashville Transit Company and the Metropolitan Transit Authority was established. The revenues derived from the transit system are not sufficient to pay the expenses incurred in the operation of the system. The Metropolitan Government and the State of Tennessee contributed in the fiscal year ending June 30, 2001, approximately \$8.08 million and \$3.0 million respectively, to pay approximately 40% of the authority's operating expenses. The State directs revenues from a two cents per gallon gasoline tax which it imposes on local governments that may be applied to mass transit. The contribution of the Metropolitan Government was paid from its general revenues. The Metropolitan Government, and the State and Federal Governments, through grants have spent approximately \$54,752,711 to date on improvements of the transit system since 1973.

### **NASHVILLE THERMAL TRANSFER CORPORATION**

The Nashville Thermal Transfer Corporation (the "Corporation") is a not-for-profit corporation incorporated under the laws of the State of Tennessee to construct and operate a solid waste incineration and heat recovery facility in downtown Nashville. The facility was designed to dispose of solid waste for the Metropolitan Government, and provide heating and cooling services for the Metropolitan Government, the State and various commercial users for their buildings in downtown Nashville.

As of June 30, 2001, the Corporation had \$65,890,000 of revenue bonds outstanding. While the Corporation has implemented several refinancings on a portion of these revenue bonds, the original proceeds of these revenue bonds funded the construction of the facility, certain capital improvements, and, in 1997, a pollution control retrofit. All of the bonds currently outstanding are secured by revenues of the Corporation and payments made by the Metropolitan Government under the Acquisition and Operating Agreement (the "Agreement"), between the Corporation and the Metropolitan Government. Although the full faith and credit of the Metropolitan Government and the right to exercise the ad valorem taxing power of the Metropolitan Government is not pledged under the Agreement, the Metropolitan Government is contractually obligated to make certain payments to the Corporation under the Agreement. The payments are calculated such that the Corporation has sufficient revenues to meet all operating expenses, debt service associated with operating the facility, and repairs, replacements and rehabilitation to equipment. The estimated annual liability of the Metropolitan Government is \$13.0 million for Fiscal Year 2002. This annual liability, however, may be adjusted, up or down, depending on the operating revenues received by the Corporation.

Disposal fees payable to the Metropolitan Government have declined since 1997 in response to a Federal Appeals Court ruling which made it unconstitutional to direct commercial solid waste haulers to the facility. Consequently, Mayor Bill Purcell has devised a Waste Management Plan for the Metropolitan Government that will increase recycling rates and end the city's reliance on the Thermal Transfer Plant in two years. The plan calls for an increase in the amount of waste recycled by the constituents from eight percent to twenty-five percent within the next four years. It also would establish a household recycling program for the 120,000 homes in the Urban Services District. Under the plan, the Metropolitan Government has entered into a long-term contract for the disposal of solid waste starting in Fiscal Year 2002. The thermal transfer plant would cease to be a disposal option on October 1, 2002 under the terms of an air pollution permit compliance plan with the Metropolitan Government, executed in March 2002. Heating and cooling to downtown buildings would be converted to use electricity and natural gas as its primary fuels in a new energy generation facility planned to start operations in April 2004. Between October 1, 2002 and April 2004, or at such time the new energy generation facility is operational, the thermal transfer plant will rely upon natural gas as its primary fuel and add generation capacity with temporary boilers planned for installation in May 2002. The plan has been approved by the Metropolitan Government.

### **THE SPORTS AUTHORITY OF THE METROPOLITAN GOVERNMENT**

The Sports Authority of the Metropolitan Government of Nashville and Davidson County (the "Authority") is a public non-profit corporation and instrumentality of the Metropolitan Government organized in 1995 pursuant to Chapter 67, Title 7 of Tennessee Code Annotated, as amended. The purpose of the Authority is to plan, promote, finance, construct, and acquire sports complexes, stadiums, arenas, and facilities for public participation and enjoyment of professional and amateur sports activities for the people in the State of Tennessee. The Authority has no taxing power.

The Authority, on behalf of the Metropolitan Government, issued revenue bonds in 1996 and 1998 to assist in the funding of certain sports projects. The proceeds of the Series 1996 Bonds were used for a portion of the construction of the Coliseum for the National Football League's Tennessee Titans and Tennessee State University, while the Series 1998 Bonds were issued to fund a portion of the franchise payment to the National Hockey League ("NHL") for the NHL's Nashville Predators. These bond issues were primarily funded with new, dedicated revenue streams (consisting of a payment in lieu of tax from the Water and Sewerage Department, parking revenues, lease payments from Tennessee State University and a ticket surcharge at the Gaylord Entertainment Center). However, a portion of the debt service as well as any deficiencies from the other pledged revenue streams are backed by a pledge of certain of the Metropolitan Government's non-tax General Fund revenues. The annual debt service for these bond issues is approximately \$7.4 million through 2018 and approximately \$5.5 million thereafter until 2026.

### **PENSION PLANS**

There are currently eight pension plans covering employees of the Metropolitan Government and the Metropolitan Board of Education ("MBE"). Two of these plans, the Metropolitan Employees' Benefit Trust Fund and the Metropolitan Board of Education Teachers' Retirement Plan Fund, were created upon the adoption of the metropolitan form of government on April 1, 1963 (the "Metropolitan Plans"). All certified employees of the MBE hired since July 1, 1969, are covered under the Tennessee Consolidated Retirement System.

Under the Charter, the Metropolitan Plans are required to be actuarially sound. The Metropolitan Plans are to be funded by annual contributions of employees and employers under the Metropolitan Plans. The contributions of the Metropolitan Government to the Metropolitan Employees' Benefit Trust Fund are determined as a percentage of the aggregate payroll of the participating employees. The Metropolitan Government has no liability for any benefits under the Tennessee Consolidated Retirement System, which is funded solely by employees and State contributions.

On January 1, 1996, Government employees in the Metro plan had the option to participate in a modified version of the currently effective retirement and disability programs. Of the approximately 11,300 metro employees, 5% elected to stay with the old pension plan (Division A) and 95% elected to enroll in the new pension plan (Division B). All benefits under Division A & B are being funded actuarially according to generally accepted accounting principles.

Contributions to the Metropolitan Board of Education Teachers' Retirement Plan Fund, a closed plan of the Metropolitan Government, are made by the MBE and the employees. To meet its obligations to fund future benefits of this plan in excess of plan assets, the MBE contributes a percentage of payroll determined by an annual actuarial valuation.

The remaining five pension plans were formerly administered by the City of Nashville and of Davidson County and were closed to participation on April 1, 1963 (the "Closed Plans"). The Closed Plans include the Civil Service Employee's Pension Fund, The Police and Firemen Pension Fund, The Teachers' Civil Service and Pension Fund, The Davidson County Employees' Retirement Fund, and The Employees Pension and Insurance Fund. Prior to July 1, 2000, the Closed Plans were funded on a pay-as-you-go basis. The difference between the revenue of these funds and benefit expenditures was paid by the Metropolitan Government out of operating budgets of the USD for the former City of Nashville plans and/or the GSD for the former Davidson County plans.

In August 2000, the Government adopted a Guaranteed Payment Plan (GPP) to fund the obligations of the Closed Plans ("superseded systems") on an actuarially sound basis. Under the GPP the unfunded accrued liabilities and other funding obligations of the Closed Plans, including any benefit improvements granted by the superseded systems, are determined in a manner so as to amortize the same over a period not to exceed thirty (30) years from July 1, 2000. Appropriations made by the Metro Council to fund the obligations of the superseded systems shall not be reduced for any year until all of the pension obligations of the superseded systems are fully amortized.

The Metropolitan Board of Education is also required to fund in its annual budget the actuarial contribution attributable to the aggregate benefits of all teachers covered under its superseded systems. The amounts required to fund such actuarial contributions shall be set forth in the annual budget adopted by the Metro Council.

All funds appropriated for funding obligations of the superseded systems are directly transferred to the GPP. From the GPP the Government transfers such amounts as needed to each respective superseded system in such amounts required to ensure full amortization of all liabilities.

In prior years, cost-of-living benefits under the Metropolitan Plans were funded on a pay-as-you-go basis, which resulted in lower contributions to the plans than were called for under generally accepted accounting principles. To reflect this shortfall and the fact that the Closed Plans were being funded on a pay-as-you-go basis, a liability was set up in the General Long-term Debt Account Group. Now that the Metropolitan Plans are being funded actuarially (taking into account prior shortfalls) and the Closed Plans are declining in importance, the liability established in prior years is declining rapidly.

The following summary states (in thousands) the unfunded pension benefit obligation (as defined in Statement No. 5 of the Government Accounting Standards Board) for all of the following plans as of the most recent actuarial valuations.

	(In Thousands of Dollars)
City County Plans (as of June 30, 2001)	
The Metropolitan Employees' Benefit Trust Fund	\$ (32,905)
The Davidson County Employees' Retirement Fund	\$ (10,350)
The Civil Service Employees' Pension and Police and Firemen Pension Funds	\$ (12,970)

City County Plans reported as shown in CAFR at June 30, 2001.

Board of Education Plans (as of June 30, 2001)

The Teachers' Civil Service and Pension Fund (Nashville City Teachers)	\$ (4,932)
The Employees' Pension and Insurance Fund (Davidson County)	3,000
The Metropolitan Board of Education Teachers' Retirement Fund	43,324

Board of Education reported as shown in CAFR at June 30, 2001.

It is expected that the aggregate contributions required for the pension plans, as a percentage of the total covered payroll, will remain relatively level. Information on the actuarial valuations for each pension plan is given in the notes to the general purpose financial statements attached hereto as Appendix A.

### **PUBLIC EMPLOYEES' REPRESENTATION**

As of June 30, 2001, the Metropolitan Government and Metropolitan Board of Education employed approximately 20,000 persons of whom approximately 10,500 worked full-time for the MBE. Appropriately 94% of the sworn personnel of the Fire Department are members of Local No. 763 of the International Association of Firefighters, and approximately 84% of the sworn personnel of the Police Department are members of the Fraternal Order of Police. Approximately 12% of the remaining non-teaching employees are members of the Service Employees International Union. Approximately 52% of the teaching employees are members of the Metropolitan Nashville Education Association (the "MNEA").

The MBE is a party to a Memorandum of Understanding with the MNEA which is renewed annually. The Metropolitan Government confers on an informal basis with representatives of employee unions mentioned above concerning employees' working conditions within their respective departments.

With the exception of school teachers covered specifically by the Education Professional Negotiation Act which provides for memoranda of understanding, the State does not recognize collective bargaining agreements between municipalities and their employees. The State courts have ruled that collective bargaining between municipalities and their employees are void and of no effect because they are contrary to public policy. The State Courts have also ruled that strikes by municipal employees are illegal and subject to injunction.

## ECONOMIC AND DEMOGRAPHIC PROFILE OF NASHVILLE AND DAVIDSON COUNTY

### Introduction

The Metropolitan Government of Nashville and Davidson County ("Nashville"), as created in 1963, is in the north central part of Tennessee and covers 533 square miles. Nashville is the capital of the State of Tennessee and is situated in the Nashville Basin, between the Tennessee River on the west and the Eastern Highland Rim on the east.

### Population Growth

The following table sets forth information concerning population growth in Nashville. Comparison with the Nashville Metropolitan Statistical Area ("MSA"), the State and the United States serve to illustrate relative growth.

#### THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

#### DEMOGRAPHIC STATISTICS – Unaudited See Accompanying Accountant's Report

#### Population Growth

Area	1980	1990	% Change 1980-1990	2000	Estimated 2001	% Change 1990-2001
Nashville/Davidson (1)	477,811	510,786	6.9 %	569,891	576,166	11.6 %
MSA (1)	850,505	985,026	15.8	1,231,311	1,259,099	25.0
State (1)	4,591,120	4,890,640	6.2	5,689,283	5,777,585	16.3
United States (2)	226,545,805	248,709,925	9.8	272,690,813	277,803,000	10.4

Source: Population is from the U. S. Department of Commerce, Bureau of the Census except for "Estimated 2000" which are from the following sources:

- (1) Nashville/Davidson, MSA, and State estimates for 2001 are from projections based on existing population and growth rates.
- (2) Bureau of the Census.

Growth within the MSA has occurred to the greatest extent in surrounding communities, which, although suburbs of Nashville, are in themselves residential, manufacturing and agricultural communities.

#### Per Capita Personal Income

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Nashville	\$ 22,847	\$ 23,743	\$ 25,426	\$ 26,012	\$ 26,844	\$ 28,033	\$ 28,911	\$ 30,652	\$ 31,797	\$ 32,987
MSA	22,056	22,967	24,590	24,967	25,915	27,010	27,746	29,385	30,274	31,371
Tennessee	20,400	21,310	22,509	23,030	23,791	24,664	25,504	26,690	27,886	28,845
United States	19,584	20,089	21,082	21,718	22,581	23,562	24,651	25,874	27,322	28,542

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Regional Accounts data updated June 2000

## Economy of the Metropolitan Area

Nashville has a diverse economy, having considerable involvement in commerce and industry, education and government. Agriculture is also a major factor in the economy of the surrounding counties. Insurance, finance, publishing, banking, health care, music, tourism, manufacturing and distribution are mainstays of the economy. Lack of dependency on one industry has helped to insulate Nashville from the impact of product business cycles. Businesses have been attracted to Nashville because of its location, work force, services and taxes. The central location of Nashville, approximately halfway between Houston and New York, has contributed to its emergence as an important wholesale and retail center.

## Employment

The following table shows the labor force segments of the eight county Nashville Metropolitan Statistical Area for calendar years 1991 through 2000.

Nashville MSA Employment By Industry IN THOUSANDS											% Change
Industry	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	00 vs. 91
Manufacturing	86.9	90.7	94.2	98.7	99.8	96.5	96.3	95.4	96.2	97.3	12.0 %
Wholesale & Retail Trade	122.8	125.0	129.9	137.3	143.1	147.2	152.6	157.7	160.8	168.2	37.0
Construction & Mining	21.0	19.9	22.3	25.4	27.5	29.6	31.1	32.2	33.0	34.2	62.9
Finance, Insurance and Real Estate	30.7	30.6	31.4	33.1	34.4	36.8	39.3	42.5	43.3	43.5	41.7
Services	140.2	149.3	159.3	168.6	182.2	190.3	199.1	208.4	213.1	219.6	56.6
Government	69.7	68.8	72.6	75.4	76.3	78.0	80.7	82.5	84.5	86.6	24.2
Transportation, Public Utilities and Communication	29.2	30.3	32.2	32.4	32.2	31.2	31.1	33.0	34.3	35.5	21.6
<b>Total</b>	<b>500.5</b>	<b>514.6</b>	<b>541.9</b>	<b>570.9</b>	<b>595.5</b>	<b>609.6</b>	<b>630.2</b>	<b>651.7</b>	<b>665.2</b>	<b>684.9</b>	<b>36.8 %</b>

Source: The University of Tennessee Center for Business and Economic Research

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
MISCELLANEOUS STATISTICS (CONTINUED)

See Accompanying Accountants' Report

June 30, 2001

Twenty-five Largest Employers in the Nashville MSA	<u>Number of Employees</u>
1. Tennessee State Government	18,600
2. Vanderbilt University and Medical Center	12,000
3. United States Government*	11,200
4. Metropolitan Nashville and Davidson County Schools	10,490
5. Metropolitan Government of Nashville and Davidson County	9,500
6. HCA	7,800
7. Saturn Corporation	7,220
8. Kroger Company*	5,900
9. Nissan Motor Manufacturing Corporation U.S.A.*	5,800
10. Gaylord Entertainment*	4,954
11. Wal-Mart Stores	4,500
12. Shoney's, Inc.*	4,000
13. Bellsouth Telephone Communications*	3,400
14. Rutherford County Public Schools and County Government*	3,206
15. St. Thomas Hospital/Health Services*	3,000
16. Bridgestone/Firestone USA, Inc.*	3,000
17. Baptist Hospital*	3,000
18. Ingram Industries, Inc.*	3,000
19. Service Merchandise Company*	2,838
20. Sumner County Public Schools and County Government*	2,700
21. Williamson Public Schools and County Government*	2,600
22. United Parcel Service	2,446
23. Cracker Barrel Old Country Store, Inc.*	2,400
24. The Tennessean*	2,200
25. Dell	1,995

\*Indicates Corporate, U.S. Division, or Regional Headquarters.

Source: Nashville Area Chamber of Commerce, *Largest Employers in the Nashville MSA, 2001*

## Unemployment Rates

The following table sets forth the unemployment percentage rates in Nashville, the MSA, the State and the United States for the calendar years 1991-2000.

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Nashville	4.8 %	4.8 %	3.9 %	3.0 %	3.3 %	3.2 %	3.4 %	2.6 %	2.8 %	2.7 %
MSA	5.2	5.0	4.1	3.1	3.4	3.3	3.5	2.7	2.7	2.6
Tennessee	6.7	6.4	5.7	4.8	5.2	5.2	5.4	4.2	4.0	3.7
United States	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.1

Source: Bureau of Labor Statistics

## Investment and Job Creation

In 2000-2001, the Nashville Area Chamber of Commerce announced some 36 business relocations to the Nashville MSA and over 60 expansions in manufacturing, distribution or office operations. Continued expansion has occurred in recent years in information processing operations, the automotive industry, health care management and many areas where the local economy has established strength and growth potential.

Nissan North America-Smyrna began the production of its Maxima model in the Smyrna plant in September 2001, which added approximately 1,000 new employees. Union Planters Bank added 120 new jobs by opening a credit administration center. A \$5 million investment by Inflow, Inc. opened a 17,000 sq/ft data network exchange facility in the new commerce center. Engine Controls Distribution, an automotive parts manufacturer, relocated to Davidson County adding 350 new employees.

## Education

The School System had its beginning in 1963 with the merger of Nashville and Davidson County. The Nashville public schools make up the second largest school system in Tennessee. During the 2000-2001 school year, approximately 78% of students who were residents of Nashville attended public schools. In addition, there were 57 independent schools which were attended by 20,000 students during the 2000-2001 school year.

The School System is administered by the Metropolitan Board of Education, consisting of 9 members. Davidson County voters elect one member from each school district to a four-year term. The terms are staggered so that at least four members are elected every two years. The Board of Education holds regular meetings on the second and fourth Tuesday of each month. These meetings are open to the public.

The current members of the Metropolitan Board of Education, the office held by each and the date their term of office expires are listed below.

The Metropolitan Board of Public Education  
2000-2001

<u>Member</u>	<u>Office</u>	<u>Expiration Date of Term of Office</u>
George Blue	Vice-Chair	2002
Vern Denney	Member	2002
Kathy Nevill	Member	2002
Kathleen Harkey	Member	2002
Patricia Crotwell	Member	2004
Pam Garrett	Member	2004
Edward T. Kindall	Member	2004
Christina Norris	Member	2004
George Thompson, III	Chair	2004

The following tables summarize certain information regarding the School System's building facilities and enrollment and attendance trends.

School System  
Public Education Facilities  
2000-2001

<u>Educational Level</u>	<u>Number of Buildings</u>	<u>2000-2001 School Year Enrollment</u>
Elementary	67 (1)	30,421 (K-4)
Middle	37 (2)	20,764 (5-8)
Senior	16 (3)	16,164 (9-12)
Special Education	3	2,108
Adult Center	1	-
Total	124	69,457

- (1) Includes one magnet school.
- (2) Includes three magnet schools.
- (3) Includes three magnet schools and four alternative schools.

School System  
Public Schools  
Enrollment and Attendance

School Year	Enrollment (1)	Average Attendance
1991-1992 .....	67,580	63,615
1992-1993.....	69,469	64,939
1993-1994.....	71,289	66,248
1994-1995.....	70,481	65,609
1995-1996.....	70,212	66,691
1996-1997.....	71,341	67,702
1997-1998.....	71,000	67,450
1998-1999.....	69,878	63,896
1999-2000.....	69,723	66,118
2000-2001.....	69,457	65,289

(1) Official enrollment as reported to the State Board of Education in October of each school year.

Nashville has 16 colleges and universities, including Vanderbilt University, Belmont University, Tennessee State University, David Lipscomb University, Meharry Medical College, Nashville State Technical Institute and Fisk University. Total higher education enrollment exceeds 30,000 students annually.

Seven of Nashville's institutions of higher education offer graduate programs. Nashville is also a leading center for medical research and education with Vanderbilt University emphasizing medical research in addition to its programs in other disciplines and Meharry Medical College specializing in health care delivery.

Several commercial and vocational schools are located in Nashville. In addition, the Adult Vocational Educational Program operated by the Metropolitan Board of Education and the State Department of Education provides skill training to approximately 1,500 adults annually. An advisory committee for vocational education consisting of business and industrial leaders advises the MBE as to the need for vocational classes and as to changes needed to meet the demand for new skills and knowledge.

## **Manufacturing**

In 2000, an average of 97,367 persons were employed in the manufacturing industries in the MSA, engaging in a wide range of activities and producing a variety of products, including food, tobacco, textiles and furnishings, lumber and paper, printing and publishing, chemical and plastics, leather, concrete, glass, stone, primary metals, machinery and electronics, motor vehicle equipment, measuring and controlling devices, and consumer products.

The Nashville MSA's largest manufacturing employer is Saturn Corporation, with some 7,220 employees, built 30 miles to the south of Nashville, on the edge of the MSA. The second largest, Nissan Motor Manufacturing Corp. U.S.A. has its only U.S. plant located just outside of Nashville.

## **Trade**

Nashville is the major wholesale and retail trade center for the MSA and some 50 counties in the central region of the State, southern Kentucky and northern Alabama, a retail trade area of more than 2.3 million people with retail sales of over \$15 billion. Major regional shopping centers register more than \$3.0 billion in retail sales annually, placing Nashville in the nation's top 50 markets. Outside the Nashville downtown area there are five major shopping centers, four of which are enclosed malls, and 60 smaller shopping complexes. Total retail trade for the Nashville MSA in 2000 was approximately \$13.8 billion.

## **Agriculture**

Nashville is surrounded by farming area. The area of middle Tennessee produces livestock, dairy products, soybeans, small grain, feed lot cattle, strawberries, hay and tobacco. The area surrounding Nashville is the home of the Tennessee Walking Horse.

## **Transportation**

Nashville serves as a conduit or trans-shipment point for much of the traffic between the northeast and southeast United States. Three interstate highways extending in six directions intersect in Nashville in addition to nine Federal highways and four State highways. Barge service on the Cumberland River, together with good rail and air service, give Nashville an excellent four-way transportation network.

The Cumberland River, connecting Nashville and the surrounding area to the Gulf of Mexico and intermediate points on the Ohio and Mississippi Rivers, is used by 51 commercial operators, 18 of which serve Nashville. With the completion of the Tennessee-Tombigbee Waterway in 1985, Cumberland River freight is able to reach the Port of Mobile, thereby eliminating approximately 600 miles of the distance from Nashville to the open sea and contributing to the development of foreign trade in Nashville. In addition, the Federal Government in 1982 approved Nashville as a Foreign Trade Zone, a secured area supervised by the United States Custom Service which provides for the storing of foreign merchandise without duty payments.

The CSX System, a major national railroad, serves Nashville. In addition, five major rail lines link Nashville to all major markets in the nation. Rail carriers interchange freight and cooperate in providing and extending transit privileges covering both dry and cold storage and the processing or conversion of materials.

The Metropolitan Nashville Airport Authority (the "Airport Authority") owns Nashville International and John C. Tune airports. Nashville International Airport (the "Airport") is situated approximately eight miles from downtown Nashville. It is serviced by seventeen scheduled airlines. According to the Authority, in 2000 approximately 9 million passengers used the airport. The Airport presently serves 80 markets with an average of 416 arriving and departing flights per day.

The 820,000 square foot Airport terminal has 46 air carrier gates and up to 52 commuter aircraft parking positions. The Airport has four runways of up to 11,000 feet, including parallels for simultaneous landings and takeoffs.

The Airport Authority also operates the John C. Tune Airport in the Cockrill Bend Industrial area west of Nashville. It serves the needs of regional corporate and private aircraft and allows Nashville International's air carrier traffic to flow with fewer constraints. Tune Airport also provides a pilot training environment and modern facilities for the transient and corporate operator.

The Metropolitan Transit Authority ("MTA") provides a comprehensive public transportation system covering the entire metropolitan area. In addition to regularly scheduled bus routes, MTA provides special transportation services for the handicapped and operates trolley cars in the downtown area for shoppers, tourists and downtown workers.

## **Construction**

Construction in Nashville is illustrated by the following table describing the number and value of building permits issued by the Department of Codes Administration of the Metropolitan Government. Construction has grown through most of the 1990's. In 2000, Metro saw a total dollar volume of permit activity at \$1.32 billion.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 BUILDING PERMIT ACTIVITY  
 Unaudited - See Accompanying Accountants' Report  
 Ten Year Summary

Calendar Year	Residential Construction		Non-Residential Construction		Repairs, Alterations and Installations		Other (1)		Total Permit Value
	Number of Permits	Value	Number of Permits	Value	Number of Permits	Value	Number of Permits	Value	
1991	1,308	\$ 142,051,081	721	\$ 232,895,823	5,739	\$ 213,660,075	1,799	\$ 7,078,700	\$ 595,685,679
1992	1,793	189,520,491	736	367,903,676	6,294	230,637,217	1,795	8,609,585	796,670,969
1993	2,080	229,048,197	690	211,969,848	6,385	284,604,823	1,501	16,570,248	742,193,116
1994	2,038	269,904,628	962	451,157,419	5,979	308,124,028	1,545	9,524,180	1,038,710,255
1995	2,335	427,057,950	987	267,735,281	5,566	304,314,632	1,473	10,103,598	1,009,211,461
1996	2,241	425,145,645	1,091	239,280,249	5,231	315,359,663	1,363	11,902,258	991,687,815
1997	2,240	376,003,886	1,036	492,917,275	5,307	271,749,797	1,504	10,417,506	1,151,088,464
1998	2,487	397,690,382	1,040	498,439,904	5,805	357,775,227	1,466	14,520,549	1,268,426,062
1999	2,686	508,776,654	1,206	697,396,351	4,740	397,754,933	1,455	18,187,549	1,622,115,487
2000	2,421	444,626,418	1,010	386,428,784	4,673	479,932,778	1,272	11,960,044	1,322,948,024

(1) Includes moved residential buildings, house trailers, and the demolition of residential and non-residential buildings and sign and billboard permits.

Of the seven major areas of office development in Nashville, the central business district is by far the largest, with approximately 6 million square feet of leasable space. Office vacancy throughout the city through mid-year 2001 is at 12.21%. The 2525 West End building near downtown Nashville is the most recent large office project.

The Gaylord Entertainment Center, formerly the Nashville Arena, is now in its fifth year of operation as a premier entertainment facility. The Gaylord Entertainment Center hosted 384 ticketed events since its opening and has recorded over \$100 million in gross sales. In their first two seasons in the NHL, the Nashville Predators have averaged over 15,000 tickets sold per game, which includes 37 sellouts.

The Tennessee NFL Stadium, now named the Coliseum, is the home of the 1999 AFC Champion and 2000 AFC Central Division Champion Tennessee Titans and of the 1999 OVC Champion Tennessee State University Tigers. Now in its third year of operation, 100% of Titans season ticket packages are sold, and the Titans have played every game in the new facility in front of a sell-out crowd. The Coliseum seats 68,498 fans.

## **Tourism**

Tourism is a major industry in Nashville. The Convention and Visitors Bureau of the Nashville Area Chamber of Commerce estimates that more than 10.5 million tourists came to Nashville in 2000 and they spent \$2.7 billion. Music, history, art, and generous hospitality attract convention delegates and leisure visitors.

The new Country Music Hall of Fame opened in downtown Nashville in May, 2001. The \$37 million facility is a striking architectural statement featuring music related icons both outside and inside the building. From a distance, the front façade of the building looks like a piano keyboard. The shape of the building is that of the musical notation for a bass clef. The conservatory entrance is available for after-hour events and spaces of varying sizes offer attractive event spaces. The new Hall of Fame features live entertainment daily with musical instruments demonstrations, songwriting sessions, performances each day at lunch and a live TV show each weekday afternoon.

Nashville's leadership convinced Fan Fair to relocate to downtown for their 2001 event. The Country Music Association coordinates performances by more than 100 entertainers and groups. There were major concerts at the Coliseum, smaller performances at Riverfront Park and the Bicentennial Mall and autograph sessions at the Nashville Convention Center. Attendance had been flat or declining for a number of years but the changes and new marketing efforts resulted in the highest attendance ever, totaling 124,000 aggregate attendance.

The Frist Center for the Visual Arts opened in June, 2001 in the old Post Office building in downtown Nashville. A public/private partnership between Metropolitan Government, the Frist Foundation and the Dr. Thomas Frist Jr. family, renovated the Art/Deco building as a world-class exhibition hall for visiting art exhibits. An auditorium for 250 and large entrance hall is ideal for groups and after-hours functions. The Frist Center does not intend to build a permanent art collection but will place special emphasis on education, arts-related programs for the school children of Nashville and community outreach. The Center has given Nashville the ability to host significant art shows that have not exhibited here in the past.

Opry Mills is 1.1 million square foot megamall which opened in May 2000. The mall contains 200 stores, theme restaurants, a multi-theater complex, an IMAX theater and Gibson Guitars Bluegrass instrument factory under glass. During the first year of operation, the mall counted 14 million visits.

The downtown entertainment district features the Hard Rock Café, the Wild Horse Saloon, a concert hall, restaurant, dance hall and TV production facility. The Ryman Auditorium, a former home of the Grand Ole Opry, is known for outstanding acoustics. The Ryman has become a venue of choice by entertainers visiting Nashville. The proximity of the Gaylord Entertainment Center and the Coliseum to the entertainment district assures good crowds on event days.

The Tennessee State Museum, the Cheekwood Botanical Gardens and Fine Arts Center, The Tennessee Performing Arts Center, the Cumberland Museum and Science Center and the Parthenon supplement educational and cultural opportunities in the City. The Tennessee Performing Arts Center, a State facility in Downtown Nashville, contains a 2,442 seat concert hall, a 1,054 seat legitimate theater and a 300 seat flexible theater.

The Cumberland Science Museum and the Nashville Zoo provide opportunities for Nashville's adults and children to learn how science and wildlife affect their lives. The Cumberland Science Museum is undergoing an expansion of the building and their mission. It features exhibits and programs which focus on geology, zoology, ecology, physics and other sciences. The Nashville Zoo is in the third year of a multi-year, multi-million dollar expansion program. The Zoo property is built around the historic Grassmere Home and features an ever-expanding display of reptiles, amphibians and birds from throughout the world.

Nashville has 175 hotels and motels that feature more than 32, 000 rooms. The Gaylord Opryland Resort and Convention Center is one of the largest hotel/convention centers under one roof in the United States. The complex features 2, 884 hotel rooms, 300,000 square feet of exhibit space and 300,000 square feet of meeting space. In 2001, the Marriott at Vanderbilt opened 307 rooms.

Below is a history of hotel/motel rooms and percentage of occupancy from 1991 through 2000:

<u>Calendar Year</u>	<u>Rooms Available</u>	<u>Occupancy Rate</u>
1991	18,485	69.2 %
1992	20,400	72.2
1993	20,300	74.0
1994	20,300	74.3
1995	22,000	73.5
1996	24,121	72.0
1997	24,375	66.8
1998	26,500	62.7
1999	30,889	61.4
2000	31,642	60.5

Source: Nashville Conventions and Visitors Bureau

### **Medical and Cultural Facilities**

Nashville is one of the nation's leaders in the health care field. HCA Healthcare has its headquarters and operates several hospitals here. Baptist Hospital, Vanderbilt University Medical Center, and St. Thomas Hospital are the city's other primary hospitals.

Metro has relocated the city owned hospital, Metro Nashville General Hospital, to Hubbard Hospital of Meharry Medical College in 1998. In addition, Meharry provides medical staff to Metro Nashville General Hospital. The arrangement provides the city with a renovated facility staffed with residents from Meharry Medical College.

In the spring of 2001, a new, larger downtown public library building, estimated at over 280,000 square feet was completed. During 2000, one branch library underwent major renovations; three branches were replaced with newer, larger buildings; and two additional branches were constructed. Each new branch has a size of 20,000 to 25,000 square feet. With the downtown public library, its 20 community branches (after renovations and new constructions), the Vanderbilt University Library and the libraries of other schools, Nashville offers a wide range of books and other materials for instruction, research and innovation.

The Frist Center for the Visual Arts opened in the spring of 2001 in Nashville's historic downtown post office building. A public-private partnership between Metropolitan Government, The Frist Foundation and the Dr. Thomas F. Frist, Jr. family, the Center contains more than 24,000 square feet of gallery space capable of showcasing major national and international visual arts exhibitions. The Frist Center does not intend to build a permanent art collection but will instead place special emphasis on education, arts-related programs for the school children of Nashville, and community outreach. The Center will give Nashville the ability to host significant art shows that have not exhibited here in the past.

### **MISCELLANEOUS**

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents, and reference is made to all such documents for full and complete statements of all matters of fact relating to the Bonds, the security for the payment of the Bonds and the rights of the holders thereof.

The information contained in this Yearly Information Statement has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of this date.

Any statements made in this Yearly Information Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representation of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Yearly Information Statement nor any sale of securities made using this Yearly Information Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Metropolitan Government since the date hereof.

THE METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY

/s/Bill Purcell  
Metropolitan County Mayor

/s/David Manning  
Director of Finance

**AUDITED FINANCIAL STATEMENTS OF THE METROPOLITAN GOVERNMENT**



1900 Nashville City Center  
511 Union Street  
Nashville, TN 37219-1735

## Independent Auditors' Report

The Honorable Mayor and Members of Council  
The Metropolitan Government of Nashville  
and Davidson County, Tennessee:

We have audited the general purpose financial statements of The Metropolitan Government of Nashville and Davidson County, Tennessee (the "Government") as of and for the year ended June 30, 2001. These financial statements are the responsibility of the management of the Government. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the following Component Units and Special Revenue Funds: the Nashville District Management Corporation, the Metropolitan Development and Housing Agency, the Electric Power Board, the Metropolitan Transit Authority, the Nashville Thermal Transfer Corporation, the Metropolitan Nashville Airport Authority, the Emergency Communications District, the Industrial Development Board, and the School Activity Fund, which reflect 74% of the total assets and 92% of the total revenues of the Component Units of the Government and 2% of the total assets and 2% of the total revenues of the Special Revenue Funds of the Government. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Government of Nashville and Davidson County, Tennessee as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types, nonexpendable trust funds, and proprietary type discretely presented component units for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The schedule of funding progress, schedule of employer contributions, and the combining statements of plan net assets and changes in plan net assets on pages A-66 through A-69, A-70, and A-90 through A-93 are not a required part of the general purpose financial statements, but are supplementary information required by the Governmental Accounting Standards Board, and we did not audit and do not express an opinion on such information. We have applied to the schedules of funding progress and employer contributions certain limited procedures prescribed by professional standards, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the schedules. The information in the combining statements of plan net assets and changes in plan net assets have been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, are fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2001 on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

October 31, 2001



KPMG LLP, KPMG LLP a U.S. limited liability partnership, is a member of KPMG International, a Swiss association.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINED BALANCE SHEET  
ALL FUNDS, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2001

	GOVERNMENTAL FUNDS				PROPRIETARY FUNDS	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>ASSETS</b>						
Cash and cash equivalents	\$ 43,689,003	\$ 55,952,394	\$ 80,085,867	\$ 56,929,118	\$ 14,146,979	\$ 22,732,838
Investments	29,786,793	41,478,102	65,107,443	170,270,110	11,580,130	19,012,634
Annuities	-	-	-	-	-	-
Sales tax receivable	12,707,485	24,189,249	1,785,925	-	-	-
Accounts receivable	56,124,283	16,447,531	1,088,643	425,781	18,096,271	411,176
Allowance for doubtful accounts	-	-	-	-	(451,502)	-
Accrued interest receivable	274,832	276,708	474,151	1,347,835	1,132,897	142,555
Property taxes receivable	333,708,397	170,319,484	96,989,474	-	-	-
Due from other funds of the primary government	3,725,768	15,916,318	14,412,921	801,339	144,737	2,915,326
Due from the primary government	-	-	-	-	-	-
Due from component units	3,348,204	20,504	-	187,921	108,502	54,516
Inventories of supplies	153,239	2,520,660	-	-	2,460,709	279,253
Other assets	667,188	379,049	-	262,014	-	-
Other current assets	-	-	-	-	46,001	3,264,969
Restricted assets:						
Cash and cash equivalents	-	-	-	-	103,534,533	-
Investments	-	-	-	-	216,350,342	-
Accrued interest receivable	-	-	-	-	1,010,146	-
Due from other governmental agencies	-	-	-	-	4,487,723	-
Due from other funds of the primary government	-	-	-	-	560,184	-
Other restricted assets	-	-	-	-	129,089	-
Notes receivable	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	1,681,620,950	38,865,296
Accumulated depreciation	-	-	-	-	(419,376,082)	(17,352,088)
Other non-current assets	-	-	-	-	9,452,400	-
Other debits:						
Amount available in debt service funds	-	-	-	-	-	-
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 484,185,192</b>	<b>\$ 327,499,999</b>	<b>\$ 259,944,424</b>	<b>\$ 230,224,118</b>	<b>\$ 1,645,034,009</b>	<b>\$ 70,326,475</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>						
<b>LIABILITIES:</b>						
Accounts payable	\$ 9,641,428	\$ 9,334,775	\$ 66,826	\$ 7,965,399	\$ 4,269,712	\$ 1,491,163
Accrued payroll	14,975,524	4,658,774	-	-	4,001,313	968,290
Claims payable	-	-	-	-	-	16,862,521
Due to other funds of the primary government	12,891,905	9,172,327	4,927	14,236,552	434,740	1,180,915
Due to component units	146,972	145,051	-	-	65,902	61,845
Due to the primary government	-	-	-	-	-	-
Customer deposits	-	-	-	-	2,894,270	-
Deferred revenue	341,975,473	175,786,888	96,989,474	-	-	-
Funds held in trust	-	-	-	-	-	-
Current portion of long-term debt	-	-	-	-	-	-
Current portion of capital lease	-	-	-	-	125,000	-
Other liabilities	4,503,236	11,227,714	1,063,659	7,386	-	-
Other current liabilities	-	-	-	-	1,797,008	588,201

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINED BALANCE SHEET  
ALL FUNDS, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

June 30, 2001

FIDUCIARY FUNDS Trust and Agency	ACCOUNT GROUPS		Total Primary Government (Memorandum Only)	COMPONENT UNITS		Total Reporting Entity (Memorandum Only)
	General Fixed Assets	General Long-term Debt		Governmental	Proprietary	
\$ 111,766,117	\$ -	\$ -	\$ 385,302,316	\$ 26,878,449	\$ 68,012,388	\$ 480,193,153
1,529,300,036	-	-	1,866,535,248	17,373,585	57,813,670	1,941,722,503
1,042,766	-	-	1,042,766	-	-	1,042,766
-	-	-	38,682,659	-	-	38,682,659
1,672,228	-	-	94,265,913	679,099	125,959,638	220,904,650
-	-	-	(451,502)	-	(18,989,113)	(19,440,615)
6,438,486	-	-	10,087,464	126,692	2,548,327	12,762,483
-	-	-	601,017,355	-	-	601,017,355
1,405,682	-	-	39,322,091	-	-	39,322,091
-	-	-	-	61,845	358,274	420,119
25,643	-	-	3,745,290	-	27,685	3,772,975
-	-	-	5,413,861	-	19,917,761	25,331,622
-	-	-	1,308,251	13,083	-	1,321,334
18,103	-	-	3,329,073	-	4,690,211	8,019,284
-	-	-	103,534,533	-	120,016,657	223,551,190
-	-	-	216,350,342	-	189,548,558	405,898,900
-	-	-	1,010,146	-	1,547,126	2,557,272
-	-	-	4,487,723	-	-	4,487,723
-	-	-	560,184	-	-	560,184
-	-	-	129,089	-	2,227,315	2,356,404
-	-	-	-	-	23,476,032	23,476,032
204,414	1,015,034,603	-	2,735,725,263	418,969,497	1,957,588,417	5,112,283,177
(66,414)	-	-	(436,794,584)	-	(726,205,984)	(1,163,000,568)
-	-	-	9,452,400	-	58,298,486	67,750,886
-	-	161,819,538	161,819,538	4,912,860	-	166,732,398
-	-	1,156,882,213	1,156,882,213	88,837,140	-	1,245,719,353
\$ 1,651,807,061	\$ 1,015,034,603	\$ 1,318,701,751	\$ 7,002,757,632	\$ 557,852,250	\$ 1,886,835,448	\$ 9,447,445,330
\$ 86,668,192	\$ -	\$ -	\$ 119,437,495	\$ 20,146,566	\$ 116,193,729	\$ 255,777,790
-	-	-	24,603,901	-	9,160,312	33,764,213
-	-	-	16,862,521	-	-	16,862,521
1,960,909	-	-	39,882,275	-	-	39,882,275
349	-	-	420,119	-	27,685	447,804
-	-	-	-	1,162,322	2,274,543	3,436,865
-	-	-	2,894,270	-	6,396,282	9,290,552
-	-	-	614,751,835	-	-	614,751,835
27,936,528	-	-	27,936,528	-	-	27,936,528
-	-	-	-	-	20,305,332	20,305,332
-	-	-	125,000	-	913,420	1,038,420
5,877,168	-	-	22,679,163	26,408	-	22,705,571
-	-	-	2,385,209	-	22,544,344	24,929,553

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINED BALANCE SHEET  
ALL FUNDS, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

June 30, 2001

	GOVERNMENTAL FUNDS				PROPRIETARY FUNDS	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>LIABILITIES, EQUITY AND OTHER CREDITS (CONTINUED)</b>						
LIABILITIES: (CONTINUED)						
Liabilities payable from restricted assets:						
Accrued interest	\$ -	\$ -	\$ -	\$ -	\$ 15,142,460	\$ -
Accounts payable	-	-	-	-	6,970,009	-
Other liabilities	-	-	-	-	58,102	-
Funds held in trust	-	-	-	-	-	-
Current portion of long-term debt	-	-	-	-	20,624,125	-
Revenue bonds payable	-	-	-	-	515,802,108	-
Capitalized lease obligations	-	-	-	-	2,340,000	-
TVA advances	-	-	-	-	-	-
Other long-term liabilities	-	-	-	-	58,909,285	-
General obligation bonds and other liabilities payable	-	-	-	-	-	-
<b>Total liabilities</b>	<b>384,134,538</b>	<b>210,325,529</b>	<b>98,124,886</b>	<b>22,209,337</b>	<b>633,434,034</b>	<b>21,152,935</b>
<b>EQUITY AND OTHER CREDITS:</b>						
Contributed capital	-	-	-	-	560,452,757	13,557,395
Investment in general fixed assets	-	-	-	-	-	-
Retained earnings:						
Reserved for trust purposes	-	-	-	-	-	-
Reserved for debt retirement	-	-	-	-	52,955,237	-
Reserved for construction	-	-	-	-	229,921,372	-
Reserved for self-insurance	-	-	-	-	-	-
Unreserved	-	-	-	-	168,270,609	35,616,145
Fund balance:						
Reserved for encumbrances	-	7,793,385	-	22,045,166	-	-
Reserved for imprest cash and inventories	977,074	2,881,485	-	200	-	-
Reserved for arbitrage rebate	-	-	3,080,613	-	-	-
Reserved for subsequent year budgetary appropriations	8,595,723	-	27,739,646	-	-	-
Reserved for subsequent year budgetary appropriations - encumbered	1,537,082	-	-	-	-	-
Reserved for equipment acquisitions	-	13,235,176	-	-	-	-
Reserved for debt service	-	-	130,999,279	-	-	-
Reserved for employees' pension benefits	-	-	-	-	-	-
Reserved for trust purposes	-	-	-	-	-	-
Unreserved:						
Designated for specific purposes	3,748,079	12,388,195	-	-	-	-
Designated for specific capital projects	-	-	-	187,670,568	-	-
Designated for trust purposes	-	-	-	-	-	-
Designated for recycling	-	1,443,334	-	-	-	-
Undesignated	85,192,696	79,432,895	-	(1,701,153)	-	-
<b>Total equity and other credits</b>	<b>100,050,654</b>	<b>117,174,470</b>	<b>161,819,538</b>	<b>208,014,781</b>	<b>1,011,599,975</b>	<b>49,173,540</b>
<b>Total liabilities, equity and other credits</b>	<b>\$ 484,185,192</b>	<b>\$ 327,499,999</b>	<b>\$ 259,944,424</b>	<b>\$ 230,224,118</b>	<b>\$ 1,645,034,009</b>	<b>\$ 70,326,475</b>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINED BALANCE SHEET  
ALL FUNDS, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

June 30, 2001

FIDUCIARY FUNDS Trust and Agency	ACCOUNT GROUPS		Total Primary Government (Memorandum Only)	COMPONENT UNITS		Total Reporting Entity (Memorandum Only)
	General Fixed Assets	General Long-term Debt		Governmental	Proprietary	
\$ -	\$ -	\$ -	\$ 15,142,460	\$ -	\$ 12,835,124	\$ 27,977,584
-	-	-	6,970,009	-	-	6,970,009
-	-	-	58,102	-	-	58,102
-	-	-	-	-	268,356	268,356
-	-	-	20,624,125	-	20,936,375	41,560,500
-	-	-	515,802,108	93,750,000	841,630,565	1,451,182,673
-	-	-	2,340,000	-	44,244,334	46,584,334
-	-	-	-	-	4,206,559	4,206,559
-	-	-	58,909,285	-	76,241,670	135,150,955
-	-	1,318,701,751	1,318,701,751	-	-	1,318,701,751
122,443,146	-	1,318,701,751	2,810,526,156	115,085,296	1,178,178,630	4,103,790,082
-	-	-	574,010,152	-	378,927,685	952,937,837
-	1,015,034,603	-	1,015,034,603	418,969,497	-	1,434,004,100
-	-	-	-	-	2,772,385	2,772,385
-	-	-	52,955,237	-	38,572,270	91,527,507
-	-	-	229,921,372	-	93,320,456	323,241,828
-	-	-	-	-	1,000,000	1,000,000
-	-	-	203,886,754	-	194,064,022	397,950,776
2,750	-	-	29,841,301	-	-	29,841,301
-	-	-	3,858,759	-	-	3,858,759
-	-	-	3,080,613	-	-	3,080,613
-	-	-	36,335,369	-	-	36,335,369
-	-	-	1,537,082	-	-	1,537,082
-	-	-	13,235,176	-	-	13,235,176
-	-	-	130,999,279	4,912,861	-	135,912,140
1,526,950,150	-	-	1,526,950,150	-	-	1,526,950,150
1,149,190	-	-	1,149,190	-	-	1,149,190
-	-	-	16,136,274	-	-	16,136,274
-	-	-	187,670,568	7,051,069	-	194,721,637
1,261,825	-	-	1,261,825	-	-	1,261,825
-	-	-	1,443,334	-	-	1,443,334
-	-	-	162,924,438	11,833,527	-	174,757,965
1,529,363,915	1,015,034,603	-	4,192,231,476	442,766,954	708,656,818	5,343,655,248
\$ 1,651,807,061	\$ 1,015,034,603	\$ 1,318,701,751	\$ 7,002,757,632	\$ 557,852,250	\$ 1,886,835,448	\$ 9,447,445,330

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUNDS, EXPENDABLE TRUST FUNDS AND  
DISCRETELY PRESENTED GOVERNMENTAL TYPE COMPONENT UNITS

For the Year Ended June 30, 2001

	GOVERNMENTAL FUNDS			
	General	Special Revenue	Debt Service	Capital Projects
<b>REVENUES:</b>				
Property taxes	\$ 266,534,541	\$ 111,206,690	\$ 93,121,235	\$ -
Local option sales tax	78,323,804	141,948,976	16,930,017	-
Other taxes, licenses and permits	78,457,620	19,239,743	-	-
Fines, forfeits and penalties	9,886,470	2,859,655	-	-
Revenues from the use of money or property	2,634,827	5,113,227	5,892,842	7,475,587
Revenues from other governmental agencies	93,730,534	214,255,669	3,878,324	2,893,650
Commissions and fees	13,516,675	-	897,489	-
Charges for current services	19,681,031	27,514,419	-	-
Compensation for loss, sale or damage to property	1,313,367	1,507,523	1,500,050	94,502
Contributions and gifts	844,515	8,605,279	-	-
Employee contributions	-	-	-	-
Miscellaneous	774,285	79,984	-	158,663
<b>Total revenues</b>	<b>565,697,669</b>	<b>532,331,165</b>	<b>122,219,957</b>	<b>10,622,402</b>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
General government	23,780,866	-	-	-
Fiscal administration	17,128,581	-	-	-
Administration of justice	39,377,240	-	-	-
Law enforcement and care of prisoners	140,935,478	-	-	-
Fire prevention and control	67,145,761	-	-	-
Regulation and inspection	5,890,959	-	-	-
Conservation of natural resources	354,787	-	-	-
Public welfare	12,758,996	-	-	-
Public health	28,794,563	-	-	-
Public library system	11,815,438	-	-	-
Public works, highways and streets	30,886,707	-	-	-
Recreational and cultural	27,826,667	-	-	-
Employee benefits	44,796,706	-	-	-
Miscellaneous	12,533,657	-	-	-
<b>Schools:</b>				
Administration	-	9,713,025	-	-
Instruction	-	339,942,525	-	-
Attendance service	-	2,460,845	-	-
Pupil transportation	-	19,827,681	-	-
Plant operations	-	40,097,147	-	-
Plant maintenance	-	11,123,039	-	-
Fixed charges	-	7,713,085	-	-
Community services	-	3,334,699	-	-
Services and supplies	-	24,471,645	-	-
Capital outlay	-	3,145,621	-	-

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUNDS, EXPENDABLE TRUST FUNDS AND  
DISCRETELY PRESENTED GOVERNMENTAL TYPE COMPONENT UNITS (CONTINUED)

For the Year Ended June 30, 2001

FIDUCIARY FUNDS Expendable Trust	Total Primary Government (Memorandum Only)	Governmental Type Component Units	Total Reporting Entity (Memorandum Only)
\$ -	\$ 470,862,466	\$ 4,000,000	\$ 474,862,466
-	237,202,797	50,532	237,253,329
-	97,697,363	2,236,084	99,933,447
-	12,746,125	400	12,746,525
5,762	21,122,245	2,356,775	23,479,020
-	314,758,177	-	314,758,177
-	14,414,164	-	14,414,164
-	47,195,450	2,296,950	49,492,400
-	4,415,442	493,941	4,909,383
2,121	9,451,915	-	9,451,915
207,022	207,022	-	207,022
951,407	1,964,339	-	1,964,339
1,166,312	1,232,037,505	11,434,682	1,243,472,187
-	23,780,866	-	23,780,866
-	17,128,581	-	17,128,581
-	39,377,240	-	39,377,240
-	140,935,478	-	140,935,478
-	67,145,761	-	67,145,761
-	5,890,959	-	5,890,959
-	354,787	-	354,787
-	12,758,996	-	12,758,996
-	28,794,563	-	28,794,563
-	11,815,438	-	11,815,438
-	30,886,707	-	30,886,707
-	27,826,667	-	27,826,667
-	44,796,706	-	44,796,706
-	12,533,657	-	12,533,657
-	9,713,025	-	9,713,025
-	339,942,525	-	339,942,525
-	2,460,845	-	2,460,845
-	19,827,681	-	19,827,681
-	40,097,147	-	40,097,147
-	11,123,039	-	11,123,039
-	7,713,085	-	7,713,085
-	3,334,699	-	3,334,699
-	24,471,645	-	24,471,645
-	3,145,621	-	3,145,621

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUNDS, EXPENDABLE TRUST FUNDS AND  
DISCRETELY PRESENTED GOVERNMENTAL TYPE COMPONENT UNITS (CONTINUED)

For the Year Ended June 30, 2001

	GOVERNMENTAL FUNDS			
	General	Special Revenue	Debt Service	Capital Projects
<b>EXPENDITURES: (CONTINUED)</b>				
Other funds:				
Personal services	\$ -	\$ 21,451,687	\$ -	\$ -
Contractual services	-	37,117,519	-	-
Supplies and materials	-	12,230,354	-	-
Other costs	-	2,729,048	-	19,975,722
Administrative services	-	-	-	-
Educational programs	-	544,731	-	-
Capital outlay	-	6,202,663	-	128,939,335
Debt service:				
Principal retirement	-	-	56,825,000	-
Interest	-	-	49,834,336	-
Fiscal charges	-	-	457,179	-
Total expenditures	<u>464,026,406</u>	<u>542,105,314</u>	<u>107,116,515</u>	<u>148,915,057</u>
Excess (deficiency) of revenues over expenditures	<u>101,671,263</u>	<u>(9,774,149)</u>	<u>15,103,442</u>	<u>(138,292,655)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from refunding bonds	-	-	73,745,000	-
Proceeds from the issuance of bonds	-	-	-	262,155,000
Payments to refunded bond escrow agent	-	-	(77,885,410)	-
Bond issue premium (discount)	-	-	4,620,921	15,158,085
Operating transfers in	7,517,128	45,110,728	17,020,103	3,291,564
Operating transfers out	(47,882,027)	(15,753,623)	(2,320,000)	(6,944,180)
Operating transfers from component units	501,200	439,796	2,800,000	-
Operating transfers to component units	(51,098,967)	(12,806,383)	(1,247,645)	(3,307,966)
Operating transfers from the primary government	-	-	-	-
Total other financing sources (uses)	<u>(90,962,666)</u>	<u>16,990,518</u>	<u>16,732,969</u>	<u>270,352,503</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	<u>10,708,597</u>	<u>7,216,369</u>	<u>31,836,411</u>	<u>132,059,848</u>
FUND BALANCE, beginning of year, restated	88,195,572	109,968,273	125,469,631	80,468,429
EQUITY TRANSFER IN	10,172	1,225,391	4,513,496	61,690,984
EQUITY TRANSFER FROM COMPONENT UNITS	1,136,313	-	-	-
EQUITY TRANSFER OUT	-	(1,235,563)	-	(66,204,480)
EQUITY TRANSFER TO THE PRIMARY GOVERNMENT	-	-	-	-
FUND BALANCE, end of year	<u>\$ 100,050,654</u>	<u>\$ 117,174,470</u>	<u>\$ 161,819,538</u>	<u>\$ 208,014,781</u>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUNDS, EXPENDABLE TRUST FUNDS AND  
 DISCRETELY PRESENTED GOVERNMENTAL TYPE COMPONENT UNITS (CONTINUED)

For the Year Ended June 30, 2001

FIDUCIARY FUNDS Expendable Trust	Total Primary Government (Memorandum Only)	Governmental Type Component Units	Total Reporting Entity (Memorandum Only)
\$ -	\$ 21,451,687	\$ 85,388	\$ 21,537,075
190,040	37,307,559	5,199,803	42,507,362
-	12,230,354	4,064	12,234,418
-	22,704,770	20,023,683	42,728,453
22,175	22,175	-	22,175
-	544,731	-	544,731
-	135,141,998	168,178	135,310,176
-	56,825,000	1,885,000	58,710,000
-	49,834,336	5,505,084	55,339,420
-	457,179	-	457,179
<u>212,215</u>	<u>1,262,375,507</u>	<u>32,871,200</u>	<u>1,295,246,707</u>
<u>954,097</u>	<u>(30,338,002)</u>	<u>(21,436,518)</u>	<u>(51,774,520)</u>
-	73,745,000	-	73,745,000
-	262,155,000	-	262,155,000
-	(77,885,410)	-	(77,885,410)
-	19,779,006	-	19,779,006
-	72,939,523	-	72,939,523
(229,931)	(73,129,761)	-	(73,129,761)
-	3,740,996	-	3,740,996
-	(68,460,961)	-	(68,460,961)
-	-	5,643,604	5,643,604
<u>(229,931)</u>	<u>212,883,393</u>	<u>5,643,604</u>	<u>218,526,997</u>
724,166	182,545,391	(15,792,914)	166,752,477
79,639	404,181,544	40,726,684	444,908,228
-	67,440,043	-	67,440,043
-	1,136,313	-	1,136,313
-	(67,440,043)	-	(67,440,043)
-	-	(1,136,313)	(1,136,313)
<u>\$ 803,805</u>	<u>\$ 587,863,248</u>	<u>\$ 23,797,457</u>	<u>\$ 611,660,705</u>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND, GENERAL PURPOSE SCHOOL FUND AND DEBT SERVICE FUNDS  
(NON-GAAP FOR GENERAL PURPOSE SCHOOL FUND)

For the Year Ended June 30, 2001

	GENERAL FUND			SPECIAL REVENUE FUNDS General Purpose School Fund		
	Budget	Actual	Over	Budget	Actual	Over
			(Under)			(Under)
			Budget			Budget
<b>REVENUES:</b>						
Property taxes	\$ 258,801,955	\$ 266,534,541	\$ 7,732,586	\$ 107,681,663	\$ 110,672,428	\$ 2,990,765
Local option sales tax	82,397,772	78,323,804	(4,073,968)	149,346,841	141,948,976	(7,397,865)
Other taxes, licenses and permits	72,849,086	78,457,620	5,608,534	2,552,575	2,895,255	342,680
Fines, forfeits and penalties	11,395,484	9,886,470	(1,509,014)	7,000	9,268	2,268
Revenues from the use of money or property	2,635,623	2,634,827	(796)	1,400,000	1,119,380	(280,620)
Revenues from other governmental agencies	96,392,308	93,730,534	(2,661,774)	140,714,120	139,362,129	(1,351,991)
Commissions and fees	7,805,376	13,516,675	5,711,299	-	-	-
Charges for current services	19,844,670	19,681,031	(163,639)	2,699,500	1,678,963	(1,020,537)
Compensation for loss, sale or damage to property	1,626,606	1,313,367	(313,239)	365,000	465,826	100,826
Contributions and gifts	501,337	844,515	343,178	1,556,054	1,365,339	(190,715)
Miscellaneous	503,400	774,285	270,885	-	12,621	12,621
<b>Total revenues</b>	<b>554,753,617</b>	<b>565,697,669</b>	<b>10,944,052</b>	<b>406,322,753</b>	<b>399,530,185</b>	<b>(6,792,568)</b>
<b>EXPENDITURES AND ENCUMBRANCES</b>						
<b>Current:</b>						
General government	23,623,962	23,780,866	156,904	-	-	-
Fiscal administration	17,771,635	17,128,581	(643,054)	-	-	-
Administration of justice	37,463,703	39,377,240	1,913,537	-	-	-
Law enforcement and care of prisoners	142,365,267	140,935,478	(1,429,789)	-	-	-
Fire prevention and control	68,498,439	67,145,761	(1,352,678)	-	-	-
Regulation and inspection	6,158,582	5,890,959	(267,623)	-	-	-
Conservation of natural resources	387,945	354,787	(33,158)	-	-	-
Public welfare	13,587,956	12,758,996	(828,960)	-	-	-
Public health	31,898,375	28,794,563	(3,103,812)	-	-	-
Public library system	13,841,929	11,815,438	(2,026,491)	-	-	-
Public works, highways and streets	32,431,614	30,886,707	(1,544,907)	-	-	-
Recreational and cultural	28,283,900	27,826,667	(457,233)	-	-	-
Employee benefits	46,458,550	44,796,706	(1,661,844)	-	-	-
Miscellaneous	15,859,466	12,533,657	(3,325,809)	-	-	-
<b>Schools:</b>						
Administration	-	-	-	4,749,530	4,651,078	(98,452)
Instruction	-	-	-	315,155,046	309,052,915	(6,102,131)
Attendance service	-	-	-	2,122,674	2,100,918	(21,756)
Pupil transportation	-	-	-	20,060,757	19,994,134	(66,623)
Plant operations	-	-	-	40,158,480	39,590,044	(568,436)
Plant maintenance	-	-	-	11,237,366	11,146,970	(90,396)
Fixed charges	-	-	-	7,823,848	7,715,223	(108,625)
Community services	-	-	-	1,425,062	1,350,732	(74,330)
Capital outlay	-	-	-	1,437,436	1,367,204	(70,232)

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND, GENERAL PURPOSE SCHOOL FUND AND DEBT SERVICE FUNDS  
 (NON-GAAP FOR GENERAL PURPOSE SCHOOL FUND)  
 (CONTINUED)

For the Year Ended June 30, 2001

DEBT SERVICE FUNDS General Purposes and School Purposes			TOTAL (MEMORANDUM ONLY)		
Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
\$ 91,400,766	\$ 93,121,235	\$ 1,720,469	\$ 457,884,384	\$ 470,328,204	\$ 12,443,820
14,512,640	16,930,017	2,417,377	246,257,253	237,202,797	(9,054,456)
-	-	-	75,401,661	81,352,875	5,951,214
-	-	-	11,402,484	9,895,738	(1,506,746)
5,100,000	5,766,655	666,655	9,135,623	147,763,611	138,627,988
1,979,898	1,705,580	(274,318)	239,086,326	95,901,940	(143,184,386)
-	897,489	897,489	10,504,876	15,779,503	5,274,627
-	-	-	19,844,670	19,693,652	(151,018)
-	1,500,050	1,500,050	3,182,660	2,813,417	(369,243)
-	-	-	501,337	844,515	343,178
-	-	-	503,400	774,285	270,885
<u>112,993,304</u>	<u>119,921,026</u>	<u>6,927,722</u>	<u>1,073,704,674</u>	<u>1,082,350,537</u>	<u>8,645,863</u>
-	-	-	23,623,962	23,780,866	156,904
-	-	-	17,771,635	17,128,581	(643,054)
-	-	-	37,463,703	39,377,240	1,913,537
-	-	-	142,365,267	140,935,478	(1,429,789)
-	-	-	68,498,439	67,145,761	(1,352,678)
-	-	-	6,158,582	5,890,959	(267,623)
-	-	-	387,945	354,787	(33,158)
-	-	-	13,587,956	12,758,996	(828,960)
-	-	-	31,898,375	28,794,563	(3,103,812)
-	-	-	13,841,929	11,815,438	(2,026,491)
-	-	-	32,431,614	30,886,707	(1,544,907)
-	-	-	28,283,900	27,826,667	(457,233)
-	-	-	46,458,550	44,796,706	(1,661,844)
-	-	-	15,859,466	12,533,657	(3,325,809)
-	-	-	4,749,530	4,651,078	(98,452)
-	-	-	315,155,046	309,052,915	(6,102,131)
-	-	-	2,122,674	2,100,918	(21,756)
-	-	-	20,060,757	19,994,134	(66,623)
-	-	-	40,158,480	39,590,044	(568,436)
-	-	-	11,237,366	11,146,970	(90,396)
-	-	-	7,823,848	7,715,223	(108,625)
-	-	-	1,425,062	1,350,732	(74,330)
-	-	-	1,437,436	1,367,204	(70,232)

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND, GENERAL PURPOSE SCHOOL FUND AND DEBT SERVICE FUNDS  
 (NON-GAAP FOR GENERAL PURPOSE SCHOOL FUND)  
 (CONTINUED)

For the Year Ended June 30, 2001

	GENERAL FUND			SPECIAL REVENUE FUNDS General Purpose School Fund		
	Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
	EXPENDITURES AND ENCUMBRANCES: (CONTINUED)					
Debt Service:						
Principal retirement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-	-	-
Fiscal charges	-	-	-	-	-	-
Total expenditures and encumbrances	<u>478,631,323</u>	<u>464,026,406</u>	<u>(14,604,917)</u>	<u>404,170,199</u>	<u>396,969,218</u>	<u>(7,200,981)</u>
Excess (deficiency) of revenues over expenditures and encumbrances	<u>76,122,294</u>	<u>101,671,263</u>	<u>25,548,969</u>	<u>2,152,554</u>	<u>2,560,967</u>	<u>408,413</u>
OTHER FINANCING SOURCES (USES)						
Proceeds of refunding bonds	-	-	-	-	-	-
Payments to refunded bond escrow agent	-	-	-	-	-	-
Bond issue premium (discount)	-	-	-	-	-	-
Operating transfers in	8,031,381	7,517,128	(514,253)	949,970	859,402	(90,568)
Operating transfers out	(47,423,828)	(47,882,027)	(458,199)	(2,021,516)	(2,021,516)	-
Operating transfers from component units	258,744	501,200	242,456	-	-	-
Operating transfers to component units	<u>(51,413,132)</u>	<u>(51,098,967)</u>	<u>314,165</u>	<u>(1,434,749)</u>	<u>(1,434,749)</u>	<u>-</u>
Total other financing sources (uses)	<u>(90,546,835)</u>	<u>(90,962,666)</u>	<u>(415,831)</u>	<u>(2,506,295)</u>	<u>(2,596,863)</u>	<u>(90,568)</u>
Excess (deficiency) of revenues and other sources over expenditures, encumbrances and other uses	<u>(14,424,541)</u>	<u>10,708,597</u>	<u>25,133,138</u>	<u>(353,741)</u>	<u>(35,896)</u>	<u>317,845</u>
FUND BALANCE, beginning of year, restated	88,195,572	88,195,572	-	24,104,567	38,006,907	13,902,340
EQUITY TRANSFER IN	-	10,172	10,172	-	-	-
EQUITY TRANSFER FROM COMPONENT UNITS	-	1,136,313	1,136,313	-	-	-
FUND BALANCE, end of year	<u>\$ 73,771,031</u>	<u>\$ 100,050,654</u>	<u>\$ 26,279,623</u>	<u>\$ 23,750,826</u>	<u>\$ 37,971,011</u>	<u>\$ 14,220,185</u>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINED STATEMENT OF REVENUES, EXPENDITURES, ENCUMBRANCES AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL FUND, GENERAL PURPOSE SCHOOL FUND AND DEBT SERVICE FUNDS  
(NON-GAAP FOR GENERAL PURPOSE SCHOOL FUND)  
(CONTINUED)

For the Year Ended June 30, 2001

DEBT SERVICE FUNDS General Purposes and School Purposes			TOTAL (MEMORANDUM ONLY)		
Budget	Actual	Over (Under) Budget	Budget	Actual	Over (Under) Budget
\$ 65,823,849	\$ 55,780,000	\$ (10,043,849)	\$ 65,823,849	\$ 55,780,000	\$ (10,043,849)
72,362,886	48,576,178	(23,786,708)	72,362,886	48,576,178	(23,786,708)
380,000	454,159	74,159	380,000	454,159	74,159
<u>138,566,735</u>	<u>104,810,337</u>	<u>(33,756,398)</u>	<u>1,021,368,257</u>	<u>965,805,961</u>	<u>(55,562,296)</u>
(25,573,431)	15,110,689	40,684,120	52,336,417	116,544,576	64,208,159
-	73,745,000	73,745,000	-	73,745,000	73,745,000
-	(77,885,410)	(77,885,410)	-	(77,885,410)	(77,885,410)
-	4,620,921	4,620,921	-	4,620,921	4,620,921
9,883,092	17,020,103	7,137,011	18,864,443	25,396,633	6,532,190
-	(2,320,000)	(2,320,000)	(49,445,344)	(52,223,543)	(2,778,199)
2,800,000	2,800,000	-	3,058,744	3,301,200	242,456
(1,211,737)	(1,247,645)	(35,908)	(54,059,618)	(53,781,361)	278,257
<u>11,471,355</u>	<u>16,732,969</u>	<u>5,261,614</u>	<u>(81,581,775)</u>	<u>(76,826,560)</u>	<u>4,755,215</u>
(14,102,076)	31,843,658	45,945,734	(29,245,358)	42,516,359	68,963,374
123,125,185	123,125,185	-	235,425,324	249,327,664	(13,902,340)
-	4,513,496	4,513,496	-	4,523,668	4,523,668
-	-	-	-	1,136,313	1,136,313
<u>\$ 109,023,109</u>	<u>\$ 159,482,339</u>	<u>\$ 50,459,230</u>	<u>\$ 206,179,966</u>	<u>\$ 297,504,004</u>	<u>\$ 59,584,702</u>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCE  
 PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED PROPRIETARY  
 TYPE COMPONENT UNITS

For the Year Ended June 30, 2007

	Proprietary Fund Types	
	Enterprise Funds	Internal Service Funds
<b>OPERATING REVENUES:</b>		
Revenue from operations	\$ 162,483,306	\$ 77,594,310
Interest and dividend income	-	-
Gain (loss) on the sale of property	-	-
Other	6,366	568,628
Total operating revenues	<u>162,489,672</u>	<u>78,162,938</u>
<b>OPERATING EXPENSES</b>		
Personal services	39,829,794	8,349,430
Contractual services	28,520,783	8,926,020
Supplies and materials	5,905,483	5,549,885
Bad debt expense	747,946	-
Cost of sales and services	-	-
Cost of purchased power	-	-
Depreciation and amortization	43,956,023	4,179,598
Compensation for damages to property	-	2,021,509
Medical and insurance benefits	-	55,683,106
Administrative expenses	-	-
Other	2,432,260	1,484,198
Total operating expenses	<u>121,392,286</u>	<u>86,193,746</u>
<b>OPERATING INCOME (LOSS)</b>	<u>41,097,386</u>	<u>(8,030,808)</u>
<b>NONOPERATING REVENUE (EXPENSE)</b>		
Investment income	19,704,961	2,697,129
Interest expense	(34,780,624)	(28,424)
Arbitrage expense	(1,511,034)	-
Gain (loss) on sale of property	2,626	150,899
Revenue from other governmental agencies	-	-
Other	1,205,690	69,769
Total nonoperating revenue (expense)	<u>(15,378,381)</u>	<u>2,889,373</u>
<b>INCOME (LOSS) BEFORE OPERATING TRANSFERS AND CAPITAL GRANTS AND CONTRIBUTIONS</b>	<u>25,719,005</u>	<u>(5,141,435)</u>
<b>OPERATING TRANSFERS IN</b>	1,594,640	4,833,451
<b>OPERATING TRANSFERS OUT</b>	(497,943)	(4,701,759)
<b>OPERATING TRANSFERS FROM COMPONENT UNITS</b>	-	22,400
<b>OPERATING TRANSFERS TO COMPONENT UNITS</b>	-	(897,696)
<b>OPERATING TRANSFERS FROM THE PRIMARY GOVERNMENT</b>	-	-
<b>OPERATING TRANSFERS TO THE PRIMARY GOVERNMENT</b>	-	-
<b>TOTAL OPERATING TRANSFERS</b>	<u>1,096,697</u>	<u>(743,604)</u>
<b>CAPITAL GRANTS AND CONTRIBUTIONS</b>	<u>18,431,356</u>	<u>-</u>
<b>NET INCOME (LOSS)</b>	<u>45,247,061</u>	<u>(5,885,039)</u>
<b>CREDIT ARISING FROM TRANSFER OF DEPRECIATION TO CONTRIBUTED CAPITAL</b>	-	-
<b>EXCESS OF REVENUES OVER EXPENDITURES FROM GOVERNMENTAL OPERATIONS</b>	-	-
<b>INCREASE (DECREASE) IN RETAINED EARNINGS/FUND BALANCE</b>	45,247,061	(5,885,039)
<b>RETAINED EARNINGS/FUND BALANCE, beginning of year, restated</b>	405,900,157	41,501,184
<b>EQUITY TRANSFER TO THE PRIMARY GOVERNMENT</b>	-	-
<b>RETAINED EARNINGS/FUND BALANCE, end of year</b>	<u>\$ 451,147,218</u>	<u>\$ 35,616,145</u>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCE  
 PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED PROPRIETARY  
 TYPE COMPONENT UNITS (CONTINUED)

For the Year Ended June 30, 200			
Fiduciary Funds Non- Expendable Trust	Total Primary Government (Memorandum Only)	Proprietary Type Component Units	Total Reporting Entity (Memorandum Only)
\$ -	\$ 240,077,619	\$ 881,952,407	\$ 1,122,030,026
61,134	61,134	-	61,134
(12,753)	(12,753)	-	(12,753)
-	574,994	264,289	839,283
<u>48,381</u>	<u>240,700,994</u>	<u>882,216,696</u>	<u>1,122,917,690</u>
-	48,179,224	-	48,179,224
250	37,447,053	-	37,447,053
-	11,455,368	-	11,455,368
-	747,946	-	747,946
-	-	417,669,835	417,669,835
-	-	581,276,376	581,276,376
224	48,135,845	66,123,005	114,258,850
-	2,021,509	-	2,021,509
-	55,683,106	-	55,683,106
4,816	4,816	-	4,816
44,000	3,960,458	-	3,960,458
<u>49,290</u>	<u>207,635,325</u>	<u>1,065,069,216</u>	<u>1,272,704,541</u>
(909)	33,065,669	(182,852,520)	(149,786,851)
-	22,402,090	17,237,998	39,640,088
-	(34,809,048)	(50,984,214)	(85,793,262)
-	(1,511,034)	-	(1,511,034)
-	153,525	(38,523)	115,002
-	-	141,638,038	141,638,038
-	1,275,459	16,893,367	18,168,826
-	(12,489,008)	124,746,666	112,257,658
<u>(909)</u>	<u>20,576,661</u>	<u>(58,105,854)</u>	<u>(37,529,193)</u>
-	6,428,091	-	6,428,091
-	(5,199,702)	-	(5,199,702)
-	22,400	-	22,400
-	(897,696)	-	(897,696)
-	-	63,715,053	63,715,053
-	-	(4,293,396)	(4,293,396)
<u>-</u>	<u>353,093</u>	<u>59,421,657</u>	<u>59,774,750</u>
<u>-</u>	<u>18,431,359</u>	<u>10,291,019</u>	<u>28,722,378</u>
(909)	39,361,113	11,606,822	50,967,935
-	-	11,296,713	11,296,713
<u>-</u>	<u>-</u>	<u>545,862</u>	<u>545,862</u>
(909)	39,361,113	23,449,397	62,810,510
1,608,119	449,009,460	306,361,897	755,371,357
-	-	(82,161)	(82,161)
<u>\$ 1,607,210</u>	<u>\$ 488,370,573</u>	<u>\$ 329,729,133</u>	<u>\$ 818,099,706</u>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.  
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THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS  
 FIDUCIARY FUNDS  
 PENSION TRUST FUNDS

For the Year Ended June 30, 2001

ADDITIONS:	
Investment income:	
Interest and dividend income	\$ 32,976,287
Net depreciation of investments	(186,088,478)
Miscellaneous	<u>138,989</u>
Total investment income (loss)	(152,973,202)
Less investment expenses	<u>(5,972,350)</u>
Net investment income (loss)	<u>(158,945,552)</u>
Contributions:	
Employee contributions	2,167,462
Employer contributions	59,975,010
Operating transfers in	81,527
Contributions from the State of Tennessee	<u>19,985,245</u>
Total contributions	<u>82,209,244</u>
Total additions	<u>(76,736,308)</u>
DEDUCTIONS:	
Pension benefits	107,017,950
Refunds of contributions	345,467
Administrative expenses	4,327,220
Operating transfers out	<u>1,119,678</u>
Total deductions	<u>112,810,315</u>
NET INCREASE (DECREASE)	(189,546,623)
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS, beginning of year	<u>1,716,499,523</u>
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS, end of year	<u><u>\$ 1,526,952,900</u></u>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.



THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED PROPRIETARY TYPE COMPONENT UNITS

For the Year Ended June 30, 2001

	Proprietary Fund Types		Fiduciary Funds
	Enterprise Funds	Internal Service Funds	Non- Expendable Trust
Cash flows from operating activities:			
Operating income (loss)	\$ 41,097,386	\$ (8,030,808)	\$ (909)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	43,956,023	4,179,598	224
Amortization of deferred rental income	-	-	-
Provision for bad debt	-	-	-
Loss (gain) on sale of property, plant and equipment	-	-	-
Interest income	-	-	(61,134)
Other nonoperating revenue (expense)	1,205,690	69,769	-
Changes in assets and liabilities:			
Changes in accounts receivable - net	6,223,172	1,350,370	-
Changes in due from other funds of the primary government	(457,044)	550,457	3,563
Changes in due from the primary government	-	-	-
Changes in due from component units	(2,612)	13,926	-
Changes in inventories of supplies	9,348	58,676	-
Changes in other current assets	(36,900)	(536,184)	-
Changes in notes receivable	-	-	-
Changes in other non-current assets	-	-	-
Changes in accounts payable	637,967	(3,127,731)	-
Changes in accrued payroll	218,699	15,503	-
Changes in claims payable	-	743,877	-
Changes in due to other funds of the primary government	(609,837)	1,030,383	-
Changes in due to the primary government	-	-	-
Changes in due to component units	15,119	61,586	-
Changes in customer deposits	123,564	-	-
Changes in other current liabilities	(149,361)	200,907	-
Changes in TVA advances	-	-	-
Changes in other long-term liabilities	-	-	-
Total adjustments	51,133,828	4,611,137	(57,347)
Net cash provided by (used in) operating activities	92,231,214	(3,419,671)	(58,256)
Cash flows from noncapital financing activities:			
Operating transfers in	1,594,640	4,833,451	-
Operating transfers out	(497,943)	(4,701,759)	-
Operating transfers from component units	-	22,400	-
Operating transfers to component units	-	(897,696)	-
Operating transfers from the primary government	-	-	-
Operating transfers to the primary government	-	-	-
Revenue from other governmental agencies	-	-	-
Net cash provided by (used in) noncapital financing activities	1,096,697	(743,604)	-

Non-Cash Capital and Related Financing Activities:

The Department of Water and Sewerage Services acquired property, plant and equipment of \$3,657,232 which were recorded as capital grants and contributions for the construction of portions of the utility plant and land contributed by the Government.

The Radio Shop transferred property, plant and equipment of \$22,968,193 to the general government which was recorded as a reduction of contributed capital.

The Metropolitan Development and Housing Agency had equity transfers of \$82,161, received contributions of fixed assets of \$50,000, and added accrued interest to notes payable of \$2,272,092.

The Electric Power Board charged \$12,036,605 to accumulated depreciation representing the cost of retired utility plant and \$75,942 to interest expense for amortization of bond discounts. Also, \$574,917 was charged as amortization of the bond issuance costs.

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED PROPRIETARY TYPE COMPONENT UNITS  
 (CONTINUED)  
 For the Year Ended June 30, 2001

Total Primary Government (Memorandum Only)	Proprietary Type Component Units	Total Reporting Entity (Memorandum Only)
\$ 33,065,669	\$ (182,852,520)	\$ (149,786,851)
48,135,845	66,123,005	114,258,850
-	(59,271)	(59,271)
-	578,888	578,888
-	(359,867)	(359,867)
(61,134)	-	(61,134)
1,275,459	4,608,034	5,883,493
7,573,542	3,703,402	11,276,944
96,976	-	96,976
-	562,076	562,076
11,314	34,866	46,180
68,024	2,028,391	2,096,415
(573,084)	(1,068,013)	(1,641,097)
-	(4,464,843)	(4,464,843)
-	(113,364)	(113,364)
(2,489,764)	5,030,582	2,540,818
234,202	(6,785,047)	(6,550,845)
743,877	-	743,877
420,546	-	420,546
-	(12,521,250)	(12,521,250)
76,705	(34,866)	41,839
123,564	(54,820)	68,744
51,546	19,618,371	19,669,917
-	(685,654)	(685,654)
-	(3,729,361)	(3,729,361)
55,687,618	72,411,259	128,098,877
88,753,287	(110,441,261)	(21,687,974)
6,428,091	-	6,428,091
(5,199,702)	-	(5,199,702)
22,400	-	22,400
(897,696)	-	(897,696)
-	63,715,053	63,715,053
-	(3,763,396)	(3,763,396)
-	139,677,601	139,677,601
353,093	199,629,258	199,982,351

Non-Cash Capital and Related Financing Activities:

The Metropolitan Transit Authority paid \$47,009 of interest expense.

The Metropolitan Nashville Airport Authority charged \$3,183,379 to interest expense for amortization of deferred bond issue costs, amortization of deferred loss on refunding of debt, and accretion of the synthetic advance refunding. \$382,671 is included in interest income related to the amortization of deferred interest income.

The Industrial Development Board transferred \$530,000 to reverse a receivable with the primary government.

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED PROPRIETARY TYPE COMPONENT UNITS  
 (CONTINUED)  
 For the Year Ended June 30, 2001

	Proprietary Fund Types		Fiduciary Fund Types
	Enterprise Funds	Internal Service Funds	Non- Expendable Trust
Cash flows from capital and related financing activities:			
Changes in other restricted assets	\$ 250,001	\$ -	\$ -
Changes in short term contracts payable	(2,735,090)	-	-
Receipt of funds held in trust	-	-	-
Changes in other restricted liabilities	(4,569,429)	-	-
Changes in due to other funds of the primary government for capital acquisition	(200,400)	-	-
Acquisition of property, plant and equipment	(42,684,831)	(6,368,984)	-
Proceeds from the sale of property, plant and equipment	49,406	1,960,627	-
Proceeds from borrowings	-	-	-
Cash from governmental operations	-	-	-
Utility plant removal costs	-	-	-
Proceeds from borrowings	4,585,229	-	-
Payments on borrowings	(19,910,648)	(169,483)	-
Net increase in deferred bond issue costs	-	-	-
Purchase of bond refunding escrow investments	-	-	-
Special funds used to retire bonds	-	-	-
Interest paid	(34,204,445)	(28,424)	-
Arbitrage rebate paid	(261,036)	-	-
Changes in other non-current assets	-	-	-
Capital grants received	14,774,127	-	-
Receipt of passenger facility charges	-	-	-
Net cash provided by (used in) capital and related financing activities	<u>(84,907,116)</u>	<u>(4,606,264)</u>	<u>-</u>
Cash flows from investing activities:			
Purchases of investments	(553,544,851)	(117,024,181)	(291,277)
Proceeds from the sale and maturities of investment securities	543,170,277	121,659,670	325,331
Interest on investments	19,814,785	2,757,953	65,786
Issuance of notes receivable	-	-	-
Payments on notes receivable	-	-	-
Net cash provided by (used in) investing activities	<u>9,440,211</u>	<u>7,393,442</u>	<u>99,840</u>
Net Changes in cash and cash equivalents	17,861,006	(1,376,097)	41,584
Cash and cash equivalents at beginning of year, restated	<u>99,820,506</u>	<u>24,108,935</u>	<u>217,030</u>
Cash and cash equivalents at end of year	<u>\$ 117,681,512</u>	<u>\$ 22,732,838</u>	<u>258,614</u>
Other Fiduciary Fund Types:			
Cash and cash equivalents, June 30, 2001			
Expendable Trust Funds			442,446
Pension Funds			77,692,461
Agency Funds			33,372,596
Cash and cash equivalents - Fiduciary Fund Types per Combined Balance Sheet			<u>\$ 111,766,117</u>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
 COMBINED STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED PROPRIETARY TYPE COMPONENT UNITS  
 (CONTINUED)  
 For the Year Ended June 30, 2001

Total Primary Government (Memorandum Only)	Proprietary Type Component Units	Total Reporting Entity (Memorandum Only)
\$ 250,001	\$ -	\$ 250,001
(2,735,090)	-	(2,735,090)
-	30,650	30,650
(4,569,429)	-	(4,569,429)
(200,400)	-	(200,400)
(49,053,815)	(105,068,266)	(154,122,081)
2,010,033	1,022,068	3,032,101
-	38,640	38,640
-	(4,334,409)	(4,334,409)
4,585,229	241,996,797	246,582,026
(20,080,131)	(39,736,295)	(59,816,426)
-	(2,099,300)	(2,099,300)
-	(20,269,657)	(20,269,657)
-	370,016	370,016
(34,232,869)	(40,703,754)	(74,936,623)
(261,036)	-	(261,036)
-	(573,553)	(573,553)
14,774,127	23,399,749	38,173,876
-	12,045,465	12,045,465
<u>(89,513,380)</u>	<u>66,118,151</u>	<u>(23,395,229)</u>
(670,860,309)	(390,630,032)	(1,061,490,341)
665,155,278	319,097,334	984,252,612
22,638,524	14,278,286	36,916,810
-	(125,000)	(125,000)
-	946,424	946,424
<u>16,933,493</u>	<u>(56,432,988)</u>	<u>(39,499,495)</u>
16,526,493	98,873,160	115,399,653
<u>124,146,471</u>	<u>89,155,885</u>	<u>213,302,356</u>
<u>\$ 140,672,964</u>	<u>\$ 188,029,045</u>	<u>\$ 328,702,009</u>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Metropolitan Government of Nashville and Davidson County (the Government) operates under a metropolitan form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, health and social services, culture and recreation, education, public improvements, planning and zoning and general administrative services.

The accounting policies of the Government conform to accounting principles accepted generally in the United States of America. The following is a summary of the most significant policies:

Financial reporting entity - The financial statements of the Government present the primary government and its component units. The component units discussed below are included in the Government's reporting entity because of the significance of their operational or financial relationships with the Government. The discretely presented component units are reported in a separate column in the combining financial statements to emphasize that they are legally separate from the Government.

The financial statements of the following component units have been discretely presented:

The Nashville District Management Corporation was established in 1998 to administer special assessment revenue collected by the Government for the benefit of the Central Business Improvement District. The Corporation's duties and responsibilities are defined in a memorandum of agreement with the Government and include, but are not limited to providing services for improvement and operation of the District through security enhancement, downtown marketing, and improving downtown beautification, sanitation and maintenance. The original agreement was one year, renewable annually by mutual notification by each party to the other. The agreement may be terminated by the Government upon thirty days notice. Complete financial statements of the Corporation can be obtained from its offices at Accounting Office, 211 Commerce Street, Suite 100, Nashville, TN 37201.

The Sports Authority was established in 1995 to act as the financing and building authority for both the Nashville Arena and NFL Stadium. The Sports Authority administers and manages sports projects for the Government. The Government is responsible for the annual funding for both the Nashville Arena and NFL Stadium. The underlying credit for the Sports Authority Revenue bonds is a pledge on the non-tax revenues of the Government's General Fund. The Sports Authority does not issue separate financial statements.

The Hospital Authority operates General Hospital (a full service medical facility) and Bordeaux Hospital (a long-term care facility) for the residents of Nashville and Davidson County. The Hospital Authority was created in March 1999 to operate both hospitals, which were previously accounted for as enterprise funds of the Government. Members of the Hospital Authority are appointed by the Government and can be removed by the Government. The Government approves and can modify the annual operating budget of each hospital. Hospital Authority land and buildings and improvements are in the Government's name. Both hospitals are financially dependent on contributions from the Government's General Fund. Complete financial statements for each hospital can be obtained by writing to the Hospital Authority at 1818 Albion Street, Nashville, TN 37208.

The Metropolitan Development and Housing Agency operates public housing facilities for the inhabitants of Nashville and Davidson County. The Agency is governed by a board of commissioners who are all appointed and confirmed by the Government. All board members can also be removed by the Government. The Agency receives incremental taxes that result from tax increment financing arrangements on numerous development projects. These property taxes paid to the Agency are considered financial support by the Government. Complete financial statements of the Agency can be obtained by writing P. O. Box 846, Nashville, TN 37202.

The Electric Power Board operates and regulates an electric power system for the purpose of supplying electricity for public property and for resale to consumers. The Board of Directors and the general manager are appointed by the Government. The Government is required to approve debt issuance of the Board. The Government believes the nature and significance of its relationship with the Electric Power Board is such that exclusion would cause these financial statements to be misleading. Complete financial statements of the Board can be obtained from its administrative offices at 1214 Church Street, Nashville, TN 37203.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Metropolitan Transit Authority operates and regulates the public mass transit system in Nashville and Davidson County. The Authority is governed by a board of directors who are all appointed and can be removed by the Government. The Authority must act on ordinances passed by the Government, and the Authority is financially dependent on the Government. Complete financial statements of the Authority can be obtained from its administrative offices at 130 Nestor Street, Nashville, TN 37210.

The Nashville Thermal Transfer Corporation is a not-for-profit corporation that provides low cost heating and cooling to the Government and downtown businesses. The Corporation is governed by a board of directors who are all appointed and can be removed by the Government. The debt of the Corporation is issued in the Government's name, all properties of the Corporation are in the name of the Government, and the Corporation is financially dependent on the Government. Complete financial statements of the Corporation can be obtained from its administrative offices at 110 First Avenue South, Nashville, TN 37210.

The Metropolitan Nashville Airport Authority operates the Nashville International and John C. Tune Airports. The Airport Authority is governed by a board of directors who are all appointed and can be removed by the Government. The Government believes the nature and significance of its relationship with the Airport Authority is such that exclusion would cause these financial statements to be misleading. Complete financial statements of the Airport Authority can be obtained from its administrative offices at One Terminal Drive, Nashville, TN 37214.

The Emergency Communications District is engaged to secure and provide efficient emergency services to the public. The District is governed by a board of directors who are appointed by the Government. The District provides equipment for the Government's use in emergency services. Complete financial statements of the District can be obtained from its administrative offices at 700 2nd Avenue South, Nashville, TN 37210.

The Industrial Development Board (the IDB) assists private businesses within Davidson County to obtain public financing through the issuance of nontaxable bonds. The members of the IDB are appointed and can be removed by the Government. All debt of the IDB is considered conduit debt and is issued in the name of the Government. Complete financial statements of the IDB can be obtained from its administrative offices at 2021 North Gallatin Road, Suite 132, Madison, TN 37115.

All discretely presented component units have a June 30 fiscal year end with the exception of the Metropolitan Development and Housing Agency which has a September 30 year end and the Industrial Development Board which has a March 31 year end.

Basis of presentation - The general purpose financial statements are structured into three categories of fund types (governmental, proprietary and fiduciary), a fourth type of accounting entity (account groups) and component units.

The governmental fund types include:

1. General Fund - used to account for all financial resources and activities relating to the general operations of the Government which are not required to be accounted for in another fund;
2. Special revenue funds - used to account for specific revenues designated to finance the operations of the Metropolitan Board of Education and for specific revenues utilized in carrying out the special terms of statutes, ordinances, grant requirements or other governing regulations;
3. Debt service funds - used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest; and
4. Capital projects funds - used to account for financial resources used for the acquisition or construction of all major capital facilities used in governmental fund type operations.

The proprietary fund types include:

1. Enterprise funds - used to account for the operations of self-sustaining agencies rendering services to the general public on a user-charge basis; and
2. Internal service funds - used to account for the operations of self-sustaining agencies rendering services to other agencies of the Government on a cost reimbursement basis.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fiduciary fund types include:

1. Expendable trust funds - used to account for expendable assets held by the Government in a fiduciary capacity;
2. Nonexpendable trust funds - used to account for assets held by the Government in a fiduciary capacity which have legal restrictions on the corpus;
3. Pension funds - used to account for assets and liabilities held by the Government in a fiduciary capacity for employees and former employees of the Government; and
4. Agency funds - used to account for assets held by elected officials and the Government as agents for individuals, governmental entities and others.

The account groups include:

1. General Fixed Assets Account Group - used to account for fixed assets used in governmental fund type operations; and
2. General Long-term Debt Account Group - used to account for the principal on all outstanding debt and other long-term obligations, such as compensated absences and unfunded pension costs, except obligations secured by revenues of the proprietary funds.

The component units include:

1. Governmental types - used to account for component units which derive their funding primarily from other governments or from donations; and
2. Proprietary types - used to account for component units which derive their funding primarily through user fees and charges.

Basis of accounting - The General Fund, special revenue funds, debt service funds, capital projects funds and expendable trust funds are accounted for using a current financial resources measurement focus under the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. The statements of revenues, expenditures and changes in fund balances of these funds present increases and decreases in net current assets. Revenues are recognized when considered measurable and available as net current assets. Revenues are generally considered measurable when the amount can be determined and available if received within 60 days of fiscal year end. Grant revenue is recognized during the period when all applicable eligibility requirements have been met and the resources are available. Grant proceeds received prior to the period when eligibility requirements are met are recorded as deferred revenue. Property and sales tax revenues are accrued for 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred because they are not expected to be liquidated with expendable available financial resources, exceptions to this rule include:

1. Interest on long-term debt, which is recognized when due;
2. Accumulated non-vested sick pay, which is not accrued;
3. Compensated absences, which are recorded in the General Long-term Debt Account Group;
4. Expenditures related to long-term liabilities, which are recorded in the General Long-term Debt Account Group; and
5. Expenditures related to other commitments and contingencies, including landfill closure costs, which are recorded in the General Long-term Debt Account Group.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All enterprise funds, internal service funds, nonexpendable trust funds and pension funds are accounted for on a flow of economic resources measurement focus using the accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these funds are included in the balance sheet. Fund equity is segregated into contributed capital and retained earnings for the proprietary funds. The proprietary and nonexpendable trust funds' statements of revenues, expenses and changes in retained earnings/fund balance and the pension funds' statement of changes in plan net assets present increases and decreases in net total assets. Revenues are recognized when earned, and expenses are recognized when incurred.

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, the Government has elected not to apply any Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

Agency funds are accounted for under the modified accrual basis of accounting. These funds are custodial in nature and do not involve measurement of results of operations.

Interfund transfers are recognized when the related interfund receivable and payable arise.

Budgets and budgetary accounting - The Government's procedures in establishing the budget as reflected in the general purpose financial statements are as follows:

1. The Director of Finance annually obtains information from all officers, departments, boards, commissions and other agencies of the Government for which appropriations are made and/or revenues are collected and compiles the annual operating budget for the ensuing fiscal year beginning July 1. The compiled information, including various expenditure options and the means of financing them, is submitted to the Mayor for review.
2. The Mayor, with the assistance of the Department of Finance, determines the programs to be recommended to the Metropolitan Council, the expenditures proposed to operate those programs and the revenue changes needed to fund those expenditures. That information is compiled into a balanced operating budget which is submitted to the Metropolitan Council by May 25.
3. Copies of the Mayor's proposed budget and budget message are distributed to interested persons, and a summary of the budget is published in the area daily newspaper. The budget is a public record open for public inspection.
4. The Metropolitan Council's Budget and Finance Committee holds hearings with the officers, departments, boards, commissions and other agencies to explore the impact of the recommended operating budget and to explore other departmental budget options. In addition, advertised public hearings are held to obtain taxpayers' comments prior to final passage.
5. The budget is legally enacted effective July 1 through passage of an ordinance by the Metropolitan Council. In no event shall the total appropriations for any fund included in the budget exceed the estimated revenues and fund balance.
6. The amounts in the adopted operating budgets for each organizational unit, purpose or activity constitute the annual appropriation for such items, and no expenditure can be made which will result in the annual appropriation being exceeded unless an additional appropriation is made.
7. The Metropolitan Council may make appropriations in addition to those contained in the current operating budgets, but any such additional appropriations may be made only from an existing unappropriated surplus in the fund to which it applies.
8. The Mayor may transfer the available balance of any appropriation for any purpose to the appropriation for any other purpose within the same department, or, by resolution approved by the Metropolitan Council, the available balance of any appropriation may be transferred to another appropriation within the same section of the budget and within the same fund.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

9. All available balances of appropriations in the current operating budget lapse into the fund balance of the fund or funds from which the appropriations were originally made at the end of the fiscal year. Encumbrances do not lapse at the end of the fiscal year and are reserved for subsequent year expenditures.

Budgeted amounts shown are those originally adopted, as amended by the Metropolitan Council and as adjusted pursuant to the transfer provisions of the budget ordinance. During the year, supplementary appropriations were made to the General Services District of the General Fund of \$7,942,692.

The Government is legally required to prepare, and the Metropolitan Council is required to approve, the annual budgets of the General Fund, the General Purpose School Fund and the General Purposes and School Purposes Debt Service Funds. In preparing the budgets, the Government utilizes generally accepted accounting principles (GAAP) for the General and Debt Service Funds. The encumbrance method of budgeting is used for the General Purpose School Fund, in which encumbrances are recorded as though they are expenditures, which differs from GAAP.

The operating budget treats transfers to and from all budgeted funds as revenues and expenditures of those funds.

In accordance with Article 6 of the Metropolitan Charter, the Annual Operating Budget of the Government for the fiscal year 2001-2002 was submitted to the Metropolitan Council and subsequently approved by Substitute Bill Number O01-707. Unreserved and undesignated fund balance resources at June 30, 2001 have been appropriated to the 2001-2002 fiscal year operating budget as follows:

General Services District General Fund	\$7,666,085
Urban Services District General Fund	2,466,720
General Services District General Purposes Debt Service Fund	11,026,863
General Services District School Purposes Debt Service Fund	14,470,856
Urban Services District General Purposes Debt Service Fund	2,241,927

Encumbrances – Encumbrances outstanding at year end are reported as reservations of fund balance for subsequent year expenditures. Encumbrance accounting is not utilized for budgetary control purposes for the General and Debt Service Funds. Information regarding the encumbrances of those funds is available to assist in the management of commitments against appropriations. Encumbrance accounting is utilized for budgetary control purposes for the General Purpose School Fund and is reflected in the General Fund, General Purpose School Fund and Debt Service Funds Combined Statement of Revenues, Expenditures, Encumbrances and Changes in Fund Balances – Budget and Actual for that fund. Encumbrances, however, are not treated as expenditures in the general purpose financial statements, except for the General Purpose School Fund in the aforementioned statement comparing budgeted amounts to actual amounts.

Estimates - Estimates used in the preparation of financial statements require management to make assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents - Cash and cash equivalents include amounts in demand deposits and highly liquid short-term investments with maturity dates within three months of the date of acquisition. Investment income earned on funds invested in pooled accounts is allocated to the respective funds on the basis of relative balances.

Investments - Investments, except in the pension funds, consist primarily of U.S. Government securities and are stated at fair value. Pension fund investments, which also include common stocks, bonds and U.S. Government and other domestic and foreign securities, are stated at quoted fair value at June 30, 2001. The Government and certain component units also invest in the Tennessee Local Government Investment Pool which is maintained and managed by the State of Tennessee. This Pool is not registered with the Securities and Exchange Commission ("SEC") but does operate in a manner consistent with SEC's Rule 2a7 of the Investment Company Act of 1940. Accordingly, the Government's investments in the Pool have been determined based on the Pool's share price. Investment income of the capital projects funds is reported in those funds and is transferred to the debt service funds after arbitrage calculations, as applicable.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories - Inventories, principally materials, supplies and replacement parts, are valued at cost in governmental funds and at the lower of cost or market in proprietary funds, with cost determined using the first-in, first-out, moving weighted average or average cost method. Inventory items are recorded as expenditures when used under the consumption method.

Tennessee Valley Authority (TVA) Energy Conservation Program - The Electric Power Board is a fiscal intermediary for the TVA energy conservation programs whereby loans are made to the Board's customers to be used in connection with TVA's Residential Energy Services Program. Pursuant to the terms of an agreement with TVA, the energy conservation loans made to the Board's customers are funded and guaranteed by TVA. These loans are recorded as notes receivable.

Property, plant and equipment - Property, plant and equipment of the proprietary and nonexpendable trust funds are recorded at historical cost or appraised market value at the time of acquisition. Net interest cost incurred during the construction of facilities is capitalized as part of the cost of such facilities. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives are as follows:

Utility plant in service	7	-	100	years
Buildings and improvements	3	-	50	years
Improvements other than buildings	20	-	100	years
Office furniture and equipment	3	-	10	years
Machinery and equipment	3	-	50	years

Property under capital leases is stated at the lower of the present value of minimum lease payments or the fair market value at the inception of the lease. Once placed in use, such property is amortized on the straight-line method over the lesser of the economic useful life of the asset or the remaining lease term.

Fixed assets used in governmental fund operations and expendable trust funds are accounted for in the General Fixed Assets Account Group. No depreciation has been provided on these assets. Public domain general fixed assets (infrastructure) consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, are not recorded. All fixed assets used in governmental fund operations and expendable trust funds are valued at historical cost or estimated historical cost if actual historical cost is not available. Current acquisitions of donated property are recorded at appraised market value at time of acquisition.

Claims payable - Losses for claim liabilities are recorded in the self-insurance funds. Claims payable include reported claims and an estimated liability for claims incurred but not reported at June 30, 2001. The claims liabilities are based on the estimated cost of settling the claim, using past experience and adjusting for current conditions. Losses for uninsured judgments against the Government payable from governmental funds not expected to be liquidated with expendable available resources are recorded in the General Long-term Debt Account Group.

Annuities - Annuities are recorded at the estimated present value of future benefits, which approximates fair value at June 30, 2001.

Grants - The Government receives grant revenues from various federal, state and non-profit agencies. As required by GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, the Government reports capital contributions, including capital grants, in the statement of revenues, expenses, and retained earnings as a separate line item after non-operating revenues and expenses, rather than as direct additions to contributed capital. Depreciation reported on fixed assets purchased or constructed with funds contributed by agencies of local, state and federal governments is recognized as a reduction of contributed capital rather than retained earnings for proprietary type component units.

Pass-through grant proceeds - Capital and operating grant amounts received on behalf of secondary recipients are reported in agency funds.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Passenger facility charges – On January 1, 1993, the airlines began collecting a Passenger Facility Charge (“PFC”) on qualifying enplaning passengers at Nashville International Airport on behalf of the Airport Authority. PFC’s are fees imposed on enplaning passengers by airports to finance eligible airport related projects that preserve or enhance safety, capacity, or security of the national air transportation system, reduce noise from an airport that is part of such system, or furnish opportunities for enhanced competition between or among air carriers. Both the fee and intended projects must be reviewed and approved by the Federal Aviation Administration (“FAA”). The fee can be set at \$1, \$2, or \$3 per enplaning passenger.

The Authority received approval to impose a \$3 PFC. The following project summary has been approved by the FAA:

Airport development	\$	71,333,600
Terminal development		38,693,300
Land acquisition		<u>22,727,200</u>
	\$	<u>132,754,100</u>

Effective April 5, 2000, public agencies may qualify to charge PFC fees of \$4.00 or \$4.50 provided that the additional criterion for approval are met. PFC’s are recorded as non-operating revenue.

Compensated absences - The liability for compensated absences is recorded when future payments for such absences have been earned by employees.

General policy of the Metropolitan Civil Service Commission permits the accumulation, within certain limitations, of unused vacation days and sick leave. Vacation days may accumulate to an amount equal to three times the current annual vacation accrual rate. Although sick pay may accumulate, no amounts are vested in the event of employee termination. Accumulated unpaid vacation pay related to governmental fund type operations is recorded in the General Long-term Debt Account Group because it is not expected to be liquidated with expendable available resources. Accumulated unpaid vacation pay related to proprietary fund type operations is recorded as a liability in the appropriate individual proprietary funds and proprietary type component units.

The policy of the Metropolitan Board of Education allows employees to accumulate sick leave without limitation. In addition, the Board allows vesting of accumulated sick leave depending on length of service beyond 15 years. Vested sick leave for Metropolitan Board of Education employees is recorded in the General Long-term Debt Account Group because it is not expected to be liquidated with expendable available resources.

Arbitrage rebates – For governmental fund types, any liability for arbitrage rebates due to the federal government under the Internal Revenue Code of 1986, as amended, for excess earnings on invested proceeds of tax exempt securities is recorded in the General Long-term Debt Account Group and as a reservation of fund balance in each related debt service fund. For proprietary fund types (including component units) any such rebates are reflected as liabilities.

Unbilled revenues and purchased power liability – Revenues from the Department of Water and Sewerage Services are recognized from meters read on a monthly cycle basis. At the end of each month, an estimate of service rendered from the latest date of each meter-reading cycle to month end is accrued and included in accounts receivable. The amount accrued at June 30, 2001 is \$7,488,629. Revenues of the Electric Power Board are recognized from meters read on a monthly cycle basis. At the end of each month, service rendered from the latest date of each meter-reading cycle to month end is accrued and included in accounts receivable. The Board purchases electric power from the TVA. The cost of purchased power is calculated based on retail billing units adjusted for estimated line losses. The Board accrues for unbilled purchased power based on retail billing units.

Property taxes - The Government’s property taxes are levied for the current fiscal year and recorded as taxes receivable each September 1 on the assessed value listed as of the prior January 1 for all real and personal property located in Nashville and Davidson County. Property taxes are secured by a statutory lien effective as of the original assessment date of January 1 and as such an enforceable legal claim to the subsequent fiscal year levy exists at fiscal year end. In accordance with state law, the real property assessment includes supplemental assessments made through September 1 for improved, demolished or damaged property.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessed values are established by the State of Tennessee at the following percentages of assessed market value:

- Public utility property	55%	(Railroads and certain telecommunication services at 40%)
- Industrial and commercial property		
- Real	40%	
- Personal	30%	
- Farm and residential property	25%	

Taxes are levied at a rate of \$3.29 per \$100 of assessed value for the entire metropolitan area (General Services District) with an additional tax of \$.95 per \$100 of assessed value levied upon properties within the Urban Services District.

Payments are due by February 28 and are delinquent on March 1 of the following year. Property taxes receivable have been included in the combined balance sheet with offsetting deferred revenue to reflect amounts not available at June 30, 2001. Amounts available at June 30, 2001 have been recorded as revenue. Current tax collections of \$432,592,562 for the fiscal year ended June 30, 2001 were approximately 96% of the tax levy.

Of the \$601,017,355 property tax receivable, \$573,575,800 represents the 2001 property taxes which are not yet levied but recorded as required by GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions. Other tax revenues such as payment in lieu of taxes are also recorded as property tax revenue.

Accounting for landfills - State and federal laws and regulations require the Government to place a final cover on all its landfill sites when they stop accepting waste, and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Although closure and postclosure care costs will be paid only near, or after, the date the landfill stops accepting waste, the Government is required to report a portion of these closure and postclosure care costs as an operating expenditure in each period of operation. This expenditure is based on landfill capacity used at the balance sheet date. The current operations of the landfills are reported in the Solid Waste Operations Fund in the special revenue fund section of this report. The long term liability is included in the other obligations payable for general purposes section of the General Long-term Debt Account Group for the General Services District. The total liability for landfill purposes is \$3,656,068.

Bordeaux Sanitary Landfill - This landfill has stopped accepting solid waste, and closure procedures are 100% complete. Additionally, estimated postclosure costs of \$2,097,696 are included in the liability.

Metro Thermal Ash Landfill Phase II - The total remaining closure and postclosure costs of this landfill are \$1,417,718. The landfill is currently accepting solid waste, while some closing procedures have been started. Phase II has reached 80% capacity, thus a liability of \$1,134,174 is accrued.

Metro Thermal Ash Landfill Phase III - The total remaining closure and postclosure costs of this landfill are \$2,120,989. The landfill is currently accepting solid waste, while some closing procedures have been started. Phase III has reached 20% capacity, thus a liability of \$424,198 is accrued.

These estimates are based on an independent evaluation of cost to perform all closure and care. Actual costs may be higher due to inflation, changes in technology or changes in regulations. Closure and care financial requirements are expected to be met by the operations of the Solid Waste Operations Fund. To the extent the Solid Waste Operations Fund operations create a deficit, the General Fund is required to fund its operations.

Accounting pronouncements - As discussed in Note 2, the Government adopted GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions, and GASB Statement No. 36, Recipient Reporting for Certain Shared Non-exchange Revenue, in fiscal year 2001.

The Government will adopt GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments and GASB Statement No. 37, Basic Financial Statements - and Management Discussion and Analysis for State and Local Governments, an amendment of GASB Statements No. 21 and No. 34, required for periods beginning after June 15, 2001, in fiscal year 2002. Significant changes required by these Statements, from the existing financial reporting requirements, include dual perspective financial reporting, full accrual basis of accounting for governmental activities, the presentation of a management discussion and analysis, the capitalization of infrastructure assets and the recording and depreciation of all capital assets, including infrastructure assets.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Management is in the process of determining the effects that the adoption of these statements will have on the Government's financial statements.

Total columns - Total columns on the combined financial statements are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2 – RESTATEMENT OF RETAINED EARNINGS/FUND BALANCE

During the fiscal year ended June 30, 2001, the Government adopted GASB Statement No. 33, Accounting and Reporting for Nonexchange Transactions and GASB Statement No. 36, Recipient Reporting For Certain Shared Non-exchange Revenue, which established accounting and financial reporting standards for nonexchange transactions involving financial or capital resources such as taxes, grants and contributions. The adoption of these Statements increased beginning fund balance for the general fund and special revenue funds and retained earnings for proprietary type component units.

During the fiscal year ended June 30, 2001, the activities of the Sports Authority were reclassified from being blended with various governmental funds and added as a discretely presented governmental type component unit in accordance with GASB Statement No. 14, The Financial Reporting Entity. This change decreased beginning fund balance for special revenue, debt service, and capital project funds and increased beginning fund balance for governmental type component units.

During the fiscal year ended June 30, 2001, the activities of the Police Secondary Employment fund were removed from a special revenue fund and added as an enterprise fund, as the activity is proprietary in nature and supported by user charges. This change decreased beginning fund balance for special revenue funds and increased beginning retained earnings for enterprise funds.

During the fiscal year ended June 30, 2001, the School Activity Fund restated beginning fund balance due to timing of expenditures between years. This restatement increased beginning fund balance for special revenue funds.

During the fiscal year ended June 30, 2001, the Nashville District Management Corporation restated beginning fund balance to properly account for the recording of certain contract revenue. This restatement increased beginning fund balance for governmental type component units.

During the fiscal year ended September 30, 1999, the Metropolitan Development and Housing Agency converted from the use of special revenue to enterprise funds in accordance with the preferred method of accounting by the U.S. Department of Housing and Urban Development. During the fiscal year ended September 30, 2000, this conversion resulted in a restatement of beginning retained earnings. This restatement increased beginning retained earnings for proprietary type component units.

During the fiscal year ended September 30, 2000, an entity previously reported as a component unit of the Metropolitan Development and Housing Agency was removed in accordance with GASB Statement No. 14, The Financial Reporting Entity. This change decreased beginning retained earnings for proprietary type component units.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 – RESTATEMENT OF RETAINED EARNINGS/FUND BALANCE (CONTINUED)

These additions, deletions, and reclassifications affected beginning retained earnings/fund balances as follows:

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Enterprise Funds	Governmental Type Component Units	Proprietary Type Component Units
Retained earnings/fund balance, beginning of year, as previously reported	\$ 67,072,724	\$ 119,655,816	\$ 135,675,054	\$ 87,132,286	\$ 405,841,652	\$ 59,668	\$ 283,520,647
Adoption of GASB Statement No.'s 33 and 36	21,122,848	13,902,340	-	-	-	-	8,741,380
Reclassifications between funds and component units:							
Sports Authority	-	(23,558,632)	(10,205,423)	(6,663,857)	-	40,427,912	-
Police Secondary Employment	-	(58,505)	-	-	58,505	-	-
Restatements:							
School Activity Fund	-	27,254	-	-	-	-	-
Nashville District Management Corporation	-	-	-	-	-	239,104	-
Metropolitan Development and Housing Agency	-	-	-	-	-	-	16,057,402
Deletion of Metropolitan Development and Housing Agency component unit	-	-	-	-	-	-	(1,957,532)
Retained earnings/fund balance, beginning of year, restated	<u>\$ 88,195,572</u>	<u>\$ 109,968,273</u>	<u>\$ 125,469,631</u>	<u>\$ 80,468,429</u>	<u>\$ 405,900,157</u>	<u>\$ 40,726,684</u>	<u>\$ 306,361,897</u>

NOTE 3 - REVENUES OVER EXPENDITURES - GAAP VERSUS BUDGET BASIS

The nature and amount of adjustments necessary to convert the GAAP basis excess (deficiency) of revenues and other sources over expenditures and other uses to the budget basis are as follows:

	General Fund	Special Revenue Funds	Debt Service Funds
Excess (deficiency) of revenues and other sources over expenditures and other uses:			
GAAP basis	\$ 10,708,597	\$ 7,216,369	\$ 31,836,411
Less: Unbudgeted entities	-	(4,659,777)	7,247
Current year reserve for encumbrances	-	(4,983,935)	-
Add: Prior year reserve for encumbrances	-	2,391,447	-
Budget basis	<u>\$ 10,708,597</u>	<u>\$ (35,896)</u>	<u>\$ 31,843,658</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CASH AND INVESTMENTS

The Government is authorized by policy to invest funds that are not immediately needed in: United States Treasury Bills, Bonds and Notes; The State of Tennessee Local Government Investment Pool; bonds issued by the Government; bonds of commercial entities and other investments such as repurchase agreements and commercial paper. The Government is authorized to invest in these instruments either directly or through the Metro Investment Pool (MIP). In addition, the Joseph B. Knowles Trust fund is authorized to invest in stocks of commercial entities, and the Metropolitan Employees' Benefit Trust is authorized to invest funds in accordance with the Statement of Investment Objectives of the Investment Board of the Government, which states that the Investment Board may make investments it deems suitable for the trust fund. The Government's banking agreement includes a provision for a \$2 million compensating balance.

Deposits in financial institutions are required by State statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee's collateral pool. As of June 30, 2001, most of the Government's deposits were held by financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Participating banks determine the aggregated balance of their public fund accounts for the Government. The amount of collateral required to secure these public deposits must be at least 105% of the average daily balance of public deposits held. Collected securities required to be pledged by the participating banks to protect their public fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. Accounts covered by the State collateral pool are classified as category A in accordance with GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.

CASH AND CASH EQUIVALENTS

The Government's deposits are categorized below to give an indication of the level of risk assumed by the Government at fiscal year end. Category A includes deposits that are insured or collateralized with securities held by the Government or by its agent in the Government's name. Category B includes deposits that are insured or collateralized with securities held by the pledging financial institutions trust department. Category C includes deposits that are uninsured and uncollateralized. Deposits represent the Government's cash balance at banks and other financial institutions, while the carrying amount of cash on deposit represents the book balance of those deposits. The difference between deposits and the carrying amount of cash on deposit is due primarily to checks outstanding and deposits in transit at June 30, 2001.

	Deposits Per Bank And Other Financial Institutions				Carrying Amount Per Books		
	Category			Total	Cash On Deposit	Cash On Hand	Total
	A	B	C				
Primary Government							
General Government	\$ 14,986,078	\$ -	\$ -	\$ 14,986,078	\$ 6,422,034	\$ 179,729	\$ 6,601,763
Metropolitan Board of Education (except pension funds)	13,705,431	-	-	13,705,431	10,652,893	2,075	10,654,968
Department of Water and Sewerage Services	201,136	-	-	201,136	205,017	8,500	213,517
Pension Funds	74,099,121	-	-	74,099,121	74,099,121	-	74,099,121
Elected Officials	42,087,324	-	-	42,087,324	33,909,131	35,575	33,944,706
Total primary government	\$ 145,079,090	\$ -	\$ -	\$ 145,079,090	\$ 125,288,196	\$ 225,879	\$ 125,514,075

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

**NOTE 4 – CASH AND INVESTMENTS (CONTINUED)**

	Deposits Per Bank And Other Financial Institutions				Carrying Amount Per Books		
	Category			Total	Cash On Deposit	Cash on Hand	Total
	A	B	C				
Reconciliation to presentation on the balance sheet:							
Cash and Cash Equivalents							\$ 385,302,316
Restricted Cash and Cash Equivalents							103,534,533
Less: Cash Equivalents included as investments for footnote categorization							<u>(363,322,774)</u>
Total primary government							<u>\$ 125,514,075</u>
Component Units - Governmental Types							
Sports Authority	\$ 5,698,405	\$ -	\$ -	\$ 5,698,405	\$ 5,698,405	\$ -	\$ 5,698,405
Nashville District Management Corporation	<u>434,189</u>	<u>-</u>	<u>-</u>	<u>434,189</u>	<u>434,189</u>	<u>-</u>	<u>434,189</u>
Total governmental types	<u>\$ 6,132,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,132,594</u>	<u>\$ 6,132,594</u>	<u>\$ -</u>	<u>\$ 6,132,594</u>
Reconciliation to presentation on the balance sheet:							
Cash and Cash Equivalents							\$ 26,878,449
Less: Cash Equivalents included as investments for footnote categorization							<u>(20,745,855)</u>
Total governmental types							<u>\$ 6,132,594</u>
Component Units - Proprietary Types							
Metropolitan Development and Housing Agency	\$ 34,676,316	\$ -	\$ -	\$ 34,676,316	\$ 35,132,185	\$ 10,275	\$ 35,142,460
Hospital Authority	3,282,267	-	-	3,282,267	3,232,928	208,738	3,441,666
Electric Power Board	3,304,730	-	-	3,304,730	293,560	16,000	309,560
Metropolitan Transit Authority	425,222	-	-	425,222	459,679	-	459,679
Nashville Thermal Transfer Corporation	1,711,236	-	-	1,711,236	1,242,159	515	1,242,674
Metropolitan Nashville Airport Authority	126,988,270	-	-	126,988,270	126,819,985	-	126,819,985
Emergency Communications District	2,919,876	-	-	2,919,876	2,919,876	-	2,919,876
Industrial Development Board	<u>962,574</u>	<u>-</u>	<u>14,741</u>	<u>977,315</u>	<u>977,315</u>	<u>53,940</u>	<u>1,031,255</u>
Total proprietary types	<u>\$ 174,270,491</u>	<u>\$ -</u>	<u>\$ 14,741</u>	<u>\$ 174,285,232</u>	<u>\$ 171,077,687</u>	<u>\$ 289,468</u>	<u>\$ 171,367,155</u>
Reconciliation to presentation on the balance sheet:							
Cash and Cash Equivalents							\$ 68,012,388
Restricted Cash and Cash Equivalents							120,016,657
Less: Cash Equivalents included as investments for footnote categorization							<u>(16,661,890)</u>
Total proprietary types							<u>\$ 171,367,155</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CASH AND INVESTMENTS (CONTINUED)

INVESTMENTS

The Government's investments are categorized below to give an indication of the level of risk assumed by the Government at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Government or its agent in the Government's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department (if a bank) or agent in the Government's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty in the Government's name, or held by the counterparty's trust department (if a bank) or agent, but not in the Government's name.

	Category			Fair Value
	1	2	3	
<u>General government</u>				
Federal Home Loan Bank				
Obligations	\$ 44,088,233	\$ -	\$ -	\$ 44,088,233
Federal Home Loan Mortgage Corporation Obligations	75,939,750	-	-	75,939,750
Federal National Mortgage Association Obligations	149,386,250	-	-	149,386,250
Bankers' Acceptances	11,311,535	-	-	11,311,535
Corporate Bonds and Notes	992,443	-	-	992,443
Common Stock	31,861	-	-	31,861
Commercial Paper	39,889,197	-	-	39,889,197
Student Loan Marketing Association Obligations	22,707,075	-	-	22,707,075
Total general government	<u>\$ 344,346,344</u>	<u>\$ -</u>	<u>\$ -</u>	<u>344,346,344</u>
<u>Metropolitan Board of Education (except pension funds)</u>				
Federal Home Loan Bank				
Obligations	\$ 55,135,890	\$ -	\$ -	\$ 55,135,890
Federal Home Loan Mortgage Corporation Obligations	81,216,701	-	-	81,216,701
Federal National Mortgage Association Obligations	67,467,770	-	-	67,467,770
Bankers' Acceptances	5,108,663	-	-	5,108,663
Common Stock	14,393	-	-	14,393
Commercial Paper	18,015,280	-	-	18,015,280
Student Loan Marketing Association Obligations	10,255,266	-	-	10,255,266
Total Metropolitan Board of Education (except pension funds)	<u>\$ 237,213,963</u>	<u>\$ -</u>	<u>\$ -</u>	<u>237,213,963</u>
<u>Department of Water and Sewerage Services</u>				
U. S. Treasury & Agency Securities	\$ 1,214,246	\$ -	\$ -	\$ 1,214,246
Federal Home Loan Bank Obligations	63,579,838	-	-	63,579,838
Federal Home Loan Mortgage Corporation Obligations	52,905,305	-	-	52,905,305
Federal National Mortgage Association Obligations	142,502,433	-	-	142,502,433
Bankers' Acceptances	7,211,529	-	-	7,211,529

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

	Category			Fair Value
	1	2	3	
<u>Department of Water and Sewerage Services (Continued)</u>				
Common Stock	\$ 20,317	\$ -	\$ -	\$ 20,317
Commercial Paper	25,430,864	-	-	25,430,864
Student Loan Marketing Association Obligations	29,700,615	-	-	29,700,615
Fidelity Treasury Fund	7,437,224	-	-	7,437,224
State and Local Government Securities	2,230,500	-	-	2,230,500
	<u>\$ 332,232,871</u>	<u>\$ -</u>	<u>\$ -</u>	<u>332,232,871</u>
Tennessee Local Government Investment Pool				<u>1,735,209</u>
Total Department of Water and Sewerage Services				<u>333,968,080</u>
<u>Pension funds</u>				
U. S. Treasury & Agency Securities	\$ 104,608,026	\$ -	\$ -	\$ 104,608,026
Federal Home Loan Bank Obligations	15,243,871	-	-	15,243,871
Federal Home Loan Mortgage Corporation Obligations	53,494,522	-	-	53,494,522
Federal National Mortgage Association Obligations	81,667,390	-	-	81,667,390
Bankers' Acceptances	236,731	-	-	236,731
Corporate Bonds and Notes	150,305,949	-	-	150,305,949
Common Stock	746,667,513	-	-	746,667,513
Commercial Paper	834,812	-	-	834,812
Preferred Stock	3,429,567	-	-	3,429,567
Foreign Currency	18,401,998	-	-	18,401,998
Collateralized Mortgage Obligations	61,790,388	-	-	61,790,388
International Securities	206,882,243	-	-	206,882,243
Government National Mortgage Association Obligations	18,143,445	-	-	18,143,445
Student Loan Marketing Association Obligations	475,220	-	-	475,220
	<u>\$ 1,462,181,675</u>	<u>\$ -</u>	<u>\$ -</u>	<u>1,462,181,675</u>
Mortgages and Real Estate Limited Partnerships				<u>36,859,286</u>
Total pension funds				<u>31,383,293</u>
				<u>1,530,424,254</u>
<u>Elected Officials</u>				
Common Stock	\$ 11,820	\$ -	\$ -	11,820
Mortgages and Real Estate Limited Partnerships				<u>243,903</u>
Total elected officials				<u>255,723</u>
TOTAL PRIMARY GOVERNMENT				<u>\$ 2,446,208,364</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – CASH AND INVESTMENTS (CONTINUED)

	Category			Fair Value
	1	2	3	
Reconciliation to presentation on the balance sheet:				
Cash and Cash Equivalents				\$ 363,322,774
Investments				1,866,535,248
Restricted Investments				216,350,342
				<u>216,350,342</u>
TOTAL PRIMARY GOVERNMENT				<u>\$ 2,446,208,364</u>
<u>Component Units - Governmental Types</u>				
Commercial Paper	\$ 4,819,719	\$ -	\$ -	\$ 4,819,719
Federal Home Loan Bank Obligations	3,883,184	-	-	3,883,184
Federal Home Loan Mortgage Corporation Obligations	7,252,307	-	-	7,252,307
Federal National Mortgage Association Obligations	18,049,992	-	-	18,049,992
Bankers' Acceptances	1,366,746	-	-	1,366,746
Student Loan Marketing Association Obligations	2,743,643	-	-	2,743,643
Common Stock	3,849	-	-	3,849
Total governmental types	<u>\$ 38,119,440</u>	<u>\$ -</u>	<u>\$ -</u>	<u>38,119,440</u>
Reconciliation to presentation on the balance sheet:				
Cash and Cash Equivalents				\$ 20,745,855
Investments				17,373,585
Total governmental types				<u>\$ 38,119,440</u>
<u>Component Units - Proprietary Types</u>				
U. S. Treasury & Agency Securities	\$ 246,928,749	\$ -	\$ -	\$ 246,928,749
Commercial Paper	2,290,454	-	-	2,290,454
Repurchase Agreements	4,772,005	-	-	4,772,005
Federal Home Loan Bank Obligations	747,763	-	-	747,763
Federal Home Loan Mortgage Corporation Obligations	1,396,536	-	-	1,396,536
Federal National Mortgage Association Obligations	3,475,786	-	-	3,475,786
Bankers' Acceptances	263,187	-	-	263,187
Student Loan Marketing Association Obligations	528,328	-	-	528,328
Common Stock	741	-	-	741
	<u>\$ 260,403,549</u>	<u>\$ -</u>	<u>\$ -</u>	<u>260,403,549</u>
Real Estate				860,080
Mutual Funds				2,760,489
Total proprietary types				<u>264,024,118</u>
Reconciliation to presentation on the balance sheet:				
Cash and Cash Equivalents				\$ 16,661,890
Investments				57,813,670
Restricted Investments				189,548,558
Total proprietary types				<u>\$ 264,024,118</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - CASH AND INVESTMENTS (CONTINUED)

The primary government's pension plans also have \$1,042,766 of annuities that are classified separately from investments on the balance sheet.

The Government invests in collateralized mortgage obligations (CMOs), which are based on cash flows from interest payments on underlying mortgages. CMOs are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. For example, if interest rates decline and mortgagees refinance their mortgages, thereby prepaying the mortgages underlying these securities, the cash flows from interest payments are reduced and the value of these securities declines. Likewise, if mortgagees extend payment on mortgages longer than anticipated, the cash flows are greater and the return on the initial investment would be higher than anticipated.

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following summarizes the changes in the General Fixed Assets Account Group during the year ended June 30, 2001:

	Balance July 1, 2000	Additions	Deletions	Reclassification of Assets to Component Unit	Balance June 30, 2001
Land	\$ 138,053,625	\$ 9,880,187	\$ -	\$ (61,892,387)	\$ 86,041,425
Buildings and improvements	919,394,500	177,860,451	(67,276,653)	(357,069,778)	672,908,520
Furniture, fixtures, machinery And equipment	169,837,118	35,084,271	(47,289,778)	(7,332)	157,624,279
Construction in progress	123,604,916	63,988,306	(89,132,843)	-	98,460,379
Total	<u>\$ 1,350,890,159</u>	<u>\$ 286,813,215</u>	<u>\$ (203,699,274)</u>	<u>\$ (418,969,497)</u>	<u>\$ 1,015,034,603</u>

During the fiscal year ended June 30, 2001, the activities of the Sports Authority were removed from various governmental funds and added as a governmental type component unit. Accordingly, the related assets were reclassified from the General Fixed Assets Account Group to the Sports Authority component unit.

Property, plant and equipment of the proprietary and fiduciary funds of the primary government at June 30, 2001 consisted of the following:

	Enterprise Funds	Internal Service Funds	Nonexpendable Trust Funds
Utility plant in service	\$ 1,466,725,282	\$ -	\$ -
Land	22,917,617	-	138,000
Buildings and improvements	78,885,561	294,563	40,720
Improvements other than buildings	36,238,696	-	-
Office furniture and equipment	4,651,223	813,924	-
Machinery and equipment	41,449,438	37,756,809	25,694
Property under capital lease	3,645,000	-	-
Construction work in progress	27,108,133	-	-
	1,681,620,950	38,865,296	204,414
Less accumulated depreciation	<u>(419,376,082)</u>	<u>(17,352,088)</u>	<u>(66,414)</u>
Property, plant and equipment - net	<u>\$ 1,262,244,868</u>	<u>\$ 21,513,208</u>	<u>\$ 138,000</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment of the proprietary type component units at June 30, 2001 consisted of the following:

	Component Units	
	Governmental Types	Proprietary Types
Utility plant in service	\$ -	\$ 956,764,293
Land	61,892,387	512,008,018
Buildings and improvements	357,069,778	375,333,013
Machinery and equipment	7,332	87,290,123
Construction work in progress	-	26,192,970
	<u>418,969,497</u>	<u>1,957,588,417</u>
Less accumulated depreciation	<u>-</u>	<u>(726,205,984)</u>
Property, plant and equipment - net	<u>\$ 418,969,497</u>	<u>\$ 1,231,382,433</u>

The Metropolitan Development and Housing Agency recorded an equity transfer of \$82,161 which represents the transfer of property, plant and equipment to the general fixed asset account group of the primary government.

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS

Primary Government

Transaction summary for the year ended June 30, 2001

	General Long-term Debt Account Group			Proprietary Bonds, Notes and Other Obligations Payable	Total Primary Government
	General Obligation Bonds and Notes Payable	Limited Obligation Revenue Bonds Payable	Other Obligations Payable		
Bonds, notes and other obligations payable July 1, 2000	\$ 989,705,000	\$ 114,360,000	\$ 131,145,796	\$ 611,153,693	\$ 1,846,364,489
New Bonds and notes issued:					
G.O. Multi-purpose Improvement Bonds Series 2001A					
General Services District	62,065,000	-	-	-	62,065,000
Schools	176,640,000	-	-	-	176,640,000
Urban Services District	23,450,000	-	-	-	23,450,000
G.O. Multi-purpose Refunding Bonds Series 2001B					
General Services District	43,633,148	-	-	-	43,633,148
Schools	30,111,852	-	-	-	30,111,852
Additions:					
Department of Water & Sewerage state construction loans	-	-	-	4,585,229	4,585,229
Compensated absences	-	-	33,906,855	-	33,906,855
Interest arbitrage rebate	-	-	946,746	1,250,000	2,196,746
Net pension obligation	-	-	2,902,388	-	2,902,388

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 – BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

	General Long-term Debt Account Group			Proprietary Bonds, Notes and Other Obligations Payable	Total Primary Government
	General Obligation Bonds and Notes Payable	Limited Obligation Revenue Bonds Payable	Other Obligations Payable		
Bonds, notes and other obligations retired	\$ (55,780,000)	\$ (1,045,000)	\$ -	\$ (20,080,131)	\$ (76,905,131)
Bonds defeased	(73,505,000)	-	-	-	(73,505,000)
Deferred charge	-	-	-	891,727	891,727
Reclassification between funds and component unit:					
Sports Authority:					
Public Improvement Revenue Bonds (Stadium Project), Series 1996	-	(75,380,000)	-	-	(75,380,000)
Taxable Public Facility Revenue Bonds Series 1998	-	(20,255,000)	-	-	(20,255,000)
Other deductions:					
Landfill closure costs	-	-	(75,160)	-	(75,160)
Compensated absences	-	-	(36,475,934)	-	(36,475,934)
Claims and judgments	-	-	(27,648,940)	-	(27,648,940)
 Bonds, notes and other obligations payable June 30, 2001	 \$ 1,196,320,000	 \$ 17,680,000	 \$ 104,701,751	 \$ 597,800,518	 \$ 1,916,502,269

Description of amounts payable at June 30, 2001

	Interest Rate	Amount
General obligation bonds and notes payable from ad valorem taxes:		
General Services District - General Purposes, due in varying amounts to November 15, 2029	1.00 - 6.60%	\$ 717,305,524
General Services District - School Purposes, due in varying amounts to November 15, 2027	4.00 - 6.15%	421,890,712
Urban Services District - General Purposes, due in varying amounts to October 15, 2017	0.10 - 6.60%	57,123,764
Total general obligation bonds and notes payable from ad valorem taxes		1,196,320,000
Limited obligation revenue bonds payable:		
Correctional Facility Revenue Bonds, due in varying amounts to September 1, 2011	6.50 - 7.00%	17,680,000
Total limited obligation revenue bonds payable		17,680,000

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 – BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

	<u>Interest Rate</u>	<u>Amount</u>
Other obligations payable:		
Net pension obligation		\$ 46,324,173
Compensated absences		44,405,033
Claims and judgments		7,235,864
Interest arbitrage rebate		3,080,613
Landfill closure		<u>3,656,068</u>
Total other obligations payable		<u>104,701,751</u>
Total obligations included in General Long-term Debt Account Group		<u>\$ 1,318,701,751</u>
Bonds, notes and other obligations payable—proprietary fund types:		
Department of Water and Sewerage Revenue Refunding Bonds of 1986, due in varying amounts to January 1, 2016	5.50 - 7.70%	\$ 135,615,000
Department of Water and Sewerage Revenue Bonds, Series 1992, due in varying amounts to January 1, 2004	5.20 - 5.60%	8,205,000
Department of Water and Sewerage Revenue Bonds, Series 1993, due in varying amounts to January 1, 2016	4.60 - 6.50%	130,965,000
Department of Water and Sewerage Revenue Refunding Bonds of 1996, due in varying amounts to January 1, 2014	5.50 - 6.00%	62,842,878
Department of Water and Sewerage Revenue Refunding Bonds, Series 1998A, due in varying amounts to January 1, 2022	4.00 - 5.00%	145,944,230
Department of Water and Sewerage Revenue Bonds Series 1998B, due in varying amounts to January 1, 2014	3.80 - 5.25%	<u>46,280,000</u>
Total revenue bonds payable - proprietary fund types		<u>529,852,108</u>
Department of Water and Sewerage Services - state construction loans	4.36 - 5.52%	<u>64,233,410</u>
Other obligations payable:		
Interest arbitrage rebate		<u>1,250,000</u>
Total other obligations payable		1,250,000
Total revenue bonds and other obligations payable		<u>595,335,518</u>
Capitalized lease obligations payable:		
Farmers Market	7.50%	<u>2,465,000</u>
Total capitalized lease obligations payable		<u>2,465,000</u>
Total proprietary bonds, notes and other obligations payable		<u>\$ 597,800,518</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

The bonds, notes and other obligations of the proprietary funds are classified in the combined balance sheet as follows:

Current portion of capital lease	\$ 125,000
Current portion of long-term debt	
payable from restricted assets	20,624,125
Revenue bonds payable	515,802,108
Capitalized lease obligation	2,340,000
Other long-term liabilities	58,909,285
	<hr/>
Total bonds, notes and other obligations payable	\$ 597,800,518
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The general obligation bonds and notes payable are direct obligations of the Government for which its full faith and credit are pledged. These obligations are payable from the assessment of ad valorem taxes. In addition, the Government has additional sources of funds which are utilized to meet the annual principal and interest payments of certain general obligation bonds and notes.

The Correctional Facility Revenue Bonds are special limited obligations of the Government payable solely from payments received from the State of Tennessee. Payments by the state for debt service on the bonds are considered reimbursements to the Government of reasonable allowable costs under the County Correctional Incentives Act of 1981, as amended, and regulations adopted by the State Department of Corrections. The obligation of the state to make payments under the contract is subject to, and dependent upon, annual appropriations by the State General Assembly and allotment by appropriate state officials and does not constitute a moral or general obligation or a debt of the state. The State General Assembly is not obligated to make appropriations to satisfy the state's obligation to make these payments, and there is no assurance that the State General Assembly will make any such appropriations. The bonds are not deemed to constitute a debt or liability of the Government for which there is recourse against the General Fund or a right to compel the exercise of the ad valorem taxing power of the Government. No right, title or interest in or to the DeBerry Correctional Facility financed by the bonds is pledged for the payment or security of the bonds.

Collateral for obligations of the proprietary funds

Department of Water and Sewerage Services

All bonds are collateralized by the revenues of the Department.

Bond covenants

The various revenue bond indentures contain significant limitations and restrictions on annual debt service requirements, maintenance of a flow of monies through various restricted accounts, minimum amounts to be maintained in various sinking funds, and minimum revenue bond coverages. As of June 30, 2001, the Government believes it was in compliance with all financial limitations and restrictions.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

Annual debt service requirements

The annual requirements to amortize all general obligation bonds and notes and revenue bonds outstanding as of June 30, 2001, including future interest payments of \$989,158,780, are as follows:

Year Ending June 30	General Obligation Bonds and Notes	Limited Obligation Revenue Bonds Payable	Revenue Bonds	Total Primary Government
2002	\$ 131,040,266	\$ 2,302,400	\$ 44,334,920	\$ 177,677,586
2003	128,025,526	2,300,740	49,295,490	179,621,756
2004	127,080,375	2,302,525	49,302,910	178,685,810
2005	125,728,636	2,302,083	49,273,325	177,304,044
2006	124,511,987	2,299,620	52,429,170	179,240,777
Thereafter	1,223,574,132	13,804,275	613,155,400	1,850,533,807
Total	1,859,960,922	25,311,643	857,791,215	2,743,063,780
Deferred charge	-	-	(10,052,892)	(10,052,892)
Interest payable	(663,640,922)	(7,631,643)	(317,886,215)	(989,158,780)
Total principal outstanding	<u>\$ 1,196,320,000</u>	<u>\$ 17,680,000</u>	<u>\$ 529,852,108</u>	<u>\$ 1,743,852,108</u>

Advance refundings of bonds

On February 15, 2001, the Government issued \$262,155,000 General Obligation Multi-purpose Improvement Bonds, Series 2001A, and \$73,745,000 General Obligation Multi-purpose Refunding Bonds, Series 2001B, at a combined effective rate of 4.43%. These bonds provided funds for various public improvement projects and refunded portions of the Government's Outstanding General Obligation Multi-purpose Improvement Bonds, Series 1994, dated September 15, 1994 (the "Series 1994 Bonds"), maturing May 15, 2005 through May 15, 2011; the Government's General Obligation Multi-purpose Improvement Bonds, Series 1995, dated May 15, 1995 (the "Series 1995 Bonds"), maturing May 15, 2008 through May 15, 2017; and also the Government's General Obligation Public Improvement Bonds, Series 1996A, dated October 1, 1996 (the "Series 1996A Bonds"), maturing November 15, 2011 and November 15, 2012. The net proceeds of the bonds totaled \$354,250,493 (including an original issue premium, net of underwriting fees and other issuance costs).

The refunding portion of the net proceeds of \$77,885,410 was used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded Series 1994 Bonds, Series 1995 Bonds and Series 1996A Bonds. As a result, \$73,505,000 in maturities of the Series 1994 Bonds, Series 1995 Bonds and Series 1996A Bonds are considered to be defeased. The liabilities for the defeased bonds have been removed from the General Long-term Debt Account Group.

The Government advance refunded the Series 1994 Bonds, Series 1995 Bonds and Series 1996A Bonds to reduce its total debt service payments over the next 16 years by \$6,179,244. By issuing the new bonds, the Government obtained an economic gain (difference between the present values of the debt service payments on the defeased and new debts) of \$3,710,673.

The Government had previously defeased certain other obligation bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service requirements on the retired bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Government's financial statements. As of June 30, 2001, a total of \$177,835,000 of bonds are considered defeased.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

Redemption options

Certain bonds are subject to redemption prior to maturity at the option of the Government. The stated payments of principal and interest on the Department of Water and Sewerage Services Series 1992, Series 1993, Series 1996, and Series 1998 Bonds are insured by municipal bond insurance policies which cannot be canceled.

The Department of Water and Sewerage Services - state construction loans

As of June 30, 2001, the Department has entered into fifteen loan agreements with the Tennessee Department of Conservation and the Tennessee Local Development Authority under the State of Tennessee's Revolving Fund Loan Program to provide financing for all or a portion of certain wastewater facility projects. Interest on the loans begins to accrue upon the first receipt of the loan proceeds and is computed at the rate established by the Authority (between 4.28% and 5.52% at June 30, 2001). The loans mature in monthly installments, as stipulated in the agreed-upon payment schedule, and are secured by the Government's unobligated state-shared taxes in an amount equal to the maximum annual debt service requirements under the agreements. In addition, the Government has pledged user fees and charges to be paid from the Department's Extension and Replacement Fund and/or from ad valorem taxes.

As of June 30, 2001, eleven of the fifteen project loans have been fully funded and the Department has begun repaying the loans in accordance with the specified payment schedules. These funded loans, which total \$64,233,410 at June 30, 2001, call for monthly payments of principal and interest of \$800,133. Funding has begun on the remaining four project loans.

State construction loan principal maturities as of June 30, 2001 are summarized below:

	Year Ending June 30	
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2002		\$ 6,574,125
2003		6,036,462
2004		4,819,488
2005		3,292,140
2006		2,487,324
Thereafter		41,023,871
		<hr/>
Total principal outstanding		\$ 64,233,410
		<hr/> <hr/>

Unissued bonds or notes

At June 30, 2001, authorized but unissued general obligation bonds totaled \$147,095,000. General obligation notes authorized but not executed totaled \$177,000.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

Component Units

Transaction summary for the year ended June 30, 2001

	Component Units	
	Governmental Types	Proprietary Types
Bonds, notes and other liabilities payable at July 1, 2000	\$ -	\$ 819,829,119
New bonds and notes issued:		
Metropolitan Development and Housing Agency:		
Notes payable - tax increments	-	5,731,619
Section 108 loans	-	66,340
Electric Power Board:		
Electric System Revenue Bonds, 2001 Series A and B	-	138,135,161
Metropolitan Nashville Airport Authority:		
Airport Improvement Revenue Bonds, Series 2001 A	-	91,930,000
Other additions:		
Sports Authority:		
Reclassification of debt from General Long-term Debt Account Group to governmental type component unit	95,635,000	-
Metropolitan Development and Housing Agency:		
Inclusion of Vine Hill component unit in reporting entity	-	9,825,977
Change in compensated absences	-	145,847
Change in other liabilities	-	892,679
Electric Power Board:		
Accretion on certain bonds and amortization of bond discount and loss on refunding	-	3,024,361
Nashville Thermal Transfer Corporation:		
Amortization of bond discount	-	37,534
Amortization of loss on refunding	-	658,530
Metropolitan Nashville Airport Authority:		
Amortization of loss on refunding	-	2,163,912
Accretion of Synthetic Advanced Refunding, Series 2001	-	516,106
Payments on borrowings	(1,885,000)	(39,736,295)
Bonds, notes and other liabilities retired	-	(20,382,082)
Other deductions:		
Metropolitan Development and Housing Agency:		
Exclusion of Nashville Housing Fund component unit from reporting entity	-	(2,769,939)
Electric Power Board:		
Principal payments to TVA	-	(685,654)
Change in other liabilities	-	(447,694)
Nashville Thermal Transfer Corporation:		
Amortization of accretion	-	(15,324)
Metropolitan Nashville Airport Authority:		
Amortization of deferred interest income	-	(382,671)
Amortization of deferred rental income	-	(59,271)
Bonds, notes and other liabilities payable at June 30, 2001	<u>\$ 93,750,000</u>	<u>\$ 1,008,478,255</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

Description of amounts payable at June 30, 2001

	<u>Interest Rates</u>	<u>Amount</u>
Revenue bonds payable - governmental types:		
Public Improvement Revenue Bonds (Stadium Project), Series 1996, due in varying amounts to July 1, 2026	4.70 - 5.875%	\$ 74,080,000
Taxable Public Facility Revenue Bonds, Series 1998, due in varying amount to July 1, 2018	5.87 - 6.60%	<u>19,670,000</u>
Total revenue bonds payable - governmental types		<u>\$ 93,750,000</u>
Revenue bonds payable - proprietary types:		
Metropolitan Development and Housing Agency, Revenue Bonds, 1998 Series, due June 11, 2009	5.77%	\$ 11,475,600
Electric Power Board Electric System Revenue Bonds, 1992 Series B, due in varying amounts to May 15, 2005	4.25 - 5.62%	57,754,752
Electric Power Board Electric System Revenue Bonds, 1996 Series A, due in varying amounts to May 15, 2013	5.50 - 6.00%	62,423,190
Electric Power Board Electric System Revenue Bonds, 1998 Series A, due in varying amounts to May 15, 2023	5.125 - 5.40%	87,656,507
Electric Power Board Electric System Revenue Bonds, 1998 Series B, due in varying amounts to May 15, 2017	3.80 - 5.50%	57,099,699
Electric Power Board Electric System Revenue Bonds, 2001 Series A, due in varying amounts to May 15, 2017	4.50 - 5.00%	118,111,186
Electric Power Board Electric System Revenue Bonds, 2001 Series B, due in varying amounts to May 15, 2014	5.50%	18,532,213
Nashville Thermal Transfer Corporation Energy Production Facility Revenue Refunding Bonds, Series 1994, due in varying amounts to July 1, 2007	3.80 - 5.20%	25,725,000
Nashville Thermal Transfer Corporation Energy Production Facility Revenue Bonds, Series 1997 A, due in varying amounts to July 1, 2014	3.75 - 5.75%	32,920,000
Nashville Thermal Transfer Corporation Energy Production Facility Revenue Refunding Bonds, Series 1997 B, due in varying amounts to July 1, 2012	3.75 - 6.00%	12,985,000
Nashville Thermal Transfer Corporation: Unamortized loss on refunding and bond discount		(2,507,565)
Unaccreted bond premium		107,317
Airport Revenue Bonds, Series 1991, due in varying amounts to July 1, 2005	6.50 - 6.75%	104,895,000
Passenger Facility Charge and Airport Revenue Bonds, Series 1992, due in varying amounts to July 1, 2012	5.60 - 6.00%	38,025,000
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1993, due in varying amounts to July 1, 2019	Adjustable	48,649,839
Airport Improvement Revenue Bonds, Adjustable Rate Refunding, Series 1995, due in varying amounts to July 1, 2015	4.625 - 5.00%	53,649,223
Airport Improvement Revenue Bonds, Series 1998, due in varying amounts to July 1, 2016	4.15 - 6.25%	42,858,604
Airport Improvement Revenue Bonds, Series 2001A, due in varying amounts to July 1, 2015	5.00 - 6.65%	91,930,000
Metropolitan Nashville Airport Authority: Current portion of revenue bonds		<u>15,196,375</u>
Total revenue bonds payable - proprietary types		<u>877,486,940</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 – BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

	<u>Interest Rates</u>	<u>Amount</u>
Notes and other liabilities payable - proprietary types:		
Hospital Authority:		
Capitalized lease obligation		\$ 44,287,285
Metropolitan Development and Housing Agency:		
Notes payable - tax increments		41,935,699
Section 108 loans		6,516,340
Notes payable Vine Hill Homes, LLC component unit		9,825,977
Other notes payable		2,345,601
Other		2,161,423
Electric Power Board:		
TVA Advances		4,206,559
Other		1,444,467
Metropolitan Transit Authority:		
Capitalized lease obligation		870,469
Metropolitan Nashville Airport Authority:		
Synthetic Advance Refunding, Series 2001		9,336,477
Subordinate Revenue Note, Series 1999		1,235,525
Deferred interest income		4,619,862
Other		2,205,631
		<u>130,991,315</u>
Total notes and other liabilities payable - proprietary types		<u>130,991,315</u>
Total bonds, notes and other liabilities payable - proprietary types		<u>\$ 1,008,478,255</u>

The bonds, notes and other liabilities of the proprietary type component units are classified in the combined balance sheet as follows:

Current portion of long-term debt	\$ 20,305,332
Current portion of capital lease	913,420
Current portion of long-term debt payable from restricted assets	20,936,375
Revenue bonds payable	841,630,565
Capitalized lease obligations	44,244,334
TVA advances	4,206,559
Other long-term liabilities	76,241,670
	<u>\$1,008,478,255</u>

Collateral for obligations of the component units

Sports Authority

The Public Improvement Bonds (Stadium Project), Series 1996 and Taxable Public Facility Revenue Bonds, Series 1998 are limited obligations of the Sports Authority payable solely from the revenues and receipts pledged to the payment of these bonds and secured by the non-tax revenues of the General Fund of the Government. Neither the faith and credit of the Sports Authority nor the faith and credit or the taxing power of the Government is pledged to the payment of the principal or interest on the bonds.

Metropolitan Development and Housing Agency

The Section 108 loan payable is guaranteed by the federal government. Notes payable of \$41,935,699 are collateralized by security interests in certain tax increment revenues paid by the Government and assigned to the note holders, and substantially all of the remaining notes payable are collateralized by real property.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

Electric Power Board

All bond issues are secured by a pledge and lien on the net revenues of the Board.

Nashville Thermal Transfer Corporation

All bonds are collateralized by the revenues of the Corporation and are insured by a municipal bond insurance policy.

Metropolitan Nashville Airport Authority

All bond issues are secured by the rights, title and interest of the Nashville International Airport to the rents and other monies payable under the terms of the airline lease agreements and by all airport revenue as defined in the trust indenture pertaining to the bonds.

Advance refundings of bonds

In fiscal year 1997, the Metropolitan Development and Housing Agency issued revenue bonds, Series 1997, to finance major capital improvements for various housing projects. These bonds were retired with the issuance of the Series 1998 Refunding Revenue Bonds. The Series 1998 bonds require monthly principal and interest payments until maturity.

In March 2001, the Electric Power Board issued \$18,400,000 (original issue at a premium) of Electric System Refunding Bonds, 2001 Series B to provide funds which were used to purchase and deposit in an irrevocable trust with an escrow agent certain U.S. government securities, the principal of and interest on which, when due, will provide funds sufficient to pay all principal and interest on all 1996 Series A Bonds, at their respective maturity dates. As a result of this advance refunding, the liability for the 1996 Series A Bonds has been removed from the accounts of the Electric Power Board. As of June 30, 2001, all of the 1996 Series A Bonds are considered defeased. This advance refunding resulted in a deferred loss of \$1,523,310. The loss is reported in the accompanying financial statements as a deduction from long-term debt and is being charged to operations through the year 2014 using the effective interest method. The Board completed the advance refunding to reduce its total debt service payments over the next 13 years by \$1,062,732 and to obtain an economic gain of \$697,379. The Board also issued, in March 2001, \$118,395,000 (original issue at a discount) of Electric System Revenue 2001 Series A Bonds.

The Series K through N Electric Power Revenue Bonds, 1992 Series A Bonds, and 1996 Series A Bonds have been defeased through advance refundings; therefore, the related balances of \$20,700,000, \$58,165,000, and \$18,835,000, respectively, which are still outstanding at June 30, 2001, do not appear as liabilities on the Electric Power Board's balance sheet.

In March 1997, the Government, on behalf of the Nashville Thermal Transfer Corporation, issued Series 1997B bonds in the principal amount of \$15,370,000. The bonds were issued to provide funds to call the Series 1986A bonds prior to maturity. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$909,646. The difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2012 using the effective-interest method. The Corporation completed the advance refunding to reduce its total debt service payments over the next 18 years by \$4,512,581 and to obtain an economic gain of \$1,843,500.

During October 1993, the Metropolitan Nashville Airport Authority issued Series 1993 bonds in the principal amount of \$53,500,000. The bonds were issued to provide funds to refund \$11,400,000 aggregate principal amount of the Airport Authority's Airport Revenue Bonds, Series 1989B and \$36,000,000 aggregate principal amount of the Airport Authority's Airport Revenue Bonds, Series 1991B. The proceeds were used to purchase direct obligations of the U.S. government which are held in an escrow fund by a trustee for the purpose of making principal, applicable redemption premium and interest payments on the Series 1989B and 1991B bonds as they become due. The Series 1989B bonds were redeemed on July 1, 1998 at a redemption price of 102% of the principal amount thereof, while the Series 1991B bonds will be redeemed on July 1, 2001 at a redemption price of 102% of the principal amount thereof. At June 30, 2001, \$36,000,000 of Series 1991B bonds are considered defeased and are not included in the financial statements. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$7,764,447. The difference, reported in the accompanying financial statements as a reduction of long-term debt, is being charged to operations through the year 2019 using the effective-interest method. The Airport Authority completed the advance refunding to reduce its total debt service payments over 25 years by \$7,922,976 and to obtain an economic gain of \$3,407,924.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

In connection with the issuance of the Series 1993 bonds so as to manage its exposure to market risks from fluctuations on interest rates, the Airport Authority entered into an interest rate swap agreement dated November 1, 1993 (the 1993 Swap Agreement) with a bank (the 1993 Swap Provider), which, in general, provides that the Authority will pay a fixed rate of 4.49% to the 1993 Swap Provider on a notional amount equal to the principal amount of the Series 1993 bonds outstanding and the 1993 Swap Provider will pay interest at the rate borne by the Series 1993 bonds on such notional amount on a net basis. The 1993 Swap Agreement has a term equal to the term of the Series 1993 bonds. Arrangements made in the 1993 Swap Agreement do not alter the Airport Authority's obligation to pay the principal of, premium, if any, and interest on the Series 1993 bonds. Since the counterparty to the 1993 Swap Agreement is a major bank, the Airport Authority does not anticipate credit related losses from nonperformance by such counterparty.

During June 1995, the Airport Authority issued Series 1995 bonds in the principal amount of \$74,810,000. The bonds were issued to provide funds to refund \$74,810,000 aggregate principal amount of the Airport Authority's Airport Revenue Bonds, Series 1985. The Series 1995 bonds were issued bearing interest at a weekly rate. To manage its exposure to market risks from fluctuations in interest rates, the Airport Authority entered into a forward interest rate swap agreement (the 1995 Swap Agreement) eliminating any basis risk to the Airport Authority, resulting in a net fixed rate of 9.29% on the Series 1995 bonds.

During January 1998, the Series 1995 bonds were remarketed with a fixed rate. In connection with the remarketing, the 1995 Swap Agreement was terminated requiring the Airport Authority to pay a Termination Payment. The Termination Payment was funded through the issuance of the Series 1998A and Series 1998B bonds. The remarketing of the Series 1995 bonds and termination of the 1995 Swap Agreement resulted in a difference between the remarketing price and the net carrying amount of the original debt of \$19,804,773. The difference, reported in the accompanying financial statements as a reduction from long-term debt, is being charged to operations through the year 2016 using the effective-interest method. The Airport Authority completed the remarketing and termination of the 1995 Swap Agreement to reduce its total debt service payments over the next 17 years by \$681,220. No significant economic gain or loss resulted from this refunding transaction.

In connection with the Series 1995 Bonds, the Series 1998A Bonds and the Series 1998B Bonds, to generate interest savings, the Airport Authority entered into an interest rate swap agreement dated July 8, 1999 (the 1999 Swap Agreement) with a financial institution (the 1999 Swap Provider) on a notional amount of \$80,000,000 declining in accordance with the amortization schedule of the designated bonds. The 1999 Swap Agreement provides that the Authority will pay a variable rate based on the BMA Municipal Swap Index to the 1999 Swap Provider and the 1999 Swap Provider will pay a fixed rate of 4.865% to the Airport Authority. The termination date of the 1999 Swap Agreement is July 1, 2015, which corresponds to the maturity of the Series 1995 Bonds. Arrangements made in the 2000 Swap Agreement do not alter the Airport Authority's obligation to pay the principal of, premium, if any, and interest on the Series 1995 Bonds, Series 1998A Bonds and the Series 1998B Bonds. Since the counterparty to the 1999 Swap Agreement is a major bank, the Airport Authority does not anticipate credit related losses from nonperformance by such counterparty.

During December 1997, the Airport Authority issued Series 1998A and Series 1998B bonds in the principal amount of \$19,695,000 and \$9,740,000, respectively. The bonds were issued for the purpose of paying the Termination Payment under the 1995 Swap Agreement entered into in connection with the Series 1995 bonds.

During March 1998, the Airport Authority issued Series 1998C bonds in the principal amount of \$32,660,000. The bonds were issued to provide funds to refund \$30,940,000 aggregate principal amount of the Airport Authority's Airport Revenue Bonds, Series 1989A. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,710,369. The difference, reported in the accompanying financial statements as a deduction from long-term debt, is being charged to operations through the year 2017 using the effective-interest method. The Airport Authority completed the advance refunding to reduce its total debt service payments over the next 19 years by \$3,511,337 and to obtain an economic gain of \$2,261,103.

During April 2001, the Airport Authority issued Series 2001A bonds in the principal amount of \$91,930,000. The bonds were issued to provide funds to refund \$91,930,000 aggregate principal amount of the Airport Authority's Airport Revenue Bonds, Series 1991C. The proceeds from the issue are held by the Airport Authority at June 30, 2001 and were used to redeem the Series 1991C bonds on July 1, 2001 at a redemption price of 102% of the principal amount thereof.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

During September 1998, the Airport Authority completed a synthetic advance refunding of \$91,930,000 of the callable Airport Revenue Bonds, Series 1991C to take advantage of significantly lower interest rates. The Airport Authority accelerated annual savings resulting from the synthetic advance refunding transaction. This was done through an off-market swap in which the fixed rate liability was set at an artificially higher interest rate such that its net debt service liability approximated that of the refunded 1991 Bonds. In exchange for the higher payments, the Airport Authority received a net upfront payment of \$7,947,134 based on the increased value of the swap. The net upfront payment which will be repaid over the term of the Airport Revenue Bonds, Series 2001A, was recorded as a deferred credit upon receipt. Interest accretion began upon receipt resulting in a charge to operations, based upon the discount rate used in determining the present value of the accelerated annual savings, with a corresponding increase in the deferred credit. The proceeds from the issuance of the Series 2001A bonds in April 2001, were used to redeem the long-term portion of the outstanding 1991C bonds on July 1, 2001.

Conduit debt obligations

From time to time, the Government, through the Industrial Development Board, a component unit, has issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private sector entities served by the bond issuances. Neither the Government nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

The aggregate principal amount as of March 31, 2001 for the Industrial Revenue Bonds issued after April 1, 1996 was \$185,352,432. The aggregate principal amount payable for the Industrial Revenue Bonds issued prior to April 1, 1996 could not be determined; however, their original issue amount totaled \$1,414,846,369.

The Health and Educational Facilities Board of The Metropolitan Government of Nashville and Davidson County, Tennessee, (The Board) is a public, non-profit corporation and instrumentality of the Government organized in 1974 pursuant to Chapter 101, Part 3, Title 48 of the TCA as amended (the Act). The Board is not considered to be part of the Government's reporting entity. The Act empowers the Board, among other things, to acquire and furnish property suitable for use by educational institutions, hospital institutions, or multifamily housing facilities in connection with their operations, and to loan to such entities the proceeds from the sale of its bonds to finance such security for the payment of the principal and interest on bonds issued. The Government is not liable for the payment of the principal or any interest on any of the revenue bonds of the Board. Accordingly, the revenue bonds of the Board are not reported as liabilities of the Government.

The aggregate principal amount of revenue bonds issued by the Board on or after April 1, 1996 totals approximately \$1,452,668,000. The aggregate principal amount of revenue bonds which were issued by the Board and are still outstanding as of April 1, 1996 could not be determined; however, the total aggregate principal amount of revenue bonds issued by the Board prior to April 1, 1996 was \$1,367,025,500.

Other matters

Electric Power Board

The Electric Power Board is a fiscal intermediary for the TVA energy conservation programs whereby loans are made to the Board's customers to be used in connection with TVA's Residential Energy Services Program. Pursuant to the terms of an agreement with TVA, the energy conservation loans made to the Board's customers are funded and guaranteed by TVA.

The Electric Power Board has a \$3,000,000 unsecured line of credit to be used for general operating purposes at a negotiated interest rate. There were no borrowings under this line of credit at June 30, 2001.

Metropolitan Transit Authority

The Metropolitan Transit Authority had a maximum \$2,900,000 revolving credit line with a local bank. The line matured on March 5, 2001 and was not renewed.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 6 - BONDS, NOTES AND OTHER OBLIGATIONS (CONTINUED)

During 2001, the Authority entered into a maximum \$2,000,000 revolving credit line agreement with the Metropolitan Government. Interest on the outstanding principal balance is calculated at the same rate of interest as is earned on the Metropolitan Government's idle funds in its Metro Investment Pool. The Authority is not required to make monthly interest payments; the amount of any unpaid interest accrued each month is added to the amount of principal outstanding. The total outstanding balance as of June 30, 2001 is \$1,976,047. The amount is reported as due to other funds of the primary government.

Metropolitan Nashville Airport Authority

During October 1985, the Metropolitan Nashville Airport Authority issued \$68,435,000 Special Facility Revenue Bonds on behalf of American Airlines, Inc. The bonds were issued to finance the acquisition, construction and improvement of certain airport facilities as a result of American Airlines' decision to locate a hub operation at Nashville International Airport. During the year ended June 30, 1996, the Airport Authority issued \$68,435,000 Special Facility Revenue Bonds (American Airlines, Inc. Project), Refunding Series 1995A and 1995B. The bonds were issued to refund the Special Facility Revenue Bonds, Series 1985. These Special Facility Revenue Bonds and related costs are payable only with funds from American Airlines, Inc. or one of its related entities. Since these bonds do not represent a claim on the Airport Authority's assets or require the Airport Authority to incur future obligations, they have not been recorded in the Airport Authority's financial statements.

Annual debt service requirements

The annual principal maturities of all bonds payable as of June 30, 2001 for the governmental type component units are as follows:

Year Ending June 30	Bonds Payable
2002	\$ 1,975,000
2003	2,080,000
2004	2,190,000
2005	2,305,000
2006	2,430,000
Thereafter	<u>82,770,000</u>
Total principal outstanding	<u>\$ 93,750,000</u>

The annual principal maturities of all bonds payable as of June 30, 2001 for the proprietary type component units are as follows:

Year Ending June 30	Bonds Payable
2002	\$ 37,280,615
2003	41,580,978
2004	41,902,364
2005	44,182,749
2006	41,208,869
Thereafter	<u>613,311,413</u>
	819,466,988
Unamortized loss on refunding and bond discount	(23,919,899)
Unaccreted bond premium	107,317
Future maturities of notes and loans	(10,097,466)
Airport Revenue Bonds refunded on July 1, 2001	<u>91,930,000</u>
Total principal outstanding	<u>\$ 877,486,940</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - DEFICIT BALANCES AND EXCESS EXPENDITURES

The following funds have deficit balances at June 30, 2001:

	Fund Deficit / Deficit Retained Earnings	Reserved	Contributed Capital	Total Fund Equity (Deficit)
Primary Government				
Special Revenue Funds:				
Metropolitan Action Commission:				
Administrative and Leasehold	\$ (1,750)	\$ 1,750	\$ -	\$ -
Headstart CACFP	(52,155)	47,926	-	(4,229)
Summer Food Program	(8,213)	-	-	(8,213)
Headstart Expansion	(313,312)	313,312	-	-
Local Law Enforcement Block Grant of 1999	(106,223)	106,223	-	-
Advanced Planning and Research	(52,381)	52,256	-	(125)
Solid Waste:				
Solid Waste Grants	(30,902)	-	-	(30,902)
Library Services	(1,380)	1,380	-	-
1999 Tornado Grant	(68,796)	-	-	(68,796)
Local Law Enforcement Block Grant of 2000	(77,116)	76,477	-	(639)
Juvenile Court Accountability	(515)	-	-	(515)
2000 Storm Clean Up Grant	(17,390)	10,760	-	(6,630)
Planning Commission Top Grant	(3,113)	3,037	-	(76)
Nashville Career Advancement Center	(3,340)	14,812	-	11,472
ADA Management	(4,207)	4,207	-	-
Capital Projects Funds:				
Facilities Planning Capital Outlay	(37,724)	108,743	-	71,019
Multi-purpose Improvement Bonds of 2001	(1,663,429)	11,673,743	-	10,010,314
Enterprise Funds:				
Nashville Convention Center	(16,452,547)	-	56,775,770	40,323,223
Internal Service Funds:				
Information Systems	(2,587,853)	-	2,707,740	119,887
Radio Shop	(536,173)	-	9,392,716	8,856,543
Facilities Planning and Construction	(11,001)	-	-	(11,001)
Component Units - Proprietary Types				
Hospital Authority	(39,459,826)	-	56,972,141	17,512,315
Nashville Thermal Transfer Corporation	(6,381,616)	-	-	(6,381,616)

The responsibility for funding the above deficit balances is as follows:

Funds with deficits

Funding responsibility

Primary Government

Special Revenue Funds  
Capital Projects Funds  
Enterprise Funds  
Internal Service Funds

General Fund  
Future issuance of notes and bonds  
Future revenues  
Future user charges

Component Units - Proprietary Types

Future revenues

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - DEFICIT BALANCES AND EXCESS EXPENDITURES (CONTINUED)

During the year ended June 30, 2001, the Government exceeded the budgeted level of expenditures as follows:

Budgeted Unit	Budget	Actual	Excess
General Fund			
General Services District			
General Government:			
Human Resources	\$ 2,061,873	\$ 2,064,339	\$ 2,466
County Register of Deeds	243,870	1,448,510	1,204,640
Telecommunications	181,910	183,874	1,964
Administration of Justice:			
Circuit Court Clerk	2,693,967	6,255,934	3,561,967
Employee Benefits:			
Unemployment Compensation	250,000	266,799	16,799
Employee In-Line-of-Duty Medical Expense	1,500,000	1,500,896	896
Miscellaneous:			
Insurance and Reserve	1,835,000	1,889,721	54,721
Contract with Bill Wilkerson Hearing and Speech Center	222,820	240,163	17,343
Fringe Benefits	-	173,139	173,139
Interest Charges/Bank Fees	-	10,030	10,030
Operating Transfers Out:			
General Fund 4% Reserve	14,820,846	15,437,557	616,711
General Government Grants	575,070	840,725	265,655
Juvenile Court Accountability	46,129	46,139	10
Health Title V Clean Air Act	-	313,295	313,295
Law Enforcement Block Grant of 1999	4,769	40,675	35,906
Facilities Planning and Construction	70,000	72,807	2,807
Motor Pool	-	19,563	19,563
Operating Transfers to Component Units:			
Metropolitan Development and Housing Agency	2,373,636	2,514,166	140,530
Metropolitan Nashville Airport Authority	170,099	216,213	46,114
Urban Services District			
Employee Benefits:			
Direct Pension Payments	3,000	4,860	1,860
Miscellaneous:			
Interest Charges/Bank Fees	-	3,448	3,448
Operating Transfers to Component Units:			
Metropolitan Nashville Airport Authority	-	74,686	74,686
Debt Service Funds			
General Services District			
General Purposes:			
Fiscal Charges	190,000	271,576	81,576
Payments to refunded bond escrow agent	-	46,064,568	46,064,568
Operating transfers to component units	693,074	744,649	51,575
School Purposes:			
Fiscal Charges	135,000	176,008	41,008
Payments to refunded bond escrow agent	-	31,820,842	31,820,842
Operating transfers out	-	2,320,000	2,320,000
Operating transfers to component units	346,537	378,578	32,041

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - DEFICIT BALANCES AND EXCESS EXPENDITURES (CONTINUED)

Certain operating expenditures and commission and fee revenues of the County Register of Deeds and the Circuit Court Clerk are not included in the General Fund budget but are included in General Fund revenues and expenditures to appropriately recognize the full operations of these elected officials in the financial statements. The budget overage in Human Resources was primarily due to unanticipated requests related to a compensation study. Telecommunications exceeded its budget due to an inadequate budget for videotapes.

Employee benefits are controlled as a whole and, as a whole, were under budget. The Insurance and Reserve and Surety Bonds accounts were used for direct payments to vendors for coverage that was not included in the budget. Fringe Benefits are charged for the matching portion of health and life insurance when the employee portion is paid directly, rather than through payroll deduction, and a provision for these expenditures was not budgeted. The excess in the Contract with Bill Wilkerson Hearing and Speech is due to current year expenditures that were budgeted in prior years.

The following activities are budgeted as contra revenue, but accounted for as expenditures: interest charges/bank fees; transfers to the Metropolitan Development and Housing Agency and the Metropolitan Nashville Airport Authority for tax increment payments. The excess in the transfer to the General Fund 4% Reserve is due to revenue collections in excess of those budgeted.

The excess transfers in General Government Grants, Juvenile Court Accountability and Local Law Enforcement Block Grant – 1999 are due to local match requirements, which were not budgeted. The budget overage in the Facilities Planning transfer was due to excess expenditures in the renovation of the Old Madison Library. The Motor Pool overage is due an asset transfer of insurance proceeds received in the General Fund, which were not budgeted. Excess revenues received from businesses for Title V compliance are transferred to the Health Title V Clean Air Act fund each year-end. This transfer is not budgeted.

Expenditures for the debt service funds are not controlled on a line item basis, and routine debt service expenditures as a whole were under budget. In addition, the practice of budgeting transfers to component units and other funds as contra revenue rather than expenditures accounted for the excesses in other financial uses.

NOTE 8 - CONTRIBUTED CAPITAL

The following summarizes the changes in contributed capital during the year ended June 30, 2001:

	Enterprise Funds	Internal Service Funds	Total Primary Government	Proprietary Type Component Units	Total Reporting Entity
Contributed capital July 1, 2000	\$ 560,452,757	\$ 36,525,588	\$ 596,978,345	\$ 399,835,974	\$ 996,814,319
Cash transactions:					
Contributions, grants and loans	-	-	-	9,803,178	9,803,178
Non-cash transactions:					
Restatement of Metropolitan Development and Housing Agency	-	-	-	(10,433,562)	(10,433,562)
Restatement of Metropolitan Nashville Airport Authority	-	-	-	(8,741,380)	(8,741,380)
Contributions, grants and loans	-	-	-	50,000	50,000
Depreciation, disposal and transfer of fixed assets	-	(22,968,193)	(22,968,193)	(11,587,045)	(34,555,238)
Other sources	-	-	-	520	520
Contributed capital June 30, 2001	<u>\$ 560,452,757</u>	<u>\$ 13,557,395</u>	<u>\$ 574,010,152</u>	<u>\$ 378,927,685</u>	<u>\$ 952,937,837</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 8 - CONTRIBUTED CAPITAL (CONTINUED)

During the fiscal year ended September 30, 1999, the Metropolitan Development and Housing Authority converted from the use of special revenue funds to enterprise funds. During the fiscal year ended September 30, 2000, this conversion resulted in a decrease to contributed capital.

NOTE 9 - PENSION PLANS

All plans of the primary government were established or continue under the authority of the Metropolitan Charter, Article XIII, effective April 1, 1963. Approval of the Metropolitan Council is required to establish and amend benefit provisions. Article XIII also requires that all pension plans be actuarially sound. Administrative costs of the plans are financed through plan assets. The plans are under the jurisdiction of the Metropolitan Employee Benefit Board, an independent entity created by the Metropolitan Charter. No separate financial reports are issued for these plans.

The Government sponsors or guarantees the following single-employer pension plans:

<u>Name</u>	<u>Type</u>	<u>Status</u>
<u>Primary Government</u>		
Fiduciary Fund Types:		
Metro - Division A	Defined Benefit	Closed 1995
Metro - Division B	Defined Benefit	Open
City	Defined Benefit	Closed 1963
County	Defined Benefit	Closed 1963
Metro Education	Defined Benefit	Closed 1969
City Education	Defined Benefit	Closed 1963
County Education	Defined Benefit	Closed 1963
<u>Component Units</u>		
Sports Authority and Hospital Authority	Included in primary government plans	
Metropolitan Development and Housing Agency	Defined Contribution	Open
Electric Power Board	Defined Benefit	Open
Metropolitan Transit Authority	Defined Benefit	Open
Nashville Thermal Transfer Corporation	Defined Contribution	Open
Metropolitan Nashville Airport Authority	Defined Benefit	Open

The Metropolitan Transit Authority guarantees the plan sponsored by the Davidson Transit Organization (DTO), which provides Metropolitan Transit Authority labor. For comparative purposes, the DTO pension plan information, where presented, is disclosed as the Metropolitan Transit Authority plan.

Beginning July 1, 2000, the City, County, Metro Education, City Education, and County Education plans became participants in the Guaranteed Payment Program (GPP), an umbrella program created by the Metropolitan Council to ensure actuarially sound funding for the five closed plans. Under the GPP, unfunded liabilities of the aggregate program are amortized over a period of no more than thirty years. Contributions on behalf of the five individual plans move to a payment account from which distributions are paid to the constituent plans of the GPP as necessary to satisfy current benefit needs and to satisfy long-term funding objectives of the GPP.

Summary of Significant Accounting Policies

The pension funds are reported using the accrual basis of accounting. Employer and employee contributions are recognized in the period due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. The net pension obligation (amounts of unfunded actuarially determined contributions that are not expected to be liquidated with expendable available financial resources) are reported in the General Long-term Debt Account Group. All plans with a net pension obligation are governmental in nature. Certain plans which have a net pension asset have participants employed by proprietary activities; however, the portion of the net pension asset allocable to the proprietary activities could not be determined.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Investments are reported at fair value. Common stocks, bonds and U.S. Government and other domestic and foreign securities are stated at quoted market prices as of June 30, 2001.

Plan Descriptions

Primary Government

The Primary Government plans are administered by the Government, and the authority under which the obligations to contribute to the plan were created, and the authority under which either may be amended, are granted by the Metropolitan Charter.

Metro Plan

Division A

This plan (The Metropolitan Employees' Benefit Trust Fund) was established at the inception of the Government on April 1, 1963 and implemented on November 4, 1964. At that time, all employees of the former city and county governments were given the option of continuing as participants of the pension plans of those organizations or transferring to the Metro Plan. Division A of the Metro Plan was closed to new members on July 1, 1995.

Normal retirement for employees other than policemen and firemen occurs at age 65 and entitles employees to a lifetime monthly benefit of 1/12 of the sum of 1% of average base earnings, as defined by the Social Security Administration, plus 1.75% of average excess earnings multiplied by the years of credited service, plus cost-of-living adjustments. Average earnings is the average earnings for the last 60 consecutive months in which earnings were highest. Benefits fully vest on completing 10 years of service.

Normal retirement for policemen and firemen occurs upon reaching age 55 and completing 20 years of service. The lifetime monthly benefit is calculated as 1/12 of the sum of 2% of average earnings up to 25 years of credited service plus 1.75% of average earnings for all years of credited service in excess of 25, reduced by the amount of primary social security benefits at age 65 and increased by cost-of-living adjustments. In no event shall police and fire pensions be less than that due employees who are not policemen or firemen. Benefits fully vest on completing 10 years of service.

Any employee who terminates after the completion of at least 10 years of service and before eligibility for normal retirement shall be eligible to receive a monthly deferred pension which shall commence on the first day of the month following the attainment of age 65, computed and payable in accordance with the Metro Plan.

Division B

As of July 1, 1995, Division B of the Metro Plan was established. All employees with an effective hire date of July 1, 1995 or later are only eligible to participate in Division B of the Metro Plan. Also, Government employees as of June 30, 1995 who were qualified members of Division A were given the option to transfer to Division B as of January 1, 1996, subject to written application approved by the Benefit Board. Substantially all employees transferred to Division B of the Metro Plan.

Normal retirement for employees other than policemen and fire fighters occurs at the unreduced retirement age which is the earlier of (a) the date when the employee's age plus the completed years of credited employee service equals 85, but not before age 60; and (b) the date when the employee reaches age 65 and completes 5 years of credited employee service. The lifetime monthly benefit is calculated as 1/12 of the sum of 1.75% of average earnings for all years of credited service. Benefits fully vest on completing 10 years of service.

Normal retirement for policemen and fire fighters occurs any time after attaining the unreduced retirement age which is the date when the employee's age plus the completed years of credited police and fire service equals 75, but not before age 53 nor after age 60. The lifetime monthly benefit is 1/12 of the sum of 2% of average earnings for each year of credited fire and police service not in excess of 25 years; plus 1.75% of average earnings for each year that the credited police or fire service exceeds 25 years. Benefits fully vest on completing 10 years of service.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

An early retirement pension is available for retired employees if the termination occurs prior to the eligibility under normal retirement but after age 50 (45 for police and fire) and after the completion of 10 years of credited employee service. Such shall be payable as either a monthly deferred early employee service pension beginning the month after the attainment of the normal retirement age or an immediate monthly early employee service pension beginning on the first day of the month following termination. The lifetime monthly benefit for the immediate monthly early employee service pension is reduced by 4% for each of the first 5 years by which the retirement date precedes the normal retirement age, and by 8% for each additional year by which the retirement date precedes the normal retirement age; provided, however, that the immediate monthly benefit shall not be less than the actuarial equivalent of the deferred pension provided by the Metro Plan.

Any employee who terminates after the completion of at least 10 years of service and before eligibility for normal retirement or early retirement shall be eligible to receive a monthly deferred pension which shall commence on the first day of the month following the attainment of unreduced retirement age, computed and payable in accordance with the Metro Plan.

Any employee with unused sick leave time at service retirement shall receive 100% credit for the time, subject to an affirmative election at the time of retirement.

All assets of the Metropolitan Employees' Benefit Trust Fund may legally be used to pay benefits to any plan members or beneficiaries, regardless of whether the members participate in Division A or Division B of the Metro Plan.

Subsequent to June 30, 2001, changes to the provisions of the Metro Plan were approved by the Employee Benefit Board and the Metropolitan Council. Benefits now fully vest on completing five years of service. Average earnings are based upon the previous 60 consecutive months which produce the highest earnings. Employees who are rehired are eligible to reconnect prior service after being regularly employed continuously for one year. Dependent children of vested employees are eligible for a survivor benefit if the employee should die leaving no surviving spouse. These changes apply to members who are employees of the Government on or after October 1, 2001.

City Plan

This plan (the Closed City Plan Fund) covers certain employees of the former city of Nashville who have elected to remain under this plan and not transfer to the Metro Plan. This plan was closed to new members on April 1, 1963.

Normal retirement for policemen and firemen occurs upon completing 25 years of service; for other participants, age 60 must be reached in addition to completing 25 years of service. The monthly lifetime benefit of all participants is 50% of the final monthly salary. All participants in the City Plan are fully vested.

County Plan

This plan (the Davidson County Employees' Retirement Fund) covers employees of the former government of Davidson County who have elected to remain under this plan and not transfer to the Metro Plan. This plan was closed to new members on April 1, 1963.

Participants elected coverage under Division A or B. Normal retirement under Division A occurs at age 65; lifetime monthly benefits are the years of credited service multiplied by 0.75% of defined average base earnings per month plus 1.5% of average excess earnings per month. Average earnings is the average earnings for the 10 full consecutive calendar years in which earnings were highest. Normal retirement under Division B occurs after 30 years of service or after 24 years of service and reaching age 60; lifetime monthly benefits are 1/12 of 50% of the highest calendar year earnings. All participants in the County Plan are fully vested.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Metro Education Plan

This plan (the Teachers' Retirement Plan Fund) covers participants who elected to transfer from the City Education Plan and County Education Plan and Board of Education professional employees hired between April 1, 1963 and July 1, 1969. Normal retirement occurs upon reaching age 60 with 20 years of service, completing 25 years of service, or reaching age 65. The lifetime monthly benefit is determined as 1/12 of 2% of the highest average earnings multiplied by the years of service, plus cost-of-living adjustments. Highest average earnings is the average earnings for the 36 consecutive months in which earnings were highest. All participants in the Metro Education Plan are fully vested.

After July 1, 1969 professional employees hired became members of the State Employees, Teachers, and Higher Education Employees Pension Plan, a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS) that provides retirement, death, and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. A financial report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243.

City Education Plan

This plan (the Teachers' Civil Service and Pension Fund) covers employees who were teachers of the former City of Nashville who elected to remain under this plan and not transfer to the Metro Education Plan. This plan was closed to new members on April 1, 1963.

Normal retirement occurs upon reaching age 60 and completing 15 years of service, or completing 25 years of service before reaching age 60. With 15 years of service, the lifetime monthly benefit is 1/12 of 2.5% of the highest annual salary multiplied by the years of service up to 24. With 25 years of service, the lifetime monthly benefit is 1/12 of 2% of the highest annual salary multiplied by the years of service up to 30. Benefits are adjusted for cost-of-living increases. All participants in the City Education Plan are fully vested.

County Education Plan

This plan (the Employees' Pension and Insurance Fund) covers teachers and classified employees of the former Davidson County Board of Education who have elected to remain under this plan and not transfer to the Metro Education Plan. This plan was closed to new members on April 1, 1963.

Normal retirement occurs upon reaching age 60 and completing 15 years of service, or completing 25 years of service before reaching age 60. With 15 years of service, the lifetime monthly benefit is 1/12 of 2.5% of the highest annual salary multiplied by the years of service up to 24. With 25 years of service, the lifetime monthly benefit is 1/12 of 2% of the highest annual salary multiplied by the years of service up to 30. Benefits are adjusted for cost-of-living increases. All participants in the County Education Plan are fully vested.

Component Units

Metropolitan Development and Housing Agency

The Agency's retirement plan is a 401(a) plan administered by the Vanguard Group as of April 1, 2000. Prior to April 1, 2000, the Agency participated with several other housing authorities in the Housing-Renewal and Local Agency Retirement Plan which was administered by William M. Mercer.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

The plan, which is principally a defined contribution plan, also provides certain minimum defined benefits for employees who were participants in the Agency's Retirement Fund as of September 30, 2000. Employees are eligible to participate beginning the first day of the month following the date of hire. There are no required contributions by the participants; however, participants may make voluntary contributions from 0.5% to 10% of their basic compensation and the Agency contributes 13% of participants' basic compensation. Contributions are invested in any of eight funds as elected by the participant. Investment options and voluntary contributions may be changed daily.

Participants are immediately vested in their voluntary contributions plus actual earnings. Participants are also immediately vested in 5.5% of the participants' basic compensation contributed by the Agency. For each year of participation in the plan, participants vest at the rate of 20% of the remaining balance and become fully vested after five years.

Benefits are paid in the form of a cash distribution or various other annuity options at normal retirement date, age 65, death or disability. Participants may also elect to roll the vested portion of their retirement savings into another qualifying plan or an IRA or leave the amount in the plan. Early retirement may be elected by employees at age 55 who have at least ten years of service.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Metropolitan Development and Housing Agency at P. O. Box 846, Nashville, TN 37202.

Electric Power Board

The plan is a single-employer defined benefit pension plan which provides retirement and survivors' benefits to members and their beneficiaries. Cost of living adjustments are provided to members and their beneficiaries at the discretion of the Electric Power Board. The Metropolitan Charter assigns the authority to establish and amend benefit provisions to the Electric Power Board. The plan is administered by the Electric Power Board.

All full-time regular employees under age 65 are eligible to participate in the plan. The vesting provision of the plan provides for five-year cliff vesting. Electric Power Board employees who retire at or after age 65 and not later than age 70 are entitled to annual retirement benefits payable monthly for life in an amount equal to 2% of final average compensation multiplied by years in the plan not in excess of 35 years. Final average compensation is the average compensation in the 36 consecutive months in which compensation is highest. Unused sick leave may be used to increase credited service and benefit percentage under certain circumstances. Early retirement is an option beginning at age 55 with 15 years of credited service or at age 50 with 30 years of credited service with an actuarially reduced monthly benefit.

At April 1, 2001 (the latest date available), the actuarial value of assets was \$176,541,698, the actuarial accrued liability was \$229,870,247, and the unfunded actuarial accrued liability was \$53,328,549. Covered payroll was \$45,447,890.

The plan does not issue a separate financial report; however, complete financial statements of the Electric Power Board can be obtained from its administrative offices at 1214 Church Street, Nashville, TN 37203.

In 1994 the Electric Power Board established a nonqualified supplemental executive retirement plan limited to certain employees. Benefits accrue at the rate of 5 percent of salary for each year of credited service not to exceed 12 years and vests at the rate of 20% for each year of service, reduced by the percentage accrued and vested under the Electric Power Board's qualified plan. The actuarial assumptions of this plan are the same as those of the Electric Power Board's qualified plan. The plan is a non-qualified plan and, accordingly, the assets are accumulated in a trust fund; however, such assets are subject to the claims of the Electric Power Board's creditors. The Electric Power Board's policy is to fund the plan in accordance with sound actuarial practices and all required contributions have been made.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Metropolitan Transit Authority

The Disability and Retirement Plan of Davidson Transit Organization (the Plan) is a single-employer defined benefit pension plan which covers substantially all employees of the Metropolitan Transit Authority and Local 1235 of the Amalgamated Transit Union (the Union) providing retirement, disability and death benefits to members and their beneficiaries. Articles XII and XIII of the plan document establish the benefits. In accordance with Article XII, monthly benefits will increase 2.8%, and 2.7% effective July 1, 2001 and 2002, respectively. The plan is guaranteed by the Metropolitan Transit Authority which contracts with McDonald Transit Associates to provide management advisory services. That contract stipulates that McDonald Transit Associates is charged with oversight of the employment unit, Davidson Transit Organization.

At July 1, 1999 (the latest date available), the actuarial value of assets was \$14,900,000, the actuarial accrued liability was \$16,000,000, and the unfunded actuarial accrued liability was \$1,100,000. Covered payroll was \$9,200,000.

The plan issues a publicly available report that includes financial statements and required supplementary information. That report may be obtained by writing to the Metropolitan Transit Authority, 130 Nestor Street, Nashville TN, 37210, or by calling (615) 862-5969.

Nashville Thermal Transfer Corporation

The Nashville Thermal Transfer Corporation has a defined contribution pension plan covering all employees after 6 months of service whereby the Corporation contributes a specified percentage (5% at June 30, 2001) of the compensation of the employees. The plan also allows voluntary contributions to be made by employees, up to the legal amount allowed. Pension expense for the year ended June 30, 2001 amounted to \$149,728. Total covered payroll was \$3,012,846, and total payroll for all employees was \$3,213,135 for the year ended June 30, 2001.

The plan does not issue a separate financial report; however, complete financial statements of the Corporation can be obtained from its administrative offices at 110 First Avenue South, Nashville, TN 37210.

Metropolitan Nashville Airport Authority

Effective September 1989, the Airport Authority adopted a single-employer public employee retirement system (PERS) for its employees whereby the net assets available for benefits relative to the Airport Authority's employees were transferred from the Metropolitan Government's pension system to the Metropolitan Nashville Airport Authority Retirement Plan for Employees (the Plan). Certain Airport Authority employees continue to participate in the pension system of the Metropolitan Government. New employees of the Airport Authority and those previously selecting the new Metropolitan Nashville Airport Authority's single-employer PERS are not eligible for participation in the Metropolitan Government's pension system.

The plan is a non-contributory defined benefit pension plan administered by the Airport Authority. The plan provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries at the discretion of the Airport Authority. Benefit provisions are established and may be amended by the Airport Authority.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Metropolitan Nashville Airport Authority, One Terminal Drive, Suite 501, Nashville, TN 37214, or by calling (615) 275-1600.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Contributions

Primary Government

Metro Plan

The funding policy is to provide for periodic contributions at actuarially determined rates that are designed to accumulate sufficient assets to pay benefits when due. All other funding is provided by the Government with an actuarially recommended employer contribution rate of 3.60% for Metro Board of Education contributory employees and 5.70% for all other Metro employers.

City Plan

Funding is on a pay-as-you-go basis whereby contributions are made in amounts sufficient to cover benefits paid during the year. Actuarially required employer contributions are not computed because this plan is closed and there are few active employees.

County Plan

Funding is on a pay-as-you-go basis whereby contributions are made in amounts sufficient to cover benefits paid during the year. Actuarially required employer contributions are not computed because this plan is closed and there are few active employees.

Metro Education Plan

The Metro Education Plan is financed by contributions from the Metro Board of Education, participating employees and the State of Tennessee. Employees contribute a specified percentage of their earnings, the State of Tennessee contributes an amount to reimburse current benefits paid equivalent to the benefits which would have been earned under the Tennessee Consolidated Retirement System (TCRS) and the Metro Board of Education contributes an additional amount to provide for periodic contributions as actuarially determined to accumulate sufficient assets to pay benefits when due.

The TCRS plan is financed by contributions from teachers, most of whom are required by state statute to contribute 5 percent of their salary, and by the Metro Board of Education, which contributes at an actuarially determined rate (3.72% of covered payroll for the fiscal year ending June 30, 2001). The contribution requirement is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2001, 2000, and 1999 were \$8,597,855, \$12,165,312, and \$11,798,474 respectively, and were equal to the required contributions for each year.

City Education Plan

The plan is financed by contributions from the Government, participating employees and the State of Tennessee. Employees contribute a specified percentage of their earnings, the State of Tennessee contributes an amount to reimburse current benefits paid equivalent to the benefits which would have been earned under the TCRS and the Government contributes an additional amount to cover current benefits (pay-as-you-go). Actuarially required employer contributions are not computed because this plan is closed and there are few active employees.

County Education Plan

The plan is financed by contributions from the Government, participating employees and the State of Tennessee. Employees contribute a specified percentage of their earnings, the State of Tennessee contributes an amount to reimburse current benefits paid equivalent to the benefits which would have been earned under the TCRS and the Government contributes an additional amount to cover current benefits (pay-as-you-go). Actuarially required employer contributions are not computed because this plan is closed and there are few active employees.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Component Units

Metropolitan Development and Housing Agency

The Agency's contributions for the year ended September 30, 2000 amounted to \$1,679,850, which equaled the amount of the annual required contribution. Employee contributions were \$109,904. The Agency's payroll for employees covered by this plan was \$12,749,154, and total payroll amounted to \$14,919,782 during the fiscal year ended September 30, 2000.

Electric Power Board

The contribution requirements of plan members and the Board are established and may be amended by the Board. The plan is currently non-contributory. The Board's policy is to fund at least the minimum contribution for a 30 year funding level. The current rate is 15.46% of annual covered payroll. The annual required contribution for the year ended June 30, 2001 was \$7,024,684, and the actual amount contributed was \$7,024,684. The frozen initial liability method has been used to compute the annual contribution requirement.

Metropolitan Transit Authority

Plan members are required to contribute 4.5% of their covered payroll. The Metropolitan Transit Authority is required to contribute at an actuarially determined rate (5.7% in 2001). Contribution requirements of members and the Metropolitan Transit Authority are established per Article VII of the plan document. Administrative costs of the plan are paid out of plan assets. The annual pension costs and annual required contribution for the year ended June 30, 2001 was \$661,000, and the actual amount contributed was \$661,000. The entry age normal method has been used to compute the annual contribution requirement.

Metropolitan Nashville Airport Authority

The total contribution rate is established by the Authority through consultation with actuaries. The annual required contribution for the year ended June 30, 2001 was \$1,057,258, and the actual amount contributed was \$1,057,258. Both amounts represent 10.28% of covered payroll. The Authority's policy is to fund benefits in the period in which they are earned according to actuarially determined contribution requirements intended to cover the required contribution. The aggregate actuarial cost method has been used to compute the annual required contribution to the plan.

Selected Pension Information

Information regarding annual pension cost and net pension obligation (asset), trend information, and participant information for the plans of the primary government is summarized on the following schedules. The net pension benefit obligations for the Metro Board of Education plans are calculated net of expected reimbursements from the State of Tennessee. Information for the plans of the component units is omitted due to the inavailability of the information in separately issued reports in a consistent manner.

The significant actuarial assumptions underlying the plans of the primary government are summarized on the following schedules. The assumptions used to calculate the actuarially determined contribution requirements are the same as those used to compute the net pension obligation except where indicated. Information for the plans of the component units is omitted due to the inavailability of the information in separately issued reports in a consistent manner.

Required Supplementary Information

A Schedule of Funding Progress and a Schedule of Employer Contributions as required by GASB Statement No. 25 are included following the Selected Pension Information.

Other

The only plan having an individual investment which exceeds 5% of plan assets at June 30, 2001 is the Metro Plan (S&P 500 Flagship Series A totaling \$302,341,876). The categorization of pension investments by asset type is included in Note 4 – Cash and Investments.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

SELECTED PENSION INFORMATION

	<u>Metro</u>	<u>City</u>	<u>County</u>
ANNUAL PENSION COST AND NET PENSION OBLIGATION (ASSET) - FISCAL 2001			
Annual required contribution	\$ 21,918,101	\$ 7,784,542	\$ 1,838,038
Interest on net pension obligation	(2,153,535)	(753,962)	(763,124)
Adjustment to annual required contribution	<u>2,872,329</u>	<u>837,159</u>	<u>847,333</u>
Annual pension cost	22,636,895	7,867,739	1,922,247
Contributions made	<u>(28,622,300)</u>	<u>(11,412,690)</u>	<u>(2,733,131)</u>
Increase (decrease) in net pension obligation	(5,985,405)	(3,544,951)	(810,884)
Net pension obligation (asset) beginning of year	<u>(26,919,189)</u>	<u>(9,424,520)</u>	<u>(9,539,047)</u>
Net pension obligation (asset) end of year	<u>\$ (32,904,594)</u>	<u>\$ (12,969,471)</u>	<u>\$ (10,349,931)</u>
THREE-YEAR TREND INFORMATION			
2001			
Annual pension cost (APC)	\$ 22,636,895	\$ 7,867,739	\$ 1,922,247
Percentage of APC contributed	126.44%	145.06%	142.18%
Net pension obligation (asset)	\$ (32,904,594)	\$ (12,969,471)	\$ (10,349,931)
2000			
Annual pension cost (APC)	\$ 27,898,908	\$ 8,241,890	\$ 2,087,102
Percentage of APC contributed	130.54%	146.02%	140.96%
Net pension obligation (asset)	\$ (26,919,189)	\$ (9,424,520)	\$ (9,539,047)
1999			
Annual pension cost (APC)	\$ 33,788,847	\$ 8,224,662	\$ 2,083,040
Percentage of APC contributed	120.51%	153.00%	150.50%
Net pension obligation (asset)	\$ (18,399,886)	\$ (5,631,421)	\$ (8,684,094)
PARTICIPANTS - Latest Actuarial Valuation Date			
Active:			
Fully vested	6,114	-	-
Non-vested and partially vested	5,619	-	-
Total active	<u>11,733</u>	<u>-</u>	<u>-</u>
Retirees and beneficiaries receiving benefits	4,276	988	247
Terminated vested	184	-	-
Total	<u>16,193</u>	<u>988</u>	<u>247</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

SELECTED PENSION INFORMATION

<u>Metro Education</u>	<u>City Education</u>	<u>County Education</u>	<u>Total Primary Government</u>
\$ 10,742,379	\$ 3,221,233	\$ 5,332,537	\$ 50,836,830
3,112,433	(301,525)	361,310	(498,403)
<u>(3,455,883)</u>	<u>334,797</u>	<u>(400,681)</u>	<u>1,035,054</u>
10,398,929	3,254,505	5,293,166	51,373,481
<u>(5,979,961)</u>	<u>(4,417,182)</u>	<u>(6,809,746)</u>	<u>(59,975,010)</u>
4,418,968	(1,162,677)	(1,516,580)	(8,601,529)
<u>38,905,408</u>	<u>(3,769,058)</u>	<u>4,516,377</u>	<u>(6,230,029)</u>
<u>\$ 43,324,376</u>	<u>\$ (4,931,735)</u>	<u>\$ 2,999,797</u>	<u>\$ (14,831,558)</u>
\$ 10,398,929	\$ 3,254,505	\$ 5,293,166	\$ 51,373,481
57.51%	135.73%	128.65%	116.74%
\$ 43,324,376	\$ (4,931,735)	\$ 2,999,797	\$ (14,831,558)
\$ 9,090,646	\$ 3,134,077	\$ 4,980,403	\$ 55,433,026
17.63%	149.40%	143.58%	116.95%
\$ 38,905,408	\$ (3,769,058)	\$ 4,516,377	\$ (6,230,029)
\$ 9,049,627	\$ 3,227,855	\$ 5,110,925	\$ 61,484,956
96.42%	132.60%	128.14%	123.59%
\$ 31,417,625	\$ (2,220,696)	\$ 6,686,983	\$ 3,168,511
142	2	9	6,267
-	-	-	5,619
<u>142</u>	<u>2</u>	<u>9</u>	<u>11,886</u>
1,249	344	497	7,601
19	-	-	203
<u>1,410</u>	<u>346</u>	<u>506</u>	<u>19,690</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

SELECTED PENSION INFORMATION

	<u>Metro</u>	<u>City (a)</u>	<u>County (a)</u>	<u>Metro Education</u>
ACTUARIAL VALUATION INFORMATION				
Valuation date	July 1, 2000	July 1, 2000	July 1, 2000	July 1, 2000
Actuarial cost method	entry age normal	entry age normal	entry age normal	entry age normal
Amortization method	level dollar closed	level dollar open	level dollar open	level dollar open
Amortization period	40 years (18 remaining)	30 years	30 years	30 years
Asset valuation method	5 year smoothed market	5 year smoothed market	5 year smoothed market	5 year smoothed market
Actuarial assumptions:				
Investment rate of return*	8.00%	8.00%	8.00%	8.00%
Projected salary increases*	5.00%	None	None	5.00%
Postretirement benefit increase adjustments	1.80 - 3.25%	None	None	3.00%
* Includes inflation at	3.25%	3.25%	3.25%	3.00%

(a) These plans are closed and funded on a "pay-as-you-go" basis. Contributions are not made based on actuarial computation.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

SELECTED PENSION INFORMATION

<u>City</u> <u>Education (a)</u>	<u>County</u> <u>Education (a)</u>
July 1, 2000	July 1, 2000
entry age normal	entry age normal
level dollar open	level dollar open
30 years	30 years
market	market
8.00%	8.00%
5.00%	5.00%
3.00%	3.00%
3.00%	3.00%

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

SCHEDULE OF FUNDING PROGRESS (d)

Unaudited - See Accompanying Accountants' Report

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio
<b>Metro Plan</b>				
July 1, 1995	\$ 719,734,278	\$ 856,068,393	\$ 136,334,115	84.07 %
July 1, 1996	819,031,667	931,082,784	112,051,117	87.97
July 1, 1997	945,348,756	1,055,700,536	110,351,780	89.55
July 1, 1998	1,084,563,971	1,193,291,692	108,727,721	90.89
July 1, 1999	1,241,356,861	1,350,000,989	108,644,128	91.95
July 1, 2000	1,419,820,507	1,522,468,982	102,648,475	93.26
<b>City Plan (a)</b>				
July 1, 1995 (b)	-	-	-	-
July 1, 1996	-	103,380,560	103,380,560	-
July 1, 1997 (b)	-	-	-	-
July 1, 1998	-	101,792,628	101,792,628	-
July 1, 1999 (b)	-	-	-	-
July 1, 2000	-	91,006,918	91,006,918	-
<b>County Plan (a)</b>				
July 1, 1995 (b)	-	-	-	-
July 1, 1996	-	27,187,468	27,187,468	-
July 1, 1997 (b)	-	-	-	-
July 1, 1998	-	25,430,114	25,430,114	-
July 1, 1999 (b)	-	-	-	-
July 1, 2000	-	21,487,993	21,487,993	-
<b>Metro Education Plan</b>				
July 1, 1995 (c)	-	-	-	-
July 1, 1996	92,751,025	212,250,602	119,499,577	43.70
July 1, 1997	100,223,414	220,373,524	120,150,110	45.48
July 1, 1998	109,278,714	222,220,929	112,942,215	49.18
July 1, 1999	112,112,056	226,253,095	114,141,039	49.55
July 1, 2000	105,021,868	230,608,033	125,586,165	45.54

(a) Plan is closed and funded on a "pay-as-you-go" basis.

(b) The valuations of the closed City and County pension plans are performed on a bi-annual basis.

(c) Information calculated in accordance with the parameters outlined in GASB Statement No. 27 is not available.

(d) There are no factors that significantly affect the identification of trends in the amounts reported. See assumptions used in the preparation of the Schedule previously disclosed in this note.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

SCHEDULE OF FUNDING PROGRESS (CONTINUED) (d)

Unaudited - See Accompanying Accountants' Report

	<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
\$	289,341,838	47.12 %
	306,757,122	36.53
	336,276,286	32.82
	359,932,634	30.21
	375,552,645	28.93
	384,283,394	26.71
	-	-
	36,419	-
	-	-
	-	-
	-	-
	-	-
	-	-
	106,553	-
	-	-
	-	-
	-	-
	-	-
	15,932,682	750.03
	14,171,823	847.81
	11,224,795	1,006.19
	9,951,951	1,146.92
	8,071,426	1,555.94

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

SCHEDULE OF FUNDING PROGRESS (d)

Unaudited - See Accompanying Accountants' Report

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio
City Education Plan (a)				
July 1, 1995	\$ -	\$ 44,550,890	\$ 44,550,890	-
July 1, 1996	-	43,521,835	43,521,835	-
July 1, 1997	-	42,046,382	42,046,382	-
July 1, 1998	-	40,870,102	40,870,102	-
July 1, 1999	-	39,598,968	39,598,968	-
July 1, 2000	-	37,658,538	37,658,538	-
County Education Plan (a)				
July 1, 1995	-	67,350,976	67,350,976	-
July 1, 1996	-	66,621,096	66,621,096	-
July 1, 1997	-	64,780,582	64,780,582	-
July 1, 1998	-	64,942,095	64,942,095	-
July 1, 1999	-	63,208,011	63,208,011	-
July 1, 2000	-	62,341,205	62,341,205	-

(a) Plan is closed and funded on a "pay-as-you-go" basis.

(d) There are no factors that significantly affect the identification of trends in the amounts reported. See assumptions used in the preparation of the Schedule previously disclosed in this note.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

SCHEDULE OF FUNDING PROGRESS (CONTINUED) (d)

Unaudited - See Accompanying Accountants' Report

<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
\$ 681,290	- %
512,282	-
512,282	-
242,820	-
242,820	-
168,000	-
1,598,881	-
1,350,521	-
1,350,521	-
934,645	-
934,645	-
480,448	-

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

SCHEDULE OF EMPLOYER CONTRIBUTIONS (c)

Unaudited - See Accompanying Accountants' Report

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
Metro Plan		
1996	\$ 39,483,096	106.45 %
1997	38,659,299	116.17
1998	35,648,309	127.61
1999	33,538,193	121.41
2000	27,454,972	132.65
2001	21,918,101	130.59
City Plan	(a)	
County Plan	(a)	
Metro Education Plan		
1996	-	-
1997	9,793,567	63.87
1998	9,800,117	73.16
1999	9,161,016	95.25
2000	9,220,140	17.38
2001	10,742,379	55.67
City Education Plan	(a)	
County Education Plan	(a)	

(a) Plan is closed and funded on a "pay-as-you-go" basis.

(b) Information calculated in accordance with the parameters outlined in GASB Statement No. 27 is not available.

(c) See assumptions used in the preparation of the Schedule previously disclosed in this note.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Post - Retirement Benefits

Primary Government

Metropolitan Government

For any retiree in the Metro, City or County Plans who elects to participate in the Metro hospitalization insurance program, the Government contributes 75% of all premium payments, and the retiree contributes 25%. Funding is on a pay-as-you-go basis under which payments are made in amounts sufficient to cover benefits paid, administrative costs and anticipated inflationary increases. Benefits paid by the Government for the fiscal year ended June 30, 2001 totaled \$10,924,799.

The Government also provides a matching contribution on dental insurance for any retiree who elects to participate and provides life insurance at no charge. Benefits paid by the Government for dental and life insurance totaled \$1,036,344 and \$827,302, respectively, for the fiscal year ended June 30, 2001.

The post-retirement benefits for the Metro plans were authorized by the Government's charter. During the year ended June 30, 2001, 5,626 participants were eligible to receive post-retirement benefits.

Metro Board of Education

For any retiree in the Metro, City or County Education Plans who elects to participate in the Board of Education medical and dental insurance plans, the Board contributes 71% of all premium payments with the retiree contributing the remaining 29%. Funding is on a pay-as-you go basis under which payments are made in amounts sufficient to cover benefits paid. Benefits paid by the Board of Education for the fiscal year ended June 30, 2001 totaled \$5,656,587. During the year ended June 30, 2001, 2,305 participants were eligible to receive post-retirement benefits. The post-retirement benefits for teachers of the Metro Board of Education were authorized by the Government's charter.

Component Units

Electric Power Board

The Electric Power Board provides post-retirement health care benefits to all employees who retire under the provisions of the qualified pension plan and supplemental executive retirement plan. Currently, 457 retirees meet those eligibility requirements. Expenditures for post-retirement health care benefits are recognized as retirees report claims. Expenditures of \$4,844,663 for the year ended June 30, 2001 were recognized for post-retirement health care. The post-retirement benefits for the Electric Power Board employees were authorized by the Government's charter.

Metropolitan Transit Authority

Medical, dental, vision and prescription card insurance benefits are available to all employees retiring from the Metropolitan Transit Authority through its self-insurance plan. Participants contribute to the cost of these benefits based on age and type of coverage. The portion funded by the Metropolitan Transit Authority is expensed as the coverage is provided. During the year ended June 30, 2001, total medical benefit claims expense incurred amounted to \$580,192. Future claims cannot be estimated. At June 30, 2001, 107 retirees were covered under this plan.

Life insurance benefits for retirees and their spouses are also self-insured. Life insurance coverage is \$10,000 on each retired employee and \$2,500 on the spouse of the retired employee, except for two former Class I employees who are entitled to an \$11,250 benefit. During the year ended June 30, 2001, the Metropolitan Transit Authority recognized an expense for death benefit claims totaling \$12,500. Future such claims cannot be estimated. However, at June 30, 2001, 121 retirees were covered under this plan.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 - PENSION PLANS (CONTINUED)

Metropolitan Nashville Airport Authority

Under the Airport Authority's PERS, the Airport Authority pays 75% of the medical coverage cost, with the retirees paying the remaining 25%. The Airport Authority also pays 100% of the premium cost of a \$7,500 life insurance policy on each retiree. In addition, the retirees have the option to pay 100% of the cost of dental, vision and supplemental life insurance coverage. Currently, 51 retirees are receiving benefits under this PERS. During the year ended June 30, 2001, payments of \$342,149 were made by the Authority for post-retirement benefits under this PERS.

New employees of the Airport Authority and those previously selecting the new Airport Authority plan are not eligible for participation in the Government's pension plan. However, certain other Airport Authority employees do participate in the Metro Plan. The Airport Authority pays the same percentage as stated above for the medical, dental and life premiums. Currently, 31 retirees are receiving benefits from the Metro Plan. During the year ended June 30, 2001, payments of \$91,166 were made to the Government for post-retirement benefits under this PERS.

Payments for these post-retirement benefits are expensed as they are incurred. During the year ended June 30, 2001, \$433,315 of post-retirement benefits were recognized as expense.

NOTE 10 - DEFERRED COMPENSATION AND PROFIT SHARING PLANS

Primary Government

Metro Plan

The Government offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits deferral of a portion of salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Because the assets are not held in a trustee capacity by the Government, they are not included in the Government's financial statements.

Component Units

Metropolitan Development and Housing Agency

The Agency sponsors a deferred compensation plan, available to all employees, created in accordance with Internal Revenue Code Section 457. The plan permits all employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. No contributions are made to this plan by the Agency.

All assets and income from the 457 plan are to be held in trust for the exclusive benefit of the participants and their beneficiaries and investment assets are carried at fair value. The financial position and results of operations of the 457 plan, the Employee Benefit Fund, are reported as an expendable trust fund. Investments of the deferred compensation plan are managed under one of 27 investment options, or a combination thereof. The choice of the investment options is made by the participants. As of September 30, 2000, \$2,760,489 had been invested by employees in the Agency's deferred compensation plan.

Electric Power Board

The Electric Power Board has a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits employees to defer a portion of their salary until future years with the Board providing a matching contribution at up to 3% of compensation. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan provides that assets or income of the plan shall be used for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the plan. Since the assets of the plan are held in custodial

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

and annuity accounts for the exclusive benefit of plan participants, the related assets of the plan are not reflected on the balance sheet.

NOTE 10 - DEFERRED COMPENSATION AND PROFIT SHARING PLANS (CONTINUED)

Nashville Thermal Transfer Corporation Profit - Sharing Plan

The Nashville Thermal Transfer Corporation has a profit-sharing plan pursuant to Section 401 of the Internal Revenue Code, whereby after six months of service employees may elect to participate and contribute from 1% to 15% of their annual compensation, but not in excess of the maximum allowed. The plan provides for a matching contribution by the Corporation equal to 50% of salary deferrals up to 7%. Matching contributions of \$65,196 were made for the year ended June 30, 2001.

Metropolitan Nashville Airport Authority

The Metropolitan Nashville Airport Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Airport Authority employees, permits the deferral of a portion of salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Since the assets of the plan are held in custodial and annuity accounts for the exclusive benefit of plan participants, the related assets of the plan are not reflected on the Airport Authority's balance sheet. Beginning January 1, 2001, the Authority's matching contributions are made to a deferred compensation plan created in accordance with Internal Revenue Code Section 401(a). The contribution by the Airport Authority to this plan was \$542,278 for the year ended June 30, 2001.

NOTE 11 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The Government maintains various enterprise funds which provide water, sewer and other services. Segment information for the year ended June 30, 2001 is summarized as follows:

Balance Sheets

	Department of Water and Sewerage Services	Nashville Convention Center	Board of Fair Commissioners	Farmers Market	Police Secondary Employment	Total Enterprise Funds
Current assets	\$ 34,986,097	\$ 2,203,110	\$ 8,811,221	\$ 761,367	\$ 502,929	\$ 47,264,724
Restricted assets	326,072,017	-	-	-	-	326,072,017
Property, plant and equipment – net	1,215,751,349	39,766,039	2,965,065	3,703,401	59,014	1,262,244,868
Other non-current assets	9,402,400	-	50,000	-	-	9,452,400
<b>Total assets</b>	<b>\$ 1,586,211,863</b>	<b>\$ 41,969,149</b>	<b>\$ 11,826,286</b>	<b>\$ 4,464,768</b>	<b>\$ 561,943</b>	<b>\$ 1,645,034,009</b>
Current liabilities (payable from current assets)	\$ 10,628,817	\$ 1,645,926	\$ 643,165	\$ 262,100	\$ 407,937	\$ 13,587,945
Current liabilities (payable from restricted assets)	42,794,696	-	-	-	-	42,794,696
Long-term debt-net of current maturities	574,711,393	-	-	2,340,000	-	577,051,393
Contributed capital	502,188,592	56,775,770	1,488,395	-	-	560,452,757
Retained earnings (deficit)	455,888,365	(16,452,547)	9,694,726	1,862,668	154,006	451,147,218
<b>Total liabilities and equity</b>	<b>\$ 1,586,211,863</b>	<b>\$ 41,969,149</b>	<b>\$ 11,826,286</b>	<b>\$ 4,464,768</b>	<b>\$ 561,943</b>	<b>\$ 1,645,034,009</b>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS (CONTINUED)

Statements of Income (Loss)

	Department of Water and Sewerage Services	Nashville Convention Center	Board of Fair Commissioners	Farmers Market	Police Secondary Employment	Total Enterprise Funds
Operating revenues	\$ 152,171,853	\$ 3,777,918	\$ 3,308,160	\$ 826,510	\$ 2,405,234	\$ 162,489,675
Operating expenses	108,157,840	6,412,851	3,684,582	924,954	2,212,062	121,392,289
Operating income (loss)	44,014,013	(2,634,933)	(376,422)	(98,444)	193,172	41,097,386
Nonoperating revenue (expense):						
Interest income	19,065,879	106,990	488,949	42,721	422	19,704,961
Interest expense	(34,640,036)	-	-	(140,588)	-	(34,780,624)
Arbitrage expense	(1,511,034)	-	-	-	-	(1,511,034)
Gain (loss) on sale of property	1,186	(315)	1,755	-	-	2,626
Other	1,205,690	-	-	-	-	1,205,690
Income (loss) before operating transfers and capital grants and contributions	28,135,698	(2,528,258)	114,282	(196,311)	193,594	25,719,005
Operating transfers in	131,718	1,202,334	-	260,588	-	1,594,640
Operating transfers out	(379,850)	-	(20,000)	-	(98,093)	(497,943)
Capital grants and contributions	18,431,359	-	-	-	-	18,431,359
<b>NET INCOME (LOSS)</b>	<b>\$ 46,318,925</b>	<b>\$ (1,325,924)</b>	<b>\$ 94,282</b>	<b>\$ 64,277</b>	<b>\$ 95,501</b>	<b>\$ 45,247,061</b>

Other Data

Property, plant and equipment:						
Additions	\$ 45,380,866	\$ -	\$ 901,197	\$ -	\$ 60,000	\$ 46,342,063
Disposals	1,235,864	25,267	-	-	-	1,422,589
Depreciation and amortization expense	42,304,633	1,190,480	303,433	156,491	986	43,956,023
Net working capital	24,357,280	557,184	8,168,056	499,267	94,992	33,676,779

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - CONDENSED FINANCIAL STATEMENTS FOR COMPONENT UNITS

The financial statements of the Government include various component units which provide housing, health care, electric, heating, transportation and other services. Condensed financial statements for the year ended June 30, 2001 of the major component units are as follows:

Governmental Types

Condensed Balance Sheets

	Nashville District Management Corporation	Sports Authority	Total Governmental Types
Cash and cash equivalents	\$ 434,189	\$ 26,444,260	\$ 26,878,449
Investments	-	17,373,585	17,373,585
Due from the primary government	-	61,845	61,845
Property, plant and equipment (including general fixed assets) - net	-	418,969,497	418,969,497
Amount available in debt service funds	-	4,912,860	4,912,860
Amount to be provided for retirement of long-term debt	-	88,837,140	88,837,140
Other assets	30,582	788,292	818,874
	<u>\$ 464,771</u>	<u>\$ 557,387,479</u>	<u>\$ 557,852,250</u>
<b>Total assets</b>	<b>\$ 464,771</b>	<b>\$ 557,387,479</b>	<b>\$ 557,852,250</b>
Accounts payable	\$ 91,555	\$ 20,055,011	\$ 20,146,566
Due to the primary government	-	1,162,322	1,162,322
Other liabilities	-	26,408	26,408
Revenue bonds and other liabilities payable	-	93,750,000	93,750,000
Fund equity	373,216	442,393,738	442,766,954
	<u>\$ 464,771</u>	<u>\$ 557,387,479</u>	<u>\$ 557,852,250</u>
<b>Total liabilities and fund equity</b>	<b>\$ 464,771</b>	<b>\$ 557,387,479</b>	<b>\$ 557,852,250</b>

Condensed Statements of Revenues, Expenditures and Changes in Fund Balances

Total revenues	\$ 25,908	\$ 11,408,774	\$ 11,434,682
Current expenditures	497,535	24,815,403	25,312,938
Capital outlay expenditures	-	168,178	168,178
Debt service expenditures	-	7,390,084	7,390,084
	<u>497,535</u>	<u>32,373,665</u>	<u>32,871,200</u>
<b>Total expenditures</b>	<b>497,535</b>	<b>32,373,665</b>	<b>32,871,200</b>
Excess (deficiency) of revenues over expenditures	(471,627)	(20,964,891)	(21,436,518)
Operating transfers from the primary government	546,071	5,097,533	5,643,604
	<u>546,071</u>	<u>5,097,533</u>	<u>5,643,604</u>
<b>Excess (deficiency) of revenues and operating transfers over expenditures</b>	<b>\$ 74,444</b>	<b>\$ (15,867,358)</b>	<b>\$ (15,792,914)</b>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 - CONDENSED FINANCIAL STATEMENTS FOR COMPONENT UNITS (CONTINUED)

Proprietary Types

	<u>Condensed Balance Sheets</u>						
	Hospital Authority	Metropolitan Development and Housing Agency	Electric Power Board	Nashville Thermal Transfer Corporation	Metropolitan Nashville Airport Authority	Other Proprietary Types	Total Proprietary Types
Current assets	\$ 25,940,910	\$ 59,125,393	\$ 128,176,282	\$ 4,039,668	\$ 34,098,535	\$ 8,599,779	\$ 259,980,567
Due from the primary government	87,005	-	-	270,920	-	349	358,274
Restricted assets	106,485	1,413,428	130,370,341	21,462,938	159,986,401	63	313,339,656
Notes receivable	-	15,763,346	4,247,295	-	3,465,391	-	23,476,032
Property, plant and equipment - net	63,717,445	164,679,798	554,118,810	38,995,236	382,448,598	27,422,546	1,231,382,433
Other non-current assets	-	48,546,314	2,863,129	725,885	6,163,158	-	58,298,486
<b>Total assets</b>	<b>\$ 89,851,845</b>	<b>\$ 289,528,279</b>	<b>\$ 819,775,857</b>	<b>\$ 65,494,647</b>	<b>\$ 586,162,083</b>	<b>\$ 36,022,737</b>	<b>\$ 1,886,835,448</b>
Current liabilities (payable from current assets)	\$ 28,463,193	\$ 26,301,479	\$ 111,279,564	\$ 847,830	\$ 6,302,555	\$ 2,346,483	\$ 175,541,104
Due to the primary government	268,427	-	-	415	-	2,005,701	2,274,543
Current liabilities (payable from restricted assets)	149,729	118,627	2,173,545	7,538,266	24,059,688	-	34,039,855
Long-term debt - net of current maturities	43,458,181	68,875,308	392,308,573	63,489,752	397,405,161	786,153	966,323,128
Fund equity (deficit)	17,512,315	194,232,865	314,014,175	(6,381,616)	158,394,679	30,884,400	708,656,818
<b>Total liabilities and fund equity</b>	<b>\$ 89,851,845</b>	<b>\$ 289,528,279</b>	<b>\$ 819,775,857</b>	<b>\$ 65,494,647</b>	<b>\$ 586,162,083</b>	<b>\$ 36,022,737</b>	<b>\$ 1,886,835,448</b>

Condensed Statements of Revenues, Expenses and Changes in Retained Earnings

Operating revenues	\$ 70,527,324	\$ 14,809,149	\$ 716,539,694	\$ 12,526,044	\$ 54,750,919	\$ 13,063,566	\$ 882,216,696
Operating expenses	111,780,326	158,759,808	696,313,793	18,863,751	49,055,352	30,296,186	1,065,069,216
Operating income (loss)	(41,253,002)	(143,950,659)	20,225,901	(6,337,707)	5,695,567	(17,232,620)	(182,852,520)
Nonoperating revenue (expense)	612,806	138,121,408	(11,091,001)	(3,123,244)	(886,140)	1,112,837	124,746,666
Income (loss) before operating transfers and capital grants and contributions	(40,640,196)	(5,829,251)	9,134,900	(9,460,951)	4,809,427	(16,119,783)	(58,105,854)
Operating transfer from (to) the primary government and component units - net	35,231,510	4,847,070	(52,814)	11,613,563	530,062	7,252,266	59,421,657
Capital grants and contributions	158,068	-	-	-	-	10,132,951	10,291,019
<b>Net income (loss)</b>	<b>\$ (5,250,618)</b>	<b>\$ (982,181)</b>	<b>\$ 9,082,086</b>	<b>\$ 2,152,612</b>	<b>\$ 5,339,489</b>	<b>\$ 1,265,434</b>	<b>\$ 11,606,822</b>

Other Data

Capital contributions	\$ 158,068	\$ 9,853,178	\$ -	\$ -	\$ -	\$ 10,132,951	\$ 20,144,197
Depreciation and amortization	4,503,133	7,879,524	23,790,221	5,311,497	15,880,649	8,757,981	66,123,005

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 - LEASES

Primary Government

The Government leases certain facilities from various lessors under operating lease agreements. Total rental expenditures under these leases are nominal for the year ended June 30, 2001.

The Government leases certain warehouse and office space and various other places for periodic use to various lessees. Such leases are accounted for as operating leases and range in duration from less than one year to five years. The lease agreements provide for fixed rental payments. Annual rental income under these operating leases is nominal.

The Government entered into a capital lease agreement with the State of Tennessee for the construction of a Farmers Market. Under the terms of the agreement, the Government will lease the building for 20 years at a cost of \$3,645,000. Lease payments began in June 1996 with an initial payment of \$645,000. The remaining lease payments will be made over the initial term of the lease in annual rental payments. At June 30, 2001, the leased building is carried in the enterprise funds at \$3,645,000, less accumulated depreciation of \$463,219. A summary of future minimum lease payments and the present value of future lease payments for the capitalized lease as of June 30, 2001 is as follows:

<u>Year Ending June 30,</u>	
2002	\$ 259,708
2003	258,438
2004	256,892
2005	260,008
2006	257,540
Thereafter	<u>2,319,545</u>
Total future minimum lease payments	3,612,131
Less:	
Amount representing interest imputed at 7.5%	1,147,131
Current portion of capital lease	<u>125,000</u>
Long-term capitalized lease obligation	<u>\$ 2,340,000</u>

Component Units

The Government, on behalf of General Hospital, entered into a capital lease agreement with Meharry Medical College for the use of the Hubbard Hospital site on the Meharry campus. Under the terms of the agreement, the Government will lease the building for 30 years at a cost of \$4 million per year. Lease payments began in December 1994 after Meharry Medical College and the Board of Hospitals agreed on a program of renovations by Meharry Medical College on Hubbard Hospital. This lease has been subleased to the Hospital Authority.

A summary of future minimum lease payments and the present value of future lease payments for the capitalized lease as of June 30, 2001 is as follows:

<u>Year Ending June 30,</u>	
2002	\$ 4,000,000
2003	4,000,000
2004	4,000,000
2005	4,000,000
2006	4,000,000
Thereafter	<u>73,666,662</u>
Total future minimum lease payments	93,666,662
Less:	
Amount representing interest imputed at 7.5%	49,570,437
Current portion of capital lease	<u>719,970</u>
Long-term capitalized lease obligation	<u>\$ 43,376,255</u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – LEASES (CONTINUED)

At June 30, 2001, the leased building is carried in the proprietary type component units at the present value of minimum future lease payments of \$48,000,000, less accumulated depreciation of \$5,733,333.

General Hospital also has a capital lease agreement with United Telephone – Southeast, Inc., doing business as Sprint, for a telephone system. Under the terms of the Sprint lease agreement, the Hospital will lease the telephone equipment for 5 years at a cost of \$10,807 per month. Lease payments began in February of 1998. A summary of future minimum lease payments required under the agreements as of June 30, 2001 follows:

<u>Year Ending June 30,</u>		
2002	\$	129,689
2003		<u>86,422</u>
Total future minimum lease payments		216,111
Less:		
Amount representing interest imputed at 14.41%		25,051
Current portion of capital lease		<u>109,134</u>
Long-term capitalized lease obligation	\$	<u><u>81,926</u></u>

The Metropolitan Development and Housing Agency leases certain office space and equipment accounted for as operating leases. Total lease expenditures for the year ended September 30, 2000 were \$98,379, and future minimum rental commitments are insignificant.

The Metropolitan Development and Housing Agency receives rental income under a building lease accounted for as an operating lease. The lease has an initial term of thirty years and provides for an option to renew for seven successive ten-year periods. The lessee is committed to pay base rents totaling \$500,000 annually through 2016, with future minimum lease payments of \$8,125,000. Rental income from other cancelable operating leases amounted to \$475,471 for the year ended September 30, 2000.

The Electric Power Board's rent expense, consisting primarily of payments for pole attachment leases, facilities rental and leasing arrangements for software licensing, amounted to \$777,919 for the year ended June 30, 2001. These arrangements, which are all accounted for as operating leases, are all cancelable, therefore, future minimum rentals under these leases are not significant. Rental income is received under pole attachment leases, which are accounted for as operating leases. These leases are cancelable, therefore, future minimum rentals under these leases are not significant. Rental income from this source totaled \$1,486,272 for the year ended June 30, 2001.

At November 1, 1999, the Metropolitan Transit Authority entered into a capital lease obligation for new buses with a capitalized cost of \$990,591. The future minimum lease payments required under the capital lease as of June 30, 2001, are as follows:

<u>Year Ending June 30,</u>		
2002	\$	127,223
2003		127,223
2004		127,223
2005		127,223
2006		127,223
Thereafter		<u>445,283</u>
Total future minimum lease payments		1,081,398
Less:		
Amount representing interest imputed at 5.05%		210,929
Current portion of capital lease		<u>84,316</u>
Long-term capitalized lease obligation	\$	<u><u>786,153</u></u>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – LEASES (CONTINUED)

The Airport Authority leases or has entered into options to lease several tracts of land to developers. The leases expire in 2058. The Airport Authority has received advance payments in the amount of \$2,533,613 which are being amortized into income over the terms of the leases. The buildings and any other improvements constructed on the land become the property of the Airport Authority upon the expiration or termination of the leases.

During the year ended June 30, 1975, the Airport Authority entered into long-term lease agreements with certain of the airlines serving Nashville for use of the facilities at Nashville International Airport. Rentals and fees due under terms of the leases are based upon the Airport Authority's projected cost of providing the facilities to the airlines. These long-term agreements have been amended and restated to extend through September 14, 2017, which is 30 years from the occupancy date of the new terminal. Costs recovered through rentals and fees include expenses of operating and maintaining the airport plus 110% of debt service on all bonds outstanding. The notes receivable from tenants of \$3,465,391 at June 30, 2001 represent expenditures made by the Airport Authority on behalf of certain tenants for improvements at the terminal. The signatory tenant notes accrue interest at 7% while the nonsignatory tenant notes accrue interest at 9%. The notes are to be repaid on a monthly basis through 2015.

Certain bond issues of the Industrial Development Board in prior years provide for lease agreements between the Board and the companies receiving public financing for the construction or improvement of their facilities. The leases require the companies to pay rent during the original period of the lease in an amount at least sufficient to pay the principal and interest due on the bonds. These leases are automatically renewable for up to four additional five year terms at specified rental amounts. The current rent associated with these leases was \$18,800 for the year ended March 31, 2001.

Certain lease agreements of the Industrial Development Board provide for the purchase of the leased facilities when all amounts due on the related bond issued have been repaid and all the renewal term rents due have been received. The purchase option amounts are fixed by the respective lease agreements. Lease agreements with purchase options that have not been exercised and remain in effect total \$300,000 at March 31, 2001.

The Industrial Development Board is obligated under a lease agreement dated April 6, 1961, with the Airport Authority to pay ground rent in the amount of \$12,000 annually for the property on which the facilities occupied by Genesco, Inc. are located. The lease term runs concurrently with the Genesco, Inc. ground rent lease which expires on April 25, 2007. During the year ended March 31, 2001, rent under the long-term lease obligation was \$12,000. Future obligations over the term of the long-term lease are as follows:

Year Ending March 31,	Amount
<hr/>	<hr/>
2002	\$ 12,000
2003	12,000
2004	12,000
2005	12,000
2006	12,000
Thereafter	13,000
	<hr/>
Long-term capitalized lease obligation	\$ 73,000
	<hr/> <hr/>

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - INTERFUND RECEIVABLES AND PAYABLES

Individual fund interfund receivable and payable balances and amounts due to and due from component units at June 30, 2001 are as follows:

Fund	Receivable	Payable
Primary Government		
General Fund	\$ 7,073,972	\$ 13,038,877
Special Revenue Funds		
Metropolitan Action Commission -		
Watt Ad Program	2,448	2,496
Headstart Child Care	897	1,894
State Classroom	2	666
Administrative and Leasehold	144,428	3,691
Local Programs	-	769
Headstart Grant	106	195,313
Headstart CACFP	7,708	8,341
LIHEAP Grant	-	14,444
CSBG Grant	54,878	18,594
Summer Food Program	67	315,879
Headstart Expansion	124,793	18,126
Parks & Recreation Special Projects	-	7,998
Parks Learn and Serve Grant	-	305
General Fund 4% Reserve	2,188,202	723,509
Local Law Enforcement Block Grant of 1999	29,209	77,633
Advance Planning and Research	-	200,846
Solid Waste -		
Solid Waste Operations	3,830,588	149,744
Solid Waste Grants	967	-
Solid Waste Special Projects	-	19,906
Parks Resale Inventory	-	181,624
DUI Offender Education Treatment	731	-
Public Educational & Governmental Access	-	689
Library Special Projects	3,262	6,657
Library Services	2,215	8,935
Talking Library Service	5,341	-
Airport Noise Mitigation	-	21
Hotel Occupancy Tax	-	352,778
General Government Grants	1,241,372	51,843
District Attorney Special Operations	-	14,710
District Attorney Fraud & Economic Crime	201	-
Metro Major Drug Enforcement Program	75,283	9,683
1998 Tornado Relief	-	4,571
1999 Tornado Grant	564,470	-
Police Forfeitures	204,843	368,957
Police Federal Drug Enforcement	368,957	368,957
Police Federal Forfeiture	133,981	198,781
Drug Enforcement Program	368,957	145,156
Metropolitan Board of Education -		
General Purpose School	4,900,329	1,146,985
School State & Federal Special Grant	218,108	3,370,754
School Central Storeroom	165,439	-
School Food Service Program	311,092	290,336
Local Law Enforcement Block Grant of 2000	17,952	88,638
State Trial Court Drug Enforcement	20,643	124,242
State Trial Court Drug Test	-	144

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

Fund	Receivable	Payable
Primary Government (Continued)		
Special Revenue Funds (Continued)		
Juvenile Court Accountability	\$ 2,274	\$ 987
Health Title V Clean Air Act	313,295	-
Heath United Way Mobile Screen	-	500
2000 Storm Clean Up Grant	1,450	-
Community Services Agency	-	354,545
Nashville Career Advancement Center	347,281	463,072
ADA Management	285,053	3,659
Total Special Revenue Funds	15,936,822	9,317,378
Debt Service Funds		
General Services District – General Purposes	12,196,399	-
General Services District - School Purposes	2,011,869	4,927
Urban Services District - General Purposes	204,653	-
Total Debt Service Funds	14,412,921	4,927
Capital Projects Funds		
Multi-purpose Improvement Bonds of 1985 - GSD	-	7,676
Multi-purpose Improvement Bonds of 1987 - GSD	-	2,714
Multi-purpose Improvement Bonds of 1988 - GSD	-	14,959
Multi-purpose Improvement Bonds of 1990 - GSD	16,698	188,136
Multi-purpose Improvement Bonds of 1994 - GSD	-	16,620
Multi-purpose Improvement Bonds of 1999 - GSD	5,755	5,559,420
Public Improvement Bonds of 1996, Series A	-	930,036
Multi-purpose Improvement Bonds of 1997A - GSD	-	3,571,508
Arena Public Improvement Bonds of 1996A	-	169,522
Multi-purpose Improvement Bonds of 2001 - GSD	244,126	522,385
Deberry Capacity Improvement Bonds	-	286,130
Facilities Planning Capital Outlay	401,975	61,960
School Improvement Bonds of 1994	-	53,758
School Multi-purpose Improvement Bonds of 1997A	-	489,615
School Multi-purpose Improvement Bonds of 1999	-	204,736
School Multi-purpose Improvement Bonds of 2001	258,239	1,449,261
School Bus Capital Outlay Notes of 1999	4,927	-
Multi-purpose Improvement Bonds of 1985 - USD	-	358
Multi-purpose Improvement Bonds of 1990 - USD	-	13,104
Multi-purpose Improvement Bonds of 2001 - USD	57,540	694,654
Total Capital Projects Funds	989,260	14,236,552
Enterprise Funds		
Department of Water and Sewerage Services	795,520	232,947
Nashville Convention Center	-	51,552
Board of Fair Commissioners	-	26,365
Farmers Market	-	5,689
Police Secondary Employment	17,903	184,089
Total Enterprise Funds	813,423	500,642

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

Fund	Receivable	Payable
Primary Government (Continued)		
Internal Service Funds		
Central Printing	\$ 50,287	\$ 909
Motor Pool	761,397	5,542
Information Systems	1,004,588	2,200
Radio Shop	146,340	7,995
School Self Insured	-	1,667
General Government Self Insurance	164,755	65,573
School Professional Employee Insurance	189,644	-
Employees' Medical Benefit	558,287	1,133,360
Office Supply Storeroom	-	225
Metro Postal Service	45,968	688
Facilities Planning and Construction	402	7,207
Treasury Management	48,174	17,394
Total Internal Service Funds	2,969,842	1,242,760
Fiduciary Funds		
Flexible Benefits Plan	232,097	234,617
Metropolitan Employees' Benefit Trust	690,242	51,024
Employees' Pension and Insurance	572	280,088
Teachers' Retirement Plan	508,414	667,301
Teachers' Civil Service and Pension	-	228,426
Richard R. Rooker, Circuit Court Clerk	-	29,900
Claudia Bonnyman, Clerk and Master	-	3,400
Bill Covington, County Clerk	-	18,600
David Torrence, Criminal Court Clerk	-	29,747
Bill Garrett, County Register	-	325,830
Kenny Norman, Juvenile Court Clerk	-	91,976
Transit Authority Revenue	-	349
Total Fiduciary Funds	1,431,325	1,961,258
Total Primary Government	43,627,565	40,302,394
Component Units		
Governmental Types		
Sports Authority	61,845	1,162,322
Total Governmental Types	61,845	1,162,322
Proprietary Types		
Hospital Authority - General Hospital	114,690	59,092
Hospital Authority - Bordeaux Hospital	-	237,020
Metropolitan Transit Authority	349	2,005,701
Nashville Thermal Transfer Corporation	270,920	415
Total Proprietary Types	385,959	2,302,228
Total Reporting Entity before reconciling items	44,075,369	43,766,944
Metropolitan Development and Housing Agency (1)	-	308,425
Total Reporting Entity	\$ 44,075,369	\$ 44,075,369

(1) Liability incurred by the Metropolitan Development and Housing Agency after September 30, 2000, date of MDHA financial statements, and before June 30, 2001.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Litigation

The Metropolitan Department of Law estimated a potential liability for claims, suits and judgments filed for damages to persons and property and for other alleged claims arising out of matters incidental to the operation of the Government. The estimated liability is not expected to be liquidated with expendable available resources and is recorded in the General Long-term Debt Account Group. Any estimated liabilities attributable to proprietary funds and component units are recorded in those funds and units.

Insurance and Benefits

The Government and its component units are subject to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; illnesses or injuries to employees; and natural disasters.

Primary Government

The Government is self-insured with respect to liability claims. Liabilities for all accidents are generally limited under the Governmental Tort Liability Act of the Tennessee Code as follows:

	<u>Non-automobile Accidents</u>	<u>Automobile Accidents</u>
Bodily injury	\$ 130,000 per person 350,000 per accident	\$ 130,000 per person 350,000 per accident
Property damage	50,000 per accident	50,000 per accident

As of July 1, 2001 new limits are as follows:

	<u>Non-automobile Accidents</u>	<u>Automobile Accidents</u>
Bodily injury	\$ 250,000 per person 600,000 per accident	\$ 250,000 per person 600,000 per accident
Property damage	75,000 per accident	75,000 per accident

The Government is also self-insured with respect to casualty losses on real and personal property for the first \$2,000,000 of loss in any one year. Claims above this amount are covered by commercial insurance provided by independent insurers. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. The Government is also self-insured with respect to medical benefits and employee blanket bond coverage. Estimated losses for all self-insured risks of \$16,862,521 are recorded as liabilities in internal service funds.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The following summarizes the changes in the estimated claims payable in the respective internal service funds for the years ended June 30, 2000 and 2001:

	School Self Insurance	General Government Self Insurance	School Professional Employees' Insurance	Employees' Medical Benefit	Total Internal Service Fund Types
Claims payable June 30, 1999	\$ 1,549,422	\$ 8,906,655	\$ 3,538,678	\$ 4,450,000	\$ 18,444,755
Add: Provision for events of the current fiscal year	-	800,488	21,479,689	26,027,354	48,307,531
Deduct: Payments on claims during the fiscal year	<u>722,136</u>	<u>2,453,744</u>	<u>21,052,408</u>	<u>26,405,354</u>	<u>50,633,642</u>
Claims payable June 30, 2000	827,286	7,253,399	3,965,959	4,072,000	16,118,644
Add: Provision for events of the current fiscal year	472,509	1,549,000	24,632,829	31,050,277	57,704,615
Deduct: Payments on claims during the fiscal year	<u>196,504</u>	<u>1,340,473</u>	<u>24,468,484</u>	<u>30,955,277</u>	<u>56,960,738</u>
Claims payable June 30, 2001	<u>\$ 1,103,291</u>	<u>\$ 7,461,926</u>	<u>\$ 4,130,304</u>	<u>\$ 4,167,000</u>	<u>\$ 16,862,521</u>

Component Units

The Metropolitan Development and Housing Agency maintains commercial insurance coverage to cover the various risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Agency. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The Hospital Authority participates in the Government's insurance and benefits programs.

The Electric Power Board is covered under the same Tort Liability Act as the primary government and is also a participant with the primary government in the General Government Self-Insurance Fund. The Board is self-insured for employee dental claims and self-insured up to \$100,000 for employee medical claims. The Board continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past two fiscal years.

The Metropolitan Transit Authority is self-insured for all vehicle accident losses up to \$500,000 per occurrence. Non-vehicle accident losses are fully covered under a self-insurance program. A provision has been made for all such known losses incurred through June 30, 2001.

The Metropolitan Transit Authority has purchased reinsurance which provides for reimbursement of paid medical claims in excess of \$75,000 per covered participant per agreement year, with the exception of two employees who have a \$100,000 specific deductible. The policy also provides a specified maximum of \$950,000 during the lifetime of a covered participant, and an aggregate maximum for total claims paid per agreement year. The aggregate maximum each year fluctuates based on the number of employees under single or family coverage contracts. The maximum amount that the reinsurance carrier will pay out in a plan year is \$1,000,000. Total claims paid in 2001 did not exceed the aggregate maximum.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

As required by a collective bargaining labor agreement, the Davidson Transit Organization Employee Benefit Trust was established to pay all medical claims for Metropolitan Transit Authority employees. The accrued medical claims and re-insurance amounts are recorded by the Trust. The Metropolitan Transit Authority funds the Trust on a break-even basis. At June 30, 2001, the Metropolitan Transit Authority owed the Trust \$461,589 which is included in other current liabilities.

The Nashville Thermal Transfer Corporation is a participant in the Government's Self Insurance fund for coverage of all property losses. The Corporation carries commercial insurance for all other risks of loss including general liability, automobile, workers' compensation, business interruption, boiler and machinery, directors' and officers' liability, and umbrella liability. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Airport Authority accrues self-insured employee medical benefit claims. The liability for reported claims and claims incurred but not reported, an estimate of which is based on historical experience and management projections, is grouped with accrued payroll and related items in the financial statements. The Airport Authority carries commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Emergency Communications District is exposed to various risks of loss related to the theft, damage and destruction of assets. All equipment is covered by warranty and service agreements. The District carries fidelity bond insurance in the amount of \$165,000 for each staff and Board member and has had no claims or settled claims in the past three fiscal years.

The Industrial Development Board is self-insured for all losses to which it is exposed. The Board limits its risk by issuing no more than 85% of project values in bonds and by requiring companies receiving bond issuances to sign personal indemnities in case of default.

Federal and State Financial Assistance

The Government has received federal and state financial assistance for specific purposes that is subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the programs, it is believed that any required reimbursements would not be material to the general purpose and individual fund and component unit financial statements. Accordingly, no provision has been made for any potential reimbursements to the grantor agencies.

The full faith and credit of the Government is pledged for possible deficiencies in the collection of required state sewer user fees established in connection with certain grants received from the State Funding Board (TCA 53-2023 through 53-2028). The Department of Water and Sewerage Services acts as a conduit with respect to sewer user fees imposed by the state. These user fees are set at an amount sufficient to recover the project costs, including related interest expense. As of June 30, 2001, no deficiencies existed. The amount to be recovered from user fees is \$58,963,667 at June 30, 2001 and is recorded as contributed capital by the Department of Water and Sewerage Services.

Construction Commitments

Primary Government

Capital projects funds of \$187,670,568 are designated for specific capital projects at June 30, 2001.

At June 30, 2001, the Department of Water and Sewerage Services had commitments of \$28,584,690 for construction contracts. In addition, the Department is currently investigating various options to raise funds for wastewater system capital improvements mandated by the State of Tennessee Department of Health and Environment. The related capital expenditures are expected to total approximately \$133,400,000 through the year 2006. Failure to comply with the mandate and meet established deadlines could result in penalties up to \$500,000 per year. No such penalty has been assessed through June 30, 2001. Proposed plans to fund capital expenditures for the next few years include internally generated cash and Tennessee Local Development Authority Loans.

Component Units

The Metropolitan Nashville Airport Authority estimates the cost of completion of various construction projects at June 30, 2001 to be \$12,753,507, of which \$446,487 is expected to be reimbursed by other governmental agencies.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Other Commitments

Primary Government

In May 1999, the Government entered into a memorandum of understanding with Dell Computer Corporation (Dell), whereby Dell agreed to locate a manufacturing and assembly plant in Davidson County, and the Government agreed to provide property, site improvements, and other economic incentives. One incentive program is a 40 year grant to Dell, where the Government will pay Dell, through the Industrial Development Board, \$500 per employee, based on the average number of full-time equivalent employees. Dell is expected to employ approximately 1,500 employees, and grant payments began with the 2000 fiscal year.

In May 1999, the Department of Water and Sewerage Services entered into a contract with Brown and Caldwell (the Contractor) in which the Department agreed to pay the Contractor for change management services to enable and assist the Department to achieve specified verifiable and sustainable operating expenses of \$60 million or less by June 30, 2004. The services are to be delivered by the Contractor in three phases. Fixed fees to be paid under the contract total \$1,200,000 (\$400,000 for Phase I and \$800,000 for Phase II). The contract also provides that whenever the Department attains a level of actual verifiable and sustainable expenses of \$64 million or less, the Contractor and the Department's employees shall receive a share of the additional savings (15% to 20%) according to the formula specified in the contract for each year the additional savings are attained for the term of the contract, which is currently expected to end on April 30, 2004.

The Department of Water and Sewerage Services has also entered into a contract with Utility Revenue Management Company, Inc. (the Contractor) in which the Department has agreed to pay the Contractor for situations identified by the Contractor where water and sewer services are unbilled or misbilled and corrective actions are recommended. Compensation to the Contractor under the contract is 45% of the gross increased revenues as defined in the contract. The contract expired July 6, 2001. The contract requires payment of fees to continue for 30 months after corrective action was identified. Fees paid to the Contractor for the year ended June 30, 2001 totaled \$628,459.

As of June 30, 2001, the Department of Water and Sewerage Services has a potential cumulative rebate liability on two of the six bond issues outstanding. The liability is approximately \$1,818,346 as of June 30, 2001 but is subject to change pursuant to computations undertaken up to and including the last day of the applicable bond year. Based on the Department's planned investment strategies and current market conditions, the Department anticipates a final liability of approximately \$1,250,000 and has recorded this amount in the financial statements.

Component Units

The Hospital Authority has entered into an agreement with Vanderbilt University Medical Center (Vanderbilt) to provide certain management services for General Hospital. The agreement ends on June 30, 2002 and requires annual payments to Vanderbilt of \$395,000, which will increase by 5% annually. The agreement also stipulates that the Hospital Authority will provide \$23,375,000 per year for the payment of all costs of the operations of General Hospital, and that 50% of any annual operating surpluses, as defined by the agreement, will be paid to Vanderbilt to be used to benefit General Hospital. The outstanding management fees and surplus payable to Vanderbilt is \$69,125 at June 30, 2001.

In August 1996, Congress approved the Health Insurance Portability and Accountability Act of 1996 (Act). Under the Act, the federal government was given substantial resources and authority for the completion of fraud and abuse investigations and the Act has established substantial fines and penalties for offenders. Management of the Hospital Authority continues to implement policies, procedures, and a compliance overview organizational structure to enforce and monitor compliance with this Act and other government statutes and regulations. The Hospital Authority's compliance with such laws and regulations is subject to future government review and interpretations, as well as regulatory actions which are unknown or unasserted at this time.

At September 30, 2000, the Metropolitan Development and Housing Agency has outstanding purchase commitments totaling \$37,237,552.

The Metropolitan Development and Housing Agency is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Agency's attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the Agency. Accordingly, no provision for loss, if any, related to these matters has been made in the financial statements.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Electric Power Board has entered into agreements with outside firms to provide information and data processing system support through 2003. The total commitment remaining under these agreements is \$5,644,808 through 2003.

The Electric Power Board is party to various litigation filed against it in the normal course of business. Management does not believe that damages, if any, arising from outstanding litigation, will have a material effect on the financial position of the Board.

The Metropolitan Transit Authority has a five-year contract, expiring August 2003, with a management company for advisory and management services. Under the contract, the Metropolitan Transit Authority is provided a one-member local management team, non-resident staff and overall supervision. Compensation for these services was approximately \$159,000 for the year ended June 30, 2001.

The Nashville Thermal Transfer Corporation has an agreement with a supplier which requires the Corporation to purchase minimum amounts of natural gas from the supplier through October 31, 2001. Under the terms of the agreement, the Corporation is to pay the supplier monthly minimum payments of approximately \$39,000, plus a fuel charge, regardless of the quantities supplied. Natural gas expense under such agreement for the year ended June 30, 2001 was approximately \$39,000. The future minimum payments due under this commitment is approximately \$156,000 for the year ended June 30, 2002.

The Airport Authority is a defendant in certain lawsuits filed by area residents who allege property value damage as a result of increased air traffic and other legal proceedings incidental to its operations. The Authority intends to vigorously defend itself in these actions. Management cannot predict the extent to which similar actions may be taken by other parties. In the opinion of management and the Authority's legal counsel, while the ultimate outcome of these matters, including an estimate of potential loss, cannot presently be determined, any losses sustained would be recoverable through the Authority's leases with certain airlines.

In August 1997, the Emergency Communication District's board of directors approved an Interlocal Agreement with the Government to assist in the financing of an 800 MHz radio system. The total cost of this equipment is estimated to be \$28 million, of which the District will be responsible for \$2.8 million per year, payable in semi-annual installments, over a ten-year period. To fund its portion of the acquisition, the District increased the monthly emergency telephone service subscriber fees. The Emergency Communications District also has annual maintenance contracts totaling approximately \$37,700.

The Nashville District Management Corporation has an agreement with the Government to provide program administration of the Nashville Central Business Improvement District in accordance with Tennessee law. The Corporation's duties and responsibilities under the agreement include but are not limited to providing services for improvement and operation of the District through security enhancement, downtown marketing, and improving downtown beautification, sanitation, and maintenance. The original term of the agreement is one year, renewable annually by the mutual notification by each party to the other. The agreement may be terminated by the Government upon thirty days notice.

The Nashville District Management Corporation has entered into an agreement with a service provider to provide a "Clean Team" for the District. Under the arrangement, the Clean Team serves primarily as a litter control and prevention service and secondarily as a resource of public information for downtown visitors, workers, shoppers and residents. The term of the agreement extends through June 30, 2001 and will not exceed \$356,652 annually.

The Nashville District Management Corporation receives personnel and administrative services from the Nashville Area Chamber of Commerce. In addition, the Corporation pays the Chamber a monthly management services fee of \$417. Substantially all management and general expense included in the financial statements was paid to the Chamber.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 16 – SUBSEQUENT EVENTS

On December 4, 2001, the Metro Council adopted a resolution authorizing the issuance and sale of General Obligation Refunding Bonds not to exceed \$262,255,000 in principal amount that are expected to be issued and delivered in January, 2002. The Sports Authority of the Government has authorized the issuance and sale of Revenue Refunding Bonds not to exceed \$75,000,000 in principal amount and the Metro Council has adopted an ordinance approving the issuance of said Bonds and pledging certain security for the Bonds. The Sports Authority Bonds will be issued and delivered simultaneously with the General Obligation Bonds. The Government has also approved the issuance of Correctional Facility Revenue Refunding Bonds not to exceed \$17,000,000 in principal amount to be issued and delivered in February, 2002. All the above bonds are being issued to refinance existing indebtedness at a cost savings.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS  
FIDUCIARY FUNDS - PENSION TRUST FUNDS

For the Year Ended June 30, 2001

	Pension Trust Funds			
	General Services District			
	Davidson County Employees' Retirement	Metropolitan Employees' Benefit Trust	Employees' Pension and Insurance	Teachers' Retirement Plan
ADDITIONS:				
Investment income:				
Interest and dividend income	\$ 139	\$ 28,692,924	\$ 31,712	\$ 4,234,386
Net appreciation (depreciation) of investments	-	(186,439,565)	-	351,087
Miscellaneous	-	138,989	-	-
Total investment income (loss)	139	(157,607,652)	31,712	4,585,473
Less investment expenses	-	(5,972,350)	-	-
Net investment income (loss)	139	(163,580,002)	31,712	4,585,473
Contributions:				
Employee contributions	-	1,935,549	499	231,414
Employer contributions	2,733,131	28,622,300	6,809,746	5,979,961
Operating transfers in	-	81,527	-	-
Contributions from the State of Tennessee	-	-	3,382,771	13,823,076
Total contributions	2,733,131	30,639,376	10,193,016	20,034,451
Total additions	2,733,270	(132,940,626)	10,224,728	24,619,924
DEDUCTIONS:				
Pension benefits	2,733,268	44,788,494	10,224,728	30,645,380
Refunds of contributions	-	345,467	-	-
Administrative expenses	-	3,464,335	-	862,885
Operating transfers out	-	1,119,678	-	-
Total deductions	2,733,268	49,717,974	10,224,728	31,508,265
NET INCREASE (DECREASE)	2	(182,658,600)	-	(6,888,341)
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS, beginning of year	734	1,586,654,880	283,447	129,326,594
FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS, end of year	\$ 736	\$ 1,403,996,280	\$ 283,447	\$ 122,438,253

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS  
FIDUCIARY FUNDS - PENSION TRUST FUNDS (CONTINUED)

For the Year Ended June 30, 2001

Pension Trust Funds		
Urban Services District		
Closed City Plan	Teachers' Civil Service and Pension	Total Pension Trust Funds
\$ 316	\$ 16,810	\$ 32,976,287
-	-	(186,088,478)
-	-	138,989
316	16,810	(152,973,202)
-	-	(5,972,350)
316	16,810	(158,945,552)
-	-	2,167,462
11,412,690	4,417,182	59,975,010
-	-	81,527
-	2,779,398	19,985,245
11,412,690	7,196,580	82,209,244
11,413,006	7,213,390	(76,736,308)
11,412,690	7,213,390	107,017,950
-	-	345,467
-	-	4,327,220
-	-	1,119,678
11,412,690	7,213,390	112,810,315
316	-	(189,546,623)
-	233,868	1,716,499,523
<u>\$ 316</u>	<u>\$ 233,868</u>	<u>\$ 1,526,952,900</u>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINING STATEMENT OF PLAN NET ASSETS  
FIDUCIARY FUNDS - PENSION TRUST FUNDS

June 30, 2001

	Pension Trust Funds			
	General Services District			
	Davidson County Employees' Retirement	Metropolitan Employees' Benefit Trust	Employees' Pension and Insurance	Teachers' Retirement Plan
<b>ASSETS:</b>				
Cash and cash equivalents	\$ 400	\$ 70,703,716	\$ 154,261	\$ 6,706,633
Investments, at fair value:				
U.S. Treasury and Agency securities	-	85,635,570	-	18,972,456
Federal Home Loan Bank obligations	-	14,571,273	-	-
Federal Home Loan Bank Mortgage Corporation obligations	-	52,238,368	-	-
Federal National Mortgage Association obligations	-	78,540,995	-	-
Government National Mortgage Association	-	18,143,445	-	-
Corporate bonds and notes	-	129,427,542	-	20,878,407
International securities	-	203,553,353	-	-
Foreign government bonds	-	3,328,890	-	-
Common stock	-	673,818,644	-	72,848,202
Preferred stock	-	3,429,567	-	-
Foreign currency	-	18,401,998	-	-
Metro investment pool	334	1,755,397	129,186	1,017,585
Mortgages and real estate	-	36,859,286	-	-
Collateralized mortgage obligations	-	61,790,388	-	-
Limited partnerships	-	31,079,293	-	304,000
Annuities	-	1,042,766	-	-
<b>Total investments</b>	<b>334</b>	<b>1,413,616,775</b>	<b>129,186</b>	<b>114,020,650</b>
Receivables:				
Accounts receivable	-	3,780	278,028	1,162,990
Accrued interest receivable	2	5,723,568	1,488	708,138
Due from other funds of the primary government	-	690,242	572	508,414
<b>Total receivables</b>	<b>2</b>	<b>6,417,590</b>	<b>280,088</b>	<b>2,379,542</b>
<b>Total assets</b>	<b>736</b>	<b>1,490,738,081</b>	<b>563,535</b>	<b>123,106,825</b>
<b>LIABILITIES:</b>				
Accounts payable	-	86,656,679	-	1,271
Due to other funds of the primary government	-	51,024	280,088	667,301
Other liabilities	-	34,098	-	-
<b>Total liabilities</b>	<b>-</b>	<b>86,741,801</b>	<b>280,088</b>	<b>668,572</b>
<b>FUND BALANCE RESERVED FOR EMPLOYEES' PENSION BENEFITS (A Schedule of Funding Progress for each plan is presented in Note 9.)</b>	<b>\$ 736</b>	<b>\$ 1,403,996,280</b>	<b>\$ 283,447</b>	<b>\$ 122,438,253</b>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

COMBINING STATEMENT OF PLAN NET ASSETS  
FIDUCIARY FUNDS - PENSION TRUST FUNDS (CONTINUED)

June 30, 2001

Pension Trust Funds		
Urban Services District		
Closed City Plan	Teachers' Civil Service and Pension	Total Pension Trust Funds
\$ 172	\$ 127,279	\$ 77,692,461
-	-	104,608,026
-	-	14,571,273
-	-	52,238,368
-	-	78,540,995
-	-	18,143,445
-	-	150,305,949
-	-	203,553,353
-	-	3,328,890
-	-	746,666,846
-	-	3,429,567
-	-	18,401,998
145	106,590	3,009,237
-	-	36,859,286
-	-	61,790,388
-	-	31,383,293
-	-	1,042,766
<u>145</u>	<u>106,590</u>	<u>1,527,873,680</u>
-	227,200	1,671,998
-	1,225	6,434,421
-	-	1,199,228
-	228,425	9,305,647
<u>317</u>	<u>462,294</u>	<u>1,614,871,788</u>
1	-	86,657,951
-	228,426	1,226,839
-	-	34,098
<u>1</u>	<u>228,426</u>	<u>87,918,888</u>
<u>\$ 316</u>	<u>\$ 233,868</u>	<u>\$ 1,526,952,900</u>

The accompanying notes following the General Purpose Financial Statements are an integral part of this financial statement.

**ECONOMIC AND STATISTICAL INFORMATION CONCERNING THE STATE OF TENNESSEE**

The Comprehensive Annual Financial Report (“CAFR”) of the State, including selected statistical data (unaudited), for the fiscal year ended June 30, 2001 has been filed with each nationally recognized municipal securities information repository (see “Annual Audits; Secondary Market Disclosures”) and is obtainable from them in accordance with their respective procedures. A printed version is also available upon request to the Funding Board, James K. Polk State Office Building, Suite 1600, 505 Deaderick Street, Nashville, Tennessee 37243-0273, telephone (615) 401-7872, fax (615) 741-5986. Portions of the CAFR have been posted on the State’s website at [www.state.tn.us/finance/act/cafr.html](http://www.state.tn.us/finance/act/cafr.html). To the extent there are any differences between the electronically posted portions of the CAFR and the printed version of the CAFR, the printed version shall control.

The following statistical data, all of which is included in the CAFR and has been posted on the State’s website, is incorporated herein by reference:

Revenues by Source – All Governmental Fund Types

Expenditures by Function and Transfers Out – All Governmental Fund Types

Tax Revenues by Source – All Governmental Fund Types

Description of Tax Sources – All Governmental Fund Types

Ratio of Net General Long-Term Debt to Assessed Value and Net Debt Per Capita

Computation of Legal Debt Service Margin

Ratio of Annual Debt Service for General Long-Term Debt to Total Expenditures – All Governmental Fund Types

Schedule of Revenue Bond Coverage – Component Units – Tennessee Housing Development Agency and College and University Funds

Schedule of Fees/Charges, Legislative Appropriations and Debt Service

Economic Characteristics

Tennessee’s Economic Growth

Manufacturing

Industrial Growth in Tennessee

Agriculture

Population and Employment Trend

**APPROPRIATION AND SETTLEMENT OF STATE FUNDS**

**The Budget Process**

The State budget originates in the executive branch with the Governor's annual budget recommendation to the General Assembly. Initially, budget preparation instructions are issued by the Department of Finance and Administration to all State agencies and departments. These instructions describe the Administration's guidelines related to continuing the current level of service (baseline budget) and proposed budget improvements. The instructions are to be used by agencies and departments in preparing their budgets for submission to the Department of Finance and Administration in October of each year.

During the fall, each department's budget request is reviewed, and improvement requests are analyzed by the Department of Finance and Administration. Conferences are held with departmental and agency representatives, the Director of Budget, and the Department of Finance and Administration staff to determine which, if any, of the proposals should be recommended.

Under State law, the Governor submits the recommended budget to the General Assembly at the start of the legislative session. The budget document must be presented to the General Assembly prior to February 1 of each year; except that a Governor in the first year of a four-year term of office must present a budget prior to March 1 of that year. However, the General Assembly may extend these deadlines by joint resolution. Subsequently, the Governor submits a General Appropriation Bill and a bond authorization bill containing appropriations and general obligation bond authorizations required to finance the program levels and capital outlay proposed in the Governor's budget. Throughout the legislative session, the Finance, Ways and Means Committees and appropriate standing committees of the House and Senate hold budget hearings for each department to determine if changes should be made to the proposals.

During the 1997 legislative session, the Office of Legislative Budget Analysis was created to enable the General Assembly to strengthen its expertise in governmental budgeting and financing and in making effective public policy decisions. The office was created as an independent department of the legislature working for both the Senate and the House of Representatives charged with reviewing and analyzing the State's budget and overall financial condition. The staff summarizes and analyzes the Governor's budget proposal for members of the General Assembly, secures budget justification data from the various state agencies, provides recommendations on budget proposals and provides assistance on financial matters to the standing committees, as directed.

Under the State Constitution, money may be drawn from the Treasury only through an appropriation made by law. The primary source of the annual expenditure authorization is the General Appropriation Act as approved by the General Assembly and signed by the Governor. These appropriations are generally limited to a one-year period of availability. The General Appropriation Act requires a simple majority vote of each House of the General Assembly. Approval of the Appropriations Bill usually occurs during the last week of the legislative session. Once signed by the Speaker of each house of the General Assembly, the Appropriations Act is sent to the Governor for signature. If the Governor does not act within ten days, excluding Sundays, the Appropriations Act becomes law without signature. The Governor may reduce or eliminate specific line items in the General Appropriations Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a vote of a majority of the members elected to each House of the General Assembly.

Appropriations also may be included in legislation other than the General Appropriation Act. The individual bills containing appropriations must be heard by the Finance, Ways and Means Committee, and may be heard by the relevant standing committee, in each House of the General Assembly. After all related

committees recommend passage, bills containing appropriations must be approved by a majority vote in each House of the General Assembly and be acted upon by the Governor. Bills of this character are also subject to reduction or elimination by individual line-item veto by the Governor and override by the General Assembly, as described above.

Funds necessary to meet an appropriation need not be in the Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt. If a bill includes an appropriation to the Department of Correction to fund payments due under the Contract in an amount sufficient to fund that fiscal year's debt service obligation under the Contract and is enacted into law, then the "appropriation" requirement of the Contract is met.

### **Financial Control Procedures**

The State Constitution requires, for current operations, expenditures for any fiscal year not to exceed the state's revenues and reserves, including the proceeds of any debt obligation, for that year. The State Constitution prohibits the issuance of debt for operating purposes maturing beyond the end of a fiscal year. State law permits tax anticipation borrowing but any amount borrowed must be repaid by the end of the fiscal year.

Generally, the executive branch controls the expenditure of State funds for the operation of State government. Two important concepts are involved in the execution of the Appropriations Act: preparation of work programs and development of allotment controls. Analysts of the Division of Budget, Department of Finance and Administration, and fiscal personnel in the various State departments and agencies have the responsibility of reconciling the Appropriations Act, as approved, with the submitted budget. State law requires that administrative agencies prepare a work program for each fiscal year. These work programs indicate separate annual spending requirements for payroll and other operating expenses necessary to carry out agency programs. The head of any agency may revise the work program during the fiscal year because of changed conditions and submit such revision for approval. If the Commissioner of Finance and Administration and the Governor approve the revision, then the same procedure for review, approval and control is followed as in making the original allotments. The aggregate of all allotments after the revision cannot exceed the total appropriations made to the agency for the fiscal year in question.

All expenditures of State administrative agencies are processed through the Department of Finance and Administration and are measured against work program allotments. Savings which may occur as a result of the difference between the amounts provided in the work program allotments for payroll and other operating expenditures and the amounts actually spent for those expenditures accumulate throughout the fiscal year unless a work program is revised to re-allot unspent amounts. Likewise, revenue surpluses cannot be spent until approved by the Commissioner of Finance and Administration and, in some cases, reviewed by the Finance, Ways and Means Committees of the General Assembly. Such central spending control offers executive flexibility relative to any anticipated surplus or shortfall in the budget.

Under extreme circumstances, the Governor may effect spending reductions to offset unforeseen revenue shortfalls or unanticipated expenditure requirements for particular programs. These spending reductions can take the form of deferred equipment purchases, hiring freezes, and similar cutbacks. If necessary, the Governor may reduce portions of administrative budgets prior to allotment. Furthermore, the Governor is authorized to call special sessions of the General Assembly at any time to address financial or other emergencies.

Once the annual allotment to the Department of Correction for the Contract to fund debt service has been made, then the "allotment" requirement of the Contract with respect to debt service has been met, and a contractual obligation is established for the payment of debt service for that year which cannot be invalidated by any subsequent adjustment, either by the General Assembly or by the Commissioner of Finance and Administration.

**FINANCIAL STATEMENTS OF THE STATE OF TENNESSEE**

The Comprehensive Annual Financial Report (“CAFR”) of the State, including the audited General Purpose Financial Statements, for the fiscal year ended June 30, 2001 has been filed with each nationally recognized municipal securities information repository (“NRMSIR”)(see “Continuing Disclosure”) and is obtainable from them in accordance with their respective procedures. A printed version is also available upon request to the Funding Board, James K. Polk State Office Building, Suite 1600, 505 Deaderick Street, Nashville, Tennessee 37243-0273, telephone (615) 401-7872, fax (615) 741-5986. Portions of the CAFR have been posted on the State’s website at [www.state.tn.us/finance/act/cafr.html](http://www.state.tn.us/finance/act/cafr.html). To the extent there are any differences between the electronically posted portions of the CAFR and the printed version of the CAFR, the printed version shall control.

The following reports, each of which is included in the CAFR and has been posted on the State’s website, are incorporated herein by reference:

Auditor’s Report

Combined Balance-Sheet-All Fund Types, Account Groups and Discretely Presented Component Units

Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Units

Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budgetary Basis) – General Fund and All Budgeted Special Revenue Fund Types

Combined Statement of Revenues, Expenses and Changes in Fund Equity – All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units

Combined Statement of Cash Flows – All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units

Statement of Net Assets – Pension Trust and Investment Trust Fund

Statement of Changes in Net Assets – Pension and Investment Trust Funds

Combined Statement of Current Funds, Revenues, Expenditures and Other Changes – Component Units – All College and University Current Funds

Combined Statement of Changes in Fund Balances – Component Units – All College and University Funds

Notes to the Financial Statements

**FORM OF CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by The Metropolitan Government of Nashville and Davidson County (Tennessee) (the "Issuer") in connection with the issuance of the captioned bonds (the "Bonds"). The Bonds are being issued pursuant to Resolution No. RS 2001-875 adopted by the Metropolitan County Council on December 18, 2001, as amended and restated by Resolution No. RS 2002-1124 adopted by the Metropolitan County Council on August 20, 2002 and as supplemented by Resolution No. RS2002-1144 adopted by the Metropolitan County Council on September 17, 2002 (collectively, the "Resolution"). The Issuer covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Bondholders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings.

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the Issuer, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. Currently, the following are National Repositories approved by the Securities and Exchange Commission:

Bloomberg Municipal Repository  
100 Business Park Drive  
Skillman, N.J. 08558  
Phone: (609) 279-3225  
Fax: (609) 279-5962  
E-Mail: Munis@Bloomberg.com

Standard & Poor's J.J. Kenny Repository  
55 Water Street, 45<sup>th</sup> Floor  
New York, NY 10041  
Phone: (212) 438-4595  
Fax: (212) 438-3975  
E-Mail: nrmsir\_repository@sandp.com

DPC Data Inc.  
One Executive Drive  
Fort Lee, N.J. 07024  
Phone: (201) 346-0701  
Fax: (201) 947-0107  
E-Mail: nrmsir@dpcdata.com

FT Interactive Data  
Attn: NRMSIR  
100 Williams Street  
New York, NY 10038  
Phone: (212) 771-6999  
Fax: (212) 771-7390  
E-Mail: nrmsir@ftid.com

"Official Statement" shall mean the Official Statement dated September 18, 2002, relating to the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Depository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Tennessee.

"State Depository" shall mean any public or private depository or entity designated by the State of Tennessee as a state depository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Certificate, there is no State Depository.

### SECTION 3. Provision of Annual Reports.

(a) The Issuer shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of each fiscal year commencing with the fiscal year ending June 30, 2002, provide to each Repository (1) an Annual Report which is consistent with the requirements of subsection (a) of Section 4 hereof, (2) subject to receipt from the State of Tennessee of the information described in subsections (b) and (c) of Section 4 hereof, an Annual Report which is consistent with the requirements of subsections (b) and (c) of Section 4 hereof, and (3) subject to receipt from Constellation Energy Group, Inc. ("CEG") of the information described in subsection (d) of Section 4 hereof, an Annual Report which is consistent with the requirements of subsection (d) of Section 4 hereof. Not later than fifteen (15) Business Days prior to said date, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the State of Tennessee and CEG may be submitted separately from the balance of the Annual Report and later than the date required for the filing of the Annual Report if they are not available by that date.

(b) If the Issuer is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Issuer shall send a notice to each Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Depository, if any; and

(ii) (if the Dissemination Agent is other than the Issuer) file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

(d) The Issuer has obtained the undertaking of the State of Tennessee and CEG, copies of which is attached hereto, to provide in a timely manner to the Issuer the information described in Section 4 hereof, and the Issuer enters into this undertaking in reliance on the representations and undertakings of the State and CEG set forth therein. The Issuer will take all actions necessary and appropriate to obtain said information from the State and CEG in such form and at such time as shall be sufficient to fulfill its obligations herein.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of the Issuer for the prior fiscal year, prepared in accordance with generally accepted accounting principles; provided, however, if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements referred to in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. The Annual Report shall also include in a similar format the following information included in the Official Statement as follows:

(i) Financial and operating data of the type included in the body of the Official Statement for the Bonds under the headings: "Historical Capacity and Sales", "New System Capacity and Sales" and "Forecast of Revenues and Expenses"; and

(ii) Financial and operating data of the type included in Appendix D-I of the Official Statement for the Bonds under the following headings:

- (A) "PRIORITY CAPITAL PROJECTS PLANNING";
- (B) "ANALYSIS OF THE COMPOSITION OF RATES OF TAX LEVY";
- (C) "ANALYSIS OF ORIGINAL (INCLUDING SUPPLEMENTAL) ASSESSMENT OF ALL TAXABLE PROPERTY";
- (D) "ANALYSIS OF TAX LEVY AND COLLECTIONS";
- (E) "SCHEDULE OF DELINQUENT PROPERTY TAXES RECEIVABLES - BY TYPE";
- (F) "PRINCIPAL TAXPAYERS";

- (G) "GENERAL FUND - SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE";
- (H) "SPECIAL REVENUE FUNDS - SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE";
- (I) "DEBT SERVICE FUND - SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE";
- (J) "COMPUTATION OF NET GENERAL OBLIGATION OF DEBT";
- (K) "DEBT RATIOS";
- (L) "CAPITALIZATION OF SELF-SUPPORTING DEBT";
- (M) "RATIOS OF NET GENERAL OBLIGATION DEBT TO ASSESSED VALUE OF NET DEBT PER CAPITA";
- (N) "TOTAL DEBT SECURED BY AD VALOREM TAXES";
- (O) "SUMMARY OF UNFUNDED PENSION BENEFIT OBLIGATIONS".

(b) The audited financial statements of the State of Tennessee for the prior fiscal year, prepared in accordance with generally accepted accounting principles; provided, however, if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements referred to in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(c) To the extent not included in the audited financial statements of the State of Tennessee, the Annual Report shall also include information contained in Appendix E-I to the Official Statement.

(d) The audited financial statements of CEG for the prior fiscal year, prepared in accordance with those accounting principles applicable to its periodic reports with the Securities and Exchange Commission and if it should no longer be filing periodic reports with the Securities and Exchange Commission, in accordance with generally accepted accounting principles; provided, however, if the audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements referred to in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available. The Annual Report shall also include the Form 10K of CEG, and if it should cease to be required to file its Form 10K with the Securities and Exchange Commission, the same information as would be in its Form 10K.

(e) Any or all of the information described above may be incorporated by specific reference to other documents, including official statement of debt issues of the Issuer, the State of Tennessee or CEG or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official

statement, it must be available from the Municipal Securities Rulemaking Board. The Issuer shall clearly identify each such other document so incorporated by reference.

(f) The Issuer's Annual Report need not contain the information relating to the State of Tennessee described in subsection (b) above if the State ceases to be a customer of the System (as defined in the Official Statement). The Issuer's Annual Report need not contain the information relating to CEG described in subsection (c) above if the Guaranty (as defined in the Official Statement) ceases to be in effect.

#### SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (iv) Unscheduled draws on credit enhancement reflecting financial difficulties;
- (v) Substitution of credit or liquidity providers, or their failure to perform;
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) Modification to rights of holders of the Bonds;
- (viii) Bond calls;
- (ix) Defeasance;
- (x) Release, substitution, or sale of property securing repayment of the Bonds; and
- (xi) Rating changes.

(b) Whenever the Issuer obtains knowledge of the occurrence of a Listed Event, the Issuer shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the Issuer determines that knowledge of a Listed Event would be material under applicable securities laws, the Issuer shall promptly file a notice of such occurrence with either the National Repositories or the Municipal Securities Rulemaking Board and with the State Depository, if any. Notwithstanding the foregoing, notice of Listed Events described in subsections (5)(a)(8) and (9) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the Issuer may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted:

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any Bondholder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed a default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and, to the extent permitted by law, the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and

duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Any notices required to be given in accordance with this Certificate shall also be given to Ambac Assurance Corporation ("Ambac") as long as Ambac's financial guaranty insurance policy insuring the 2002 Series A Bonds shall be in effect.

Date: \_\_\_\_\_, 2002

**THE METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY  
(TENNESSEE)**

---

Title: Metropolitan Mayor

**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: The Metropolitan Government of Nashville and Davidson County  
(Tennessee)

Name of Issue: District Energy System Revenue Bonds, 2002 Series A

Date of Issuance: \_\_\_\_\_, 2002

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by the resolutions adopted by the Metropolitan County Council authorizing the issuance of the above-referenced bonds. The Issuer anticipates that the Annual Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**THE METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY  
(TENNESSEE)**

By: \_\_\_\_\_

**UNDERTAKING OF THE STATE OF TENNESSEE**

The State of Tennessee (the "State"), acting through the Department of General Services, agrees that in acknowledgment of the financial information relating to the State included in the Official Statement dated September 18, 2002 prepared by The Metropolitan Government of Nashville and Davidson County (the "Metropolitan Government") in connection with the offering of its District Energy System Revenue Bonds, 2002 Series A (the "Bonds") and the Continuing Disclosure Certificate entered into by the Metropolitan Government, the State shall provide to the Metropolitan Government Annual Financial Information with respect to each fiscal year of the State, commencing with the fiscal year ending June 30, 2003, by no later than 7 months after the end of the respective fiscal year, for filing with each Nationally Recognized Municipal Securities Information Repository and the State Information Depository, if any. "Annual Financial Information" shall include certain unaudited statistical and economic data (as included in Appendix E-I to the Official Statement for the Bonds) and audited financial statements for the State, audited by the Comptroller of the Treasury, Division of State Audit, as now required by State law (as included in Appendix E-III to the Official Statement for the Bonds) (or such other auditor as hereafter may be required or permitted by State law). The audited financial statements shall be prepared in accordance with generally accepted accounting principles for governmental units as prescribed by the Governmental Accounting Standards Board, the Financial Accounting Standards Board, or any successor to the duties and responsibilities of either of them.

**THE DEPARTMENT OF GENERAL SERVICES**

By: \_\_\_\_\_  
Name:  
Title: Commissioner  
Date: \_\_\_\_\_

**Consultation Acknowledged:**

By: \_\_\_\_\_  
Name: John G. Morgan  
Title:  
Date: \_\_\_\_\_

**Acknowledged:**

By: \_\_\_\_\_  
Name: C. Warren Neel  
Title: Commissioner of Finance and Administration  
Date: \_\_\_\_\_

**UNDERTAKING OF CONSTELLATION ENERGY GROUP, INC.**

Constellation Energy Group, Inc. ("CEG") agrees that in acknowledgment of the financial information relating to CEG included in the Official Statement dated September 18, 2002 prepared by The Metropolitan Government of Nashville and Davidson County (the "Metropolitan Government") in connection with the offering of its District Energy System Revenue Bonds, 2002 Series A (the "Bonds") and the Continuing Disclosure Certificate entered into by the Metropolitan Government, CEG shall provide to the Metropolitan Government Annual Financial Information with respect to each fiscal year of CEG, commencing with the fiscal year ending December 31, 2002, by no later than 7 months after the end of the respective fiscal year, for filing with each Nationally Recognized Municipal Securities Information Repository and the State Information Depository, if any. "Annual Financial Information" shall consist of CEG's Form 10K. If CEG ceases to file Form 10K with the Securities and Exchange Commission, it shall provide to the Metropolitan Government the same information that would be included in its Form 10K.

**CONSTELLATION ENERGY GROUP, INC.**

By: \_\_\_\_\_

Name:

Title:

Date: \_\_\_\_\_

**FORM OF APPROVING OPINION OF BOND COUNSEL**

[Closing Date]

The Metropolitan Government  
of Nashville and Davidson County  
106 Metropolitan Courthouse  
Nashville, Tennessee 37201

Ladies and Gentlemen:

We have examined a record of proceedings relating to the authorization of \$66,700,000 aggregate principal amount of District Energy System Revenue Bonds, 2002 Series A (the “2002 Series A Bonds”) of The Metropolitan Government of Nashville and Davidson County (the “Metropolitan Government”), a political subdivision of the State of Tennessee (the “State”).

The 2002 Series A Bonds are issued under and pursuant to the Charter of the Metropolitan Government authorized by the Constitution of the State and approved at referendum on June 28, 1962, as amended and supplemented (the “Charter”), the Energy Production Facilities Act, Title 7, Chapter 54 of the Tennessee Code Annotated, as amended (the “Act”), Resolution RS2001-875 of the Metropolitan Government adopted on December 18, 2001 entitled “The Metropolitan Government of Nashville and Davidson County District Energy System General Bond Resolution Authorizing the Redevelopment of a District Energy System, the Issuance of Revenue Bonds of the Metropolitan Government of Nashville and Davidson County and Providing for the Security Therefor”, as amended and restated by Resolution RS2002-1124 adopted by the Metropolitan Government on August 20, 2002 (hereinafter the “General Resolution”), and as supplemented by Resolution RS2002-1144 entitled “2002 Series A District Energy System Supplemental Bond Resolution” adopted on September 17, 2002 (the “Supplemental Resolution”). The General Resolution as supplemented by the Supplemental Resolution is referred to herein as the “Resolutions”.

The 2002 Series A Bonds are dated as of their date of delivery. The 2002 Series A Bonds will mature on October 1, in each of the following years and will mature in the respective principal amounts and will bear interest at the respective rate per annum set forth opposite such years in the following table:

<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Year</u>	<u>Amount</u>	<u>Interest Rate</u>
2005	\$1,180,000	3.000%	2016	\$ 300,000	4.000%
2006	1,215,000	3.000	2016	1,500,000	5.250
2007	1,255,000	3.000	2017	1,890,000	5.250
2008	1,290,000	3.000	2018	175,000	4.200
2009	1,330,000	3.000	2018	1,815,000	5.250
2010	1,370,000	3.250	2019	2,090,000	5.250
2011	50,000	3.300	2020	2,200,000	5.250
2011	1,200,000	5.000	2021	60,000	4.500
2012	550,000	3.400	2021	2,255,000	5.250
2012	1,000,000	5.125	2022	100,000	4.600
2013	1,545,000	5.125	2022	2,340,000	5.250
2014	1,625,000	5.250	2023	2,150,000	4.500
2015	1,710,000	5.250			

\$5,460,000 5.000% Term Bonds Due October 1, 2025

\$6,900,000 4.625% Term Bonds Due October 1, 2027

\$22,145,000 5.000% Term Bonds Due October 1, 2033

Interest on the 2002 Series A Bonds is payable on April 1 and October 1 in each year, commencing April 1, 2003. The 2002 Series A Bonds are issued in fully registered form registrable on the books of the Metropolitan Government held at the principal office of SunTrust Bank, as Trustee (the "Trustee"), and in the denomination of \$5,000 or any integral multiple thereof. The 2002 Series A Bonds are lettered R and are numbered from one consecutively upward. Principal of the 2001 Series A Bonds is payable at the principal corporate trust office of the Trustee in Nashville, Tennessee and interest thereon is payable by check or draft mailed to the person in whose name the 2002 Series A Bonds is registered as shown of the registration books of the Metropolitan Government on the Record Date for payment.

The 2002 Series A Bonds are being issued for the purpose of financing the costs of energy generating facilities and other improvements to a district heating and cooling system owned by the Metropolitan Government (the "System"), including (i) the development, design, construction, start-up and acceptance testing of an energy generating facility, (ii) improvements to and expansion of the Metropolitan Government's energy distribution system, (iii) making certain efficiency and other System improvements, (iv) land acquisitions related to the foregoing, (v) funding the Debt Service Reserve Fund in an amount equal to the Debt Service Reserve Fund Requirement for the 2002 Series A Bonds, and (vi) funding capitalized interest and issuance costs.

The General Resolution provides that the Metropolitan Government may issue or execute and deliver other Parity Obligations (as defined in the Resolution) from time to time on the terms and conditions and for the purposes stated in the General Resolution, and said Parity Obligations, shall be equally and ratably secured under the General Resolution with the 2002 Series A Bonds and any other such Parity Obligations theretofore or thereafter issued or executed and delivered.

We are of the opinion that:

(1) The Metropolitan Government has the right and power pursuant to the Charter and the Act to enter into the Resolutions, and the Resolutions have been duly adopted and executed, and are in full force and effect.

(2) The General Resolution creates the valid pledge which it purports to create in the Net Revenues (as defined in the General Resolution), moneys, security, assets and funds held or set aside under the terms of the General Resolution to the payment of the 2002 Series A Bonds, subject only to the provisions of the Resolutions permitting the application thereof for or to the purposes and on the terms and conditions set forth in the Resolutions.

(3) The 2002 Series A Bonds have been duly authorized, issued, executed and delivered by the Metropolitan Government in accordance with the Act and the terms of the Resolutions and are valid and binding special obligations of the Metropolitan Government payable solely from the revenues, moneys, funds, accounts and agreements pledged therefor under the Resolution. The 2002 Series A Bonds are enforceable in accordance with their terms and the terms of the Resolutions and are entitled to the benefits of the Act and the Resolutions. All conditions precedent to the delivery of the 2002 Series A Bonds have been fulfilled.

(4) The 2002 Series A Bonds and the interest thereon do not constitute a debt or liability of the Metropolitan Government, nor a charge, lien or encumbrance upon any property of the Metropolitan Government or upon any income, receipts or revenues of the Metropolitan Government, other than the revenues, moneys, funds, accounts and agreements pledged therefor pursuant to the General Resolution, and neither the full faith and credit nor of the taxing power of the Metropolitan Government is pledged to the payment of the 2002 Series A Bonds.

(5) Under existing statutes and court decisions, interest on the 2002 Series A Bonds is not includable in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Under the Code, interest on the 2002 Series A Bonds is not treated as a preference item in calculating alternative minimum taxable income for purposes of the alternative minimum tax applicable to individuals and corporations; such interest, however, is includable in the adjusted earnings of certain corporations for purposes of computing the alternative minimum tax imposed on such corporations by the Code. In rendering the opinions in this paragraph (5), we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectations, and certifications of fact, contained in the Tax Certificate delivered on the date hereof by the Metropolitan Government (the "Tax Certificate") with respect to the use of proceeds of the 2002 Series A Bonds and the investment of certain funds, and other matters affecting the non-inclusion of interest on the 2002 Series A Bonds in gross income for Federal income tax purposes under Section 103 of the Code, and (ii) compliance by the Metropolitan Government with procedures and covenants set forth in the Tax Certificate and with the tax covenants set forth in the Resolution. Under the Code, failure to comply with such procedures and covenants may cause the interest on the 2002 Series A Bonds to be included in gross income for Federal income tax purposes, retroactive to the date of issuance of the 2002 Series A Bonds, irrespective of the date on which such noncompliance occurs or is ascertained.

(6) Under the existing laws of the State, the 2002 Series A Bonds and the interest thereon are free from taxation by the State or any county, municipality or taxing district of the State, except for inheritance, transfer and estate taxes and except to the extent such interest may be included in the measure of privilege taxes imposed pursuant to the laws of the State.

Except as stated in paragraphs (5) and (6) above, we express no opinion as to any Federal, state or local tax consequences arising with respect to the 2002 Series A Bonds or the ownership or disposition thereof.

Furthermore, we express no opinion as the effect of any action hereafter taken or not taken in reliance upon an opinion of counsel on the exclusion from gross income for Federal income tax purposes of interest on the 2002 Series A Bonds, or under State and local law, except in reliance on an opinion rendered by us.

The foregoing opinions are qualified only to the extent that the enforceability of the 2002 Series A Bonds and the Resolution may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally and subject to general rules of equity.

We have examined the 2002 Series Bond numbered R-1 and, in our opinion, the form of said 2002 Series A Bonds and their execution are regular and proper.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or changes in law, or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Very truly yours,

**FINANCIAL GUARANTY INSURANCE POLICY**

## Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

**Ambac Assurance Corporation (Ambac)**, a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.



President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)



Authorized Officer of Insurance Trustee