

In the opinion of Bass, Berry & Sims PLC, Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the Metropolitan Government, interest on the Series 2012 Bonds (as defined below) will be excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining adjusted current earnings under the federal corporate alternative minimum tax. For a more detailed explanation of certain tax consequences under federal law which may result from the ownership of the Series 2012 Bonds, see the discussion under the heading "TAX MATTERS" herein. Under existing law, the Series 2012 Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except inheritance, transfer and estate taxes, and Tennessee franchise and excise taxes. (See "TAX MATTERS" herein).

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

\$129,625,000

SUBORDINATE LIEN WATER AND SEWER REVENUE REFUNDING BONDS, SERIES 2012

Dated: Date of Delivery

Due: July 1, as shown on inside cover

The Metropolitan Government of Nashville and Davidson County (Tennessee) (the "Metropolitan Government") is issuing its \$129,625,000 Subordinate Lien Water and Sewer Revenue Refunding Bonds, Series 2012 (the "Series 2012 Bonds"). The Series 2012 Bonds are being issued pursuant to the provisions of Tennessee law described herein and pursuant to resolutions of the Metropolitan County Council of the Metropolitan Government as further described herein.

The proceeds of the Series 2012 Bonds will be used to (i) refund all of the Metropolitan Government's outstanding Revolving Fund Loan Agreements by and among the Tennessee Department of Environment and Conservation, the Tennessee Local Development Authority and the Metropolitan Government (the "Refunded Obligations"), which provided financing for various capital improvements to the Metropolitan Government's water and sewer system (the "System"), and (ii) pay costs of issuance of the Series 2012 Bonds.

The Series 2012 Bonds will be limited obligations of the Metropolitan Government payable solely from and secured solely by System revenues and certain funds maintained in connection therewith, subject to the payment of certain expenses and to prior pledges of such revenues to other indebtedness as described below and herein. **The Series 2012 Bonds do not constitute a debt or liability of the Metropolitan Government for which there is a right to compel the exercise of its taxing power.**

The Series 2012 Bonds are being issued on a subordinate basis to the Metropolitan Government's currently outstanding Prior First Lien Bonds (as herein defined) and Prior Second Lien Bonds (as herein defined), (collectively, the "Prior Bonds"). The pledge of revenues and other funds in favor of the Series 2012 Bonds is subordinate to the senior pledge of such revenues and funds in favor of the Prior Bonds, and the application of such revenues and funds is subject to the requirements of the resolutions authorizing the Prior Bonds, all as described herein. The Metropolitan Government may no longer issue any additional bonds on parity with the Prior First Lien Bonds.

The Series 2012 Bonds will be fully registered bonds without coupons in denominations of \$5,000 and integral multiples thereof, and when issued will be registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), to which principal and premium, if any, and interest will be paid. Beneficial owners of the Series 2012 Bonds will not receive physical delivery of Series 2012 Bond certificates except as described herein.

The Series 2012 Bonds will be dated their date of delivery, will mature on July 1 in each of the years and in the principal amounts as specified on the inside cover and will bear interest from their date payable on January 1 and July 1 in each year beginning July 1, 2012, at the rates per annum specified on the inside cover. The Series 2012 Bonds are subject to optional redemption as described herein.

The Series 2012 Bonds are offered for delivery when, as, and if issued, subject to the legal opinion of Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel to the Metropolitan Government. Certain legal matters will be passed on for the Metropolitan Government by the Metropolitan Director of Law and for the Underwriters by their counsel, Adams and Reese LLP, Nashville, Tennessee. The Series 2012 Bonds will be available for delivery through DTC, on or about February 2, 2012.

MORGAN STANLEY

MORGAN KEEGAN

PIPER JAFFRAY & CO.

WILEY BROS. - AINTREE CAPITAL, LLC

RICE FINANCIAL PRODUCTS COMPANY

STEPHENS INC.

TERMINUS SECURITIES, LLC

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY (TENNESSEE)

MATURITY SCHEDULE

\$129,625,000

SUBORDINATE LIEN WATER AND SEWER REVENUE REFUNDING BONDS, SERIES 2012

<u>Due July 1</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Initial¹ CUSIP No.²</u>
2012	\$2,215,000	1.000%	0.170%	592098J99
2013	4,905,000	3.000%	0.390%	592098K22
2016	10,300,000	5.000%	1.060%	592098K30
2017	17,825,000	5.000%	1.290%	592098K48
2018	17,665,000	5.000%	1.540%	592098K55
2019	17,570,000	5.000%	1.750%	592098K63
2020	17,525,000	5.000%	1.980%	592098K71
2021	17,320,000	5.000%	2.170%	592098K89
2022	8,000,000	2.500%	2.320%	592098K97
2022	9,270,000	5.000%	2.320%	592098L39
2023*	7,030,000	5.000%	2.460%	592098L21

*Priced to July 1, 2022 call date.

¹ The Metropolitan Government is not responsible for the use of CUSIP numbers, nor is any representation made as to their correctness. They are included solely for the convenience of the readers of this Official Statement.

² CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein are provided by Standard and Poor's CUSIP Service Bureau, a Division of the McGraw-Hill Companies, Inc. These data are not intended to create a database and do not serve in any way as a substitute for the CUSIP Services.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, in connection with the offering of the Series 2012 Bonds, and, if given or made, such information or representation must not be relied upon as having been authorized by the Metropolitan Government, the Underwriters or their respective consultants and attorneys. This Official Statement does not constitute an offer or solicitation in any jurisdiction which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation. The Metropolitan Government is the author of this Official Statement and is responsible for its accuracy and completeness. The Underwriters are not the authors of this Official Statement. In accordance with their responsibilities under federal securities laws, the Underwriters are required to review the information in this Official Statement and must have a reasonable basis for their belief in the accuracy and completeness of the Official Statement's key representations. The information set forth in this Official Statement, however, is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Underwriters.

This Official Statement is not to be construed as a contract with the purchaser of the Series 2012 Bonds. Statements contained in this Official Statement which involve estimates, forecasts, or matters of opinion, whether or not expressly so described herein, are intended solely as such, and are not to be construed as representations of fact. This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.

The information and expressions of opinions contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the matters contained in this Official Statement or other information or opinions expressed herein since the date hereof.

All summaries herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the Series 2012 Bonds are qualified in their entirety by reference to the form thereof included in the Bond Resolution, and the provisions with respect thereto included in the aforementioned documents and agreements.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT MATERIAL FACTS AND CIRCUMSTANCES AS THEY EXIST ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION WILL NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE SERIES 2012 BONDS SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

THE SERIES 2012 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION ("SEC") BY REASON OF CERTAIN EXEMPTIONS CONTAINED IN THE SECURITIES ACT OF 1933, AS AMENDED. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE METROPOLITAN GOVERNMENT, THE SERIES 2012 BONDS AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY, NOR HAVE SUCH AUTHORITIES CONFIRMED THE ACCURACY OR DETERMINED THE ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE FINANCIAL ADVISOR HAS BEEN EMPLOYED BY THE METROPOLITAN GOVERNMENT TO ADVISE IT WITH RESPECT TO CERTAIN MATTERS RELATING TO THE PROPOSED STRUCTURE OF THE SERIES 2012 BONDS. THE FINANCIAL ADVISOR HAS NOT BEEN EMPLOYED AND ASSUMES NO DUTY OR OBLIGATION TO ADVISE ANY OTHER PARTY AS TO ANY ASPECT OF THE TRANSACTION, INCLUDING THE HOLDERS OF THE SERIES 2012 BONDS.

THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS A PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE THE MARKET PRICE OF THE SERIES 2012 BONDS AT A LEVEL ABOVE

THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

For additional information regarding the following, please contact:

Metropolitan Government

Mr. Richard Riebeling
Director of Finance for the
Metropolitan Government
Metropolitan Courthouse
1 Public Square
Suite 106
Nashville, TN 37201
(615) 862-6151

Official Statement

Mr. Lannie Holland
Treasurer for the
Metropolitan Government
700 Second Avenue South
Suite 205
Nashville, TN 37210
(615) 862-6112

TABLE OF CONTENTS

INTRODUCTION	1
THE SERIES 2012 BONDS.....	2
DESCRIPTION OF THE BONDS	2
BOOK-ENTRY-ONLY SYSTEM.....	2
REDEMPTION PROVISIONS	5
SECURITY AND SOURCE OF PAYMENT.....	5
LIMITED OBLIGATIONS	5
SERIES 2012 BONDS SUBORDINATE TO PRIOR BONDS	6
FLOW OF FUNDS	6
DEBT SERVICE RESERVE FUND.....	7
RATE COVENANT.....	7
ADDITIONAL BONDS.....	8
OTHER INDEBTEDNESS PAYABLE FROM REVENUES.....	8
PLAN OF FINANCE.....	8
SERIES 2012 BONDS.....	8
SOURCES AND USES OF FUNDS	9
DEBT SERVICE REQUIREMENTS.....	10
FUTURE CAPITAL NEEDS.....	11
INVESTMENT CONSIDERATIONS	11
GENERAL	11
LIMITED OBLIGATIONS; SUBORDINATION.....	11
RATINGS.....	12
SECONDARY MARKET PRICES	12
LITIGATION	12
CERTAIN LEGAL MATTERS	12
CONTINUING DISCLOSURE.....	13
TAX MATTERS.....	13
TENNESSEE STATE TAX EXEMPTION	13
FEDERAL TAX EXEMPTION	13
RATINGS.....	15
UNDERWRITING	15
FINANCIAL ADVISOR.....	16
INDEPENDENT AUDITORS	16
FORWARD-LOOKING STATEMENTS.....	16
MISCELLANEOUS INFORMATION.....	17

APPENDIX A –CERTAIN PROVISIONS OF THE BOND RESOLUTION.....	A-1
APPENDIX B –AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011.....	B-1
APPENDIX C – FINANCIAL AND OPERATING INFORMATION REGARDING THE WATER AND SEWER SYSTEM.....	C-1
APPENDIX D – DEMOGRAPHIC INFORMATION REGARDING THE METROPOLITAN GOVERNMENT	D-1
APPENDIX E – FORM OF OPINION OF BOND COUNSEL.....	E-1
APPENDIX F – FORM OF CONTINUING DISCLOSURE AGREEMENT.....	F-1

METROPOLITAN GOVERNMENT OFFICIALS, STAFF AND CONSULTANTS

Metropolitan Mayor

The Honorable Karl F. Dean

Vice Mayor

The Honorable Diane Neighbors

Selected Administrative Staff

Richard M. Riebeling – Director of Finance

Wm. Michael Safley – Deputy Director of Law

Kim McDoniel – Assistant Director of Finance

Lannie Holland – Treasurer

Ana L. Escobar – Metropolitan Clerk

Department of Water and Sewerage Services

Scott Potter – Director

John Kennedy – Deputy Director

Hal Balthrop – Assistant Director - Systems Services

David Tucker – Assistant Director - Operations

Thomas Palko – Assistant Director - Stormwater

Cyrus Q. Toosi – Assistant Director - Engineering

Martha Segal – Assistant Director - Customer Service

Consultants and Advisors

Metropolitan Government Counsel Metropolitan Department of Law
Nashville, Tennessee

Bond Counsel Bass, Berry & Sims PLC
Nashville, Tennessee

Financial Advisor First Southwest Company
Dallas, Texas

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

RELATING TO

\$129,625,000

**THE METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY (TENNESSEE)
SUBORDINATE LIEN WATER AND SEWER
REVENUE REFUNDING BONDS,
SERIES 2012**

INTRODUCTION

The Metropolitan Government of Nashville and Davidson County (Tennessee) (the “Metropolitan Government”) is issuing its \$129,625,000 Subordinate Lien Water and Sewer Revenue Refunding Bonds, Series 2012 (the “Series 2012 Bonds”). The Series 2012 Bonds are issued pursuant to Chapter 21 of Title 9 and Chapter 34 of Title 7 of the Tennessee Code Annotated, as amended, the Charter of the Metropolitan Government (the “Charter”), and subject to the terms and conditions contained in Resolution No. RS2011-114 of the Metropolitan County Council (the “Metropolitan Council”) adopted on December 20, 2011 (the “Subordinate Lien Water and Sewer Bond Resolution”), as supplemented by Resolution No. RS2011-115 of the Metropolitan Council adopted on December 20, 2011 (the “Supplemental Resolution”, and together with the Subordinate Lien Water and Sewer Bond Resolution, the “Bond Resolution”).

The proceeds of the Series 2012 Bonds will be used to (i) refund all of the Metropolitan Government’s outstanding Revolving Fund Loan Agreements by and among the Tennessee Department of Environment and Conservation, the Tennessee Local Development Authority and the Metropolitan Government (the “Refunded Obligations”), which provided financing for various capital improvements to the Metropolitan Government’s water and sewer system (the “System”), and (ii) pay costs of issuance of the Series 2012 Bonds.

See “PLAN OF FINANCE” herein.

The Series 2012 Bonds will be issued as fully registered bonds without coupons and will be dated as of their date of delivery. The principal of and redemption premium, if any, on all Series 2012 Bonds will be payable at the designated corporate trust office of the Bank of New York Mellon Trust Company, N.A., the registration and paying agent for the Series 2012 Bonds (the “Registration Agent”), upon the presentation and surrender of such Series 2012 Bonds as the same shall become due and payable.

The Series 2012 Bonds will bear interest at the rates specified on the inside cover page, payable semi-annually on January 1 and July 1 in each year beginning July 1, 2012, will be in denominations of \$5,000 or any integral multiple thereof and will mature on July 1 in each of the years and in the amounts as specified on the inside cover page. Interest on the Series 2012 Bonds will be paid by draft or check mailed to the person in whose name such Series 2012 Bond is registered in the bond registration books kept by the Registration Agent as of the close of business on the day which is the fifteenth day of the calendar month next preceding an interest payment date. As long as the Series 2012 Bonds are held by The Depository Trust Company, New York, New York (“DTC”), or its nominee, interest will be paid to Cede & Co., as nominee of DTC, in next day funds on each interest payment date.

The Series 2012 Bonds will initially be issued in book-entry-only form and registered in the name of Cede & Co., as nominee of DTC. Purchases of the Series 2012 Bonds will be made in book-entry form through DTC Participants. No physical delivery of Series 2012 Bonds will be made to purchasers of the Series 2012 Bonds unless the book-entry-only system of registration is discontinued, or as may otherwise be provided herein. Payments on the Series 2012 Bonds will be made to bondholders by DTC through DTC Participants. See “THE SERIES 2012 BONDS – BOOK-ENTRY-ONLY SYSTEM” herein.

The Series 2012 Bonds will be limited obligations of the Metropolitan Government payable solely from and secured solely by the revenues received by the Metropolitan Government from the operation of the System and certain funds maintained in connection therewith subject to the payment of certain expenses and the prior pledges of such revenues to other indebtedness as described below and herein. **The Series 2012 Bonds do not constitute a debt or liability of the Metropolitan Government for which there is a right to compel the exercise of its taxing power.**

The Series 2012 Bonds are being issued on a subordinate basis to the Metropolitan Government's currently outstanding Prior First Lien Bonds (as herein defined) and Prior Second Lien Bonds (as herein defined), (collectively, the "Prior Bonds"). The pledge of revenues and other funds in favor of the Series 2012 Bonds is subordinate to the senior pledge of such revenues and funds in favor of the Prior Bonds, and the application of such revenues is subject to the requirements of the resolutions authorizing the Prior Bonds, all as described herein. See "SECURITY AND SOURCE OF PAYMENT" herein. The Metropolitan Government may no longer issue additional bonds on parity with the Prior First Lien Bonds.

All financial and other information presented in this Official Statement has been compiled from records of the Metropolitan Government, except for information expressly attributed to other sources. All quotations from, and summaries and explanations of, provisions of statutes contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof, and all references to the Series 2012 Bonds and proceedings of the Metropolitan Government relating thereto are qualified in their entirety by reference to the forms of the Series 2012 Bonds and such proceedings. Recent historical information does not indicate future or continuing trends in the Metropolitan Government's financial position or other affairs, unless specifically stated.

Certain provisions of the Bond Resolution are found in Appendix A, and capitalized terms not defined within the body of this Official Statement shall have the meanings ascribed in Appendix A. A link to the audited financial statements for the Metropolitan Government, which include audited financial information for the Department of Water and Sewerage Services of the Metropolitan Government, for the fiscal year ended June 30, 2011, is in Appendix B. Certain financial and operating information related to the System is in Appendix C, certain demographic information related to the Metropolitan Government is in Appendix D, the form of opinion of Bond Counsel is in Appendix E, and the form of Continuing Disclosure Agreement is in Appendix F.

Investors should consider the entire Official Statement in making an investment decision and should not consider information more or less important because of its location. Investors should refer to laws, reports or other documents described in this Official Statement for more complete information.

THE SERIES 2012 BONDS

Description of the Bonds

The Series 2012 Bonds will be issued by the Metropolitan Government pursuant to its Charter, the laws of the State of Tennessee (the "State"), particularly Tennessee Code Annotated Sections 7-34-101 et seq. and 9-21-101 et seq., and the Bond Resolution. Proceeds of the Series 2012 Bonds will be used as set forth above in the "INTRODUCTION" and as more fully described in the "PLAN OF FINANCE" herein.

Book-Entry-Only System

This section describes how ownership of the Series 2012 Bonds is to be transferred and how the principal of, premium, if any, and interest on the Series 2012 Bonds are to be paid to and credited by DTC while the Series 2012 Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Metropolitan Government believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The Metropolitan Government cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Series 2012 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of

Series 2012 Bonds), or redemption or other notices, to the Beneficial Owners or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the SEC, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Series 2012 Bonds. The Series 2012 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered Series 2012 Bond will be issued for each maturity of the Series 2012 Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

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

Purchases of Series 2012 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2012 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2012 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Series 2012 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2012 Bonds, except in the event that use of the book-entry system for the Series 2012 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2012 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2012 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2012 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2012 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect 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. Beneficial Owners of Series 2012 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2012 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2012 Bond documents. For example, Beneficial Owners of Series 2012 Bonds may wish to ascertain that the nominee holding the Series 2012 Bonds for their benefit has agreed to obtain and

transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registration Agent and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2012 Bonds within a maturity 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. (nor any other DTC nominee) will consent or vote with respect to the Series 2012 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 Series 2012 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal of or interest on the Series 2012 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Metropolitan Government or the Registration Agent, on payable dates in accordance with their respective holdings shown on DTC's records. 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 Registration Agent or the Metropolitan Government, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal or interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC is the responsibility of the Metropolitan Government, 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 Series 2012 Bonds at any time by giving reasonable notice to the Metropolitan Government and the Registration Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2012 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, Series 2012 Bonds will be printed and delivered.

Use of Certain Terms in Other Sections of This Official Statement

In reading this Official Statement it should be understood that while the Series 2012 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Series 2012 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners pursuant to the Bond Resolution will be given only to DTC.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the Metropolitan Government, the Financial Advisor or the Underwriters.

Effect of Discontinuance of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the Metropolitan Government, printed Series 2012 Bonds will be issued to the holders and the Series 2012 Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Resolution.

Redemption Provisions

Optional Redemption of the Series 2012 Bonds

The Series 2012 Bonds maturing on July 1, 2023 shall be subject to redemption prior to maturity at the option of the Metropolitan Government on July 1, 2022 and thereafter, as a whole or in part at any time, at a redemption price of par plus interest accrued to the redemption date.

Selection of Bonds for Redemption

With respect to a redemption of less than all of the Series 2012 Bonds within a single maturity, DTC shall select the Series 2012 Bonds from within such selected maturity by lot within such maturity or in such manner as DTC shall determine. In any event, the portion of any Series 2012 Bond to be redeemed in part shall be in the principal amount of \$5,000 or any integral multiple thereof.

Notice of Redemption

Notice of call for redemption shall be given by the Registration Agent on behalf of the Metropolitan Government not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Series 2012 Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the Bond registration records of the Registration Agent as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Series 2012 Bonds for which proper notice was given. If at the time of the giving of the notice of redemption, there shall not be on deposit with the Registration Agent moneys sufficient to redeem all the Series 2012 Bonds called for redemption, the notice of redemption shall state that the redemption of such Series 2012 Bonds is conditional upon and subject to deposit of moneys with the Registration Agent sufficient to redeem all such Series 2012 Bonds not later than the opening of business on the redemption date and that such notice shall be of no effect if such moneys are not on deposit. The Registration Agent shall mail said notices as and when directed by the Metropolitan Government pursuant to written instructions from an Authorized Officer of the Metropolitan Government given at least forty-five (45) days prior to the redemption date (unless a shorter notice period shall be satisfactory to the Registration Agent). The notice shall specify the dollar amount of such Series 2012 Bonds to be redeemed on a pro rata basis, along with the current pool factor or ratio and the Registration Agent's contact person's name and telephone number.

SECURITY AND SOURCE OF PAYMENT

Limited Obligations

The Series 2012 Bonds are limited obligations of the Metropolitan Government payable solely from and secured solely by the Revenues. See Appendix A, Article V. None of the Series 2012 Bonds constitute a debt or liability of the Metropolitan Government for which there is a right to compel the exercise of the taxing power of the Metropolitan Government.

For purposes of the Bond Resolution, "Revenues" means (a) all revenues, income, rents, service fees and receipts properly allocable to the System resulting from ownership and operation of the System, excluding any customer deposits or other deposits subject to refund, unless such deposits have become property of the Metropolitan Government, (b) the proceeds of any insurance covering business interruption loss relating to the System and (c) interest received or to be received on any moneys or securities held in any of the funds or accounts established by the Prior Resolution (as such term is defined below) or the Bond Resolution, with the exception of (i) moneys held in the Construction Fund or any account thereof and (ii) moneys held in the Debt Service Reserve Fund during any period in which the investment earnings thereon are directed by Supplemental Resolution to the Construction Fund or an account thereof (all capitalized terms having the meanings ascribed in Appendix A). The computation of Revenues with respect to any period of time shall be increased by the amount of transfers during such period from the Rate Stabilization Fund to the Revenue Fund, and decreased by the amount of any transfers

during such period from the Revenue Fund to the Rate Stabilization Fund, all as described below in “—Flow of Funds”. “Revenues” shall not include any Tax Credit Payments (as such term is defined in Appendix A), grant proceeds or, except as set forth in (b) above, insurance proceeds.

Series 2012 Bonds Subordinate to Prior Bonds

The pledge of the Revenues in favor of the Series 2012 Bonds is subject and subordinate to a prior pledge of the Revenues to the payment of the Metropolitan Government’s outstanding (a) Water and Sewer Revenue Refunding Bonds, Series 1986; Water and Sewer Revenue Bonds, Series 1993; Water and Sewer Revenue Bonds, Series 1998B; Water and Sewer Revenue Refunding Bonds, Series 2007; Water and Sewer Revenue Refunding Bonds, Series 2008A; and Water and Sewer Revenue Refunding Bonds, Series 2008B (collectively, the “Prior First Lien Bonds”); and (b) Water and Sewer Revenue Refunding Bonds, Series 2010A; Water and Sewer Revenue Bonds Federally Taxable, Series 2010B (Build America Bonds—Direct Payment); Water and Sewer Revenue Bonds Federally Taxable, Series 2010C (Recovery Zone Economic Development Bonds); Water and Sewer Revenue Refunding Bonds Federally Taxable, Series 2010D; and any other series of bonds that may hereafter be issued pursuant to the Prior Second Lien Resolution (collectively, the “Prior Second Lien Bonds”). The application of Revenues pursuant to the terms of the Bond Resolution is subject to the prior application of the Revenues to certain funds and accounts pursuant to the Prior First Lien Resolution authorizing the Prior First Lien Bonds and the Prior Second Lien Resolution authorizing the Prior Second Lien Bonds (collectively, the “Prior Resolution”), all as described more fully below. The Metropolitan Government may no longer issue any additional bonds pursuant to the Prior First Lien Resolution on parity with the Prior First Lien Bonds.

Flow of Funds

Subject to the provisions of the Prior Resolutions, as more fully described below, the Bond Resolution requires that all Revenues (other than investment earnings, which are retained in the fund in which they are earned or, in the case of the Debt Service Reserve Fund, paid to the Debt Service Fund) be deposited to the Revenue Fund. Amounts on deposit in the Revenue Fund are to be used to pay Operation and Maintenance Expenses as they become due and to make the following monthly deposits or payments to the extent of amounts available therein:

First, deposit to the Debt Service Fund an amount equal to accrued debt service on the Bonds (*i.e.* the Series 2012 Bonds and any additional bonds issued on parity therewith under the terms of the Bond Resolution). Monies deposited to the Debt Service Fund may be used only to pay debt service on the Bonds.

Second, deposit to the Debt Service Reserve Fund an amount sufficient to remedy any deficiency therein. Monies deposited or maintained in the Debt Service Reserve Fund may be used only to pay debt service on Bonds secured thereby in the event other funds are unavailable therefor.

Amounts thereafter remaining in the Revenue Fund may be used to pay System indebtedness, including Subordinated Indebtedness, fund debt service reserves in connection therewith and pay all related financing costs thereof, fund capital improvements to the System and make any other legal expenditure of System funds, including Termination Payments.

Notwithstanding the foregoing, so long as the Prior Bonds are outstanding, the Revenues shall be applied first according to the Prior First Lien Resolution and then according to the Prior Second Lien Resolution.

The Prior First Lien Resolution requires that all System revenues be collected in a revenue fund established by the Prior First Lien Resolution and then disbursed to pay debt service on the Prior First Lien Bonds, to pay Operating Expenses in accordance with the Operating Budget, to fund a debt service reserve fund for the Prior First Lien Bonds and to fund the Operating Reserve Fund if the Operating Reserve Requirement exceeds the amount on deposit the Operating Reserve Fund. Remaining revenues are deposited to an Extension and Replacement Fund established by the Prior First Lien Resolution. Amounts on deposit in the Extension and Replacement Fund may be withdrawn and used to fund the payments and deposits required by the Prior Second Lien Resolution and the Bond Resolution (other than deposits to the Rate Stabilization Fund and the Surplus Fund established by the Prior Second Lien Resolution, which may not be made until the Prior First Lien Bonds are discharged). Pursuant to amendments

adopted in 1993, the Prior First Lien Resolution was amended effective January 1, 2012 to create a Subordinate Debt Fund from which amounts may be withdrawn to fund the deposits and payments required by the Prior Second Lien Resolution and the Bond Resolution related to the payment of debt service and the funding of reserves for the Prior Second Lien Bonds and the Series 2012 Bonds. The Subordinate Debt Fund will be funded in the same manner as the Extension and Replacement Fund (*i.e.* after paying debt service and funding reserves for the Prior First Lien Bonds) and likewise may not be drawn to fund the Rate Stabilization Fund or the Surplus Fund established by the Prior Second Lien Resolution.

The Prior Second Lien Resolution requires that, after payment of the Prior First Lien Bonds, all Revenues (other than investment earnings, which are retained in the fund in which they are earned or, in the case of the debt service reserve fund, paid to the debt service fund) be deposited to the revenue fund established by the Prior Second Lien Resolution. Amounts on deposit in such revenue fund are to be used to pay Operation and Maintenance Expenses as they become due and to make the following monthly deposits or payments before payment of the Series 2012 Bonds: 1) first, deposit to the debt service fund established for the Prior Second Lien Bonds an amount equal to accrued debt service on the Prior Second Lien Bonds, and 2) second, deposit to the debt service reserve fund established for the Prior Second Lien Bonds an amount sufficient to remedy any deficiency therein.

See Appendix A, Article V for more information regarding the application of Revenues.

Debt Service Reserve Fund

The Bond Resolution establishes a Debt Service Reserve Fund but does not require the Metropolitan Government to fund reserves for every series of Bonds issued pursuant to the Bond Resolution. In the event the Metropolitan Government elects to fund a reserve for one or more series of Bonds, it must establish an account within the Debt Service Reserve Fund and dictate the manner of its funding. Any such account will be for the sole benefit of the Bonds secured thereby. The Metropolitan Government has elected not to establish a debt service reserve account for the Series 2012 Bonds.

Rate Covenant

The Bond Resolution requires the Metropolitan Government to set and maintain rates sufficient to produce Net Revenues (Revenues minus Operation and Maintenance Expenses) in each Fiscal Year at least equal to the greater of (i) 110% of the Debt Service Requirement on the Prior Bonds and the Outstanding Bonds in such Fiscal Year, or (ii) 100% of the sum of (A) the Debt Service Requirement on the Prior Bonds, the Outstanding Bonds and Subordinated Indebtedness in such Fiscal Year, (B) the amounts required to be paid during such Fiscal Year into the debt service reserve fund and the operating reserve fund established by the Prior First Lien Resolution, to the debt service reserve fund established by the Prior Second Lien Resolution, (C) the amounts required to be paid during such Fiscal Year into the Debt Service Reserve Fund established by the Bond Resolution, and (D) the amount of all other charges and liens whatsoever payable out of Revenues during such Fiscal Year, including payments in lieu of taxes. See Appendix A, Section 711.

So long as the Prior First Lien Bonds remain outstanding, the Metropolitan Government must also remain in compliance with the rate covenant established by the Prior First Lien Resolution. The Prior First Lien Resolution requires that System rates be set so as to cause System revenues in each fiscal year to exceed 110% of the sum of System operating expenses and Prior First Lien Bonds debt service for such fiscal year.

So long as the Prior Second Lien Bonds remain outstanding, the Metropolitan Government must also remain in compliance with the rate covenant established by the Prior Second Lien Resolution. The Prior Second Lien Resolution requires that System rates be set so as to produce Net Revenues in each Fiscal Year at least equal to the greater of (i) 120% of the Debt Service Requirement on the Prior Bonds in such Fiscal Year or (ii) 100% of the sum of (A) the Debt Service Requirement on the Prior Bonds and Subordinated Indebtedness in such Fiscal Year, (B) the amounts required to be paid during such Fiscal Year into the debt service reserve fund and the operating reserve fund established by the Prior First Lien Resolution and to the Debt Service Reserve Fund established pursuant to the Prior Second Lien Resolution and (C) the amount of all other charges and liens whatsoever payable out of Revenues during such Fiscal Year, including, but not limited to, payments in lieu of taxes.

Additional Bonds

The Bond Resolution permits the Metropolitan Government to issue additional series of Bonds on a parity and equality of lien, as to the Revenues, with the Series 2012 Bonds. In order to issue such Bonds, among other things, the Metropolitan Government must certify that the Net Revenues for any twelve (12) consecutive months period within the twenty-four (24) consecutive months immediately preceding the date of issuance of the additional Bonds were at least equal to 110% of the maximum resulting Debt Service Requirement on the Prior Bonds and the Bonds in any future Fiscal Year. See Appendix A, Section 202.

The Bond Resolution permits the issuance of Prior Second Lien Bonds secured by a pledge of Revenues on a basis senior to the Series 2012 Bonds if, among other things, the Metropolitan Government certifies (a) that the Net Revenues for any twelve (12) consecutive month period within the twenty-four (24) consecutive months immediately preceding the date of issuance of such Prior Second Lien Bonds were at least equal to 110% of the maximum resulting Debt Service Requirement on the Prior Bonds and the Series 2012 Bonds in any future Fiscal Year or (b) that such series of Prior Second Lien Bonds is a refunding issue that will reduce the future Debt Service Requirement on the Series 2012 Bonds and Prior Bonds in all future Fiscal Years.

The Metropolitan Government has future capital needs, a significant portion of which will likely be funded with additional Prior Second Lien Bonds and additional Bonds (See "FUTURE CAPITAL NEEDS").

Other Indebtedness Payable from Revenues

The Bond Resolution freely permits the Metropolitan Government to issue or incur debt obligations secured by all or a portion of the Revenues on a basis subordinate to the Series 2012 Bonds. Upon issuance of the Series 2012 Bonds, the only indebtedness of The Metropolitan Government secured by the Revenues and subordinate to the Series 2012 Bonds will be its commercial paper issued under its commercial paper program, pursuant to which the Metropolitan Government may issue up to \$183,400,000 of its Water and Sewer Commercial Paper Bond Anticipation Notes ("commercial paper") to finance improvements to the System. The Metropolitan Government's obligations under its commercial paper are payable from Revenues on a subordinate basis to the Series 2012 Bonds and all other bonds issued pursuant to the Prior Resolution.

PLAN OF FINANCE

The proceeds of the Series 2012 Bonds will be used to (i) fully prepay the Metropolitan Government's currently outstanding Refunded Obligations in the aggregate principal amount of \$154,013,571 on February 3, 2012, and (ii) pay certain costs of issuance of the Series 2012 Bonds.

[Remainder of page intentionally left blank]

SOURCES AND USES OF FUNDS

The table below sets forth the estimated sources and uses of funds in connection with the issuance of the Series 2012 Bonds.

SOURCES

Par Amount	\$129,625,000.00
Original Issue Premium	<u>25,338,940.15</u>

Total Sources **\$154,963,940.15**

USES

Refunded Obligations Prepayment	\$154,013,571.00
Costs of Issuance*	<u>950,369.15</u>

Total Uses **\$154,963,940.15**

* Includes Underwriters' discount, legal counsel fees, financial advisor fees, rating agencies fees, printing and mailing expenses and other costs of issuance of the Series 2012 Bonds

[Remainder of page intentionally left blank]

DEBT SERVICE REQUIREMENTS⁽¹⁾

The following table details the total annual debt service requirements for the Prior Bonds and Series 2012 Bonds.

Year Ended	Prior First Lien Bonds			Prior Second Lien Bonds				Series 2012 Bonds			Total Net Debt Service			
	Principal	Interest	Total	Principal	Interest	Subsidy ⁽²⁾	Total	Principal	Interest	Total	Principal	Interest	Subsidy ⁽²⁾	Total
6/30/2012	\$37,830,000	\$12,744,057	\$50,574,057		\$19,020,371	(\$5,336,423)	\$13,683,948	\$2,215,000	\$2,522,467	\$4,737,467	\$40,045,000	\$34,286,894	(\$5,336,423)	\$68,995,471
6/30/2013	40,195,000	10,143,079	50,338,079		19,020,371	(5,336,423)	13,683,948	4,905,000	6,072,400	10,977,400	45,100,000	35,235,850	(5,336,423)	74,999,427
6/30/2014	25,980,000	8,171,384	34,151,384	\$15,560,000	19,020,371	(5,336,423)	29,243,948	-	5,925,250	5,925,250	41,540,000	33,117,005	(5,336,423)	69,320,582
6/30/2015	37,790,000	6,929,717	44,719,717	5,915,000	18,242,371	(5,336,423)	18,820,948	-	5,925,250	5,925,250	43,705,000	31,097,337	(5,336,423)	69,465,914
6/30/2016	19,820,000	5,179,977	24,999,977	6,045,000	18,064,921	(5,336,423)	18,773,498	10,300,000	5,925,250	16,225,250	36,165,000	29,170,147	(5,336,423)	59,998,724
6/30/2017	12,450,000	4,266,413	16,716,413	6,620,000	17,762,671	(5,336,423)	19,046,248	17,825,000	5,410,250	23,235,250	36,895,000	27,439,333	(5,336,423)	58,997,910
6/30/2018	13,030,000	3,708,725	16,738,725	6,930,000	17,480,990	(5,336,423)	19,074,567	17,665,000	4,519,000	22,184,000	37,625,000	25,708,715	(5,336,423)	57,997,292
6/30/2019	13,630,000	3,087,525	16,717,525	7,275,000	17,136,559	(5,336,423)	19,075,136	17,570,000	3,635,750	21,205,750	38,475,000	23,859,834	(5,336,423)	56,998,411
6/30/2020	14,275,000	2,371,950	16,646,950	7,555,000	16,852,109	(5,336,423)	19,070,686	17,525,000	2,757,250	20,282,250	39,355,000	21,981,309	(5,336,423)	55,999,886
6/30/2021	15,100,000	1,622,513	16,722,513	7,860,000	16,549,909	(5,336,423)	19,073,486	17,320,000	1,881,000	19,201,000	40,280,000	20,053,421	(5,336,423)	54,996,998
6/30/2022	15,805,000	829,763	16,634,763	8,255,000	16,156,909	(5,336,423)	19,075,486	17,270,000	1,015,000	18,285,000	41,330,000	18,001,671	(5,336,423)	53,995,248
6/30/2023				8,665,000	15,744,159	(5,336,423)	19,072,736	7,030,000	351,500	7,381,500	15,695,000	16,095,659	(5,336,423)	26,454,236
6/30/2024				9,100,000	15,310,909	(5,336,423)	19,074,486				9,100,000	15,310,909	(5,336,423)	19,074,486
6/30/2025				9,525,000	14,886,159	(5,336,423)	19,074,736				9,525,000	14,886,159	(5,336,423)	19,074,736
6/30/2026				9,980,000	14,430,459	(5,336,423)	19,074,036				9,980,000	14,430,459	(5,336,423)	19,074,036
6/30/2027				10,480,000	13,931,459	(5,336,423)	19,075,036				10,480,000	13,931,459	(5,336,423)	19,075,036
6/30/2028				10,905,000	13,294,556	(5,155,070)	19,044,486				10,905,000	13,294,556	(5,155,070)	19,044,486
6/30/2029				11,355,000	12,597,399	(4,911,065)	19,041,335				11,355,000	12,597,399	(4,911,065)	19,041,335
6/30/2030				11,830,000	11,871,474	(4,656,991)	19,044,483				11,830,000	11,871,474	(4,656,991)	19,044,483
6/30/2031				12,320,000	11,115,182	(4,392,289)	19,042,894				12,320,000	11,115,182	(4,392,289)	19,042,894
6/30/2032				12,850,000	10,306,005	(4,109,077)	19,046,928				12,850,000	10,306,005	(4,109,077)	19,046,928
6/30/2033				13,395,000	9,462,017	(3,813,681)	19,043,336				13,395,000	9,462,017	(3,813,681)	19,043,336
6/30/2034				13,970,000	8,582,233	(3,505,757)	19,046,477				13,970,000	8,582,233	(3,505,757)	19,046,477
6/30/2035				14,565,000	7,664,684	(3,184,614)	19,045,069				14,565,000	7,664,684	(3,184,614)	19,045,069
6/30/2036				15,190,000	6,708,054	(2,849,794)	19,048,260				15,190,000	6,708,054	(2,849,794)	19,048,260
6/30/2037				15,840,000	5,710,375	(2,500,606)	19,049,769				15,840,000	5,710,375	(2,500,606)	19,049,769
6/30/2038				16,485,000	4,663,348	(2,098,507)	19,049,841				16,485,000	4,663,348	(2,098,507)	19,049,841
6/30/2039				17,095,000	3,560,007	(1,602,003)	19,053,004				17,095,000	3,560,007	(1,602,003)	19,053,004
6/30/2040				17,720,000	2,415,838	(1,087,127)	19,048,711				17,720,000	2,415,838	(1,087,127)	19,048,711
6/30/2041				18,375,000	1,229,839	(553,427)	19,051,411				18,375,000	1,229,839	(553,427)	19,051,411
	<u>\$245,905,000</u>	<u>\$59,055,103</u>	<u>\$304,960,103</u>	<u>\$321,660,000</u>	<u>\$378,791,708</u>	<u>(\$129,802,776)</u>	<u>\$570,648,933</u>	<u>\$129,625,000</u>	<u>\$45,940,367</u>	<u>\$175,565,367</u>	<u>\$697,190,000</u>	<u>\$483,787,172</u>	<u>(\$129,802,776)</u>	<u>\$1,051,174,397</u>

(1) Totals may not add due to rounding.

(2) Subsidy reflects tax credit payments attributable to scheduled interest payments on the Tax Credit Bonds.

FUTURE CAPITAL NEEDS

Under a consent decree between the Metropolitan Government, the Tennessee Department of Environment and Conservation and the United States Environmental Protection Agency (the “Consent Decree”), the Metropolitan Government is obligated to make future capital expenditures to address and correct deficiencies within the System in an approximate amount of \$1 billion to \$1.5 billion over an eleven-year period, which period shall begin upon the approval of plans previously submitted by the Metropolitan Government. The Metropolitan Government expects to fund these expenditures primarily through long-term borrowings, including a portion of the proceeds of the Prior Second Lien Bonds. Additional information regarding the Consent Decree and the required capital expenditures can be found in Appendix C hereof.

As part of its capital improvement plan for the System for years 2012 through 2016, the Metropolitan Government plans to spend an additional amount of approximately \$375 million for capital projects for the System (not including projects related to the Consent Decree). These capital projects are also expected to be primarily funded with long-term borrowings, including a portion of the proceeds of the Prior Second Lien Bonds. Additional information regarding the capital improvement plan and the required capital expenditures can be found in Appendix C hereof.

In May of 2010, the Metropolitan Government experienced a 1,000-year rain event, causing major flooding to the System. Flood-related damages to the System are projected at approximately \$70 million with expenditure commitments to date of approximately \$65 million. In addition, proposed mitigation plans for flood related damage to the System are approximately \$43 million. All mitigation proposals have been completed and delivered to the Federal Emergency Management Agency for consideration. These mitigation proposals will greatly improve the System resiliency from future flood damage caused by a similar rain event. The Metropolitan Government estimates that up to sixty percent (60%) of its expenditures for flood-related damages to the System are eligible for reimbursement from the Federal Emergency Management Agency. The Metropolitan Government has requested approximately \$15 million in advance cost reimbursement from the Federal Emergency Management Agency. Any unreimbursed expenditures will be funded from System reserves or long-term borrowings.

While the Metropolitan Government expects that some portion of capital needs described above will be funded with System revenues, a significant portion of these capital needs are likely to be funded with additional Prior Second Lien Bonds and additional Bonds (see “SECURITY AND SOURCE OF PAYMENT— Additional Bonds”).

INVESTMENT CONSIDERATIONS

General

Attention should be given to the investment considerations described below, which, among others, could affect the ability of the Metropolitan Government to pay principal of and interest on the Series 2012 Bonds, and which could also affect the marketability of or the market price for the Series 2012 Bonds.

The purchase of the Series 2012 Bonds involves certain investment considerations that are discussed throughout this Official Statement. Certain of these investment considerations are set forth in this section for convenience and are not intended to be a comprehensive compilation of all possible investment considerations nor a substitute for an independent evaluation of the information presented in this Official Statement. Each prospective purchaser of any Series 2012 Bonds should read this Official Statement in its entirety and consult such prospective purchaser’s own investment and/or legal advisor for a more complete explanation of the matters that should be considered when purchasing an investment such as the Series 2012 Bonds.

Limited Obligations; Subordination

The Series 2012 Bonds are limited obligations of the Metropolitan Government, payable solely from the Revenues of the System. The Series 2012 Bonds do not constitute a debt or liability of the Metropolitan Government for which there is a right to compel the exercise of the its taxing power. The Revenues of the System are required to pay the Operation and Maintenance Expenses of the System, the Prior Bonds, the Series 2012 Bonds

and any future borrowings of the System, all as described herein, and are dependent upon the financial performance of the System. Payment of the Series 2012 Bonds are subordinate to, and will only be paid after, any and all payments due on the Prior First Lien Bonds, the Prior Second Lien Bonds, and any bonds issued in the future on a parity with the Prior Second Lien Bonds.

Ratings

There is no assurance that the ratings assigned to the Series 2012 Bonds at the time of issuance (see “RATINGS”) will not be lowered or withdrawn at any time, the effect of which could adversely affect the market price for and marketability of the Series 2012 Bonds.

Secondary Market Prices

No assurance can be given that a secondary market for any of the Series 2012 Bonds will be available and no assurance can be given that the initial offering prices for the Series 2012 Bonds will continue for any period of time.

The Series 2012 Bonds may not constitute a liquid investment, and there is no assurance that a liquid secondary market will exist for the Series 2012 Bonds in the event an owner thereof determines to solicit purchasers of the Series 2012 Bonds. Even if a liquid secondary market exists, there can be no assurance as to the price for which the Series 2012 Bonds may be sold. Such price may be lower than that paid by the current owner of the Series 2012 Bonds, depending on existing market conditions and other factors.

LITIGATION

There are no pending, nor to the knowledge of the Metropolitan Government, threatened legal proceedings restraining, enjoining, or adversely affecting the issuance or delivery of the Series 2012 Bonds, the fixing or collecting of rates and charges for the services of the System, other than as described in Appendix C under the heading “Wholesale Customers”, the proceedings and authority under which the Series 2012 Bonds are to be issued or which affect in any way the validity of the Series 2012 Bonds.

The Metropolitan Government, like other similar bodies, is subject to a variety of suits and proceedings arising in the ordinary conduct of its affairs. Except as discussed below, after reviewing the current status of all pending and threatened litigation with its counsel, the Metropolitan Government believes that, while the outcome of litigation cannot be predicted, the final settlement of all lawsuits that have been filed and of any actions or claims pending or threatened against the Metropolitan Government or its officials in such capacity are adequately covered by insurance or by sovereign immunity.

Notwithstanding the foregoing, a group of nine plaintiffs, all employees of the Metropolitan Government’s Department of Water and Sewerage Services, filed a class action lawsuit against the Metropolitan Government, alleging racial discrimination on the basis of both disparate treatment and disparate impact. The amount of any monetary damages being sought by the plaintiffs is currently unclear, but in no event should any amount of damages awarded have any material effect on the Metropolitan Government’s ability to provide for the operation of the System, pay System indebtedness or comply with the provisions of the Bond Resolution or Prior Resolution. It is not possible to determine the outcome of this litigation at this time, but the Metropolitan Government intends to defend its position vigorously.

CERTAIN LEGAL MATTERS

Legal matters incident to the authorization and issuance of the Series 2012 Bonds are subject to the approval of Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel to the Metropolitan Government, whose approving opinion in substantially the form attached hereto as Appendix E will be delivered with the Series 2012 Bonds. Other than the descriptions of legal documents and Bond Counsel’s legal opinion set forth herein under the captions “THE SERIES 2012 BONDS” (other than the information relating to DTC and its book-entry system), “SECURITY AND SOURCE OF PAYMENT” (excluding financial and statistical data as to which no opinion is

expressed), “TAX MATTERS,” and APPENDIX E – FORM OF OPINION OF BOND COUNSEL, which have been reviewed by Bond Counsel, Bond Counsel has not undertaken any responsibility for any of the information contained in this Official Statement. Certain legal matters with respect to the Metropolitan Government will be passed upon by Saul Solomon, Director of Law for the Metropolitan Government. Certain legal matters will be passed upon for the Underwriters by their counsel, Adams and Reese LLP, Nashville, Tennessee.

The various legal opinions to be delivered concurrently with the delivery of the Series 2012 Bonds express the professional judgment of the attorneys rendering the opinion as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise from the transaction.

CONTINUING DISCLOSURE

In connection with the issuance of the Series 2012 Bonds and to assist the Underwriters in complying with Rule 15c2-12 (the “Rule”) promulgated by the SEC under the Securities Exchange Act of 1934, as amended, the Metropolitan Government shall execute a Continuing Disclosure Agreement (the “Disclosure Agreement”). Pursuant to the terms of the Disclosure Agreement, the Metropolitan Government has covenanted for the benefit of the holders of the Series 2012 Bonds that, consistent with the Rule, it will provide: annual financial information for the System, including audited financial statements of the Metropolitan Government’s Department of Water and Sewerage Services for each fiscal year ending on and after June 30, 2012, in a timely manner, and notices of certain events with respect to the Series 2012 Bonds. Such information and notices will be sent or caused to be sent by the Metropolitan Government to the Municipal Securities Rulemaking Board (the “MSRB”). The form of the Disclosure Agreement is in Appendix F hereto.

The Metropolitan Government has agreed to provide the foregoing information only as described in the Disclosure Agreement. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

The Metropolitan Government has been in compliance with its undertakings under the Rule during the last five years.

TAX MATTERS

Tennessee State Tax Exemption

Under existing law, the Series 2012 Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on interest on the Series 2012 Bonds during the period the Series 2012 Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership doing business in the State, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2012 Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State.

Federal Tax Exemption

General. Bass, Berry & Sims PLC, Nashville, Tennessee, is Bond Counsel for the Series 2012 Bonds. Bond Counsel is of the opinion that, under existing law, relying on certain statements by the Metropolitan Government and assuming compliance by the Metropolitan Government with certain covenants, interest on the Series 2012 Bonds is:

- excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986, as amended (the “Code”); and
- not a preference item for a bondholder under the federal alternative minimum tax; but
- taken into account in determining the adjusted current earnings of certain corporations for purposes of the federal corporate alternative minimum tax.

The Code imposes requirements on the Series 2012 Bonds that the Metropolitan Government must continue to meet after the Series 2012 Bonds are issued. These requirements generally involve the way that Series 2012 Bond proceeds must be invested and ultimately used. If the Metropolitan Government does not meet these requirements, it is possible that a bondholder may have to include interest on the Series 2012 Bonds in its federal gross income on a retroactive basis to the date of issue. The Metropolitan Government has covenanted to do everything necessary to meet these requirements of the Code.

A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the Series 2012 Bonds. This is possible if a bondholder is:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,
- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit, or
- a borrower of money to purchase or carry the Series 2012 Bonds.

If a bondholder is in any of these categories, it should consult its tax advisor.

Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events or changes in applicable law could change the tax treatment of the interest on the Series 2012 Bonds or affect the market price of the Series 2012 Bonds.

Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Series 2012 Bonds, or under state, local or foreign tax law.

Bond Premium. If a bondholder purchases a Series 2012 Bond for a price that is more than the principal amount, generally the excess is "bond premium" on that Series 2012 Bond. The tax accounting treatment of bond premium is complex. It is amortized over time and as it is amortized a bondholder's tax basis in that Series 2012 Bond will be reduced. The holder of a Series 2012 Bond that is callable before its stated maturity date may be required to amortize the premium over a shorter period, resulting in a lower yield on such Series 2012 Bond. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Series 2012 Bond with bond premium, even though the Series 2012 Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any premium Series 2012 Bond, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

Information Reporting and Backup Withholding. Information reporting requirements apply to interest on tax-exempt obligations, including the Series 2012 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Series 2012 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2012 Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

Miscellaneous. Tax legislation, administrative actions taken by tax authorities, and court decision, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2012 Bonds under Federal or state law and could affect the market price or marketability of the Series 2012 Bonds.

Proposed Legislation and Other Matters. Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Series 2012 Bonds under Federal or state law or otherwise prevent beneficial owners of the Series 2012 Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Series 2012 Bonds. For example, on September 12, 2011, President Obama sent to Congress draft legislation entitled the “American Jobs Act of 2011” (the “Proposed Act”). On September 13, 2011, Senate Majority Leader Reid introduced the Proposed Act in the Senate (S.1549). The Proposed Act includes a provision that, if enacted as proposed, would limit the amount of exclusions (including tax-exempt interest, such as interest on the Series 2012 Bonds) and deductions certain high income taxpayers could use to reduce their income tax liability for taxable years after 2012, and accordingly the Proposed Act could affect the market price or marketability of the Series 2012 Bonds.

Prospective bondholders should consult their own tax advisors regarding the foregoing matters.

RATINGS

Moody’s Investors Service, Inc. and Standard & Poor’s Ratings Services have assigned ratings of “A1” and “A+”, respectively, to the Series 2012 Bonds. The ratings reflect only the respective views of such organizations and the Metropolitan Government makes no representation as to the appropriateness of the ratings. Any explanation of the significance of the ratings may be obtained only from the respective rating agency furnishing the same at the following addresses: Moody’s Investors Services, Inc., 99 Church Street, New York, New York 10007; Standard & Poor’s Ratings Group, 55 Water Street, New York, New York 10041. The Metropolitan Government furnished to each rating agency certain information and materials, some of which may not have been included in this Official Statement, relating to the Metropolitan Government as well as outstanding debt of the Metropolitan Government. Generally, rating agencies base their ratings upon such information and materials and upon investigations, studies and assumptions by the ratings agencies. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or any of them, may have an adverse effect on the market price of the Series 2012 Bonds.

UNDERWRITING

The Underwriters of the Series 2012 Bonds have agreed, subject to certain conditions, to purchase all of the Series 2012 Bonds from the Metropolitan Government at an aggregate purchase price to be paid by the Underwriters of \$154,370,180.00 (representing the principal amount of the Series 2012 Bonds plus an original issue premium of \$25,338,940.15, less an Underwriters’ discount of \$593,760.15). The Bond Purchase Agreement between the Metropolitan Government and the Underwriters provides, with respect to the Series 2012 Bonds, that all of the Series 2012 Bonds will be purchased by the Underwriters, if any of the Series 2012 Bonds of such issue are purchased.

The Series 2012 Bonds will be offered at the respective initial public offering prices or yields shown on the inside cover page of this Official Statement. The Underwriters may offer and sell the Series 2012 Bonds to certain dealers (including dealers depositing the Series 2012 Bonds into investment trusts) and others at prices lower than the public offering prices stated on the inside cover page hereof. Following the initial public offering, the initial public offering prices may be changed from time to time by the Underwriters in their discretion.

Morgan Stanley, parent company of Morgan Stanley & Co. LLC, an underwriter of the Series 2012 Bonds, has entered into a retail brokerage joint venture with Citigroup Inc. As part of the joint venture, Morgan Stanley & Co. LLC will distribute municipal securities to retail investors through the financial advisor network of a new broker-dealer, Morgan Stanley Smith Barney LLC. This distribution arrangement became effective on June 1, 2009. As part of this arrangement, Morgan Stanley & Co. LLC will compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Series 2012 Bonds.

Piper Jaffray & Co., one of the Underwriters of the Series 2012 Bonds, and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Series 2012 Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper Jaffray & Co.

FINANCIAL ADVISOR

First Southwest Company is employed as Financial Advisor to the Metropolitan Government in connection with the issuance of the Series 2012 Bonds. The Financial Advisor's fees for services rendered with respect to the sale of the Series 2012 Bonds are contingent upon the issuance and delivery of the Series 2012 Bonds. First Southwest Company, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2012 Bonds or the possible impact of any present pending or future actions taken by any legislative or judicial bodies. In the normal course of business, First Southwest Company may from time to time sell investment securities to the Metropolitan Government for the investment of bond proceeds or other funds of the Metropolitan Government upon the request of the Metropolitan Government.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement: The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Metropolitan Government and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

INDEPENDENT AUDITORS

The general purpose financial statements of the Metropolitan Government, which include audited financial information for the Department of Water and Sewerage Services of the Metropolitan Government as of the fiscal year ended June 30, 2011, an electronic link to which is included in Appendix B to this Official Statement, have been audited by Crosslin & Associates, P.C., independent auditors, as stated in their report.

FORWARD-LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the Metropolitan Government, that are not purely historical, are forward-looking statements, including certain statements regarding the Metropolitan Government's expectations, hopes, intentions or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Metropolitan Government on the date hereof and the Metropolitan Government assumes no obligation to update any such forward-looking statements. It is important to note that the Metropolitan Government's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Metropolitan Government. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

In considering the matters set forth in this Official Statement, prospective investors should carefully review all information included herein to identify any investment considerations. Potential investors should be thoroughly familiar with this entire Official Statement and the appendices hereto, and should have assessed whatever additional financial and other information any such investor may deem necessary, prior to making an investment decision with respect to the Series 2012 Bonds.

MISCELLANEOUS INFORMATION

There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information. Reference is made to original documents in all respects. This Official Statement, and the execution and delivery of this Official Statement, were authorized by the Metropolitan Government.

[Remainder of page intentionally left blank]

The Metropolitan Council has duly authorized the execution and delivery of this Official Statement on behalf of the Metropolitan Government by its Metropolitan Mayor and its Director of Finance.

THE METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY

/s/ Karl F. Dean
Metropolitan Mayor

/s/ Richard M. Riebeling
Director of Finance

APPENDIX A
CERTAIN PROVISIONS OF THE BOND RESOLUTION

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE I DEFINITIONS AND STATUTORY AUTHORITY	A-1
SECTION 101. DEFINITIONS.....	A-1
SECTION 102. AUTHORITY FOR THE RESOLUTION.....	A-11
SECTION 103. RESOLUTION TO CONSTITUTE CONTRACT	A-11
ARTICLE II ISSUANCE OF BONDS; SUBORDINATE INDEBTEDNESS; CREDIT FACILITIES AND HEDGE AGREEMENTS.....	A-12
SECTION 201. AUTHORIZATION OF BONDS	A-12
SECTION 202. GENERAL PROVISIONS FOR ISSUANCE OF BONDS OF EACH SERIES.....	A-12
SECTION 203. BONDS OTHER THAN REFUNDING BONDS.....	A-13
SECTION 204. REFUNDING BONDS	A-13
SECTION 205. CREDIT FACILITIES AND HEDGE AGREEMENTS	A-14
SECTION 206. ADDITIONAL PRIOR SECOND LIEN BONDS; SUBORDINATED INDEBTEDNESS.....	A-14
SECTION 207. SPECIAL PROVISIONS RELATING TO CAPITAL APPRECIATION BONDS AND DEFERRED INCOME BONDS	A-15
ARTICLE III GENERAL TERMS AND PROVISIONS OF BONDS	A-16
SECTION 301. MEDIUM OF PAYMENT; FORM AND DATE; LETTERS AND NUMBERS	A-16
SECTION 302. LEGENDS	A-16
SECTION 303. EXECUTION AND AUTHENTICATION	A-16
SECTION 304. INTERCHANGEABILITY OF BONDS	A-17
SECTION 305. NEGOTIABILITY, TRANSFER AND REGISTRY	A-17
SECTION 306. REGULATIONS WITH RESPECT TO EXCHANGES AND TRANSFERS.....	A-17
SECTION 307. BONDS MUTILATED, LOST, STOLEN OR DESTROYED.....	A-17
SECTION 308. PAYMENT OF INTEREST ON BONDS; INTEREST RIGHTS PRESERVED	A-18
SECTION 309. BOOK ENTRY BONDS	A-18
SECTION 310. CANCELLATION AND DESTRUCTION OF BONDS	A-20
ARTICLE IV REDEMPTION OF BONDS.....	A-20
SECTION 401. PRIVILEGE OF REDEMPTION AND REDEMPTION PRICE.....	A-20
SECTION 402. REDEMPTION OF BONDS	A-21
SECTION 403. SELECTION OF BONDS TO BE REDEEMED.....	A-21
SECTION 404. NOTICE OF REDEMPTION	A-21
SECTION 405. PAYMENT OF REDEEMED BONDS.....	A-21
ARTICLE V ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF	A-22
SECTION 501. THE PLEDGE EFFECTED BY THE RESOLUTION	A-22
SECTION 502. ESTABLISHMENT OF FUNDS AND ACCOUNTS.....	A-23
SECTION 503. CONSTRUCTION FUND	A-23
SECTION 504. REVENUES AND REVENUE FUND	A-24
SECTION 505. PAYMENT OF OPERATION AND MAINTENANCE EXPENSES.....	A-24
SECTION 506. PAYMENTS INTO CERTAIN FUNDS	A-24
SECTION 507. DEBT SERVICE FUND.....	A-24
SECTION 508. DEBT SERVICE RESERVE FUND	A-26
SECTION 509. APPLICATION OF REVENUES PURSUANT TO THE PRIOR RESOLUTION	A-26
ARTICLE VI DEPOSITORIES OF MONEYS, SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS	A-27
SECTION 601. DEPOSITORIES	A-27
SECTION 602. DEPOSITS.....	A-27
SECTION 603. INVESTMENT OF FUNDS.....	A-27
SECTION 604. VALUATION AND SALE OF INVESTMENTS.....	A-28

ARTICLE VII PARTICULAR COVENANTS OF THE METROPOLITAN GOVERNMENT	A-28
SECTION 701. PAYMENT OF BONDS AND CONTRACTS	A-28
SECTION 702. EXTENSION OF PAYMENT OF BONDS	A-28
SECTION 703. OFFICES FOR SERVICING BONDS	A-28
SECTION 704. FURTHER ASSURANCE	A-28
SECTION 705. POWER TO ISSUE BONDS AND PLEDGE REVENUES AND OTHER FUNDS	A-29
SECTION 706. POWER TO FIX AND COLLECT RATES, FEES AND CHARGES	A-29
SECTION 707. CREATION OF LIENS; SALE AND LEASE OF PROPERTY	A-29
SECTION 708. LIMITS ON ADDITIONAL PRIOR BONDS	A-30
SECTION 709. ANNUAL BUDGET	A-30
SECTION 710. OPERATION AND MAINTENANCE OF THE SYSTEM	A-30
SECTION 711. RATES, FEES AND CHARGES	A-31
SECTION 712. MAINTENANCE OF INSURANCE	A-31
SECTION 713. ACCOUNTS AND REPORTS	A-32
SECTION 714. PAYMENT OF TAXES AND CHARGES	A-32
SECTION 715. COMPLIANCE WITH PRIOR RESOLUTION	A-32
SECTION 716. GENERAL	A-32
ARTICLE VIII REMEDIES OF HOLDERS OF THE BONDS.....	A-33
SECTION 801. EVENTS OF DEFAULT	A-33
SECTION 802. ACCOUNTING AND EXAMINATION OF RECORDS AFTER DEFAULT	A-34
SECTION 803. APPLICATION OF REVENUES AND OTHER MONEYS AFTER DEFAULT	A-34
SECTION 804. APPOINTMENT OF RECEIVER	A-36
SECTION 805. REMEDIES NOT EXCLUSIVE	A-36
SECTION 806. EFFECT OF WAIVER AND OTHER CIRCUMSTANCES	A-36
SECTION 807. NOTICE OF DEFAULT	A-36
ARTICLE IX THE FIDUCIARIES.....	A-36
SECTION 901. PAYING AGENTS	A-36
SECTION 902. RESPONSIBILITIES OF FIDUCIARIES	A-37
SECTION 903. EVIDENCE ON WHICH FIDUCIARIES MAY ACT	A-38
SECTION 904. COMPENSATION	A-38
SECTION 905. CERTAIN PERMITTED ACTS	A-38
SECTION 906. MERGER OR CONSOLIDATION	A-38
SECTION 907. ADOPTION OF AUTHENTICATION	A-38
ARTICLE X SUPPLEMENTAL RESOLUTIONS.....	A-38
SECTION 1001. SUPPLEMENTAL RESOLUTIONS EFFECTIVE WITHOUT DELIVERY OF COUNSEL'S OPINION AS TO NO MATERIAL ADVERSE EFFECT AND WITHOUT CONSENT OF HOLDERS OF THE BONDS	A-38
SECTION 1002. SUPPLEMENTAL RESOLUTIONS EFFECTIVE UPON DELIVERY OF COUNSEL'S OPINION AS TO NO MATERIAL ADVERSE EFFECT	A-39
SECTION 1003. SUPPLEMENTAL RESOLUTIONS EFFECTIVE WITH CONSENT OF HOLDERS OF THE BONDS	A-39
SECTION 1004. GENERAL PROVISIONS	A-39
ARTICLE XI AMENDMENTS	A-40
SECTION 1101. MAILING	A-40
SECTION 1102. POWERS OF AMENDMENT	A-40
SECTION 1103. CONSENT OF HOLDERS OF THE BONDS	A-40
SECTION 1104. MODIFICATIONS BY UNANIMOUS CONSENT	A-41
SECTION 1105. EXCLUSION OF BONDS	A-42
SECTION 1106. NOTATION ON BONDS	A-42
ARTICLE XII MISCELLANEOUS	A-42
SECTION 1201. DEFEASANCE	A-42
SECTION 1202. EVIDENCE OF SIGNATURES OF HOLDERS OF THE BONDS AND OWNERSHIP OF BONDS	A-43
SECTION 1203. MONEYS HELD FOR PARTICULAR BONDS	A-43

SECTION 1204. PRESERVATION AND INSPECTION OF DOCUMENTS	A-43
SECTION 1205. PARTIES INTERESTED HEREIN	A-43
SECTION 1206. NO RECOURSE ON THE BONDS	A-44
SECTION 1207. PUBLICATION OF NOTICE; SUSPENSION OF PUBLICATION; NOTICE TO CREDIT ENHANCERS.....	A-44
SECTION 1208. ACTION BY CREDIT ISSUER WHEN ACTION BY HOLDERS OF THE BONDS REQUIRED.....	A-44
SECTION 1209. SEVERABILITY OF INVALID PROVISIONS.....	A-44
SECTION 1210. HOLIDAYS	A-44

ARTICLE I
DEFINITIONS AND STATUTORY AUTHORITY

Section 101. Definitions. The following terms shall, for all purposes of the Resolution, have the following meanings:

Account or **Accounts** shall mean, as the case may be, each or all of the accounts established in Section 502(a).

Accountant's Certificate shall mean a certificate signed by an independent certified public accountant of recognized national standing or a firm of certified public accountants of recognized national standing, selected by the Metropolitan Government, who may be the accountant or firm of accountants who regularly audit the books of the Metropolitan Government relating to the System.

Accreted Value shall mean, as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the periodic date specified in the Supplemental Resolution authorizing such Capital Appreciation Bond on which interest on such Bond is to be compounded (hereinafter, a "Periodic Compounding Date") next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Capital Appreciation Bonds set forth in the Supplemental Resolution authorizing such Bonds, compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Accreted Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Accreted Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Supplemental Resolution authorizing such Capital Appreciation Bonds, Accreted Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months.

Additionally Secured Series shall mean a Series of Bonds for which the payment of the principal or Redemption Price, if any, of, and interest on, the Bonds of such Series shall be secured, in addition to the pledge created pursuant to Section 501(a) and 501(b) hereof in favor of all of the Bonds, by amounts on deposit in a separate account to be designated therefor in the Debt Service Reserve Fund.

Alternate Variable Rate Taxable Index shall mean such index as, at the time, is in general use as a proxy for short-term interest rates on debt obligations of state and local governments the interest on which is not excluded from gross income for federal income tax purposes, as determined by an Authorized Finance Officer.

Alternate Variable Rate Tax-Exempt Index shall mean such index as, at the time, is in general use as a proxy for short-term interest rates on debt obligations of state and local governments the interest on which is excluded from gross income for federal income tax purposes, as determined by an Authorized Finance Officer.

Annual Budget shall mean the annual budget or budgets of the System, as amended or supplemented, adopted or in effect for a particular Fiscal Year as provided in Section 709.

Appreciated Value shall mean, with respect to any Deferred Income Bond, (i) as of any date of computation prior to the Current Interest Commencement Date with respect to such Deferred Income Bond, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the periodic date specified in the Supplemental Resolution authorizing such Deferred Income Bond on which interest on such Bond is to be compounded (hereinafter, a "Periodic Compounding Date") next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Deferred Income Bonds set forth in the Supplemental Resolution authorizing such Bonds, compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Appreciated Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the

Appreciated Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Supplemental Resolution authorizing such Deferred Income Bonds, Appreciated Value accrues in equal daily amounts on the basis of a year consisting of twelve 30-day months and (ii) as of any date of computation on and after the Current Interest Commencement Date, the Appreciated Value on the Current Interest Commencement Date.

Authorized Newspaper shall mean a newspaper or financial journal customarily published at least once a day for at least five days (other than legal holidays) in each calendar week and printed in the English language, which is of general circulation in the Borough of Manhattan, City and State of New York (which may include The Bond Buyer and The Wall Street Journal).

Authorized Finance Officer shall mean the Director of Finance and any other persons authorized in writing by the Director of Finance to act as an Authorized Finance Officer hereunder.

Balloon Date shall mean any date of a Principal Installment or any date on which a Holder may elect to have Balloon Obligations redeemed, prepaid, purchased directly or indirectly by the Metropolitan Government, or otherwise paid, in a Balloon Year.

Balloon Obligations shall mean any Series of Bonds 25% or more of the Principal Installments of which is due or may be required to be paid in any 12-month period; provided that, in calculating the principal amount of such Bonds due or required to be redeemed, prepaid, purchased, or otherwise paid in any 12-month period, such principal amount shall be reduced to the extent that all or any portion of such amount is required to be redeemed or amortized prior to such 12-month period.

Balloon Year shall mean any 12-month period in which more than 25% of the original principal amount of related Balloon Obligations mature or are subject to mandatory redemption or could, at the option of the holders thereof, be required to be redeemed, prepaid, purchased directly or indirectly by the Metropolitan Government, or otherwise paid.

Bond or **Bonds** shall mean any bonds, notes, loan agreements or other obligations or evidences of indebtedness, as the case may be, authenticated and delivered under and Outstanding pursuant to this Resolution.

Bond Registrar shall mean the officer of the Metropolitan Government, such transfer agent duly registered pursuant to the Securities Exchange Act of 1934, as amended (or successor provision of law), or such bank or trust company organized under the laws of the United States of America or of any State of the United States of America or national banking association, located within or without the State of Tennessee, appointed by the Metropolitan Government to perform the duties of Bond Registrar enumerated in Section 703 with respect to one or more Series of Bonds.

Book Entry Bond shall mean a Bond authorized to be issued to, and issued to and, except as provided in Section 309(d), restricted to being registered in the name of, a Securities Depository for the participants in such Securities Depository or the beneficial owners of such Bond.

Code shall mean the Internal Revenue Code of 1986, as amended, or any successor, and the applicable regulations (including final, temporary and proposed) promulgated by the United States Department of the Treasury thereunder, including Treasury Regulations issued pursuant to Sections 103 and 141 through 150, inclusive, of said Internal Revenue Code of 1986.

Capitalized Interest Account shall mean the Capitalized Interest Account established within the Construction Fund in Section 502(a).

Capital Appreciation Bonds shall mean any Bonds issued under the Resolution as to which interest is (a) compounded periodically on dates that are specified in the Supplemental Resolution authorizing such Capital Appreciation Bonds and (b) payable only at the maturity, earlier redemption or other payment thereof pursuant to the Resolution or the Supplemental Resolution authorizing such Capital Appreciation Bonds.

Certified Interest Rate shall mean, as of any date of determination:

(a) with respect to Bonds that were or will be, at the date of the original issuance thereof, the subject of a Counsel's Opinion to the effect that the interest thereon is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, a rate of interest equal to the average of the Variable Rate Tax-Exempt Index for the five (5) years preceding such date of determination; and

(b) with respect to Bonds that were not and will not be, at the date of the original issuance thereof, the subject of a Counsel's Opinion to the effect that the interest thereon is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code, a rate of interest equal to the average of the Variable Rate Taxable Index for the five (5) years preceding such date of determination.

Charter shall mean the Charter of the Metropolitan Government approved by referendum on June 28, 1962, as amended from time to time.

Commitment, when used with respect to Balloon Obligations, shall mean a binding written commitment from a financial institution, surety, or insurance company to refinance such Balloon Obligations on or prior to any Balloon Date thereof, including without limitation any Credit Facility for such Balloon Obligations.

Construction Fund shall mean the Construction Fund established in Section 502(a).

Consultant shall mean a firm of engineers, accountants or water and sewer consultants of national reputation for advising municipalities with respect to the setting of rates and charges for the use of water and sewer systems, as selected by an Authorized Finance Officer.

Consulting Engineer shall mean the engineer or engineering firm or corporation, if any, retained by the Metropolitan Government to perform the acts and carry out the duties provided for such Consulting Engineer in the Resolution. In the event that the Metropolitan Government shall retain an engineer or engineering firm or corporation as aforesaid, such engineer or engineering firm or corporation shall have a nationwide and favorable reputation for skill and experience in such work.

Contracts shall mean all Credit Facility Agreements, including any Reimbursement Obligations, and all Qualified Hedge Agreements.

Costs shall mean any and all costs permitted to be financed by applicable Tennessee law through the issuance of a Series of Bonds.

Counsel's Opinion shall mean an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds (who may be counsel to the Metropolitan Government) selected by the Metropolitan Government.

Credit Facility shall mean any letter of credit, insurance policy, guaranty, surety bond, standby bond purchase agreement, line of credit, revolving credit agreement, or similar obligation, arrangement or instrument (other than a Reserve Fund Credit Facility) issued by a bank, insurance company, or any entity that is used by the Metropolitan Government to perform one or more of the following tasks: (i) enhancing the Metropolitan Government's credit by assuring owners of any of the Bonds that principal of and interest on such Bonds will be paid promptly when due; (ii) providing liquidity for the owners of Bonds through undertaking to cause Bonds to be bought from the owners thereof when submitted pursuant to an arrangement prescribed by a Supplemental Resolution; or (iii) remarketing any Bonds so submitted to the Credit Issuer (whether or not the same Credit Issuer is remarketing the Bonds).

Credit Facility Agreement shall mean an agreement between the Metropolitan Government and a Credit Issuer pursuant to which the Credit Issuer issues a Credit Facility.

Credit Issuer shall mean any issuer of a Credit Facility then in effect for all or part of the Bonds.

Current Interest Commencement Date shall mean, with respect to any particular Deferred Income Bonds, the date specified in the Supplemental Resolution authorizing such Deferred Income Bonds (which date must be prior to the maturity date for such Deferred Income Bonds) after which interest accruing on such Deferred Income Bonds shall be payable periodically on dates specified in such Supplemental Resolution, with the first such payment date being the first such periodic date immediately succeeding such Current Interest Commencement Date.

Date of Issuance shall mean, with respect to any Series of Bonds, the date upon which such Bonds are or have been authenticated and delivered by the Bond Registrar therefor.

Debt Service Fund shall mean the Debt Service Fund established in Section 502(a).

Debt Service Requirement shall mean:

(a) with respect to the Prior First Lien Bonds and Subordinated Indebtedness, the total principal and interest coming due, whether at maturity or upon mandatory redemption, in any specified period; and with respect to the Prior Second Lien Bonds, their "Debt Service Requirement", as such term is defined in the Prior Second Lien Resolution.

(b) with respect to the Bonds, the total Principal Installments and interest accruing in any specified period, provided that:

(i) If any Bonds Outstanding or proposed to be issued shall bear interest at a Variable Rate, including Hedged Obligations if the interest thereon calculated as set forth below is expected to vary and Bonds secured by a Credit Facility if the interest thereon calculated as set forth below is expected to vary, the interest coming due in any specified future period shall be determined as if the Variable Rate in effect at all times during such future period equaled, at the option of the Metropolitan Government either (1) the average of the actual Variable Rates which were in effect (weighted according to the length of the period during which each such Variable Rate was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period), or (2) the Certified Interest Rate.

(ii) With respect to any Bonds secured by a Credit Facility, the Debt Service Requirement therefor shall include (1) any commission or commitment fee obligations with respect to such Credit Facility, (2) the outstanding and unpaid amount of any Reimbursement Obligation and interest thereon, (3) any additional interest owed on Bonds which have been purchased by a Credit Issuer pursuant to a Credit Facility Agreement, and (4) any remarketing agent fees; provided if (a) the Credit Facility requires the Credit Issuer to make all interest payments on the Bonds, (b) the Reimbursement Obligation provides for payments by the Metropolitan Government or the Credit Issuer based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices, and (c) the Credit Issuer, upon the execution of the Credit Facility Agreement, would qualify as a Qualified Hedge Provider if the Credit Facility Agreement were to be construed as a Hedge Agreement and the related Bonds as Hedged Obligations, then interest on such Bonds shall be calculated by adding (x) the amount of interest payable on such Bonds pursuant to their terms and (y) the amount of payments for interest to be made by the Metropolitan Government under the Credit Facility Agreement, and subtracting (z) the amounts payable by the Credit Issuer to the Metropolitan Government as interest on such Bonds as specified in the Credit Facility Agreement; but only to the extent the Credit Issuer is not in default under the Credit Facility and if such default has occurred and is continuing, interest on such Bonds shall be calculated as if there were no Credit Facility. In determining the amounts described in this paragraph for any future period, the Metropolitan Government (A) may assume that any Credit Facility presently in effect will remain in effect even if such Credit Facility has an expiration date prior to the maturity of the related Bonds and (B) may assume that the current payments relating to the Credit Facility will remain in effect or may estimate such payments in the future provided that the Metropolitan Government obtains a certificate from a Financial Adviser that such estimates are reasonable.

(iii) With respect to any Hedged Obligations, the interest on such Hedged Obligations during any Hedge Period and for so long as the provider of the related Hedge Agreement has not defaulted on its payment obligations thereunder shall be calculated by adding (x) the amount of interest payable by the Metropolitan Government on such Hedged Obligations pursuant to their terms and (y) the amount of Hedge Payments payable by the Metropolitan Government under the related Hedge Agreement and subtracting (z) the amount of Hedge Receipts payable by the provider of the related Hedge Agreement at the rate specified in the related Hedge Agreement; provided, however, that to the extent that the provider of any Hedge Agreement is in default thereunder, the amount of interest payable by the Metropolitan Government on the related Hedged Obligations shall be the interest calculated as if such Hedge Agreement had not been executed. In determining the amount of Hedge Payments or Hedge Receipts that are not fixed throughout the Hedge Period (i.e., which are variable), payable or receivable for any future period, such Hedge Payments or Hedge Receipts for any period of calculation (the "**Determination Period**") shall be computed by assuming that the variables comprising the calculation (e.g., indices) applicable to the Determination Period are equal to the average of the actual variables which were in effect (weighted according to the length of the period during which each such variable was in effect) for the most recent 12-month period immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period).

(iv) For the purpose of calculating the Debt Service Requirement on Balloon Obligations (1) which are subject to a Commitment or (2) which do not have a Balloon Year commencing within 12 months from the date of calculation or (3) which are issued in anticipation of the issuance of Bonds that are not Balloon Obligations or (4) which are issued pursuant to a Supplemental Resolution which contemplates that the principal of Bonds tendered for payment at the option of the holder thereof prior to the stated maturity of such Bonds will be paid from the proceeds of the remarketing of such tendered Bonds (or from the issuance of new Bonds authorized by such Supplemental Resolution), at the option of the Metropolitan Government, the actual principal and interest on such Balloon Obligations shall be included in the Debt Service Requirement, subject to the other assumptions contained herein, or such Balloon Obligations shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period of 30 years at an assumed interest rate (which shall be the interest rate certified by a Financial Adviser to be the interest rate at which the Metropolitan Government could reasonably expect to borrow the same amount by issuing Bonds with the same priority of lien as such Balloon Obligations and with a 30-year term). For the purpose of calculating the Debt Service Requirement on Balloon Obligations not described in the preceding sentence, the principal payable on such Bonds during the Balloon Year shall be calculated as if paid on the Balloon Date.

(v) The principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Debt Service Requirement in the manner prescribed in Section 207(a).

(vi) Interest on Bonds shall be excluded from the determination of Debt Service Requirement to the extent amounts on deposit in the Capitalized Interest Account of the Construction Fund are scheduled to be applied thereto during such period.

(vii) Scheduled interest payments on Tax Credit Bonds during any period shall be reduced to reflect Tax Credit Payments attributable to such scheduled interest payments.

(c) For purposes of calculating the accrual of Principal Installments and interest on the Bonds, (i) Principal Installments of a Series will be deemed to accrue daily in equal amounts from the preceding Principal Installment date for such Series (but in no event shall any accrual be made for any Principal Installment more than one year prior to the due date of such Principal Installment or from the Date of Issuance of Bonds of such Series, whichever date is later); (ii) each fixed payment obligation (other than Principal Installments) will be deemed to accrue daily in equal amounts from the preceding relevant payment obligation date (but in no event more than one year prior to such payment obligation date or the initial incurrence of the payment obligation, whichever is later); and (iii) principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall accrue in the manner provided in Section 207(a).

Debt Service Reserve Fund shall mean the Debt Service Reserve Fund established in Section 502(a).

Debt Service Reserve Requirement shall mean, with respect to each separate account in the Debt Service Reserve Fund, the amount specified in the Supplemental Resolution establishing such account.

Defaulted Interest shall have the meaning given to such term in Section 308.

Defeasance Securities shall mean, unless otherwise provided with respect to the Bonds of a Series in the Supplemental Resolution authorizing such Bonds, such securities as are described by applicable provisions of Tennessee law as permitted to be acquired for the purpose of providing for the refunding outstanding debt service obligations.

Deferred Income Bonds shall mean any Bonds issued under the Resolution as to which interest accruing prior to the Current Interest Commencement Date is (i) compounded periodically on dates specified in the Supplemental Resolution authorizing such Deferred Income Bonds and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to the Resolution or the Supplemental Resolution authorizing such Deferred Income Bonds.

Depository shall mean any bank, trust company, national banking association, savings and loan association, savings bank or other banking association or state or federal agency selected by the Metropolitan Government as a depository of moneys and securities held under the provisions of the Resolution.

Director of Finance shall mean the Director of Finance of the Metropolitan Government appointed pursuant to the provisions of the Charter of the Metropolitan Government or, in the absence of such appointment or in the event the person so appointed is unable or incapable of acting in such capacity, the person appointed by the Metropolitan Mayor to undertake the duties otherwise performed by the Director of Finance.

Director of Law shall mean the Director of Law of the Metropolitan Government appointed pursuant to the provisions of the Charter or, in the absence of such appointment or in the event the person so appointed is unable or incapable of acting in such capacity, the person appointed by the Metropolitan Mayor to undertake the duties otherwise performed by the Director of Law, or his or her designee.

Escrow Agent shall mean, with respect to the refunding or defeasance of any particular Bond or Bonds at any one time, the entity with which moneys or investments shall be deposited in trust for the Holders of such Bond or Bonds to be refunded or defeased, and who shall agree, through an appropriate agreement with the Metropolitan Government, to perform the duties of Escrow Agent with respect to such Bond or Bonds as provided in the Resolution or the Supplemental Resolution authorizing the Series of which such Bond or Bonds are a part.

Event of Default shall have the meaning given to such term in Section 801.

Fiduciary or **Fiduciaries** shall mean the Bond Registrars, the Paying Agents, any Escrow Agent in respect of the refunding or defeasance of Bonds, or any or all of them, as may be appropriate.

Financial Adviser shall mean an investment banking or financial advisory firm, commercial bank, or any other person who or which is retained by the Metropolitan Government for the purpose of passing on questions relating to the availability and terms of specified types of bonds or the financial condition or operation of the System and is actively engaged in and, in the good faith opinion of the Metropolitan Government, has a favorable reputation for skill and experience in providing financial advisory services of the type with respect to which the Financial Adviser has been retained.

Fiscal Year shall mean the 12-month period established by the Metropolitan Council or provided by law from time to time as the fiscal year for the System, and which, as of the date of adoption of this Resolution, is the 12-month period commencing on July 1 of any year and ending on June 30 of the following year.

Fund or **Funds** shall mean, as the case may be, each or all of the Funds established in Section 502.

Hedge Agreement shall mean, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the Metropolitan Government determines is to be used, or is intended to be used, to manage or reduce the cost of any Bonds, to convert any element of any Bonds from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty.

Hedge Payments shall mean amounts payable by the Metropolitan Government pursuant to any Hedge Agreement, other than Termination Payments.

Hedge Receipts shall mean amounts payable by any provider of a Hedge Agreement pursuant to such Hedge Agreement, other than Termination Payments.

Hedge Period shall mean the period during which a Hedge Agreement is in effect.

Hedged Obligations shall mean any Bonds with respect to which the Metropolitan Government shall have entered into a Qualified Hedge Agreement.

Holder shall mean any person who shall be the registered owner of any Bond or Bonds.

Investment Securities shall mean and include any securities which are legal investments for monies of the System, as prescribed by applicable provisions of Tennessee law.

Metropolitan Clerk shall mean the Metropolitan Clerk of the Metropolitan Government appointed pursuant to the provisions of the Charter or his or her designee.

Metropolitan Mayor shall mean the Metropolitan Mayor of the Metropolitan Government elected pursuant to the provisions of the Charter or his or her designee acting on his or her behalf pursuant to the Charter.

Metropolitan Council shall mean the Metropolitan County Council of the Metropolitan Government.

Metropolitan Government shall mean The Metropolitan Government of Nashville and Davidson County.

Net Revenues shall mean, for any period, the Revenues during such period, minus the Operation and Maintenance Expenses during such period.

One-Month LIBOR Rate shall mean, as of any date of determination, the offered rate for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

Operation and Maintenance Expenses shall mean the current expenses, paid or accrued, of operation, maintenance and repair of the System, including administration costs, as calculated in accordance with generally accepted accounting principles. Notwithstanding the foregoing, Operation and Maintenance Expenses shall not include payments in lieu of taxes or any reserve for renewals or replacements or any allowance for depreciation or amortization, and there shall be included in Operation and Maintenance Expenses only that portion of the total administrative, general and other expenses of the Metropolitan Government which are properly allocable to the System.

Outstanding shall mean, as of any date, Bonds theretofore or thereupon being authenticated and delivered under the Resolution except:

(a) Bonds cancelled (or, in the case of Book Entry Bonds, to the extent provided in Section 309(f), portions thereof deemed to have been cancelled) by the Bond Registrar therefor at or prior to such date;

(b) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as provided in Article IV or in the Supplemental Resolution authorizing the Series of which such Bonds are a part or provision shall have been made for the giving of such notice;

(c) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III or Section 405 or 1106 unless proof satisfactory to the Metropolitan Government is presented that any such Bonds are held by a bona fide purchaser in due course; and

(d) Bonds (or, in the case of Book Entry Bonds, to the extent provided in Section 309(h), portions thereof) deemed to have been paid as provided in Section 1201 or in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

Paving Agent shall mean an officer of the Metropolitan Government, a transfer agent duly registered pursuant to the Securities Exchange Act of 1934, as amended, or a bank or trust company organized under the laws of any state of the United States of America or a national banking association appointed to act in such capacity hereunder.

Principal Installment shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, the principal amount of Bonds of such Series due on a certain future date, whether at stated maturity or as a result of mandatory redemption requirements, or which may, at the option of the holders thereof, be required to be redeemed, prepaid, purchased or otherwise paid, as set forth in a Supplemental Resolution.

Prior Bonds shall mean, collectively, Prior First Lien Bonds and Prior Second Lien Bonds.

Prior First Lien Bonds shall mean the Metropolitan Government's outstanding Water and Sewer Revenue Refunding Bonds, Series 1986; Water and Sewer Revenue Bonds, Series 1993; Water and Sewer Revenue Refunding Bonds, Series 1998A; Water and Sewer Revenue Bonds, Series 1998B; Water and Sewer Revenue Refunding Bonds, Series 2002; Water and Sewer Revenue Refunding Bonds, Series 2007; Water and Sewer Revenue Refunding Bonds, Series 2008A; and Water and Sewer Revenue Refunding Bonds, Series 2008B.

Prior Second Lien Bonds shall mean the Metropolitan Government's outstanding Water and Sewer Revenue Refunding Bonds, Series 2010A; Water and Sewer Revenue Bonds Federally Taxable, Series 2010B (Build America Bonds – Direct Payment); Water and Sewer Revenue Bonds Federally Taxable, Series 2010C (Recovery Zone Economic Development Bonds); Water and Sewer Revenue Refunding Bonds Federally Taxable, Series 2010D; and any other series of bonds that may hereafter be issued pursuant to the Prior Second Lien Resolution.

Prior First Lien Resolution shall mean Metropolitan Council Resolution R85-762, adopted on November 5, 1985, as supplemented and amended, including without limitation as supplemented and amended by Substitute Resolution No. R93-770 of the Metropolitan Council.

Prior Second Lien Resolution shall mean Metropolitan Council Substitute Resolution RS2010-1442, adopted on November 16, 2010, as supplemented and amended.

Prior Resolution shall mean, collectively, the Prior First Lien Resolution and the Prior Second Lien Resolution.

Project Account shall mean the Project Account established within the Construction Fund in Section 502(a).

Prudent Utility Practice shall mean, in respect of any particular utility industry, any of the practices, methods and acts which, in the exercise of reasonable judgment, in light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of such utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition.

Qualified Hedge Agreement shall mean any Hedge Agreement with a Qualified Hedge Provider.

Qualified Hedge Provider shall mean an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under the related Hedge Agreement are absolutely and unconditionally guaranteed or insured or collateralized by an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, is sufficient to satisfy applicable Tennessee law.

Rate Stabilization Fund shall mean the fund bearing such name and established by Section 502(a) of the Prior Second Lien Resolution.

Rating shall mean a rating in one of the categories by a Rating Agency, disregarding pluses, minuses, and numerical gradations.

Rating Agencies or **Rating Agency** shall mean any nationally recognized credit rating agency.

Redemption Price shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or a Supplemental Resolution.

Refunding Bonds shall mean Bonds authenticated and delivered pursuant to Section 204, and all Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 405 or Section 1106.

Regular Record Date shall have the meaning given to such term in Section 308.

Reimbursement Obligation shall mean the obligation of the Metropolitan Government to directly reimburse any Credit Issuer for amounts paid by such Credit Issuer under a Credit Facility, whether or not such obligation to so reimburse is evidenced by a promissory note or other similar instrument. The term Reimbursement Obligation includes obligations pursuant to a Credit Facility Agreement either to make payments for interest based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices, in return for the Credit Issuer's fixed obligations under the Credit Facility or to make fixed payments for interest in return for the Credit Issuer's payments based on such variables.

Reserve Fund Credit Facility shall mean a municipal bond insurance policy, surety bond, letter of credit, line of credit, guarantee or other agreement which provides for payment of amounts equal to all or any portion of the Debt Service Reserve Requirement.

Resolution shall mean this resolution, sometimes referred to herein as the "Subordinate Lien Water and Sewer System Revenue Bond Resolution", as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms hereof.

Revenue Fund shall mean the Revenue Fund established in Section 502(a).

Revenues shall mean (a) all revenues, income, rents, service fees and receipts properly allocable to the System resulting from ownership and operation of the System, excluding any customer deposits or other deposits subject to refund, unless such deposits have become property of the Metropolitan Government, (b) the proceeds of any insurance covering business interruption loss relating to the System and (c) interest received or to be received on any moneys or securities held in any of the funds or accounts established by the Prior Resolution or the Resolution, with the exception of (i) moneys held in the Construction Fund or any account thereof and (ii) moneys held in the Debt Service Reserve Fund during any period in which the investment earnings thereon are directed by Supplemental Resolution to the Construction Fund or an account thereof. The computation of Revenues with respect to any period of time hereunder shall be increased by the amount of transfers during such period from the Rate Stabilization Fund to the Revenue Fund pursuant to Section 509(a) of the Prior Second Lien Resolution, and decreased by the amount of any transfers during such period from the Revenue Fund to the Rate Stabilization Fund pursuant to Section 506(e) of the Prior Second Lien Resolution. "Revenues" shall not include any Tax Credit Payments, grant proceeds or, except as set forth in (b) above, insurance proceeds.

Securities Depository shall mean, with respect to a Book Entry Bond, the person, association or corporation specified in the Supplemental Resolution authorizing the Bonds of the Series of which such Book Entry Bond is a part to serve as the securities depository for such Book Entry Bond, or its nominee, and its successor or successors and any other person, firm, association or corporation which may at any time be substituted in its place pursuant to the Resolution or such Supplemental Resolution.

Series shall mean that portion of the Bonds authenticated and delivered in a single transaction and identified pursuant to the Supplemental Resolution authorizing such Bonds as a separate Series of Bonds, regardless of variations in maturity, interest rate or other provisions, together with any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 405 or Section 1106.

Series 2009 Commercial Paper Obligations shall mean the commercial paper notes as may be issued from time to time pursuant to Resolution RS 2009-995 of the Metropolitan Council, together with the Metropolitan Government's obligations to any provider of liquidity in connection therewith.

SIFMA Municipal Swap Index shall mean the rate determined on the basis of an index based upon the weekly interest rates of tax-exempt variable rate issues included in a database maintained by Municipal Market Data or any successor indexing agent which meets specific criteria established by The Securities Industry and Financial Markets Association.

Special Record Date shall have the meaning given to such term in Section 308.

Subordinated Indebtedness shall mean any bonds, notes, loan agreements or other evidences of indebtedness issued from time to time and payable from and, if applicable, secured by the Revenues of the System on a basis subordinate to the pledge of Revenues in favor of the Bonds, including, without limitation, the Series 2009 Commercial Paper Obligations.

Supplemental Resolution shall mean any resolution supplemental to or amendatory of the Resolution adopted by the Metropolitan Government in accordance with Article X hereof.

Surplus Fund shall mean the Surplus Fund established in Section 502(a).

System shall mean each and every part of the water system and sewer system of the Metropolitan Government that shall be owned and operated by the Metropolitan Government for water supply, transmission, treatment and distribution and for sewage collection, transmission, treatment and disposal or distribution now existing and hereafter acquired by lease, contract, purchase or otherwise or constructed, including any interest or participation of the Metropolitan Government in any facilities in connection with said system, together with all additions, betterments, extensions and improvements to said system or any part thereof hereafter constructed or acquired and together with all lands, easements, licenses and rights of way and all other works, property or

structures and contract rights and other tangible and intangible assets now or hereafter owned or used in connection with or related to said System. Notwithstanding the foregoing definition of the term System, such term shall not include any properties or interests in properties of the Metropolitan Government (a) which the Metropolitan Government determines shall not constitute a part of the System for the purpose of the Resolution at the time of the acquisition thereof by the Metropolitan Government or (b) as to which there shall be filed with the records of the Metropolitan Government a certificate of a Consultant stating, in its opinion, that the exclusion of such properties or interests in properties from the System will not materially impair the ability of the Metropolitan Government to comply during the current or any future Fiscal Year with the provisions of Section 711.

Tax Credit Bonds shall mean any Bonds with respect to which the Metropolitan Government has received a Counsel's Opinion to the effect that the Metropolitan Government is entitled to receive payments by the United States Department of the Treasury or other agency of the United States government in offset of the debt service on such Bonds.

Tax Credit Payment Account shall mean a Tax Credit Payment Account established in the Debt Service Fund pursuant to Section 502(a) and 507(c).

Tax Credit Payments shall mean any amounts payable to the Issuer by the United States Department of the Treasury or other agency of the United States government with respect to Tax Credit Bonds.

Termination Payment shall mean an amount payable by the Metropolitan Government or a Qualified Hedge Provider upon termination of a Qualified Hedge Agreement.

Variable Rate shall mean a rate of interest applicable to the Bonds, other than a fixed rate of interest which applies to a particular maturity of the Bonds so long as that maturity of the Bonds remains Outstanding.

Variable Rate Taxable Index shall mean the One-Month LIBOR Rate or, if the One-Month LIBOR Rate no longer shall be available, the Alternate Variable Rate Taxable Index.

Variable Rate Tax-Exempt Index shall mean the SIMFA Municipal Swap Index or, if the SIMFA Municipal Swap Index no longer shall be available, the Alternate Variable Rate Tax-Exempt Index.

Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations, districts, agencies and bodies.

Section 102. Authority for the Resolution. The Resolution is adopted pursuant to the provisions of Sections 9-21-101 et seq. and 7-34-101 et seq., and all other applicable provisions of Tennessee law.

Section 103. Resolution to Constitute Contract. In consideration of the acceptance of any and all of the Bonds by those who shall hold the same from time to time, the Resolution shall be deemed to be and shall constitute a contract between the Metropolitan Government and the Holders from time to time of the Bonds and any Credit Issuer or Qualified Hedge Provider; and the pledge made in the Resolution and the covenants and agreements therein set forth to be performed on behalf of the Metropolitan Government shall be, except as expressly set forth in the Resolution or in a Supplemental Resolution and subject to any limitations set forth therein, for the equal benefit, protection and security of the Holders of any and all of the Bonds and any Credit Issuer or Qualified Hedge Provider, all of which Bonds, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or permitted by the Resolution.

ARTICLE II
ISSUANCE OF BONDS; SUBORDINATE INDEBTEDNESS; CREDIT FACILITIES AND HEDGE
AGREEMENTS

Section 201. Authorization of Bonds.

(a) The Metropolitan Government is hereby authorized to issue from time to time, as hereinafter provided, Bonds of the Metropolitan Government. The aggregate principal amount of the Bonds which may be executed, authenticated and delivered under the Resolution is not limited except as may hereafter be provided in the Resolution or in any Supplemental Resolution or as may be limited by law.

(b) The Bonds may, if and when authorized by the Metropolitan Government pursuant to one or more Supplemental Resolutions, be issued in one or more Series. The designation of each Series shall bear such designation as the Metropolitan Government may determine. Each Bond shall bear upon its face the designation so determined by the Metropolitan Government for the Series to which it belongs.

Section 202. General Provisions for Issuance of Bonds of Each Series.

(a) When authorized pursuant to a Supplemental Resolution, the officers of the Metropolitan Government specified in Section 303 may execute all (but not less than all) the Bonds of each Series for issuance under the Resolution and deliver such Bonds to the Bond Registrar therefor for completion, authentication and delivery. Such Bond Registrar shall authenticate and deliver such Bonds upon the order of the Metropolitan Government, but only upon satisfaction by the Metropolitan Government of the conditions specified in Article X of the Resolution and in the Supplemental Resolution authorizing the Series of which such Bonds are a part and upon satisfaction by the Metropolitan Government of the following conditions:

(i) receipt of a Counsel's Opinion to the effect that (A) the Metropolitan Government has the right and power under applicable Tennessee law to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the Metropolitan Government, is in full force and effect and is valid and binding upon the Metropolitan Government in accordance with its terms, and no other authorization for the Resolution is required; (B) the Resolution creates the valid pledge which it purports to create in the Revenues and, if such Series of Bonds shall be an Additionally Secured Series, the separate account in the Debt Service Reserve Fund established for the benefit of such Bonds, subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution; and (C) the Bonds of such Series are valid and binding obligations of the Metropolitan Government as provided in the Resolution and are entitled to the benefits of the Resolution and of applicable Tennessee law, and such Bonds have been duly and validly authorized and issued in accordance with applicable Tennessee law and in accordance with the Resolution. Such Opinion may take exception as to the effect of, or for restrictions or limitations imposed by or resulting from, bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights and may state that no opinion is being rendered as to the availability of any particular remedy. No opinion need be expressed as to the priority of the pledge created by the Resolution over the rights of other persons in the Revenues and, if applicable, such separate account in the Debt Service Reserve Fund;

(ii) adoption of a Supplemental Resolution authorizing such Bonds, which shall specify such terms and conditions relative to the Bonds of such Series, and such other matters relative thereto, as the Metropolitan Government may determine;

(iii) if such Series shall be an Additionally Secured Series, evidence of the funding of the account within the Debt Service Reserve Fund designated therefor in the manner prescribed by the Supplemental Resolution;

(iv) execution by an Authorized Finance Officer of a certificate stating that upon the issuance of such Series the Metropolitan Government will not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Resolution;

(v) except in the case of the Bonds issued under the first Supplemental Resolution, execution by an Authorized Finance Officer of a certificate (A) setting forth the amounts of Net Revenues for any twelve (12) consecutive month period within the twenty-four (24) consecutive months immediately preceding the date of issuance of the Bonds of the Series with respect to which such certificate is being given; and (B) stating that the Net Revenues for such 12 month period were at least equal to 110% of the maximum Debt Service Requirement on the Prior Bonds and the Bonds in any future Fiscal Year (calculated with respect to all Outstanding Bonds, the Prior Bonds then outstanding and the Bonds of the Series with respect to which such certificate is given); provided, however, that the Net Revenues for such twelve (12) month period may be adjusted for the purposes of such certificate (X) to reflect for such period revisions in the rates, fees, rentals and other charges of the Metropolitan Government for the product and services of the System made after the commencement of such period and preceding the Date of Issuance of the Bonds of the Series with respect to which such certificate is given; (Y) to reflect any increase in Net Revenues due to any new facilities of the System having been placed into use and operation subsequent to the commencement of such period and prior to the Date of Issuance of such Bonds, as certified by a Consultant; and (Z) to include an amount equal to the average annual contribution to Net Revenues for the first three full Fiscal Years commencing after the date of acquisition thereof, estimated to be made by facilities anticipated to be acquired and expected to be placed into use and operation within two years of the Date of Issuance of such Bonds, as certified by a Consultant;

(vi) in the case of a Series of Tax Credit Bonds, a Counsel's Opinion addressed to the Metropolitan Government regarding the status of such Series of Bonds as Tax Credit Bonds; and

(vii) delivery of such further documents, moneys and securities as are required by the provisions of this Article II or Article X or any Supplemental Resolution adopted pursuant to Article X.

(b) All the Bonds of each Series of like maturity shall be identical in all respects, except as to interest rates, redemption provisions, denominations, numbers and letters. After the issuance of the Bonds of any Series, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to Article III or Section 405 or Section 1106.

Section 203. Bonds Other Than Refunding Bonds.

(a) One or more Series of Bonds may be issued at any time for the purpose of financing capital improvements to the System and any and all other Costs related thereto or to the issuance of the Bonds. Bonds of each such Series shall be authenticated and delivered only upon compliance with the terms and conditions set forth in Section 202.

(b) The proceeds of each Series of Bonds authorized under this Section 203 shall be applied simultaneously with the delivery of such Bonds as provided in the Supplemental Resolution authorizing such Series.

Section 204. Refunding Bonds.

(a) One or more Series of Refunding Bonds may be issued at any time to refund all or any debt of the Metropolitan Government payable from the Revenues or any portion thereof, including Outstanding Bonds, Prior Bonds or Subordinated Indebtedness. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds and Accounts under the Resolution required by the provisions of the Supplemental Resolution authorizing such Bonds or to make any deposits or payments required by the Prior Resolution or resolution authorizing Subordinate Indebtedness, as applicable.

(b) In addition to the conditions set forth in Section 202, the Bonds of each Series of Refunding Bonds issued pursuant to subsection (a) of this Section 204 may be authenticated and delivered only upon the filing with the records of the Metropolitan Government of a certificate of an Authorized Finance Officer certifying that all conditions relating to the payment or prepayment of such debt as set forth in the documents relating thereto have been satisfied.

(c) The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied simultaneously with the delivery of such Bonds for the purposes of making deposits in such Funds and Accounts under the Resolution as shall be provided by the Supplemental Resolution authorizing such Series of Refunding Bonds and shall be applied to the refunding purposes thereof or to the payment or prepayment purposes thereof in the manner provided in said Supplemental Resolution.

(d) Refunding Bonds may be issued without the requirement of complying with Section 202(a)(v) (i) if the refunding will constitute a refunding of all Outstanding Bonds, including the retirement of related Contracts, or (ii) upon the execution by an Authorized Finance Officer of a certificate stating that the refunding will result in a reduction in the future Debt Service Requirement on the Bonds and the Prior Bonds in all future Fiscal Years.

(e) In determining compliance with Section 202(a)(v), there shall be deleted from the calculation of maximum Debt Service Requirement the Debt Service Requirement on any Bonds or Prior Bonds being refunded by the Bonds with respect to which the certificate described in Section 202(a)(v) is being given.

Section 205. Credit Facilities and Hedge Agreements.

(a) The Metropolitan Government may obtain or cause to be obtained one or more Credit Facilities providing for payment of all or a portion of the principal of, premium, if any, or interest due or to become due on such Bonds, providing for the purchase of such Bonds by the Credit Issuer, or providing funds for the purchase of such Bonds by the Metropolitan Government. In connection therewith, the Metropolitan Government may enter into Credit Facility Agreements with such Credit Issuers providing for, among other things, (i) the payment of fees and expenses to such Credit Issuers for the issuance of such Credit Facilities; (ii) the terms and conditions of such Credit Facilities and the Bonds affected thereby; and (iii) the security, if any, to be provided for the issuance of such Credit Facilities.

(b) The Metropolitan Government may secure any Credit Facility by an agreement providing for the purchase of the Bonds secured thereby with such adjustments to the rate of interest, method of determining interest, maturity, or redemption provisions for such Bonds as are specified by the Metropolitan Government in the applicable Supplemental Resolution. The Metropolitan Government may in a Credit Facility Agreement agree to directly reimburse such Credit Issuer for amounts paid under the terms of such Credit Facility, together with interest thereon; provided, however, that no Reimbursement Obligation shall be created for purposes of the Resolution until amounts are paid under such Credit Facility. Any such Credit Facility shall be for the benefit of and secure such Bonds or portion thereof as specified in the applicable Supplemental Resolution. The Metropolitan Government's obligations under a Credit Facility may be payable from and/or secured by a pledge of, and lien on, the Revenues as described Section 501, if and as set forth in a Supplemental Resolution.

(c) In connection with the issuance of any Bonds or at any time thereafter so long as such Bonds remain Outstanding, the Metropolitan Government may enter into Hedge Agreements with Qualified Hedge Providers, and no other providers, with respect to any Bonds. The Metropolitan Government shall authorize the execution, delivery, and performance of each Qualified Hedge Agreement in a Supplemental Resolution, in which it shall designate the Bonds to which such Qualified Hedge Agreement relates. The Metropolitan Government's obligation to pay Hedge Payments on a Qualified Hedge Agreement may be payable from and/or secured by a pledge of, and lien on, the Revenues as described in Section 501 (other than with respect to Termination Payments), if and as set forth in a Supplemental Resolution.

Section 206. Additional Prior Second Lien Bonds; Subordinated Indebtedness.

(a) Except as set forth in this Article II, no obligations payable from the Revenues or any portion thereof shall be issued or incurred by the Metropolitan Government other than (i) Prior Second Lien Bonds, which may be issued only upon satisfaction of the conditions set forth in subsection (b) below, and (ii) Subordinated Indebtedness.

(b) The Metropolitan Government may issue from time to time one or more series of Prior Second Lien Bonds with a lien on the Revenues senior to the Bonds only in accordance with the Prior Second Lien Resolution and upon execution by an Authorized Finance Officer of a certificate:

(i) stating that upon the issuance of such series the Metropolitan Government will not be in default in the performance of any of the covenants, conditions, agreements or provisions contained in the Resolution or the Prior Resolution; and

(ii) either:

(A) (1) setting forth the amounts of Net Revenues for any twelve (12) consecutive month period within the twenty-four (24) consecutive months immediately preceding the date of issuance of the Prior Second Lien Bonds of the series with respect to which such certificate is being given; and (2) stating that the Net Revenues for such 12 month period were at least equal to 110% of the maximum Debt Service Requirement on the Prior Bonds and the Bonds in any future Fiscal Year (calculated with respect to the Outstanding Bonds, the Prior Bonds then outstanding and the Prior Bonds proposed to be issued, but not with respect to any Prior Bonds or Bonds being refunded thereby); provided, however, that the Net Revenues for such twelve (12) month period may be adjusted for the purposes of such certificate (x) to reflect for such period revisions in the rates, fees, rentals and other charges of the Metropolitan Government for the product and services of the System made after the commencement of such period and preceding the date of issuance of the Prior Second Lien Bonds of the series with respect to which such certificate is given; (y) to reflect any increase in Net Revenues due to any new facilities of the System having been placed into use and operation subsequent to the commencement of such period and prior to the date of issuance of such Prior Second Lien Bonds, as certified by a Consultant; and (z) to include an amount equal to the average annual contribution to Net Revenues for the first three full Fiscal Years commencing after the date of acquisition thereof, estimated to be made by facilities anticipated to be acquired and expected to be placed into use and operation within two years of the date of issuance of such Prior Second Lien Bonds, as certified by a Consultant; or

(B) setting forth that such series of Prior Second Lien Bonds is a refunding issue, the issuance of which will result in a reduction in the future Debt Service Requirement on the Bonds and the Prior Bonds in all future Fiscal Years.

Section 207. Special Provisions Relating to Capital Appreciation Bonds and Deferred Income Bonds.

(a) The principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds becoming due at maturity or by virtue of mandatory redemption requirements shall be included in the calculations of accrued and unpaid and accruing interest or Principal Installments made under the definitions of Debt Service Requirement only from and after the date (the "Calculation Date") which is one year prior to the date on which such Accreted Value or Appreciated Value, as the case may be, becomes so due, and the principal and interest portions of such Accreted Value or Appreciated Value shall be deemed to accrue in equal daily installments from the Calculation Date to such due date.

(b) For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity, or (ii) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default, as provided in Section 801 of the Resolution or (iii) computing the principal amount of Bonds held by the Holder of a Capital Appreciation Bond in giving to the Metropolitan Government any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its then-current Accreted Value.

(c) For the purposes of (i) receiving payment of the Redemption Price if a Deferred Income Bond is redeemed prior to maturity, or (ii) receiving payment of a Deferred Income Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default, as provided in Section 801 of the Resolution or (iii) computing the principal amount of Bonds held by the Holder of a Deferred Income Bond in giving to the Metropolitan Government any notice, consent, request, or demand pursuant to the Resolution for any purpose

whatsoever, the principal amount of a Deferred Income Bond shall be deemed to be its then current Appreciated Value.

ARTICLE III GENERAL TERMS AND PROVISIONS OF BONDS

Section 301. Medium of Payment; Form and Date; Letters and Numbers.

(a) The Bonds of each Series shall be payable, with respect to interest, principal and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

(b) Unless otherwise provided in a Supplemental Resolution, the Bonds of each Series shall be issued in the form of fully registered Bonds without coupons. The Bonds of each Series shall be in substantially the form set forth in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

(c) Each Bond shall be lettered and numbered as provided in the Supplemental Resolution or Supplemental Resolutions authorizing the Series of which such Bond is a part and so as to be distinguished from every other Bond.

(d) The Bonds of each Series shall be dated the date of their authentication, except as otherwise may be provided in the Supplemental Resolution authorizing the Series of which such Bonds are a part, and shall bear interest as provided in such Supplemental Resolution.

Section 302. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of the Resolution as may be necessary or desirable to comply with custom, the rules of any securities exchange or commission or brokerage board, or otherwise, as may be determined by the Metropolitan Government prior to the authentication and delivery thereof.

Section 303. Execution and Authentication.

(a) The Bonds executed and delivered on or after the effective date of the Resolution shall be executed in the name of the Metropolitan Government by the manual or facsimile signature of the Metropolitan Mayor and its corporate seal (or a facsimile thereof) shall be impressed, imprinted, engraved or otherwise reproduced thereon and attested by the manual or facsimile signature of its Metropolitan Clerk, and approved as to form and legality by the Director of Law by his or her manual or facsimile signature, or in such other manner as may be required or permitted by the Charter and applicable law. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer before the Bonds so signed and sealed shall have been authenticated and delivered by the Bond Registrar therefor, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices. Any Bond of a Series may be signed and sealed on behalf of the Metropolitan Government by such persons as at the time of the execution of such Bonds shall be duly authorized or hold the proper office in the Metropolitan Government, although at the date borne by the Bonds of such Series such persons may not have been so authorized or have held such office.

(b) The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing the Series of which such Bonds are a part, executed manually by the Bond Registrar therefor. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under the Resolution, and no such Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Bond Registrar therefor. Such certificate of the Bond Registrar upon any Bond executed on behalf of the Metropolitan Government shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Resolution and that the Holder thereof is entitled to the benefits of the Resolution.

Section 304. Interchangeability of Bonds. Except as otherwise provided in a Supplemental Resolution, the Bonds, upon surrender thereof at the office of the Bond Registrar therefor with a written instrument of transfer satisfactory to such Bond Registrar, duly executed by the registered owner or its duly authorized attorney, may, at the option of the registered owner thereof, and upon payment by such registered owner of any charges which such Bond Registrar may make as provided in Section 306, be exchanged for an equal aggregate principal amount of Bonds of the same Series, maturity, interest rate and redemption provisions of any other authorized denominations.

Section 305. Negotiability, Transfer and Registry.

(a) Except as otherwise provided in a Supplemental Resolution, the Bonds shall be transferable only upon the books of the Metropolitan Government, which shall be kept for such purposes at the respective offices of the Bond Registrar(s) therefor, by the registered owner thereof or by its attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to such Bond Registrar duly executed by the registered owner or its duly authorized attorney. Upon the transfer of any Bond, there shall be issued in the name of the transferee a new Bond or Bonds of the same aggregate principal amount and Series, maturity, interest rate and redemption provisions as the surrendered Bond.

(b) The Metropolitan Government and each Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of the Metropolitan Government as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal or Redemption Price, if any, of and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon its order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the Metropolitan Government nor any Fiduciary shall be affected by any notice to the contrary.

Section 306. Regulations with Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging or transferring Bonds is exercised, the appropriate officers of the Metropolitan Government shall execute and the Bond Registrar therefor shall authenticate and deliver Bonds in accordance with the provisions of the Resolution. All Bonds surrendered in any such exchanges or transfers shall forthwith be delivered to the Bond Registrar therefor and cancelled or retained by such Bond Registrar. For every such exchange or transfer of Bonds, the Metropolitan Government or the Bond Registrar therefor may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. Unless otherwise provided in a Supplemental Resolution, neither the Metropolitan Government nor the Bond Registrar therefor shall be required (a) to transfer or exchange Bonds of any Series for the period next preceding any interest payment date for the Bonds of such Series beginning with the Regular Record Date for such interest payment date and ending on such interest payment date, or for the period next preceding any date for the proposed payment of Defaulted Interest with respect to such Bonds beginning with the Special Record Date for the date of such proposed payment and ending on the date of such proposed payment, (b) to transfer or exchange Bonds of any Series for a period beginning 15 days before the mailing of any notice of redemption and ending on the day of such mailing, or (c) to transfer or exchange any Bonds called for redemption.

Section 307. Bonds Mutilated, Lost, Stolen or Destroyed. If any Bond becomes mutilated or is lost, stolen or destroyed, an Authorized Finance Officer may cause to be executed and the Bond Registrar therefor shall authenticate and deliver a new Bond of like Series, date of issue, maturity date, principal amount, interest rate per annum and redemption provisions as the Bond so mutilated, lost, stolen or destroyed, provided that (a) in the case of such mutilated Bond, such Bond is first surrendered to the Metropolitan Government, (b) in the case of any such lost, stolen or destroyed Bond, there is first furnished evidence of such loss, theft or destruction satisfactory to such Authorized Finance Officer together with indemnity satisfactory to such Authorized Finance Officer, (c) all other reasonable requirements of such Authorized Finance Officer are complied with, and (d) expenses in connection with such transaction are paid by the Holder. Any Bond surrendered for exchange shall be cancelled. Any such new Bonds issued pursuant to this Section in substitution for Bonds alleged to be lost, stolen or destroyed shall constitute original additional contractual obligations on the part of the Metropolitan Government, whether or not the Bonds so alleged to be lost, stolen or destroyed be at any time enforceable by anyone, and shall be equally secured by, and entitled to equal and proportionate benefits with all other Bonds issued under the Resolution in, the Revenues and, if such new Bond shall be part of an Additionally Secured Series, in the amounts on deposit in the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund established for the benefit of such Series. If any such

Bond lost, stolen or destroyed shall have matured or be about to mature, instead of issuing a new Bond pursuant to this Section, an Authorized Finance Officer may cause the same to be paid, upon being indemnified as aforesaid, without surrender thereof.

Section 308. Payment of Interest on Bonds; Interest Rights Preserved. Interest on any Bond which is payable, and is punctually paid or duly provided for, on any interest payment date shall be paid to the person in whose name that Bond is registered at the close of business on the date (hereinafter, the "Regular Record Date") which is the 15th day of the calendar month next preceding such interest payment date (or such other date as may be provided in the Supplemental Resolution authorizing the Series of which such Bond is a part).

Except as may otherwise be provided by Supplemental Resolution, any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any interest payment date (hereinafter, "Defaulted Interest") shall forthwith cease to be payable to the registered owner on the relevant Regular Record Date by virtue of having been such owner; and such Defaulted Interest shall be paid by the Metropolitan Government to the persons in whose names the Bonds are registered at the close of business on a date (hereinafter, the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner: the Metropolitan Government shall notify the Bond Registrar therefor in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the Metropolitan Government shall deposit with the Paying Agents an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Paying Agents for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as in this Section provided. Thereupon such Bond Registrar shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by such Bond Registrar of the notice of the proposed payment. Such Bond Registrar shall promptly notify the Metropolitan Government of such Special Record Date and, in the name and at the expense of the Metropolitan Government, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Holder of a Bond at its address as it appears upon the registry books, not less than 10 days prior to such Special Record Date. Such Bond Registrar may, in its discretion, in the name and at the expense of the Metropolitan Government, cause a similar notice to be published at least once in an Authorized Newspaper, but such publication shall not be a condition precedent to the establishment of such Special Record Date.

Subject to the foregoing provisions of this Section, each Bond delivered under the Resolution upon transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

Section 309. Book Entry Bonds.

(a) Anything in the Resolution to the contrary notwithstanding, if and to the extent provided in the Supplemental Resolution authorizing the Bonds of the Series of which such Additional Obligation is a part, any Additional Obligation may be authorized and issued as a Book Entry Bond.

(b) For all purposes of the Resolution, the Holder of a Book Entry Bond shall be the Securities Depository therefor and neither the Metropolitan Government nor any Fiduciary shall have any responsibility or obligation to the beneficial owner of such Bond or to any direct or indirect participant in such Securities Depository. Without limiting the generality of the foregoing, neither the Metropolitan Government nor any Fiduciary shall have any responsibility or obligation to any such participant or to the beneficial owner of a Book Entry Bond with respect to (i) the accuracy of the records of the Securities Depository or any participant with respect to any beneficial ownership interest in such Bond, (ii) the delivery to any participant of the Securities Depository, the beneficial owner of such Bond or any other person, other than the Securities Depository, of any notice with respect to such Bond, including any notice of the redemption thereof, or (iii) the payment to any participant of the Securities Depository, the beneficial owner of such Bond or any other person, other than the Securities Depository, of any amount with respect to the principal or Redemption Price of, or interest on, such Bond. The Metropolitan Government and the Fiduciaries may treat the Securities Depository therefor as, and deem such Securities Depository to be, the absolute owner of a Book Entry Bond for all purposes whatsoever, including (w) payment of the principal or Redemption Price of, and interest on, such Bond, (x) giving notices of redemption and of other

matters with respect to such Bond, (y) registering transfers with respect to such Bond and (z) giving to the Metropolitan Government any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever. The Paying Agents shall pay the principal or Redemption Price of, and interest on, a Book Entry Bond only to or upon the order of the Securities Depository therefor, and all such payments shall be valid and effective to satisfy fully and discharge the Metropolitan Government's obligations with respect to such principal or Redemption Price, and interest, to the extent of the sum or sums so paid. Except as otherwise provided in Section 309(d) or in any Supplemental Resolution authorizing a Book Entry Bond, no person other than the Securities Depository shall receive a Bond or other instrument evidencing the Metropolitan Government's obligation to make payments of the principal or Redemption Price thereof, and interest thereon.

(c) The Metropolitan Government, in its sole discretion and without the consent of any other person, may, by notice to the Bond Registrar therefor and a Securities Depository, terminate the services of such Securities Depository with respect to the Book Entry Bonds for which such Securities Depository serves as securities depository if the Metropolitan Government determines that (i) the Securities Depository is unable to discharge its responsibilities with respect to such Bond or (ii) a continuation of the requirement that all of the Bonds issued as Book Entry Bonds be registered in the registration books of the Metropolitan Government in the name of the Securities Depository, is not in the best interests of the beneficial owners of such Bonds or of the Metropolitan Government. Additional or other terms and provisions relating to the termination or resignation of a Securities Depository may be provided in the Supplemental Resolution authorizing a Book Entry Bond.

(d) Upon the termination of the services of a Securities Depository with respect to a Book Entry Bond pursuant to Section 309(c)(ii), such Bond shall no longer be restricted to being registered in the registration books kept by the Bond Registrar therefor in the name of a Securities Depository. Upon the termination of the services of a Securities Depository with respect to a Book Entry Bond pursuant to Section 309(c)(i), the Metropolitan Government may within 90 days thereafter appoint a substitute securities depository which, in the opinion of the Metropolitan Government, is willing and able to undertake the functions of Securities Depository under the Resolution upon reasonable and customary terms. If no such successor can be found within such period, such Book Entry Bond shall no longer be restricted to being registered in the registration books kept by such Bond Registrar in the name of a Securities Depository. In the event that a Book Entry Bond shall no longer be restricted to being registered in the registration books kept by such Bond Registrar in the name of a Securities Depository, (i) the Metropolitan Government shall execute and such Bond Registrar shall authenticate and deliver, upon presentation and surrender of the Book Entry Bond, Bond certificates as requested by the Securities Depository so terminated of like Series, principal amount, maturity, interest rate and redemption provisions, in authorized denominations, to the identifiable beneficial owners in replacement of such beneficial owners' beneficial ownership interests in such Book Entry Bond and (ii) the Metropolitan Government shall notify such Bond Registrar and the Paying Agents that such Bond is no longer restricted to being registered in the registration books kept by such Bond Registrar in the name of a Securities Depository.

(e) Anything in the Resolution to the contrary notwithstanding, payment of the Redemption Price of a Book Entry Bond, or portion thereof, called for redemption prior to maturity may be paid to the Securities Depository by check or draft mailed to the Securities Depository or by wire transfer. Anything in the Resolution to the contrary notwithstanding, such Redemption Price may be paid without presentation and surrender to the Paying Agent of the Book Entry Bond, or portion thereof, called for redemption; provided, however, that payment of (i) the principal payable at maturity of a Book Entry Bond and (ii) the Redemption Price of a Book Entry Bond as to which the entire principal amount thereof has been called for redemption shall be payable only upon presentation and surrender of such Book Entry Bond to the Paying Agent; and provided, further, that no such Redemption Price shall be so payable without presentation and surrender unless the Securities Depository therefor shall have procedures in effect that provide for the reduction, on its records, of the aggregate amount of securities (and related positions therein) held by it upon such payment without presentation and surrender. Anything in the Resolution to the contrary notwithstanding, upon any such payment to the Securities Depository without presentation and surrender, for all purposes of (x) the Book Entry Bond as to which such payment has been made and (y) the Resolution, the unpaid principal amount of such Book Entry Bond Outstanding shall be reduced automatically by the principal amount so paid. In such event, the Paying Agent shall notify forthwith the Bond Registrar therefor as to the particular Book Entry Bond as to which such payment has been made, and the principal amount of such Bond so paid, and such Bond Registrar shall note such payment on the registration books of the Metropolitan Government maintained by it,

but failure to make any such notation shall not affect the automatic reduction of the principal amount of such Book Entry Bond Outstanding as provided in this subsection.

(f) For all purposes of the Resolution authorizing or permitting the purchase of Bonds, or portions thereof, by, or for the account of, the Metropolitan Government for cancellation, and anything in the Resolution to the contrary notwithstanding, a portion of a Book Entry Bond may be deemed to have been purchased and cancelled without surrender thereof upon delivery to the Bond Registrar therefor of a certificate executed by the Metropolitan Government and a participant of the Securities Depository therefor to the effect that a beneficial ownership interest in such Bond, in the principal amount stated therein, has been purchased by, or for the account of, the Metropolitan Government through the participant of the Securities Depository executing such certificate; provided, however, that any purchase for cancellation of the entire principal amount of a Book Entry Bond shall be effective for purposes of the Resolution only upon surrender of such Book Entry Bond to such Bond Registrar; and provided, further, that no portion of a Book Entry Bond may be deemed to have been so purchased and cancelled without surrender thereof unless the condition set forth in the second proviso to the second sentence of Section 309(e) shall have been satisfied. Anything in the Resolution to the contrary notwithstanding, upon delivery of any such certificate to such Bond Registrar, for all purposes of (i) the Book Entry Bond to which such certificate relates and (ii) the Resolution, the unpaid principal amount of such Book Entry Bond Outstanding shall be reduced automatically by the principal amount so purchased. In such event, such Bond Registrar shall note such reduction on the registration books of the Metropolitan Government maintained by it, but failure to make any such notation shall not affect the automatic reduction of the principal amount of such Book Entry Bond Outstanding as provided in this subsection.

(g) Anything in the Resolution to the contrary notwithstanding, a Securities Depository may make a notation on a Book Entry Bond (i) redeemed in part or (ii) purchased by, or for the account of, the Metropolitan Government in part for cancellation, to reflect, for informational purposes only, the date of such redemption or purchase and the principal amount thereof redeemed or deemed cancelled, but failure to make any such notation shall not affect the automatic reduction of the principal amount of such Book Entry Bond Outstanding as provided in Section 309(e) or (f), as the case may be.

(h) Anything in the Resolution to the contrary notwithstanding, in the case of a Book Entry Bond, the Metropolitan Government shall be authorized to defease, redeem or purchase (by or for the account of the Metropolitan Government), or issue Refunding Bonds to refund, less than all of the entire Outstanding principal amount thereof (in portions thereof of \$5,000 or integral multiples thereof, or such other denominations as shall be specified in the Supplemental Resolution authorizing such Book Entry Bond), and in the event of such partial defeasance, redemption, purchase or refunding, the provisions of the Resolution relating to the defeasance, redemption, purchase or refunding of a Bond or Bonds shall be deemed to refer to the defeasance, redemption, purchase or refunding of a portion of a Bond.

Section 310. Cancellation and Destruction of Bonds. Except as provided in Section 309, and except as may be otherwise provided in a Supplemental Resolution providing for the issuance thereof, all Bonds paid or redeemed, either at or before maturity, shall be delivered to the Bond Registrar(s) therefor when such payment or redemption is made, and such Bonds, together with all Bonds purchased by the Metropolitan Government and delivered to such Bond Registrar(s) for cancellation, shall thereupon promptly be cancelled (other than Book Entry Bonds, to the extent provided in Section 309(f), that have been deemed to have been cancelled). Bonds so cancelled may at any time be destroyed by such Bond Registrar(s), who shall execute a certificate of destruction in duplicate by the signature of one of its authorized officers describing the Bonds so destroyed, and one executed certificate shall be filed with the Metropolitan Government and the other executed certificate shall be retained by such Bond Registrar(s).

ARTICLE IV REDEMPTION OF BONDS

Section 401. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to their terms or the terms of the Resolution shall be redeemable, upon notice given as provided in this Article IV, at such times, at such Redemption Prices and upon such terms, in addition to the terms contained in this Article IV, as may be specified in such Bonds or in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

Section 402. Redemption of Bonds. Unless other requirements are specified in the applicable Supplemental Resolution, in the case of any redemption of Bonds other than a mandatory redemption, the Metropolitan Government shall give written notice to the Bond Registrar(s) therefor and the Paying Agents of the redemption date, of the Series, and of the principal amounts of the Bonds of each maturity of such Series and of the Bonds of each interest rate within a maturity to be redeemed (which Series, maturities, interest rates within a maturity and principal amounts thereof to be redeemed shall be determined by the Metropolitan Government in its sole discretion, subject to any limitations with respect thereto contained in the Resolution or any Supplemental Resolution authorizing the Series of which such Bonds are a part). Such notice shall be filed with such Bond Registrars and the Paying Agents for the Bonds to be redeemed at least 40 days prior to the redemption date (or such shorter period (a) as shall be specified in the Supplemental Resolution authorizing the Series of the Bonds to be redeemed or (b) as shall be acceptable to such Bond Registrars and Paying Agents). In the event notice of redemption shall have been given as in Section 404 provided, and unless such notice shall have been revoked or shall cease to be in effect in accordance with the terms thereof, there shall be paid on or prior to the redemption date to the appropriate Paying Agents an amount which, in addition to other moneys, if any, available therefor held by such Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, all of the Bonds to be redeemed.

Section 403. Selection of Bonds to be Redeemed. If less than all of the Bonds of like maturity or interest rate within a maturity of any Series shall be called for prior redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected in such manner as the Metropolitan Government in its discretion may deem fair and appropriate; provided, however, that for any Bond of a denomination of more than the minimum denomination for such Series, the portion of such Bond to be redeemed shall, unless otherwise specified in the Supplemental Resolution relating to such Series, be in a principal amount equal to such minimum denomination or an integral multiple thereof, and that, in selecting portions of such Bonds for redemption, each such Bond shall be treated as representing that number of Bonds of such minimum denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by the amount of such minimum denomination. Notwithstanding the foregoing, the Securities Depository for any Book Entry Bonds shall select Bonds for redemption within particular maturities according to its stated procedures.

Section 404. Notice of Redemption. When any Bonds shall become subject to redemption, the Metropolitan Government shall give notice, or provide for the giving of notice, of the redemption of such Bonds, which notice shall specify the Series, maturities and interest rates within maturities of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Bonds of any like Series, maturity and interest rate are to be redeemed the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date, if there shall be sufficient moneys available therefor, then there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be mailed by first class mail, postage prepaid, by or on behalf of the Metropolitan Government, not less than 20 days nor more than 60 days prior to the redemption date, to the Holders of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books. Failure to give notice of redemption by mail, or any defect in such notice, to the Holder of any Bond shall not affect the validity of the proceedings for the redemption of any other Bonds. Any such notice may, by Supplemental Resolution, be made conditional upon the occurrence of certain events, including without limitation the receipt of funds sufficient to make the redemption or the issuance of Bonds by the Metropolitan Government. Notwithstanding the foregoing, a Supplemental Resolution authorizing the Bonds of a Series may specify a different method for the giving of a notice of redemption, or a different time by which such notice shall be given.

Section 405. Payment of Redeemed Bonds. Unless otherwise set forth in a Supplemental Resolution, notice having been given in the manner provided in Section 404 or in the manner provided in the Supplemental Resolution authorizing the Bonds of a Series, on the redemption date so designated, (a) unless such notice shall have been revoked or shall cease to be in effect in accordance with the terms thereof and (b) if there shall be sufficient moneys available therefor, then the Bonds or portions thereof so called for redemption shall become due and payable on such redemption date at the Redemption Price, plus interest accrued and unpaid to the redemption date,

and, if presentation and surrender shall be required hereby, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption less than all of a Bond, if presentation and surrender thereof are required hereby, the Metropolitan Government shall execute and the Bond Registrar shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, Bonds of like Series, maturity, interest rate and redemption provisions in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series, maturity and interest rate to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the redemption date interest on the Bonds or portions thereof of such Series, maturity and interest rate so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

ARTICLE V ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

Section 501. The Pledge Effected by the Resolution.

(a) The Bonds are special obligations of the Metropolitan Government payable solely from and secured solely by the Revenues. The taxing power of the Metropolitan Government is not available for the payment of the Bonds. The Revenues are hereby pledged for the payment of the principal and Redemption Price of, and interest on, the Bonds in accordance with their terms and the provisions of the Resolution, subject only to (i) the prior pledge thereof in favor of the Prior Bonds, and (ii) the provisions of the Prior Resolution and the Resolution requiring or permitting the application thereof for the purposes and on the terms and conditions set forth therein. The Revenues shall immediately be subject to the lien of this pledge without physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Metropolitan Government, without regard to whether such parties have notice thereof.

(b) There are also hereby pledged, as security for the payment of the principal or Redemption Price, if any, of, and interest on, the Bonds, amounts on deposit in (i) the Extension and Replacement Fund and the Subordinate Debt Fund established by the Prior First Lien Resolution, and (ii) the Rate Stabilization Fund and the Surplus Fund established by the Prior Second Lien Resolution, all subject to the prior pledge of such amounts in favor of the Prior Bonds and the provisions of the Prior Resolution requiring or permitting the application of such amounts for the purposes and on the terms and conditions set forth therein.

(c) There are hereby pledged, as additional security for the payment of the principal or Redemption Price, if any, of, and interest on, the Bonds of each Additionally Secured Series secured thereby, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution, amounts on deposit in the separate account established in the Debt Service Reserve Fund with respect to such Additionally Secured Series. Such amounts on deposit in such separate account established in the Debt Service Reserve Fund shall immediately be subject to the lien of this pledge without physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Metropolitan Government, without regard to whether such parties have notice thereof.

(d) There are hereby pledged, as additional security for the payment of the principal or Redemption Price, if any, of, and interest on, any Series of Tax Credit Bonds, any Tax Credit Payments attributable to such Series of Tax Credit Bonds, and all amounts on deposit in the applicable Tax Credit Payment Account in the Debt Service Fund. Such amounts on deposit in any separate Tax Credit Payment Account shall immediately be subject to the lien of this pledge without physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Metropolitan Government, without regard to whether such parties have notice thereof.

(e) To the extent permitted by applicable law, a Supplemental Resolution may extend the pledge of the Revenues to the payment of all or a portion of the Metropolitan Government's obligations under a Contract, provide that such obligations are payable from the Revenues, and establish the priority of the payment of such obligations (provided that no Contract payment shall be made prior to the payment of debt service on Bonds and no Termination Payment shall be made except as provided in Section 506 hereof), in any case subject to the requirements and limitations set forth in this Article V and the prior pledge of the Revenues in favor of the Prior Bonds.

(f) Nothing contained in the Resolution shall be construed to prevent the Metropolitan Government from acquiring, constructing or financing through the issuance of its bonds, notes or other evidences of indebtedness any facilities which do not constitute a part of the System for the purposes of the Resolution; provided that such bonds, notes or other evidences of indebtedness shall not be payable out of or secured by the Revenues or any Fund or Account held under the Resolution and neither the cost of such facilities nor any expenditure in connection therewith or with the financing thereof shall be payable from the Revenues or from any such Fund or Account.

Section 502. Establishment of Funds and Accounts.

(a) The following Funds and Accounts, to be held by the Metropolitan Government, are hereby established:

- (i) Construction Fund, which shall contain a Project Account and a Capitalized Interest Account;
- (ii) Revenue Fund;
- (iii) Debt Service Fund, which shall contain one or more Tax Credit Payment Accounts, if applicable; and
- (iv) Debt Service Reserve Fund, which shall contain one or more accounts as Additionally Secured Series are issued.

(b) There may be established within any Fund or Account established hereunder such further accounts or subaccounts as set forth in a Supplemental Resolution or as an Authorized Finance Officer may determine.

Section 503. Construction Fund.

(a) The proceeds of each Series of Bonds issued pursuant to Section 203 hereof shall be deposited in the Construction Fund, for further allocation between the Project Account and a Capitalized Interest Account for such Series, all as directed by the provisions of the Supplemental Resolution authorizing such Series of Bonds. Amounts deposited in the Project Account for a Series of Bonds shall be applied to the Costs as directed by the Supplemental Resolution. Amounts deposited in the Capitalized Interest Account for a Series of Bonds shall be transferred to the Debt Service Account for such Series of Bonds as and when needed to pay interest on such Series of Bonds, all as directed by the Supplemental Resolution. Amounts remaining on deposit in a Capitalized Interest Account beyond the period of time prescribed by the Supplemental Resolution for payment of interest on a Series of Bonds shall be transferred to the Project Account established by such Supplemental Resolution.

(b) The Metropolitan Government shall withdraw amounts from the Project Account for the payment of amounts due and owing on account of the Costs of the System upon determination of an Authorized Finance Officer that an obligation in the amount to be paid from the Project Account has been incurred by the Metropolitan Government and that each item thereof is a proper and reasonable charge against such Project Account, and that such amount has not been paid theretofore.

(c) At such time as there are no additional Costs to be paid from a Project Account, any moneys remaining therein may be transferred to another Project Account, to the Debt Service Fund to redeem Bonds of such Series, to the account within the Debt Service Reserve Fund attributable to such Series of Bonds, if applicable, or

put to another use, in any case as directed by an Authorized Finance Officer and subject to a Counsel's Opinion to the effect that such application is permitted by applicable law and will not adversely affect any applicable exemption from federal income taxation of the interest on any Series of Bonds (or the Metropolitan Government's right to any Tax Credit Payments attributable thereto).

(d) Nothing in this Section 503 shall be construed to prevent the Metropolitan Government from permanently discontinuing the acquisition or construction of any portion of the System, the Costs of which are at the time being paid out of the Construction Fund, if the Metropolitan Council determines by resolution that such discontinuance is necessary or desirable in the conduct of the business of the Metropolitan Government and not disadvantageous to the Holders of the Bonds.

(e) Notwithstanding anything herein to the contrary, to the extent that an Event of Default described in Section 801(a) shall have occurred and be continuing and no other moneys are available hereunder to cure such Event of Default, no moneys on deposit in the Construction Fund may be applied as set forth above in this Section 503. In such event, moneys on deposit in the Construction Fund shall be applied in accordance with Article VIII hereof.

Section 504. Revenues and Revenue Fund. Except as provided by Section 603, all Revenues shall be deposited promptly as collected by the Metropolitan Government to the credit of the Revenue Fund.

Section 505. Payment of Operation and Maintenance Expenses. Operation and Maintenance Expenses shall be paid from the Revenue Fund as they become due and payable.

Section 506. Payments into Certain Funds. The Metropolitan Government shall make monthly withdrawals from the Revenue Fund, to the extent of amounts available therein, in order to make the following deposits and payments, in the order and amounts set forth below:

(a) for deposit in the Debt Service Fund an amount sufficient to provide for the timely payments required by Section 507, in amounts calculated as prescribed by Section 507(b); and

(b) for deposit in the Debt Service Reserve Fund an amount sufficient to satisfy the requirements of Section 508 for such month.

Amounts thereafter remaining in the Revenue Fund may be used to (i) make in-lieu-of-tax payments to the Metropolitan Government, (ii) pay debt service on System indebtedness, including Subordinated Indebtedness, fund debt service reserves in connection therewith and pay all related financing costs thereof, including without limitation any liquidity and credit enhancement charges or fees, (iii) fund capital improvements to the System; and (iv) make any other legal expenditure of System funds, including Termination Payments.

Section 507. Debt Service Fund.

(a) Sufficient moneys shall be deposited to the Debt Service Fund from the Revenue Fund for the purpose of paying the Bonds as they become due and payable and, if and to the extent directed by a Supplemental Resolution, for the purpose of making payments under Contracts. Specifically:

(i) Unless otherwise provided in a Supplemental Resolution, on or before each interest payment date for a Series of Bonds, there shall be deposited in the Debt Service Fund an amount which, together with available moneys already on deposit therein (including Capitalized Interest Account transfers and Hedge Receipts and Termination Payments attributable to such Series of Bonds, which shall be deposited directly to the Debt Service Fund) and amounts scheduled to be deposited therein from a Tax Credit Payment Account, is not less than the interest coming due on such Bonds on such interest payment date. Such amount shall be used solely to pay interest on the Bonds when due or pay Reimbursement Obligations for Credit Facilities under which the Credit Issuer makes all interest payments on the Bonds.

(ii) Unless otherwise provided in a Supplemental Resolution or a Hedge Agreement, on or before each payment date for Hedge Payments under a Qualified Hedge Agreement, the Metropolitan Government shall deposit in the Debt Service Fund an amount which, together with any Hedge Receipts and other moneys already on deposit therein and available to make such payment, is not less than such Hedge Payments coming due on such payment date. Such amount shall be used solely to pay Hedge Payments under Qualified Hedge Agreements when due.

(iii) Unless otherwise provided in a Supplemental Resolution or a Contract, on or before each payment date for amounts due on Contracts, other than for Reimbursement Obligations and Qualified Hedge Agreements, the Metropolitan Government shall deposit in the Debt Service Fund an amount which, together with any other moneys already on deposit therein and available to make such payment, is not less than the amount coming due on such payment date. Such amount shall be used solely for such Contract payments when due.

(iv) Unless otherwise provided in a Supplemental Resolution, on or before each Principal Installment date for a Series of Bonds, the Metropolitan Government shall deposit in the Debt Service Fund an amount which, together with any other moneys already on deposit therein and available to make such payment, is not less than the principal payable on such Bonds on such Principal Installment date, other than principal to be paid from a source other than Revenues. Such amount shall be used solely for the payment of principal of the Bonds as the same shall become due and payable or to pay Reimbursement Obligations for Credit Facilities under which the Credit Issuer makes all principal payments on the Bonds.

(b) Without limiting Section 507(a), and except as may otherwise be set forth in a Supplemental Resolution, the payment required to be made each month from the Revenue Fund to the Debt Service Fund shall be calculated to provide for the deposit obligations described in Section 507(a) which will have accrued by the end of the month of such payment to the Debt Service Fund. For purposes of calculating the accrual of such deposit obligations, (i) Principal Installments of a Series will be deemed to accrue daily in equal amounts from the preceding Principal Installment date for such Series (but in no event shall any accrual be made for any Principal Installment more than one year prior to the due date of such Principal Installment or from the Date of Issuance of Bonds of such Series, whichever date is later); (ii) each fixed payment obligation (other than Principal Installments) will be deemed to accrue daily in equal amounts from the preceding relevant payment obligation date (but in no event more than one year prior to such payment obligation date or the initial incurrence of the payment obligation, whichever is later); (iii) principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall accrue in the manner provided in Section 207(a); and (iv) variable payment obligations, whether interest related to Bonds issued with Variable Rates or otherwise, shall accrue as estimated by the Metropolitan Government. Any monthly deposit in excess of the amount required by this subsection (b) shall be credited against the next ensuing monthly payment or payments.

(c) There shall be established within the Debt Service Fund a Tax Credit Payment Account for each Series of Tax Credit Bonds. Tax Credit Payments received by the Metropolitan Government shall be deposited directly into the applicable Tax Credit Payment Account and such amounts shall be applied solely to the payment of debt service on the applicable Series of Tax Credit Bonds, at the times and in the manner otherwise described in this Section 507.

(d) Nothing herein shall limit the right of the Metropolitan Government to use amounts on deposit in the Debt Service Fund, together with such other amounts as may be determined by an Authorized Finance Officer, to defease all or a portion of Bonds attributable to such Debt Service Fund deposits, purchase all or a portion of such Bonds in the open market, or redeem all or a portion of such Bonds at their Redemption Price; provided that the amount thereafter remaining in the Debt Service Fund shall not be less than the remaining requirement of such Fund, as set forth in Section 506(a) and this Section 507. Any Bonds so purchased or redeemed by the Metropolitan Government which are subject to mandatory redemption requirements may be applied as a credit against such mandatory redemption requirements as prescribed by the Supplemental Resolution authorizing such Bonds.

Section 508. Debt Service Reserve Fund.

(a) There shall be deposited into the Debt Service Reserve Fund the amounts specified, if any, in Supplemental Resolutions with respect to one or more Additionally Secured Series. The Metropolitan Government shall establish by Supplemental Resolution an account within the Debt Service Reserve Fund for each separately secured Additionally Secured Series. Each such account shall be for the benefit and security of one or more Additionally Secured Series and need not secure all Additionally Secured Series. Each such account shall be initially funded, maintained and replenished as prescribed by Supplemental Resolution. In the event that deposits are required hereunder for two or more accounts within the Debt Service Reserve Fund, transfers from the Revenue Fund to such accounts shall be made on a pro rata basis in proportion to the respective monthly funding requirements. Whenever, on the date that interest or principal is due on any Additionally Secured Series, there are insufficient moneys therefor in the Debt Service Fund, the Metropolitan Government shall, without further instructions, apply so much as may be needed of the moneys in the related account of the Debt Service Reserve Fund to prevent default in the payment of such interest or principal, with priority to interest payments.

(b) Whenever the moneys on deposit in an account established in the Debt Service Reserve Fund shall exceed the Debt Service Reserve Requirement related thereto, and after giving effect to any Reserve Fund Credit Facility that may be credited to such account in accordance with the provisions of the Supplemental Resolution establishing such subaccount, such excess shall be transferred from such account of the Debt Service Reserve Fund to the Debt Service Fund to redeem Bonds allocable thereto or to such other Fund or Account as may be directed by an Authorized Finance Officer, subject to a Counsel's Opinion to the effect that such application is permitted by applicable law and will not adversely affect any applicable exemption from federal income taxation of the interest on any Series of Bonds (or the Metropolitan Government's right to any Tax Credit Payments applicable thereto).

(c) Whenever the amount in an account within the Debt Service Reserve Fund attributable to an Additionally Secured Series, together with the amount in the Debt Service Fund for such Series, is sufficient to pay in full all such Bonds secured thereby in accordance with their terms (including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), the applicable funds on deposit in such account of the Debt Service Reserve Fund shall be transferred to the Debt Service Fund and applied to the timely payment of principal or Redemption Price, if applicable, and interest on the outstanding Bonds secured thereby.

(d) In the event of the refunding or defeasance of any Bonds of an Additionally Secured Series, the Metropolitan Government may withdraw from the separate account in the Debt Service Reserve Fund established for the benefit of the Bonds of such Additionally Secured Series all or any portion of the amounts accumulated therein and deposit such amounts with the Escrow Agent for the Bonds being refunded or defeased to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded or defeased; provided that such withdrawal shall not be made unless the amount thereafter remaining in such separate account in such account shall not be less than the remaining Debt Service Reserve Requirement related thereto.

(e) The Metropolitan Government may satisfy the Debt Service Reserve Requirement for an Additionally Secured Series by purchasing and depositing to the applicable account of the Debt Service Reserve Fund one or more Reserve Fund Credit Facilities, and may provide for the reimbursement of payments made by the providers of such Reserve Fund Credit Facilities from amounts required to be deposited to such account of the Debt Service Reserve Fund, all as may be set forth in a Supplemental Resolution.

Section 509. Application of Revenues Pursuant to the Prior Resolution. Notwithstanding anything in this Article V to the contrary, so long as the Prior First Lien Bonds are outstanding, the Revenues shall be collected, held and applied according to the requirements of the Prior First Lien Resolution. Until such time as the modifications to the Prior First Lien Resolution set forth in Section 502 of Substitute Resolution No. R93-770 become effective, the Metropolitan Government shall only transfer amounts from the Extension and Replacement Fund established by the Prior First Lien Resolution as and when required by Section 506(a) and (b). Following the effective date of the modifications to the Prior First Lien Resolution set forth in Section 502 of Substitute Resolution No. R93-770, the Metropolitan Government shall transfer the amounts required by Section 506(a) and (b) from the Subordinate Debt Fund established by the Prior First Lien Resolution.

Notwithstanding anything in this Article V to the contrary, upon the discharge of the Prior First Lien Resolution, and so long as any Prior Second Lien Bonds are outstanding, the Revenues shall be collected, held and applied according to the requirements of the Prior Second Lien Resolution; and the Metropolitan Government shall transfer the amounts required by Section 506(a) and (b) from the Surplus Fund established by the Prior Second Lien Resolution.

ARTICLE VI DEPOSITORIES OF MONEYS, SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

Section 601. Depositories.

(a) All moneys held by the Metropolitan Government under the Resolution shall be deposited with one or more Depositories in the name of the Metropolitan Government and shall be held in trust and applied only in accordance with the provisions of the Resolution, and each of the Funds and Accounts established by the Resolution shall be a trust fund for the purposes thereof.

(b) Each Depository shall be qualified to serve as such under applicable Tennessee law, and be willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Resolution.

Section 602. Deposits.

(a) All Revenues and moneys held by any Depository under the Resolution shall be in held on deposit in a manner permitted by applicable Tennessee law. Any such deposit may be made in the commercial banking department of any Fiduciary which may honor checks and drafts on such deposit with the same force and effect as if it were not a Fiduciary. To the extent permitted by applicable law, all moneys held by any Fiduciary, as such, may be deposited by such Fiduciary in its banking department on demand or, if and to the extent directed by the Metropolitan Government and acceptable to such Fiduciary, on savings or time deposit, provided that such moneys on deposit be available for use at the time when needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar conditions or as required by law.

(b) All moneys held under the Resolution by any Depository shall be held in such manner as may then be required by applicable Federal or State of Tennessee laws and regulations and applicable state laws and regulations of the state in which such Depository is located, regarding security for, or granting a preference in the case of, the deposit of public or trust funds.

(c) All moneys deposited with each Depository shall be credited to the particular Fund or Account to which such moneys belong.

Section 603. Investment of Funds. Unless further limited as to maturity by the provisions of a Supplemental Resolution, moneys held in the Funds and Accounts established under the Resolution may be invested and reinvested by the Metropolitan Government in Investment Securities which will provide moneys not later than such times as shall be needed for payments to be made from such Funds and Accounts. In making any investment in any Investment Securities with moneys in any Fund or Account established under the Resolution and held by the Metropolitan Government, the Metropolitan Government may combine such moneys with moneys in any other Fund or Account held by the Metropolitan Government, but solely for purposes of making such investment in such Investment Securities.

If provided in a Supplemental Indenture, interest earned on any moneys or investments in the Debt Service Reserve Fund shall be deposited in the Construction Fund. Otherwise, interest earned on any moneys or investments in each account of the Debt Service Reserve Fund shall be deposited in the Debt Service Fund and applied to the payment of the Bonds of the Additionally Secured Series secured thereby. Interest earned on any moneys or investments in all such other Funds and Accounts established herein shall be held in such Fund or Account for the purposes thereof.

Section 604. Valuation and Sale of Investments. Obligations purchased as an investment of moneys in any Fund created under the provisions of the Resolution shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund, and any loss resulting from the liquidation of such investment shall be charged to the respective Fund.

In computing the amount in any Fund created under the provisions of the Resolution for any purpose provided in the Resolution, obligations purchased as an investment of moneys therein shall be valued at the amortized cost of such obligations. Such computation shall be determined as of June 30 in each year. Each Reserve Fund Credit Facility shall be valued at the lesser of the face amount thereof or the maximum amount available thereunder.

ARTICLE VII PARTICULAR COVENANTS OF THE METROPOLITAN GOVERNMENT

The Metropolitan Government covenants and agrees with the Holders of the Bonds as follows:

Section 701. Payment of Bonds and Contracts. The Metropolitan Government shall duly and punctually pay or cause to be paid, but solely from the Revenues, and, in the case of the Bonds of each Additionally Secured Series, the account in the Debt Service Reserve Account in the Debt Service Fund with attributable thereto, and in the case of Tax Credit Bonds, the Tax Credit Payment Account, the principal or Redemption Price, if any, of every Bond and the interest thereon, at the dates and places and in the manner provided in the Bonds, according to the true intent and meaning thereof, and all amounts due and owing under the Contracts.

Section 702. Extension of Payment of Bonds. The Metropolitan Government shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any claims for interest by the purchase or funding of such Bonds or claims for interest or by any other arrangement, and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Resolution, to the benefit of the Resolution or to any payment out of Revenues or Funds established by the Resolution, including the investments and investment income, if any, thereof, or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Resolution) held by the Metropolitan Government or the Fiduciaries, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing herein shall be deemed to limit the right of the Metropolitan Government to issue Refunding Bonds.

Section 703. Offices for Servicing Bonds. Except as may be otherwise provided in any Supplemental Resolution with respect to any Series of Bonds, the Metropolitan Government shall at all times maintain one or more agencies where Bonds may be presented for payment and shall at all times maintain one or more agencies where Bonds may be presented for registration, transfer or exchange, and where notices, demands and other documents may be served upon the Metropolitan Government in respect of the Bonds or of the Resolution. The Metropolitan Government hereby appoints each Bond Registrar to maintain an agency for the registration, transfer or exchange of Bonds, and for the service upon the Metropolitan Government of such notices, demands and other documents and the Bond Registrars shall continuously maintain or make arrangements to provide such services. The Metropolitan Government hereby appoints the Paying Agent or Agents in such cities as its respective agents to maintain such agencies for the payment or redemption of Bonds.

Section 704. Further Assurance. At any and all times the Metropolitan Government shall, as far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and other moneys, securities and funds hereby pledged, or intended so to be, or which the Metropolitan Government may become bound to pledge.

Section 705. Power to Issue Bonds and Pledge Revenues and Other Funds. The Metropolitan Government is duly authorized under all applicable laws to create and issue the Bonds and to adopt the Resolution and to pledge the Revenues and, in the case of the Bonds of Additionally Secured Series, the related account in the Debt Service Reserve Fund with respect thereto, and, in the case of Tax Credit Bonds, the Tax Credit Payment Account, in the manner and to the extent provided in the Resolution. Except to the extent otherwise provided in the Resolution, the Revenues, each separate account in the Debt Service Reserve Fund and each Tax Credit Payment Account are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto superior to, or of equal rank with, the respective pledges created by the Resolution, and all corporate or other action on the part of the Metropolitan Government to that end has been and will be duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the Metropolitan Government in accordance with their terms and the terms of the Resolution. The Metropolitan Government shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues, each separate account in the Debt Service Reserve Fund, each Tax Credit Payment Account and all the rights of the Holders of the Bonds under the Resolution against all claims and demands of all persons whomsoever.

Section 706. Power to Fix and Collect Rates, Fees and Charges. The Metropolitan Government has, and will have as long as any Bonds are Outstanding, good right and lawful power to acquire, construct, reconstruct, improve, maintain, operate and repair the System and to fix, establish, maintain and collect rates, fees and charges with respect to the use of the capability of and sale of the output, capacity, use or service of the System subject to the terms of contracts relating thereto and subject to the jurisdiction of any applicable regulatory authority.

Section 707. Creation of Liens; Sale and Lease of Property.

(a) Except as described in Article II, the Metropolitan Government shall not issue any bonds, notes, debentures or other evidences of indebtedness of similar nature, other than the Bonds, payable out of or secured by a security interest in or pledge of the Revenues, any separate account in the Debt Service Reserve Fund, any Tax Credit Payment Account or other moneys, securities or funds held or set aside by the Metropolitan Government or by the Fiduciaries under the Resolution and shall not create or cause to be created any lien or charge on the Revenues, any separate account in the Debt Service Reserve Fund, any Tax Credit Payment Account or such moneys, securities or funds.

(b) No part of the System shall be sold, mortgaged, leased or otherwise disposed of, except as follows:

(i) the Metropolitan Government may sell or exchange at any time and from time to time any property or facilities constituting part of the System only if (A) the Metropolitan Government shall determine that such property or facilities are not needed or useful in the operation of the System, or (B) the net book value of the property or facilities sold or exchanged is not more than 5% of the net book value of the property and facilities of the System, or (C) there shall be filed with the records of the Metropolitan Government a certificate of a Consultant or a Consulting Engineer stating, in its opinion, that the sale or exchange of such property or facilities will not materially impair the ability of the Metropolitan Government to comply during the current or any future Fiscal Year with the provisions of Section 711. The proceeds of any sale or exchange of any property or facilities constituting a part of the System not used to acquire other property necessary or desirable for the safe or efficient operation of the System shall forthwith be deposited in the Revenue Fund; provided, however, that the amount of any such deposit to the Revenue Fund shall not constitute or be deemed to constitute Revenues for purposes of Section 711 of the Resolution;

(ii) The Metropolitan Government may lease or make contracts or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights with respect to, any part of the System, provided that any such lease, contract, license, arrangement, easement or right (A) does not impede the operation by the Metropolitan Government or its agents of the System and (B) does not materially adversely affect the rights or security of the Holders of the Bonds under the Resolution. Any payments received by the Metropolitan Government under or in connection with any such lease, contract, license, arrangement, easement or right in respect of the System or any part thereof shall constitute Revenues for all purposes of the Resolution;

(iii) The limitations imposed upon the Metropolitan Government by subsection (b)(ii) (A) and (B) shall not apply to any disposition of property by the Metropolitan Government where: (A) such property is leased back to the Metropolitan Government under a lease having a term of years (including renewal options) (1) of not less than 75% of the remaining useful life of the property as estimated by the Metropolitan Government computed from the date of disposition and lease if such property is disposed of by sale or a lease for more than 90% of the remaining estimated useful life or any other means of disposition except as set forth in the following clause (2), or (2) 75% of the term of the lease out by the Metropolitan Government if such property is disposed of by a lease for less than 90% of the useful life of the property so estimated, (B) fair value to the Metropolitan Government (as determined by the Metropolitan Government) is received by the Metropolitan Government for the property subject to such transaction, and (C) there shall have been delivered to the Metropolitan Council a Counsel's Opinion to the effect that the disposition and lease will not have a material adverse effect on the interests of the Holders of Outstanding Bonds (in rendering such opinion, such counsel may rely on such certifications of (1) any banking or financial institution serving as financial advisor to the Metropolitan Government, as to financial and economic matters, (2) the Consulting Engineer, as to matters within its field of expertise and (3) such other experts, as to matters within their fields of expertise as it, in its reasonable judgment, determines necessary or appropriate). The proceeds of any such transaction not used to acquire other property necessary or desirable for the safe or efficient operation of the System shall forthwith be deposited in the Revenue Fund; and

(iv) The Metropolitan Government may permanently discontinue the acquisition or construction of any portion of the System as provided in Section 503(d).

Section 708. Limits on Additional Prior Bonds. The Metropolitan Government shall not issue or incur, cause to be issued or incurred or consent to the issuance or incurrence of any indebtedness or other obligations pursuant to the Prior First Lien Resolution, and the lien of the Prior First Lien Resolution shall not extend to any other indebtedness or obligations issued thereunder. The Metropolitan Government may, however, from time to time issue or incur, cause to be issued or incurred or consent to the issuance or incurrence of indebtedness or other obligations pursuant to the Prior Second Lien Resolution upon satisfaction of the applicable provisions of Article II hereof.

Section 709. Annual Budget. The Metropolitan Government shall adopt an operating budget (“Annual Budget”) covering the fiscal operations of the Department of Water and Sewerage Services prior to the beginning of each Fiscal Year. The Annual Budget need not necessarily be the budget prepared by the Metropolitan Government for Metropolitan Government budgeting purposes. The Annual Budget for the ensuing Fiscal Year shall set forth in reasonable detail the estimated Revenues, payments with respect to all obligations assumed or incurred by the Metropolitan Government with respect to the System (including, without limitation, the Prior Bonds, the Bonds and Subordinated Indebtedness) and Operation and Maintenance Expenses and other expenditures for the System for such Fiscal Year, and shall include appropriations for the estimated payments with respect to such obligations for such Fiscal Year, the estimated Operation and Maintenance Expenses for the System for such Fiscal Year, including provisions for any general reserve for Operation and Maintenance Expenses or other reserves determined necessary or desirable by the Metropolitan Government and the estimated amount to be expended during such Fiscal Year from the Renewal and Replacement Fund established pursuant to the Prior First Lien Resolution, the Surplus Fund established by the Prior Second Lien Resolution and the Rate Stabilization Fund established by the Prior Second Lien Resolution. Such Annual Budget also shall set forth such detail with respect to such Revenues, payments with respect to such obligations, Operation and Maintenance Expenses and other expenditures and may set forth such additional material as the Metropolitan Government may determine. The Metropolitan Government may at any time, as necessary, adopt an amended Annual Budget for the remainder of the then current Fiscal Year. In the event the Metropolitan Government does not adopt an Annual Budget for a Fiscal Year on or before the first day of such Fiscal Year, the Annual Budget for the preceding Fiscal Year shall be deemed to have been adopted and be in effect for such Fiscal Year until the Annual Budget for such Fiscal Year has been adopted.

Section 710. Operation and Maintenance of the System. The Metropolitan Government shall at all times use its best efforts to operate or cause to be operated the System properly and in an efficient and economical manner, consistent with Prudent Utility Practice, and shall use its best efforts to maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and

every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or use its best efforts to cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the System may be properly and advantageously conducted.

Section 711. Rates, Fees and Charges.

(a) The Metropolitan Government shall at all times fix, establish, maintain, charge and collect rates, fees and charges for the use or the sale of the output, capacity or service of the System which shall be sufficient to produce Net Revenues in each Fiscal Year at least equal to the greater of:

(i) 110% of the sum of the Debt Service Requirement on the Prior Bonds and the Outstanding Bonds in such Fiscal Year; or

(ii) 100% of the sum of:

(A) the Debt Service Requirement on the Prior Bonds, the Outstanding Bonds and Subordinated Indebtedness in such Fiscal Year,

(B) the amounts required to be paid during such Fiscal Year into the Debt Service Reserve Fund and the Operating Reserve Fund established by the Prior First Lien Resolution,

(C) the amounts required to be paid during such Fiscal Year into the Debt Service Reserve Fund established by the Prior Second Lien Resolution,

(D) the amounts required to be paid during such Fiscal Year into the Debt Service Reserve Fund established by the Resolution, and

(E) the amount of all other charges and liens whatsoever payable out of Revenues during such Fiscal Year, including payments in lieu of taxes and any payments required during such Fiscal Year under Contracts to the extent not otherwise provided for in this subsection (ii).

(b) For purposes of this Section 711, the Metropolitan Government may, when calculating the Debt Service Requirement on Subordinated Indebtedness, make the adjustments and assumptions set forth in subsection (b) of the definition of "Debt Service Requirement", as if such provisions were applicable to Subordinated Indebtedness; provided however, that there shall be disregarded any scheduled principal amount of Subordinated Indebtedness which are notes or other evidences of indebtedness issued in anticipation of the issuance of Bonds or Prior Second Lien Bonds, the payment of which is to be paid from the proceeds of such Bonds or Prior Second Lien Bonds.

(b) If the Metropolitan Government fails to prescribe, fix, maintain, and collect rates, fees, and other charges, or to revise such rates, fees, and other charges, in accordance with the provisions of this section in any Fiscal Year, but the Metropolitan Government in the next Fiscal Year has promptly taken all available measures to revise such rates, fees and other charges as advised by a Consultant retained by the Metropolitan Government to review the operations of the System, there shall be no Event of Default as described in Section 801 until at least the end of such next Fiscal Year and only then if Net Revenues are less than the amount required by this section.

Section 712. Maintenance of Insurance.

(a) With respect to the System, the Metropolitan Government will carry adequate public liability, fidelity, and property insurance, such as is maintained by similar utility systems; provided, the Metropolitan Government shall not be required to insure beyond the limits of immunity provided by Sections 29-20-101 et seq., Tennessee Code Annotated, as amended, and provided further, the Metropolitan Government may self-insure against any risks that the Metropolitan Council deems appropriate provided the Metropolitan Government maintains adequate reserves, in such amounts as the Metropolitan Government determines is reasonable, for such self

insurance. All such policies shall be for the benefit of and made payable to the Metropolitan Government and shall be on deposit with the Metropolitan Government.

(b) The proceeds received by the Metropolitan Government from any insurance policy shall be deposited in the Revenue Fund.

Section 713. Accounts and Reports.

(a) The Metropolitan Government shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in accordance with generally accepted accounting principles (or other comprehensive basis of accounting) in which complete and correct entries shall be made of its transactions relating to the System, the amount of Revenues and the application thereof and each Fund and Account established under the Resolution, and which, together with all other books and papers of the Metropolitan Government, including insurance policies, relating to the System, shall, subject to the terms thereof, at all times be subject to the inspection of the Holders of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

(b) The Metropolitan Government shall annually, within 180 days after the close of each Fiscal Year, file with the records of the Metropolitan Government and otherwise as provided by law, a copy of an annual report for such Fiscal Year, accompanied by an Accountant's Certificate, relating to the System and including reasonably detailed information relating to the following: (i) the assets and liabilities of the System as of the end of such Fiscal Year; (ii) the Revenues and Operation and Maintenance Expenses of the System for such Fiscal Year; and (iii) a summary, with respect to each Fund and Account established under the Resolution, of the receipts therein and disbursements therefrom during such Fiscal Year and the amount held therein at the end of such Fiscal Year; provided, however, that nothing herein shall preclude such annual report from being included as part of the audited financial statements of the Metropolitan Government generally. Such Accountant's Certificate shall state whether or not, to the knowledge of the signer, the Metropolitan Government is in default with respect to any of the covenants, agreements or conditions on its part contained in the Resolution, and if so, the nature of such default.

(c) The reports, statements and other documents required to be prepared or obtained by the Metropolitan Government pursuant to any provisions of the Resolution shall be available for the inspection of Holders of the Bonds at the office of the Metropolitan Government and shall be mailed to each Holder of a Bond who shall file a written request therefor with the Metropolitan Government. The Metropolitan Government may charge each Holder of a Bond requesting such reports, statements and other documents a reasonable fee to cover reproduction, handling and postage.

Section 714. Payment of Taxes and Charges. The Metropolitan Government will from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties of the Metropolitan Government or upon the rights, revenues, income, receipts, and other moneys, securities and funds of the Metropolitan Government when the same shall become due (including all rights, moneys and other property transferred, assigned or pledged under the Resolution), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the Metropolitan Government shall in good faith contest by proper legal proceedings if the Metropolitan Government shall in all such cases have set aside of its books reserves deemed adequate with respect thereto. Notwithstanding the foregoing, no payments in lieu of taxes may be paid to the Metropolitan Government from Revenues prior the payment of debt service on the Prior Bonds and the Bonds.

Section 715. Compliance with Prior Resolution. For so long as any issue of the Prior Bonds (or any portion thereof) shall remain Outstanding, the Metropolitan Government shall comply with the provisions of the Prior Resolution.

Section 716. General.

(a) The Metropolitan Government shall at all times maintain its corporate existence (or, if the Metropolitan Government shall be dissolved or abolished, a successor shall be named to assume the rights and

obligations of the Metropolitan Government) and shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the Metropolitan Government under the provisions of applicable Tennessee law and the Resolution.

(b) Upon the date of authentication and delivery of any of the Bonds, all conditions, acts and things required by law and the Resolution to exist, to have happened and to have been performed prior to and in connection with the issuance of such Bonds shall exist, have happened and have been performed, and the issuance of such Bonds, together with all other obligations of the Metropolitan Government, shall comply in all respects with the applicable laws of the State of Tennessee.

ARTICLE VIII REMEDIES OF HOLDERS OF THE BONDS

Section 801. Events of Default. If one or more of the following Events of Default shall happen:

(a) if default shall be made in the due and punctual payment of any Principal Installment of or any interest on any Bond when and as the same shall become due and payable (determined without giving effect to any payments made with funds provided by any Credit Issuer pursuant to any Credit Facility);

(b) if default shall be made by the Metropolitan Government in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution, as supplemented, or in the Bonds contained, and such default shall continue for a period of 90 days after written notice thereof to the Metropolitan Government by the Holders of not less than 10% in principal amount of the Bonds Outstanding;

(c) if there shall occur the dissolution (without a successor being named to assume the rights and obligations) or liquidation of the Metropolitan Government or the filing by the Metropolitan Government of a voluntary petition in bankruptcy, or adjudication of the Metropolitan Government as a bankrupt, or assignment by the Metropolitan Government for the benefit of its creditors, or the entry by the Metropolitan Government into an agreement of composition with its creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Metropolitan Government in any proceeding for its reorganization instituted under the provisions of the Bankruptcy Code, as amended, or under any similar act in any jurisdiction which may now be in effect or hereafter enacted;

(d) if an order or decree shall be entered, with the consent or acquiescence of the Metropolitan Government, appointing a receiver or receivers of the System, or any part thereof, or of the rents, fees, charges or other revenues therefrom, or if such order or decree, having been entered without the consent or acquiescence of the Metropolitan Government, shall not be vacated or discharged or stayed within 90 days after the entry thereof; or

(e) for so long as any issue of the Prior Bonds (or any portion thereof) shall remain Outstanding, if a default shall occur under the Prior Resolution related to such issue;

then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, the Holders of not less than 25% in principal amount of the Bonds Outstanding or any Credit Issuer securing not less than 25% in principal amount of the Bonds Outstanding (by notice in writing to the Metropolitan Government), may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything contained to the contrary in the Resolution or in any of the Bonds notwithstanding; provided, however, that in the event that a Supplemental Resolution authorizing Bonds for which a Credit Facility is provided provides that the principal of such Bonds, and the accrued interest thereon, may not be declared due and payable immediately (nor such declaration be rescinded and annulled, as provided in the following sentence) without the consent in writing of the Credit Issuer therefor, then such Bonds, and the interest accrued thereon, shall not become due and payable immediately as aforesaid (nor may such declaration be rescinded and annulled, as provided in the following sentence) without such written consent, and, in that event, the remedies available to the Holders of such Bonds (or such Credit Issuer, on behalf of such Holders) shall be limited to those set forth in Sections 802, 804 and 805. The right of the Holders of not less than 25% in

principal amount of the Bonds to make such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest upon the Bonds, together with interest on such overdue installments of interest to the extent permitted by law and all other sums then payable by the Metropolitan Government under the Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the Metropolitan Government or provision shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or adequate provision shall be made therefor, then and in every such case the Holders of 25% in principal amount of the Bonds Outstanding, by written notice to the Metropolitan Government, may rescind such declaration and annul such default in its entirety, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon. Notwithstanding anything in this Section 801 to the contrary, no declaration of acceleration shall become effective hereunder until the Prior Second Lien Bonds have been declared to be accelerated pursuant to the terms of the Prior Second Lien Resolution.

Section 802. Accounting and Examination of Records After Default.

(a) 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 and all other records relating to the System shall at all times be subject to the inspection and use of the Holders and of their agents and attorneys.

(b) The Metropolitan Government covenants that if an Event of Default shall have happened and shall not have been remedied, the Metropolitan Government, upon demand of the Holders of not less than 25% in principal amount of the Bonds of the time Outstanding, will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Resolution for such period as shall be stated in such demand.

Section 803. Application of Revenues and Other Moneys After Default.

(a) During the continuance of an Event of Default, the Metropolitan Government, subject, for so long as any issue of the Prior Bonds (or any portion thereof) shall remain Outstanding, to the application thereof as provided in the Prior Resolution, and subject to the provisions of Section 509, shall apply all moneys, securities, funds and Revenues held or received by the Metropolitan Government under the Resolution (other than amounts on deposit in the Debt Service Reserve Fund and the Tax Credit Payment Account of the Debt Service Fund) as follows and in the following order:

(i) Expenses of Receiver, Paying Agent and Bond Registrar - to the payment of the reasonable and proper charges, expenses, and liabilities of the receiver and the Paying Agent and Bond Registrar under the Resolution, and any receiver appointed pursuant to Section 804;

(ii) Operation and Maintenance Expenses -- to the payment of the amounts required for Operation and Maintenance Expenses and for the reasonable renewals, repairs and replacements of the System necessary in the judgment of the Metropolitan Government to prevent a loss of Revenues. For this purpose the books of record and accounts of the Metropolitan Government relating to the System shall at all times be subject to the inspection of the Holders and their representatives and agents during the continuance of such Event of Default;

(iii) Principal Installments, Interest and Contract Payments -- to the payment of the interest and Principal Installments then due on the Bonds, and payment under related Contracts, as follows:

(A) unless the principal of all the Bonds shall have become or have been declared due and payable,

First: Interest -- to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds theretofore called for redemption, and/or to the payment of amounts due under related Contracts and otherwise payable pursuant to Section 507(a)(i) and (ii) hereof, and, if the amount available shall not be sufficient therefor, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: Principal Installments -- to the payment to the persons entitled thereto of the unpaid Principal Installments of any Bonds which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and/or to the payment of amounts due under related Contracts and otherwise payable pursuant to Section 507(a)(iii) hereof and, if the amount available shall not be sufficient therefor, then to the payment thereof ratably, according to the amounts of the Principal Installments due on such date, to the persons entitled thereto, without any discrimination or preference; or

(B) if the principal of all the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds, and of amounts then due and unpaid on related Contracts otherwise payable pursuant to Section 507(a), without preference or priority, ratably, according to the amounts due respectively for principal and interest and such Contract payments, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds;

(iv) Subordinated Indebtedness -- to the payment of principal, redemption price and interest then due on Subordinated Indebtedness in accordance with the resolutions authorizing such Subordinated Indebtedness; and

(v) Contract Payments Otherwise Payable from Revenues – to the payment of amounts due under Contracts which are payable from Revenues and not otherwise described above.

(b) During the continuance of an Event of Default, the Metropolitan Government shall apply all amounts on deposit in each separate account in the Debt Service Reserve Fund in the following order:

(i) unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: Interest -- to the payment to the persons entitled thereto of all installments of interest then due on the Bonds of each Additionally Secured Series secured by such separate account in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds of such Additionally Secured Series theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any such installment or installments maturing 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: Principal Installments -- to the payment to the persons entitled thereto of the unpaid Principal Installments of any Bonds of such Additionally Secured Series 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 Bonds due on any date, then to the payment thereof ratably, according to the amounts of Principal Installments due on such date, to the persons entitled thereto, without any discrimination or preference; or

(ii) if the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds of each Additionally Secured Series secured by such separate account without preference or priority of principal

over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any such Bond over any other such Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds.

(c) During the continuance of an Event of Default, the Metropolitan Government shall apply all amounts on deposit in each separate Tax Credit Payment Account in the Debt Service Fund in the Debt Service Fund first to the payment of interest and then to the payment of Principal Installments on the related Series of Tax Credit Bonds.

If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Fiduciaries, and all other sums payable by the Metropolitan Government under the Resolution including the principal and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable by declaration or otherwise, and including all payments under the Contracts, shall either be paid by or for the account of the Metropolitan Government, and all defaults under the Resolution or the Bonds shall be made good, the Metropolitan Government and the Holders shall be restored, respectively, to their former positions and rights under the Resolution. No such restoration of the Metropolitan Government and the Holders to their former positions and rights shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

Section 804. Appointment of Receiver. If an Event of Default shall happen and shall not have been remedied, the Holders of the Bonds shall be entitled as a matter of right, upon application to a court of competent jurisdiction, to have appointed a receiver of the System.

Section 805. Remedies Not Exclusive. No remedy by the terms of the Resolution conferred upon or reserved to the Holders of the Bonds 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 Resolution or existing at law or in equity or by statute on or after the date of adoption of the Resolution.

Section 806. Effect of Waiver and Other Circumstances.

(a) No delay or omission of any Holder of a Bond 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 Event of Default or be an acquiescence therein; and every power and remedy given by this Article to the Holders of the Bonds may be exercised from time to time and as often as may be deemed expedient by the Holders of the Bonds.

(b) Prior to the declaration of maturity of the Bonds as provided in Section 801, the Holders of not less than a majority in principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal or Redemption Price, if any, of any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 807. Notice of Default. The Metropolitan Government shall promptly mail written notice of the occurrence of any Event of Default to each Holder of Bonds then Outstanding at its address, if any, appearing upon the registry books of the Metropolitan Government.

**ARTICLE IX
THE FIDUCIARIES**

Section 901. Paying Agents.

(a) The Metropolitan Government shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents. Each Paying Agent shall be an officer of the Metropolitan Government, a transfer agent duly registered pursuant to the Securities Exchange

Act of 1934, as amended, or a bank or trust company organized under the laws of any state of the United States or a national banking association, having capital stock, surplus and undivided earnings aggregating at least \$25,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution.

(b) Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by the Resolution by executing and delivering to the Metropolitan Government a written acceptance thereof.

(c) Unless otherwise provided, the principal offices of the Paying Agents are designated as the respective offices or agencies of the Metropolitan Government for the payment of the interest on and principal or Redemption Price of the Bonds.

(d) Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 60 days' written notice to the Metropolitan Government and the other Paying Agents, provided that no such resignation shall be effective until a successor shall have been appointed. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and signed by an Authorized Finance Officer, provided that no such removal shall be effective until a successor shall have been appointed. In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys and records held by it in such capacity to its successor.

Section 902. Responsibilities of Fiduciaries. The recitals of fact herein and in the Bonds contained shall be taken as the statements of the Metropolitan Government, and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representations as to the validity or sufficiency of the Resolution or of any Bonds or as to the security afforded by the Resolution, and no Fiduciary shall incur any liability in respect thereof. Each Bond Registrar shall, however, be responsible for its representation contained in its certificate of authentication on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid by such Fiduciary in accordance with the provisions of the Resolution to the Metropolitan Government or to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect thereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence, misconduct or default.

Section 903. Evidence on Which Fiduciaries May Act.

(a) Each Fiduciary, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document furnished to it pursuant to any provision of the Resolution, shall examine such instrument to determine whether it conforms to the requirements of the Resolution and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. Each Fiduciary may consult with counsel, who may or may not be counsel to the Metropolitan Government, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Resolution in good faith and in accordance therewith.

(b) Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Finance Officer, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the Resolution upon the faith thereof; but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as to it may seem reasonable.

(c) Except as otherwise expressly provided in the Resolution, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision thereof by the Metropolitan Government to any Fiduciary shall be sufficiently executed in the name of the Metropolitan Government by an Authorized Finance Officer.

Section 904. Compensation. The Metropolitan Government shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under the Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents and employees, incurred in and about the performance of its powers and duties under the Resolution, in accordance with the agreements made from time to time between the Metropolitan Government and the Fiduciary. Subject to the provisions of Section 902, the Metropolitan Government further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder and which are not due to its negligence, misconduct or default.

Section 905. Certain Permitted Acts. Any Fiduciary may become the owner of any Bonds, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depository for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Holders of the Bonds or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

Section 906. Merger or Consolidation. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated, or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and shall be authorized by law to perform all the duties imposed upon it by the Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act.

Section 907. Adoption of Authentication. In case any of the Bonds shall have been authenticated but not delivered, any successor Bond Registrar may adopt the certificate of authentication of any predecessor Bond Registrar so authenticating such Bonds and deliver such Bonds so authenticated; and in case any of the said Bonds shall not have been authenticated, any successor Bond Registrar may authenticate such Bonds in the name of the predecessor Bond Registrar, or in the name of the successor Bond Registrar, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in the Resolution provided that the certificate of the Bond Registrar shall have.

ARTICLE X SUPPLEMENTAL RESOLUTIONS

Section 1001. Supplemental Resolutions Effective Without Delivery of Counsel's Opinion as to No Material Adverse Effect and Without Consent of Holders of the Bonds. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the Metropolitan Government may be adopted, which, upon its adoption and compliance with the provisions of Section 1004, shall be fully effective in accordance with its terms:

(a) to close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;

(b) to add to the covenants and agreements of the Metropolitan Government in the Resolution other covenants and agreements to be observed by the Metropolitan Government which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(c) to add to the limitations and restrictions in the Resolution other limitations and restrictions to be observed by the Metropolitan Government which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(d) to authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in Article II, and also any other matters and things relative to such Bonds which are not contrary to

or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds;

(e) to provide for the issuance, execution, delivery, authentication, payment, registration, transfer and exchange of Bonds in loan agreement form payable to the counterparty thereto, and, in connection therewith, to specify and determine any matters and things relative thereto;

(f) to confirm, as further assurance, any security interest or pledge under, and the subjection to any security interest or pledge created or to be created by, the Resolution of the Revenues;

(g) if and to the extent authorized in a Supplemental Resolution authorizing an Additionally Secured Series of Bonds, to specify the qualifications of any provider of a Reserve Fund Credit Facility and to establish the terms of reimbursement of such a provider of a Reserve Fund Credit Facility from amounts on deposit in the Debt Service Reserve Fund; and

(h) to modify any of the provisions of the Resolution in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof.

Section 1002. Supplemental Resolutions Effective Upon Delivery of Counsel's Opinion as to No Material Adverse Effect. 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 delivery of a Counsel's Opinion to the effect that the provisions of such Supplemental Resolution will not have a material adverse effect on the interests of the Holders of Outstanding Bonds (in rendering such opinion, such counsel may rely on certifications of the Financial Adviser or a Consultant as to financial and economic matters, the Consulting Engineer, as to matters within its field of expertise and such other experts, as to matters within their fields of expertise as it, in its reasonable judgment, determines necessary or appropriate) and compliance with the provision of Section 1004, 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 Resolution;

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

(c) to make any other modification to or amendment of the Resolution which such counsel in its reasonable judgment shall determine will not have a material adverse effect on the interests of Holders of the Bonds.

Notwithstanding any other provision of the Resolution, in determining whether the interests of the Holders of Outstanding Bonds are materially adversely affected, such counsel shall consider the effect on the Holders of any Bonds for which a Credit Facility has been provided without regard to such Credit Facility.

Section 1003. Supplemental Resolutions Effective with Consent of Holders of the Bonds. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Holders of the Bonds in accordance with and subject to the provisions of Article XI, which Supplemental Resolution, upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI.

Section 1004. General Provisions.

(a) The Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article X and Article XI. Nothing in this Article X or Article XI contained shall affect or limit the right or obligation of the Metropolitan Government to adopt, make, do,

execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 704 or the right or obligation of the Metropolitan Government to execute and deliver to any Fiduciary any instrument which elsewhere in the Resolution it is provided shall be delivered to said Fiduciary.

(b) Any Supplemental Resolution referred to and permitted or authorized by Section 1001 or 1002 may be adopted by the Metropolitan Government without the consent of any of the Holders of the Bonds, but shall become effective only on the conditions, to the extent and at the time provided in said Sections, respectively. Prior to the effectiveness of any such Supplemental Resolution, the Metropolitan Government shall secure a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Metropolitan Government in accordance with its terms.

(c) No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

(d) Promptly following the adoption thereof, the Metropolitan Government shall send to each Credit Issuer a copy of each Supplemental Resolution adopted pursuant to Section 1002 or Article XI of the Resolution, together with a full transcript of all proceedings relating to the adoption thereof.

ARTICLE XI AMENDMENTS

Section 1101. Mailing. Any provision in this Article for the mailing of a notice or other paper to Holders of the Bonds shall be fully complied with if it is mailed postage prepaid to each Holder of affected Bonds then Outstanding at its address, if any, appearing upon the registry books of the Metropolitan Government.

Section 1102. Powers of Amendment. Any modification or amendment of the Resolution and of the rights and obligations of the Metropolitan Government and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in Section 1103 of the Holders of not less than a majority in principal amount of the Bonds affected by such modification or amendment Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds 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 Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds 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 any Fiduciary without its written assent thereto. For the purpose of this Section, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Metropolitan Government may in its discretion determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall, absent manifest error, be binding and conclusive on the Metropolitan Government and all Holders of Bonds. For the purpose of this Section, a change in the terms of redemption of any Outstanding Bond shall be deemed only to affect such Bond, and shall be deemed not to affect any other Bond. For the purpose of this Section, the Holders of any Bonds may include the initial Holder or Holders thereof, which shall in all cases be deemed to include the underwriter of such Bonds, and the consent of such initial Holder shall be fully binding on all subsequent Holders of such Bonds.

Section 1103. Consent of Holders of the Bonds. The Metropolitan Government may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 1102 to take effect when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto), together with a request to affected Holders of the Bonds for their consent thereto, shall be mailed by the Metropolitan Government to affected Holders of the Bonds (but failure of any affected Holder of a Bond to receive such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in

this Section provided). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Metropolitan Government (a) the written consents of Holders of the percentages of affected Outstanding Bonds specified in Section 1102 and (b) a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Metropolitan Government in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the Metropolitan Government in accordance with its terms, and (ii) a notice shall have been mailed as hereinafter in this Section 1103 provided. It shall not be necessary that the consents of Holders of Bonds approve the particular form of wording of the proposed modification or amendment or of the proposed Supplemental Resolution effecting such modification or amendment, but it shall be sufficient if such consents approve the substance of the proposed amendment or modification. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 1202. A certificate or certificates executed by an Authorized Finance Officer stating that such Officer has examined such proof and that such proof is sufficient in accordance with Section 1202 shall be prima facie evidence that the consents have been given by the Holders of the Bonds described in such certificate or certificates. Any such consent shall be binding upon the Holder of the affected Bonds giving such consent and, anything in Section 1202 to the contrary notwithstanding, upon any subsequent Holder of such affected Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof) unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Metropolitan Government, prior to the time when the written statement of the Metropolitan Government hereinafter in this Section 1103 provided for is filed, such revocation. The fact that a consent has not been revoked may likewise be proved by a certificate of an Authorized Finance Officer filed with the records of the Metropolitan Government to the effect that no revocation thereof is on file with the Metropolitan Government. At any time after the Holders of the required percentages of affected Bonds shall have filed their consents to the Supplemental Resolution, an Authorized Finance Officer shall make and file with the records of the Metropolitan Government a written statement that the Holders of such required percentages of affected Bonds have filed consents. Such written statements shall be prima facie evidence that such consents have been so filed. At any time thereafter, notice stating in substance that the Supplemental Resolution adopted by the Metropolitan Government on a stated date (a copy of which is on file with the Metropolitan Government) has been consented to by the Holders of the required percentages of affected Bonds and will be effective as provided in this Section 1103, may be given to affected Holders of the Bonds by the Metropolitan Government by mailing such notice to affected Holders of the Bonds (but failure of any affected Holder of a Bond to receive such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section 1103 provided) not more than 90 days after the Holders of the required percentages of affected Bonds shall have filed their consents to the Supplemental Resolution and the written statement of an Authorized Finance Officer hereinabove provided for is filed. The Metropolitan Government shall file with its records proof of the mailing of such notice. A record, consisting of the certificates or statements required or permitted by this Section 1103 to be made by the Metropolitan Government, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Metropolitan Government, the Fiduciaries and the Holders of all Bonds at the expiration of 40 days after the filing with the records of the Metropolitan Government of the proof of the mailing of such last mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 40 day period; provided, however, that any Fiduciary and the Metropolitan Government during such 40 day period and any such further period during which any such action or proceeding may be pending shall be entitled in their absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Section 1104. Modifications by Unanimous Consent. The terms and provisions of the Resolution and the rights and obligations of the Metropolitan Government and of the Holders of the Bonds thereunder may be modified or amended in any respect upon the adoption by the Metropolitan Government of a Supplemental Resolution and the consent of the Holders of all of the affected Bonds then Outstanding, such consents to be given as provided in Section 1103 except that no notice to affected Holders of the Bonds by mailing shall be required; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the records of the Metropolitan Government of the written assent thereto of such Fiduciary in addition to the consent of the affected Holders of the Bonds.

Section 1105. Exclusion of Bonds. Bonds owned or held by or for the account of the Metropolitan Government shall not be deemed Outstanding for the purpose of consent or other action or any calculation of affected Outstanding Bonds provided for in this Article XI, and the Metropolitan Government shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, an Authorized Finance Officer shall file with the records of the Metropolitan Government a certificate as to all Bonds so to be excluded.

Section 1106. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as in Article X or this Article XI provided may, if the Metropolitan Government so determines, bear a notation by endorsement or otherwise in form approved by the Metropolitan Government as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and presentation of its Bond for the purpose at the principal office of the Bond Registrar therefor or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by such Bond Registrar as to any such action. If the Metropolitan Government shall so determine, new Bonds so modified as in the opinion of the Metropolitan Government to conform to such action shall be prepared, authenticated and delivered, and upon demand of the Holder of any Bond then Outstanding shall be exchanged, without cost to such Holder, for Bonds of the same Series, principal amount, maturity, interest rate and redemption provisions then Outstanding, upon surrender of such Bonds. Any action taken as in Article X or this Article XI provided shall be effective and binding upon all Holders of Bonds notwithstanding that the notation is not endorsed on all Bonds.

ARTICLE XII MISCELLANEOUS

Section 1201. Defeasance.

(a) Except as otherwise set forth in a Supplemental Resolution authorizing Bonds, all or any portion of the Bonds for the payment, prepayment or redemption of which sufficient moneys or sufficient Defeasance Securities shall have been deposited with the Paying Agent or an Escrow Agent (whether upon or prior to the maturity or the redemption date of such Bonds) shall be deemed to be paid and no longer Outstanding under the Resolution; provided, however, that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been duly given as provided in Article IV or firm and irrevocable arrangements shall have been made for the giving of such notice. Defeasance Securities shall be considered sufficient for purposes of this Section 1201 only: (i) if such Defeasance Securities are not callable by the issuer of the Defeasance Securities prior to their stated maturity, and (ii) if such Defeasance Securities fall due and bear interest in such amounts and at such times as will assure sufficient cash (whether or not such Defeasance Securities are redeemed by the Metropolitan Government pursuant to any right of redemption) to pay currently maturing interest and to pay principal and redemption premiums, if any, when due on the Bonds without rendering the interest on any tax-exempt Bonds includable in gross income of any owner thereof for federal income tax purposes.

(b) For purposes of determining whether Bonds bearing interest at Variable Rates shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, in accordance with subsection (a) above, the interest to come due on such Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the maximum rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Bonds having borne interest at less than such maximum rate for any period, the total amount of moneys and Defeasance Securities on deposit with the Escrow Agent for the payment of interest on such Bonds is in excess of the total amount which would have been required to be deposited with the Escrow Agent on such date in respect of such Bonds in order to satisfy subsection (a) above, the Escrow Agent shall, if requested by the Metropolitan Government, pay the amount of such excess to the Metropolitan Government free and clear of any trust, lien or pledge securing the Bonds or otherwise existing under the Resolution.

(c) The Metropolitan Government may at any time surrender to the Bond Registrar for cancellation by it any Bonds previously authenticated and delivered under the Resolution which the Metropolitan Government may have acquired in any manner whatsoever. All such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

(d) If all Bonds and related obligations secured by a lien on the Revenues have been paid or provision for payment thereof made pursuant to this Section 1201 and related Supplemental Resolution(s), then at the option of the Metropolitan Government, the terms and provisions of the Resolution may be determined as void and of no further force or effect.

Section 1202. Evidence of Signatures of Holders of the Bonds and Ownership of Bonds.

(a) Any request, consent, revocation of consent or other instrument which the Resolution may require or permit to be signed and executed by the Holders of the Bonds may be in one or more instruments of similar tenor, and shall be signed or executed by such Holders or by their attorneys appointed in writing. Proof of the execution of any such instrument, or of an instrument appointing any such attorney, shall be sufficient for any purpose of the Resolution (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Metropolitan Government, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

The fact and date of the execution by any Holder of a Bond or its attorney of such instrument may be proved by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgements of deeds, that the person signing such request or other instrument acknowledged to such person the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature, guarantee, certificate or affidavit shall also constitute sufficient proof of the authority of such officer or member.

(b) The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

(c) Any request or consent by the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the Metropolitan Government or any Fiduciary in accordance therewith.

Section 1203. Moneys Held for Particular Bonds. The amounts held by any Fiduciary for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto.

Section 1204. Preservation and Inspection of Documents. All documents received by any Fiduciary under the provisions of the Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the Metropolitan Government, any other Fiduciary, and by Holders of the Bonds and their agents and their representatives, any of whom may make copies thereof.

Section 1205. Parties Interested Herein. Nothing in the Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or corporation, other than the Metropolitan Government, the Fiduciaries, the Holders of the Bonds and any Credit Issuers and Qualified Hedge Providers, any right, remedy or claim under or by reason of the Resolution or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in the Resolution contained by and on behalf of the Metropolitan Government shall be for the sole and exclusive benefit of the Metropolitan Government, the Fiduciaries, the Holders of the Bonds and any Credit Issuers and Qualified Hedge Providers; provided, however, that the foregoing shall not be construed so as to limit or restrict the Metropolitan Government's right to covenant in any other instrument for the benefit of any other entity that the Metropolitan Government will comply with any or all of such covenants, stipulations, promises or agreements, and that the Metropolitan Government will not amend, modify, supplement or change the same.

Section 1206. No Recourse on the Bonds. No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon or on the Resolution against any present or former member or officer of the Metropolitan Government or any person executing the Bonds.

Section 1207. Publication of Notice; Suspension of Publication; Notice to Credit Enhancers.

(a) Any publication to be made under the provisions of the Resolution in successive weeks or on successive dates may be made in each instance upon any business day of the week and need not be made in the same Authorized Newspaper for any or all of the successive publications but may be made in a different Authorized Newspaper.

(b) If, because of the temporary or permanent suspension of the publication or general circulation of any Authorized Newspaper or for any other reason, it is impossible or impractical to publish any notice pursuant to the Resolution in the manner herein provided, then such publication in lieu thereof shall constitute a sufficient publication of such notice.

(c) All notices and other documents required or permitted to be given to Holders of Bonds also shall be given to each Credit Issuer and Qualified Hedge Provider, at the address to be specified by it by notice in writing to the Metropolitan Government.

Section 1208. Action by Credit Issuer When Action by Holders of the Bonds Required. Except as otherwise provided in a Supplemental Resolution authorizing Bonds for which a Credit Facility is being provided, if not in default in respect of any of its obligations with respect to the Credit Facility for the Bonds of a Series, or a maturity within a Series, the Credit Issuer for, and not the actual Holders of, the Bonds of a Series, or a maturity within a Series, for which such Credit Facility is being provided, shall be deemed to be the Holder of Bonds of any Series, or maturity within a Series, as to which it is the Credit Issuer at all times for the purpose of (a) giving any approval or consent to the effectiveness of any Supplemental Resolution or any amendment, change or modification of the Resolution as specified in Sections 1003, 1102, 1103 and 1104 or any other provision hereof, which requires the written approval or consent of Holders; provided, however, that the provisions of this Section shall not apply to any change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon, or shall reduce the percentages or otherwise affect the classes of Bonds 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 any Fiduciary without its written assent thereto and (b) giving any approval or consent, exercising any remedies or taking any other action in accordance with the provisions of Article VIII hereof.

Section 1209. Severability of Invalid Provisions. If any one or more of the covenants or agreements provided in the Resolution on the part of the Metropolitan Government or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of the Resolution.

Section 1210. Holidays. Except as may be provided otherwise in a Supplemental Resolution, if the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Resolution, shall be a legal holiday or a day on which banking institutions in the cities in which are located the principal offices of the Paying Agents are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are authorized by law to remain closed, with the same force and effect as if done on the nominal date provided in the Resolution, and no interest shall accrue for the period after such nominal date.

APPENDIX B

WATER AND SEWER SYSTEM AUDITED FINANCIAL INFORMATION FOR THE FISCAL YEAR ENDED JUNE 30, 2011

[THIS PAGE INTENTIONALLY LEFT BLANK]

Audited Financial Statements of the Metropolitan Government and supplementary information as of and for the fiscal year ending June 30, 2011, together with the independent auditors' report from Crosslin & Associates, P.C., are available through the website of the Metropolitan Government's Department of Finance at www.nashville.gov/finance/investor-relations/investor_relations.asp, and are hereby incorporated by reference as part of this Appendix B. The incorporated Audited Financial Statements include audited financial statements and supplementary information regarding the Department of Water and Sewerage Services. To the extent there are any differences between the electronically posted financial statements of the Metropolitan Government and the printed financial statements of the Metropolitan Government, the printed version shall control.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX C

FINANCIAL AND OPERATING INFORMATION REGARDING THE WATER AND SEWER SYSTEM

[THIS PAGE INTENTIONALLY LEFT BLANK]

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
DEPARTMENT OF WATER AND SEWERAGE SERVICES
HISTORICAL STATEMENT OF REVENUES, OPERATING EXPENSES, DEBT SERVICE AND
UNRESTRICTED FUND BALANCES

For the Fiscal Years Ending June 30

The following table presents the revenues, operating expenses, debt service and unrestricted fund balances for the System for the 2007-2011 Fiscal Years. This table is presented in a manner consistent with the requirements of the Prior Resolution regarding application of System revenues. The following information is not necessarily indicative of the future financial performance of the System. Through 2010, the table below does not include as revenues the sewer surcharge levied by the Metropolitan Government, nor does it include debt service on the TLDA Loans which has been serviced by the sewer surcharge. For 2011, the sewer surcharge is classified as part of revenue with the former TLDA debt included in the debt service shown below.

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Operating Revenues	\$164,899,611	\$173,326,463	\$169,376,965	\$171,307,441	\$195,544,617
Non-Operating Revenues	<u>\$8,319,893</u>	<u>\$7,535,785</u>	<u>\$3,002,027</u>	<u>\$658,590</u>	<u>\$723,198</u>
Total Revenues	\$173,219,504	\$180,862,248	\$172,378,992	\$171,966,031	\$196,267,815
Debt Service on Prior Bonds	\$52,350,971	\$50,830,803	\$52,229,455	\$52,051,203	\$64,828,169
Operating Expenses	\$82,817,201	\$88,415,999	\$90,685,065	\$88,603,454	\$94,477,652
Debt Service on SRF Loans	\$5,825,427	\$5,722,092	\$12,285,458	\$12,636,951	\$13,223,844
Total Revenue Requirements	\$140,993,599	\$144,968,894	\$155,199,978	\$153,291,608	\$172,529,665
Unrestricted Fund Balance (as of June 30)	\$30,940,321	\$38,459,249	\$27,585,402	\$35,185,603	\$49,959,374
Debt Service Coverage Ratio	1.73	1.82	1.56	1.60	1.57

SOURCE: Comprehensive Annual Financial Reports of the Metropolitan Government.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
DEPARTMENT OF WATER AND SEWERAGE SERVICES
BUDGETED REVENUES, OPERATING EXPENSES AND DEBT SERVICE

For the Fiscal Year Ending June 30, 2012

The following table presents budgeted revenues, operating expenses and debt service requirements for the Fiscal Year ending June 30, 2012.

	<u>2012 Budget</u>
Operating Revenues ^{(1) (2)}	\$212,200,000
Non-Operating Revenues	<u>\$1,048,000</u>
Total Revenues	\$213,248,000
Debt Service on Prior First Lien Bonds ⁽⁴⁾	\$50,574,057
Operating Expenses ⁽³⁾	\$104,600,500
Debt Service on Prior Second Lien Bonds ⁽⁴⁾⁽⁵⁾	\$14,254,112
Debt Service on SRF Loans ⁽⁶⁾	\$14,125,994
Total Revenue Requirements ⁽³⁾	\$183,554,663

Notes to 2012 Budget:

- (1) During May 2011, the final water and sewer rate increase went into effect and is reflected in the Fiscal Year 2012 budgeted revenues and operating expenses above.
- (2) Consumption levels and the number of connections are assumed to remain at current levels during the budgeted period, such that revenue projections remain flat for Fiscal Year 2012.
- (3) Total Operating Expenses for Fiscal Year 2012 are based on budget information provided by the Department of Water and Sewerage Services staff. The annual amount (\$4 million) for the payment in lieu of taxes (PILOT) is included in the amount shown for Total Operating Expenses.
- (4) Existing annual revenue bond debt service provided by the Department of Water and Sewerage Services staff.
- (5) All debt service amounts are shown net of expected interest costs subsidies to be paid by the federal government under the BAB and RZEDB programs.
- (6) State revolving fund (SRF) loan annual debt service provided by the Department of Water and Sewerage Services staff. The SRF Loans are anticipated to be refunded with proceeds of the proposed Series 2012 Bonds.

THE WATER AND SEWER SYSTEM

General

The formation of The Metropolitan Government of Nashville and Davidson County (“Metropolitan Government”) effective on April 1, 1963 resulted in the combination and consolidation of (1) the water and sewage system formerly maintained by the City of Nashville, and (2) the sewage system formerly maintained by the Davidson County Improvement District No. 1 into the Department of Water and Sewerage Services (the “Department”). The Department, established under Section 8.501 of the Charter of the Metropolitan Government, is charged with the responsibility for construction, operation and maintenance of all water and sanitary sewer facilities for the Metropolitan Government as well as the collection of all charges for the services of such utilities.

In addition to the facilities thus combined and consolidated, the Water System (as defined herein) and the Sewer System (as defined herein) have gradually been expanded and include: improvements financed by revenues; improvements resulting from capital contributions in aid of construction by private developers; all improvements, additions and extensions financed with the proceeds of outstanding bonds and governmental grants; and facilities acquired from the Nashville Suburban Utility District, the First Suburban Water Utility District of Davidson County, Tennessee, the Parkwood Service Company, the Joelton Water Utility District, the City of Lakewood sewerage system, Rayon City Water Company, the Cumberland Utility District, and the sewerage service of the Nolensville/College Grove Utility District in Williamson County.

Under the Charter and Tennessee Code Annotated §7-3-302, the Metropolitan Government can assume and take over any water and/or sewer utility district located within its boundaries through ordinances adopted by the Metropolitan Council. Several such systems currently operate inside Davidson County and if a decision is made to consolidate these operations into the Department, the Metropolitan Government will take subject to or retire all debts and liabilities of the systems. The economic impact of such an assumption or takeover would be evaluated prior to the submission of any legislation to the Metropolitan Council. By contract dated February 1996, the Metropolitan Government has agreed not to take over the Harpeth Valley Utility District before February 2026.

Historically, the Department managed and partially funded the stormwater operations of the Metropolitan Government. In 2009, the Metropolitan Government established a Stormwater Division of the Department as a stand-alone enterprise fund with its own set of service fees, which are now an itemized part of the water bill. Further funding of stormwater operations will not be required of the Department.

The Water System

The water provided by the Department’s water system (the “Water System”) currently meets all physical, chemical, and bacteriological water quality standards established by the United States Environmental Protection Agency (the “EPA”) under the Safe Drinking Water Act, as amended, by the Tennessee Department of Environment and Conservation (“TDEC”) and under the Tennessee Safe Drinking Water Act of 1983, as amended.

The Water System draws water from the Cumberland River and processes it through modern filtration plants for delivery into the distribution system. Raw water is treated by chemical coagulation, flocculation, clarification, filtration, and disinfection. The existing water treatment plants and pumping facilities have a total delivery capacity of 180 million gallons per day. In Fiscal Year 2011, net sales to retail customers were 22.6 billion gallons. The peak demand for water from the system during Fiscal Year 2011 was 11.0 million gallons on August 4, 2010.

The Robert L. Lawrence, Jr. Filtration Plant, originally placed in service in 1929, was extensively modernized and expanded in 1953 and 1963 to a capacity of 72 million gallons per day. An upgrade of this plant was completed in 2001 and it now has a treatment capacity of 90 million gallons per day. A central control room located at this plant provides constant monitoring of the status of all water pumping stations and reservoirs.

The K.R. Harrington Water Treatment Plant was completed and placed into operation in 1977. This facility provided an additional capacity of 60 million gallons per day to the Metropolitan Government’s water treatment capabilities. Expansion of this plant to 90 million gallons per day was completed in 1992 and will ensure an

adequate supply of potable water through the coming years. In 1999, as a precaution against prolonged power outages caused by ice storms, tornadoes, or other disasters, the K.R. Harrington Plant was equipped with four emergency generators with a capacity of 1,750 kW each. These generators allow the Department to operate the plant at a capacity of 72 million gallons per day.

The water from the existing treatment plants is delivered into the water distribution system via six major transmission mains. The distribution system contains approximately 2,912 miles of mains ranging in diameter from 2 to 60 inches. Storage is provided by the 51 million gallon Eighth Avenue Reservoir and various other reservoirs with a combined additional capacity of 41.5 million gallons and by tanks and stand pipes, many of which are utilized to provide water service in areas of higher elevation than the central urbanized area. The Water System has fifty-seven booster-pumping stations to deliver water to these higher regions. Three reservoirs received damage during the May 2010 Flood disaster and were under-going repairs on June 30, 2011.

The Water System has experienced continuous growth over the past decade, although recent growth has been relatively flat, and as of Fiscal Year 2011, has provided direct service to 177,475 customers. In Fiscal Year 2011, 60% of the water provided by the Water System was consumed by commercial and industrial customers (including residential apartment complexes), and 40% by residential customers. The following table illustrates growth of the Water System over the past ten years.

[Remainder of page intentionally left blank]

Water System Facts in Brief

	Fiscal Year Ended June 30		
	2011	2001	(2001 - 2011) Ten Year History
Use of Water			
Water Customers - End of Period ⁽¹⁾ (thousands)	177,475	151,097	17.5%
Average Daily Treatment (millions of gallons)	100.8	90.3	11.6%
Water Sales for Fiscal Year (billions of gallons)	22.6	22.8	(0.9%)
Maximum Daily Demand (millions of Gallons)	111.0	107.0	3.8%
Growth of System			
Utility Plant Value ⁽²⁾ (millions)	\$1,593	\$1,215	31.0%
Reservoirs	38	41	(7.3%)
Storage Capacity (millions of gallons) ⁽³⁾	60.0	87.8	(31.7%)
Auxiliary Pump Stations	57	57	0.0%
Total Miles, Distribution Lines	2,912	2,619	11.2%
Fire Hydrants	20,545	16,698	23.0%

(1) As per billing records

(2) Property, Plant & Equipment of the Combined Water and Sewer System, net of depreciation

(3) Three reservoirs sustained damage during the May 2010 Flood disaster and were under repair on June 30, 2011

The Department of Water and Sewerage Services has a contract with Water Systems Optimization to perform an independent water audit annually. The audit for FY 2011 is currently underway. During the audit, the system input volume is categorized as revenue water or non-revenue water. Non-revenue water is further broken down into real losses (leakage) and apparent losses (metering error). For FY 2010, the real losses were twenty-nine percent (29%) of system input volume and the apparent losses were four percent (4%) of system input volume.

The Sewer System

The existing sewerage system (the "Sewer System") comprises 2,891 miles of gravity sewers, 111 pumping stations, 160 miles of force mains and three primary treatment plants, which are the Central Wastewater Treatment Plant, the Dry Creek Wastewater Treatment Plant, and the Whites Creek Wastewater Treatment Plant. The Central Wastewater Treatment Plant has a capacity of 250 million gallons per day plus an additional 80 million gallons per day stormwater treatment for a total capacity of 330 million gallons per day. The Dry Creek Wastewater Treatment Plant has a design capacity of 24 million gallons per day of secondary treatment while the Whites Creek Wastewater Treatment Plant has a capacity of 37.5 million gallons per day of secondary treatment.

The Department properly treats and disposes of sludge produced at its treatment plants consistent with State and Federal law. In Fiscal Year 2005 the Department started the design and construction of a \$132 million biosolids project that allows the sale of a dryer and more viable product for consumer use. This project, which should substantially reduce the need for landfill space, is currently in operability phase. The project has not yet achieved full operational status, however, due to damages caused by the May 2010 flood, and there are currently no revenues being collected from the sale of biosolids material.

The following table provides data on the use and facilities of the Sewer System over the last ten years. The average number of customers served increased 18.8% since Fiscal Year 2001, although recent growth has been relatively flat. Over the last ten years, there has been a 13.3% increase in the number of sewerage pumping stations and a concurrent 14.1% increase in the miles of sewer lines. Wastewater treatment has increased by approximately 29.2%.

Sewer System Facts in Brief

Fiscal Year Ended June 30

	<u>2011</u>	<u>2001</u>	<u>(2001 - 2011)</u> <u>Ten Year History</u>
Sewer Customers - End of Period	189,898	159,810	18.8%
Annual Sewage Treatment (billions of gallons)	56.1	43.4	29.3%
Average Daily Treatment (millions of gallons)	153.8	118.9	29.3%
Growth of System			
Utility Plant Value ⁽¹⁾ (millions)	\$1,593	\$1,216	31.0%
Total Miles of Sewer Lines	3,051	2,674	14.1%
Number of Treatment Plants	4	6	(33.3%)
Number of Pumping Stations	111	98	13.3%

(1) Property, Plant & Equipment of the Combined Water and Sewer System, net of depreciation

[Remainder of page intentionally left blank]

Major Customers

The following list shows the largest customers of the Department for water and sewer services for the fiscal year ended June 30, 2011, ranked according to billings.

WATER SERVICES LARGEST CUSTOMERS

(In 1,000's)

Vanderbilt University	\$ 2,175
Metro Schools	856
Tennessee State University	372
Gaylord Opryland Resort	286
Metro District Energy Systems	265
Bridgestone Tire and Rubber Co.	262
St. Thomas Hospital	243
Coca Cola	240
CSX Transportation	224
Baptist Hospital	214

SEWER SERVICES LARGEST CUSTOMERS

(In 1,000's)

Vanderbilt University	\$ 2,957
Metro Schools	1,338
Purity Dairies, Inc.	1,113
Gaylord Opryland Resort	552
Tennessee State University	499
CSX Transportation	398
Aerostructures Corporation	339
Country Delite Farms, Inc.	344
St. Thomas Hospital	339
Meharry Medical College	334

Management and Personnel

SCOTT A. POTTER, P.E., Director, graduated from Vanderbilt University with a Bachelor of Engineering Degree in Electrical Engineering in 1986 and was commissioned as an Ensign in the United States Navy. While serving in the Navy Mr. Potter received a Masters Degree in Mechanical Engineering from the Naval Postgraduate School in Monterey, California, in 1991. Mr. Potter served on two destroyers: USS COCHRANE (DDG 21) and USS CALLAGHAN (DDG 994). While stationed at the United States Naval Academy, he earned the academic rank of Master Instructor, teaching courses in Statics, Materials Science, Applied Fluid Mechanics, Thermodynamics, and Applied Thermodynamics. The Louisville Water Company, in Louisville, Kentucky, employed Mr. Potter as Manager of Distribution Operations from 1998 to 2001. He was also an adjunct member of the faculty of the Mechanical Engineering Department in the Speed Scientific School at the University of Louisville, and an instructor at Vanderbilt University, where he taught a course in water and wastewater policy.

JOHN KENNEDY, Deputy Director, holds a Bachelor of Arts Degree in Geography/Urban Studies from the State University of New York at Albany. He has been employed with the Metropolitan Government of Nashville for 28 years, primarily in Human Resources Management. He joined the Department in 2005, and serves a liaison between the Department of Water and Sewerage Services, elected officials, and other governmental agencies. He also coordinates efforts between Department of Water and Sewerage Services divisions to address unusual or complex situations.

DAVID M. TUCKER, Assistant Director (Operation and Maintenance of Water and Wastewater Treatment, Laboratory Services, and Security), graduated from Tennessee State University with a Bachelor of Science Degree in Biological Sciences. He has twenty-three years experience in water and wastewater treatment plant operations and maintenance. Mr. Tucker holds a State of Tennessee Grade IV Operator's Certification in both water and wastewater treatment. He joined the Department in 1987 as an Assistant Plant Manager and has

progressed to his present position. He is a member of the Water Environmental Federation and the American Water Works Association.

CYRUS Q. TOOSI, PE, Assistant Director (Engineering), graduated from the University of Texas at Austin, in 1988, with a Bachelor of Science Degree in Civil Engineering. Mr. Toosi held a position with the City of Houston for two years prior to coming to Nashville. In 1990 he joined the Department as a hydraulic modeler, and as a flow monitoring, and planning specialist. He has since advanced to his present position. He has twenty years of experience in the engineering of water and wastewater system. He has created the Master Water Growth Plan of the Department of Water and Sewerage Services, Asset Management Program, and Water Infrastructure Rehabilitation Program. He also currently serves as the Chief Engineer for the Department and leads the Overflow Abatement Program and the sewer wholesale mediation. He holds a Professional Engineering License in the State of Tennessee and is a member of the American Water Works Association

HAL BALTHROP, PE, Assistant Director (Repair and Maintenance of Distribution and Collection Systems), holds a Bachelor of Science Degree in Civil Engineering from Tennessee Technological University. He is a licensed Professional Engineer and the Department's State Licensed Collection System Manager and Water Distribution Manager. Mr. Balthrop also serves on the Tennessee Board of Architectural and Engineering Examiners, serves as State Past Chair of the Tennessee Water and Wastewater Agency Response Network and is a member of WEF, AWWA, TWWA, and TAUD.

MARTHA SEGAL, Assistant Director (Customer Services & Information Services), graduated from Old Dominion University with a Bachelor of Science in Business Administration Degree and a Master of Business Administration Degree. She worked with the Department of Utilities in Norfolk, Virginia for 14 years prior to being recruited to Metro Water Services in 2000. She served for many years on the AWWA Virginia Section Customer Service Committee. She is Past Chair of the KY/TN Section AWWA, and currently serves as a member of the Water For People committee and is the TnWARN liaison to the board.

At the end of Fiscal Year 2011, the Department employed 633 persons. Employees of the Department are members of one of four pension plans. Three of the plans are closed to new membership. The fourth is the Modified Metro Plan and is an open plan. The Metropolitan Employee's Benefit Trust Fund was established under provisions of the Charter. The General Fund of the Metropolitan Government is responsible for funding of the aforementioned plans, after recognizing contributions from other moneys of the Metropolitan Government, employees, and the State.

Rate Setting Process

The Charter of the Metropolitan Government provides that the Metropolitan Mayor and the Metropolitan Council have the authority and are directed to establish the rates for water and sewerage services and to provide methods of changes in such rates. Acting in accordance with this authority, the Metropolitan Council adopted Ordinance BL 2009-407, which beginning May 1, 2009, implemented a three-year plan of increases for both water and wastewater rates. The water rate increases are 5%, each beginning on the following dates, May 1, 2009, May 1, 2010, and May 1, 2011, and the wastewater rate increases are 9%, 8%, and 7% on those same dates.

The Metropolitan Council also adopted Ordinance BL 2010-790 on December 7, 2010, imposing a 10% sewer surcharge in lieu of the surcharge which had previously been imposed to secure the payment of the TLDA Loans. Therefore, the sewer surcharge had not been included as part of Revenues, and such funds were not available to pay System operating expenses or System debt service (other than the TLDA Loans). Revenue from the surcharge is available for payment of System operating expenses and debt service.

Any change in the water and sewerage service rates established under the above ordinances must be adopted by the Metropolitan Council by ordinance. As stated in Section 3.05 of the Charter of the Metropolitan Government of Nashville and Davidson County: "No ordinance shall become effective unless it shall have passed by a majority vote on three (3) different days, on the final passage of which it shall have received a majority vote of all the members to which the council is entitled and until it shall have been signed by the Metropolitan County Mayor or become a law without his signature...."

An ordinance will become law without the signature of the Metropolitan Mayor if the Mayor fails to approve or disapprove the ordinance and does not return it to the Metropolitan Council at or prior to the next regular

meeting of the Metropolitan Council occurring ten days or more after the ordinance is delivered to the Mayor. If the Mayor vetoes the ordinance, it will become law if subsequently adopted by a two-thirds vote of all the members of the Metropolitan Council to which it is entitled.

Under the Charter of the Metropolitan Government, the Mayor is obligated to submit an operating budget to the Metropolitan Council no later than May 1st of each year. Before the beginning of each Fiscal Year, and in no event later than June 30th, the Metropolitan Council is obligated to adopt a budget, which must provide for all expenditures required by law or the Charter and for the payment of all debt service requirements for the ensuing year and a tax rate to fully fund the budget. If the Metropolitan Council fails to adopt a budget, the budget submitted by the Mayor becomes law and the Metropolitan Council must adopt a tax rate to fund that budget.

Monthly service charges for water and sewerage services are generally based, in each case, upon a rate schedule consisting of a minimum charge and a quantity charge. The minimum charges vary according to meter size and account class, i.e. residential, small commercial, intermediate commercial and large commercial/industrial. The quantity charge is dependent on account class.

Water revenues from the Department's customers include a fixed minimum charge per customer connection and a quantity charge per 100 cubic feet (cf) based upon the meter size and number of connections. The quantity charge is applied to all consumption in excess of 200 cf per month. The rates listed below were in effect as of May 1, 2011.

WATER AND SEWERAGE RATE SCHEDULE BY CUSTOMER CLASS

Monthly rates for water sold are based on meter measurement. Monthly sewerage service charges for the use of the public sanitary sewerage system are set by water consumption as determined by meter measurement. Minimum charges per month are based on size of meter and customer class.

CLASS DETERMINATION

<u>CLASS</u>	<u>ANTICIPATED OR HISTORICAL USAGE</u>
Residential	Up to two housing units on a common meter
Small Commercial and Industrial	Up to 1,600 cubic feet per month
Intermediate Commercial and Industrial	1,600 to 200,000 cubic feet per month
Large Commercial and Industrial	Over 200,000 cubic feet per month

[Remainder of page intentionally left blank]

WATER AND SEWER CHARGES AND RATES
Minimum Charges per Month (Including 200 Cubic Feet Usage)

On May 1, 2011, the following rates went into effect as a result of the passage of Ordinance BL2009-407:

Meter Size	WATER				SEWER			
	Residential	Small Commercial	Intermediate Commercial	Large Commercial	Residential	Small Commercial	Intermediate Commercial	Large Commercial
5/8"	\$ 3.13	\$ 3.98	\$ 13.85	\$ 597.23	\$ 7.62	\$ 8.51	\$ 27.89	\$ 1,076.37
3/4"	10.62	11.32	19.64	603.69	21.63	24.22	39.55	1,088.01
1"	12.77	13.63	21.51	605.80	26.05	29.17	43.33	1,091.79
1 1/2"	18.77	20.03	26.71	611.60	38.29	42.89	53.81	1,102.25
2"	25.29	26.97	32.63	618.22	51.57	57.75	65.73	1,114.18
3"	33.38	35.61	40.84	624.04	68.04	76.21	82.26	1,124.65
4"	54.41	58.03	64.65	650.65	110.88	124.18	130.22	1,172.65
6"	85.42	91.12	99.81	689.96	174.12	195.01	201.05	1,243.48
8"	133.59	142.50	155.38	755.41	272.29	304.96	312.96	1,361.43
10"	133.59	142.50	155.38	755.41	272.29	304.96	312.96	1,361.43
	Water usage charges per 100 Cubic Feet (For usage over 200 Cubic Feet)				Sewer usage charges per 100 Cubic Feet (For usage over 200 Cubic Feet)			
Rates	\$ 2.33	\$ 2.48	\$ 2.14	\$ 1.81	\$ 4.74	\$ 5.30	\$ 4.32	\$ 3.26

Billing and Collection Procedures

With certain limited exceptions, the Department is required to charge for all water and sewerage services provided by it and consumed by, or, in the case of sewerage services, made available to each customer. Charges for water and sewerage services are generally based on metered measurement of water consumption. During Fiscal Year 2011, the Department read meters and rendered bills to customers monthly. The charges for water and sewerage services are included in a single, combined bill in terms of a "net billing," which is the charge calculated at established rates, and a "gross billing," which is the current net billing increased by 5% or by \$2.50, whichever is greater. This addition to the net billing is a form of penalty for the customer's failure to promptly pay the monthly bill for services. The gross billing amount becomes applicable 20 days after the billing is mailed to the customer. If a customer fails to pay a bill, a delinquency notice is included in the subsequent month's bill. If the customer fails to pay the bill for a second time, a representative of the department notifies the customer, pursuant to Tennessee Code Annotated § 65-32-104, that service will be discontinued if payment is not received in five days. If the customer does not pay the delinquent account within five days following the visit, the account is subject to immediate discontinuation of water and sewer service. To have service restored the customer must then pay the total delinquent amount plus a reconnection fee. If the Department is unable to collect the amount owed, the account is then turned over to a commercial collection agency.

The foregoing billing and collection procedures have resulted in the collection of approximately 98.38% of all amounts billed during the past five Fiscal Years. In Fiscal Years 2007, 2008, and 2010, arrears from "Wholesale Customers" were added to the bad debt expense, because these charges are in dispute at this time. In Fiscal Year 2010 and 2011, the unsettled arrears were deducted from revenue.

Wholesale Customers

The Department provides sewage treatment services for the Cities of Brentwood, Goodlettsville, Millersville, Belle Meade, LaVergne, Ridgetop, Mount Juliet, Old Hickory Utility District, Hendersonville Utility District, and White House Utility District (the "Wholesale Sewer Customers"), pursuant to contracts between the Department and each of the Wholesale Sewer Customers. Under the wholesale contracts, the Department was obligated to treat sewage (subject to volume limitations) from the Wholesale Sewer Customers, and the Wholesale Sewer Customers were required to pay a volumetric rate for sewage delivered to the Department. Capital costs incurred by the Department to maintain capacity for the Wholesale Sewer Customers were only marginally

recoverable under the original contracts. Under the current contracts, the Wholesale Sewer Customers account for 5.5% of the annual water and sewer revenue. Under the prior contracts, Wholesale Sewer Customers only accounted for 2-3% of annual revenue. None of the Wholesale Sewer Customers has ready access to other sewage treatment facilities. The Department does not have any wholesale water customers.

Operations and Maintenance

The Department has implemented operation and maintenance procedures with respect to the System and has undertaken several programs to upgrade performance, including a water quality testing program. Water quality within the water treatment facilities is tested on site on an hourly basis. Additional testing is conducted at a central laboratory maintained by the Department and certified by the State of Tennessee. Water discharged from the plants into the distribution system is monitored in accordance with the Federal Safe Drinking Water Act (42 U. S. C. 300f et seq.). Water discharged from the three wastewater treatment plants is tested to ensure compliance with the National Pollutant Discharge Elimination System as administered by the EPA and TDEC.

The Department performs regular maintenance and repair of equipment with outside contractors performing major repairs. To facilitate maintenance and repairs, the Department has established several inspection programs for the different areas of operation. Inspection programs include pumping station inspection, cross-connection protection testing, smoke testing for collection system integrity, water leak detection, fire hydrant testing and valve testing programs. Vans are equipped with closed circuit television cameras that can be maneuvered through the sewer mains to inspect the sewer system.

Comprehensive training programs have been developed for employees, from unskilled to supervisory and management positions, covering many aspects of the operation and maintenance of the Systems. Although participation in the programs is not mandatory, employees who wish to be promoted to a higher job classification must demonstrate that they have the knowledge and skills that such programs provide.

Environmental Regulation

The Federal Water Pollution Control Act of 1972 (“FWPCA”), as amended by the Clean Water Act of 1977, and the Water Quality Act of 1987 (collectively, the “CWA”), provides for the restoration and maintenance of the chemical, physical and biological integrity of the nation’s waters. To achieve that end, the FWPCA established the National Pollution Discharge Elimination System (“NPDES”), a permit system administered by the EPA in conjunction with the states. The EPA has delegated the NPDES program for Tennessee to the Tennessee Department of Environment and Conservation (“TDEC”). The Tennessee General Assembly enacted the Tennessee Water Quality Control Act of 1977 (Tenn. Code Ann. § 69-3-101 et seq., as amended) (“Tennessee CWA”) to obtain the primary objectives of the CWA and to qualify for full participation in the NPDES program established under Section 402 of the FWPCA. Pursuant to the authority granted to it, the Tennessee Water Quality Control Board has enacted regulations consistent with the CWA.

In 1990, TDEC issued Order 88-3364 (the “1990 Order”) as a result of violations by the Metropolitan Government of the Tennessee CWA from January 1987 through June 1989. The 1990 Order was, among other things, a result of the discharge of improperly treated wastewater into the waterways by the Metropolitan Government’s collection system and various wastewater treatment plants, leading to pollution in violation of the CWA. The 1990 Order also stated that the Metropolitan Government’s failure to comply with certain agreed upon orders entered by the Tennessee Water Quality Control Board in 1985 and 1987 was also a basis for the 1990 Order.

The 1990 Order identified specific problems regarding the Metropolitan Government’s collection system and wastewater treatment, and required the Metropolitan Government to correct them. In response, the Department developed a detailed program, referred to as the “Overflow Abatement Program” (“OAP”), for making system improvements to correct the problems identified in the 1990 Order. This program was approved by TDEC. Although the Department substantially complied with the 1990 Order, the Department was not in full compliance with the CWA as of 1999.

On September 17, 1999, TDEC issued Order 99-0390 (the “1999 Order”) replacing the 1990 Order and citing the Metropolitan Government in violation of state law. Effective July 1, 2001, the Metropolitan Government was to immediately not permit or allow any overflows or bypasses from its combined sewer system (wastewater and

stormwater) during dry weather to any waters of the state. Nor was it to allow any discharge from the sanitary sewerage system to any tributary of the Cumberland River. The current flow limits at the tie-in points from all contributing satellite sewage systems were to be maintained.

The Metropolitan Government has substantially addressed the issues addressed in the 1999 Order and continues to install capital projects in response thereto. TDEC has not assessed monetary penalties against the Metropolitan Government for failing to meet a schedule compliance date, and the Metropolitan Government is currently in compliance with the requirements of the 1999 Order.

In December 2005, the Department received an inquiry from EPA, pertaining to the Department's Operations, Capital Plan, and Stormwater Management. The Department's response was submitted in January 2006. The Department, TDEC and EPA agreed on a recommended consent decree on March 12, 2009 (the "Consent Decree") to address and correct deficiencies within the Department's sewer system that have caused violations of the CWA. The Consent Decree required that the Department fully develop, by March 12, 2011, a Corrective Action Plan/Engineering Report (CAP/ER) for its separate sewer system and a Long Term Control Plan (LTCP) for its combined sewer system to achieve the goals of the CWA. Upon submittal and approval of the plans, the Department would have an additional nine years to complete the work as developed by the plans.

On May 14, 2010, Metro petitioned EPA and TDEC for a time extension for the delivery of both plans and the final compliance with the Consent Decree based on the flood of May 2010. EPA and TDEC granted the requested time extensions to the Department of Water and Sewerage Services, with a new deadline of September 12, 2011. The CAP/ER and LTCP were submitted prior to the deadline and are with EPA and TDEC for final approval. The deadline for final compliance with the Consent Decree is eleven years after the final approval of the plans.

Among other things, the Consent Decree will require capital expenditures to the System in an total amount between \$1 and \$1.5 billion. See "—The Water and Sewer Capital Improvement Plan" in this Appendix C. Failure to comply with the Consent Decree and meet future established deadlines could result in penalties up to \$3,000 per occurrence, and up to \$5,000 per day for failure to timely implement work.

The Department has thus far been successful in meeting all the deadlines established by the Consent Decree, and is currently in compliance with the Consent Decree in all respects.

Payments in Lieu of Taxes, the Local Cost Allocation Plan, and Shared Government Services

Tennessee law, Tennessee Code Annotated 7-34-115(a)(9), provides that a municipality may require a municipally owned utility to make payments in lieu of ad valorem property taxes, for which the utility is exempt as a governmental entity, in an amount not to exceed the taxes payable on privately owned property of a similar nature. This payment is intended to help reimburse the municipality for the municipal services and support provided to the public works. In 1996, the Metropolitan Council adopted Substitute Resolution No. R96-177, which requires the Department to make an annual payment to the Metropolitan Government of \$4,000,000, representing a payment in lieu of ad valorem taxes. This payment, made in monthly installments, is made after the payment of debt service on the Prior Bonds and the Series 2012 Bonds.

The Local Cost Allocation Plan (LOCAP) for the Metropolitan Government is a method by which central service costs are distributed across the Metro departments. In Fiscal Years 2010 and 2011, the Department was charged \$5,249,500 and \$5,012,100, respectively. In Fiscal Year 2012, this plan will cost the Department \$4,263,000. The Metropolitan Government charges the Department for additional shared government services such as fleet management, information systems, legal fees, insurance, and property services. These charges totaled \$4.8 million in Fiscal Year 2011, and in Fiscal Year 2012, shared government services charges will be approximately \$5.3 million.

The Water and Sewer System Capital Improvement Plan

The Water System

Beginning in 2002, the Metropolitan Government updated its Master Water Improvement Plan which sets out projected water needs due to growth for the service area through the year 2025. Population forecasting and computer modeling of the water distribution system has been done to update the Master Water Improvement Plan through the year 2025. Several improvements to the water distribution system have been identified to supply the increased water demand due to population growth as well as during times of heavy demand (i.e. drought conditions). The Department has identified \$163.5 million of capital improvements for its water treatment and distribution system as part of its capital improvement plan for the System for years 2012 through 2016.

The Sewer System

Beginning in 2003, the Metropolitan Government updated its Master Sewer Improvement Plan which sets out projected sewer needs due to growth for the service area through the year 2025. Population forecasting and computer modeling of the sewer system has been done to update the Master Sewer Improvement Plan through the year 2025. Several improvements to the sewer system have been identified to supply the increased demand due to population growth as well as during times of heavy demand. The Department has identified \$92.6 of capital improvements for its sewer system as part of its capital improvement plan for the System for years 2012 through 2016.

The Consent Decree entered in 2009 (see “—Environmental Regulation” in this Appendix C) required the Metropolitan Government to submit a Corrective Action Plan/Engineering Report and Long-Term Control Plan by September 12, 2011, identifying among other things, the capital improvements to be made to the sewer system. Once EPA and TDEC have approved the Metropolitan Government’s submission, the Metropolitan Government will have eleven years to complete the proposed improvements. The total cost of the capital improvements required by the Consent Decree is estimated to be between \$1.0 and \$1.5 billion.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX D

DEMOGRAPHIC INFORMATION REGARDING THE METROPOLITAN GOVERNMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

Introduction

The Metropolitan Government of Nashville and Davidson County ("The Metropolitan Government"), 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.

Fiscal Year

The Metropolitan Government operates on a fiscal year, which commences July 1 and ends June 30.

Population Growth

The following table sets forth information concerning population growth in the Metropolitan Government. A comparison with the Nashville Metropolitan Statistical Area ("MSA"), the State and the United States serves to illustrate relative growth.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY DEMOGRAPHIC STATISTICS - POPULATION GROWTH

<u>Area</u>	<u>2000</u>	<u>2010</u>	<u>Change 2000 - 2010</u>
Nashville/Davidson	569,891	626,681	10.0%
MSA	1,311,789	1,589,935	21.2%
State	5,689,283	6,346,105	11.5%
United States	281,421,906	308,745,538	9.7%

Census Bureau (census.gov)

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

PER CAPITA PERSONAL INCOME

<u>Area</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Nashville/Davidson	35,010	35,549	36,979	37,693	39,052	39,764	42,614	44,023	45,138	43,457
MSA	31,662	31,845	32,511	33,354	34,865	36,051	38,172	39,522	40,246	38,656
State	26,691	27,529	28,127	28,998	30,255	31,302	32,881	34,237	35,119	34,277
United States	30,318	31,145	31,461	32,271	33,881	35,424	37,698	39,461	40,674	39,635

Source - Bureau of Economic Analysis (bea.gov)

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 all 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 2001 through June 2010.

NASHVILLE MSA EMPLOYMENT BY INDUSTRY ⁽¹⁾

NASHVILLE MSA EMPLOYMENT BY INDUSTRY (000)										
<u>Industry</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Education & Health Services	86.1	90.6	94.9	98.4	101.4	104.4	108.1	112.0	114.9	118.3
Financial Activities	44.2	43.6	44.7	44.5	45.2	45.7	46.2	45.9	45.0	45.8
Government	91.6	92.1	94.2	95.9	96.9	98.6	99.9	103.1	104.6	106.3
Information	23.3	21.6	19.9	19.4	19.7	19.3	19.8	21.1	20.0	19.4
Leisure & Hospitality	68.6	69.7	71.7	72.0	74.6	77.6	80.7	79.5	76.5	76.8
Manufacturing	88.8	83.8	81.8	83.6	84.5	84.1	79.3	73.4	62.4	60.1
Professional & Business Services	86.6	87.0	84.1	91.5	96.7	98.9	101.9	100.6	93.0	98.3
Trade, Transportation, Utilities	141.9	137.9	141.8	146.0	150.7	153.7	154.6	154.6	147.7	147.1
Total Non-Farm Employment	693.5	689.5	697.6	715.3	735.4	751.8	762.5	760.6	726.0	732.9

Source - Bureau of Labor Statics (bls.gov)

(1) Employment numbers in thousands.

[Remainder of Page Intentionally Left Blank]

PERCENTAGE OF PERSONS EMPLOYED BY INDUSTRY: MSA, STATE, NATION

	Nashville MSA					Tennessee					United States				
	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006	2010	2009	2008	2007	2006
Total All Industries ¹	733	726	761	763	752	2,617	2,592	2,714	2,805	2,788	129,818	130,807	136,790	137,598	136,086
In Percentages:															
Construction & Mining	4.2%	4.4%	5.2%	5.5%	5.2%	4.1%	4.0%	4.5%	4.9%	4.8%	4.8%	5.1%	5.8%	6.1%	6.2%
Education & Health Services	11.6%	12.4%	12.5%	13.0%	13.6%	14.4%	14.2%	13.4%	12.6%	12.4%	15.1%	14.7%	13.8%	13.3%	13.1%
Financial Activities	5.9%	6.0%	5.9%	5.9%	6.1%	5.2%	5.4%	5.3%	5.2%	5.2%	5.9%	5.9%	6.0%	6.0%	6.1%
Government	12.3%	12.6%	12.4%	12.7%	13.0%	16.5%	16.6%	15.9%	15.1%	15.0%	17.3%	17.2%	16.5%	16.1%	16.1%
Information	3.1%	3.0%	2.6%	2.6%	2.6%	1.7%	1.7%	1.8%	1.8%	1.8%	2.1%	2.1%	2.2%	2.2%	2.2%
Leisure & Hospitality	9.2%	9.5%	9.5%	9.5%	10.0%	10.0%	10.1%	9.9%	9.9%	9.8%	10.0%	10.0%	9.8%	9.8%	9.6%
Manufacturing	11.9%	11.4%	10.8%	11.1%	11.4%	11.2%	11.5%	12.5%	13.3%	14.0%	8.9%	9.1%	9.8%	10.1%	10.4%
Professional & Business Services	11.6%	11.9%	11.1%	12.1%	13.0%	11.8%	11.3%	11.4%	11.6%	11.5%	12.9%	12.7%	13.0%	13.0%	12.9%
Trade, Transportation, Utilities	19.0%	18.8%	18.7%	19.3%	20.3%	21.3%	21.3%	21.5%	21.8%	21.9%	19.0%	19.0%	19.2%	19.4%	19.3%
Other	15.3%	14.4%	16.4%	13.7%	10.0%	7.9%	7.9%	8.3%	8.6%	8.5%	8.9%	9.2%	9.8%	10.0%	10.2%

(1) Total Employment in thousands

Source - Bureau of Labor Stastics (bls.gov)

[Remainder of Page Intentionally Left Blank]

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
 PRINCIPAL EMPLOYERS
 CURRENT YEAR AND NINE YEARS AGO
 Unaudited - See Accompanying Accountants' Report

Employer	June 30, 2010			June 30, 2001		
	Employees	Rank	% of Total Employment	Employees	Rank	% of Total Employment
Vanderbilt University and Medical Center	20,968	1	2.86 %	13,688	3	1.99 %
Metro Nashville-Davidson Co. Government And Public Schools	20,162	3	2.75	18,231	2	2.65
State of Tennessee	20,000	2	2.73	18,870	1	2.75
U.S. Government	11,496	4	1.57	11,400	4	1.66
St. Thomas Health Services	6,500	5	0.89	-		- (2)
Nissan North America Inc.	5,850	6	0.80	5,794	7	0.84
HCA (including Tri-Star Health System) (1)	5,447	7	0.74	8,500	5	1.24
Wal-Mart Stores Inc.	4,500	8	0.61	-		- (2)
Gaylord Entertainment Co. (1)	4,500	8	0.61	3,271	9	0.48
CBRL Group Inc.	4,189	9	0.57	-		- (2)
Dell Inc.	3,200	10	0.44	-		- (2)
Saturn Corporation	-		- (2)	7,921	6	1.15
Shoney's Inc.	-		- (2)	4,177	8	0.61
BellSouth Telecommunications	-		- (2)	2,989	10	0.44
	<u>106,812</u>		<u>14.57 %</u>	<u>94,841</u>		<u>13.81 %</u>

Sources:

Principal Employers and Number of Employees - Nashville Area Chamber of Commerce, Nashville Business Journal
 Total Employment - TN Department of Labor & Workforce Development

(1) National, State or Corporate Headquarters.

(2) Values for employers that are outside the top ten ranking are excluded.

[Remainder of Page Intentionally Left Blank]

Unemployment Rates

The following table sets forth the unemployment percentage rates in the Metropolitan Government, the MSA, the State and the United States for the calendar years 2001-2010.

UNEMPLOYMENT RATES (Percentages)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Metropolitan Government	3.6	4.4	4.6	4.6	4.5	4.2	4.0	5.4	8.8	8.8
Nashville MSA	3.8	4.4	4.7	4.5	4.5	4.2	4.1	5.7	9.2	8.6
Tennessee	4.7	5.3	5.7	5.4	5.6	5.2	4.9	6.6	10.4	9.7
United States	4.7	5.8	6.0	5.5	5.1	4.6	4.6	5.8	9.3	9.6

Source - Bureau of Labor Statistics (bls.gov)

Investment and Job Creation

In the past two years, the Nashville Area Chamber of Commerce announced some 126 business relocations or expansions into the Nashville MSA, collectively bringing 10,290 new jobs to the Metro area. Continued expansion has occurred in recent years in corporate and regional headquarters, information processing operations, the automotive industry, health care management and many areas where the local economy has established strength and growth potential.

Over the past several years, many sizable headquarters have relocated to Nashville. Asurion, which provides enhanced services to the wireless telecommunications industry, relocated from Silicon Valley in May 2003, adding 600 jobs to Nashville's employment base. CareMark Rx, a Fortune 100 pharmaceuticals company, moved its headquarters from Birmingham, AL to downtown Nashville, bringing 50 executive jobs with the relocation. Aegis Sciences, a provider of scientific services and programs, relocated its headquarters to Nashville. Quanta is the world's largest manufacturer of notebook computers and brought 500 new jobs with their initial move. Louisiana-Pacific Corporation, which manufactures building products, relocated its headquarters to downtown Nashville after 30 years in Portland, OR. The move created 225-plus jobs. Clarcor, Inc., a manufacturer of filtration products with a market capitalization of \$1.1 billion, relocated its corporate headquarters to the Nashville area from Rockford, Ill, creating up to 75 executive positions. Actus Lend Lease moved its military housing operations company from Napa Valley to Nashville in January 2005. Great American Country also relocated in 2005, bringing their headquarters from Denver to Music Row. The Fraternal Order of Police constructed a new 20,000 square-foot facility in Nashville's Century City office park to house headquarter operations. Nissan North America relocated corporate operations to Middle Tennessee in June 2006, temporarily moving into downtown Nashville before settling into a new campus in Cool Springs in neighboring Williamson County in 2008. The international headquarters of the Barbershop Harmony Society, the largest all-male singing organization with 30,000 members, founded in 1938, occupies a 36,000 square foot building in downtown Nashville.

Education

The Metropolitan School System had its beginning in 1963 with the merger of Nashville and Davidson County. The Metropolitan Government public schools make up the second largest school system in Tennessee. In the 2010-2011 school year, Metropolitan Government had 139 public schools, with more than 78,000 students and 5,000 teachers.

In addition, there are 75 independent schools, which are attended by over 27,800 students from pre-kindergarten through 12th grade.

The MBE, consisting of 9 members, administers the school system. The Metropolitan Government 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 MBE holds regular meetings on the second and fourth Tuesday of each month. These meetings are open to the public.

The current members of the MBE, the office held by each and the date their term of office expires are listed below.

**The Metropolitan Board of Education
2011-2012**

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Gracie Porter	Chairman	2012
Mark North	Vice-Chair	2012
Dr. Jo Ann Brannon	Member	2014
Sharon Dixon Gentry, Ed.D.	Member	2012
Michael Hayes	Member	2014
Edward T. Kindall	Member	2012
Cheryl D. Mayes	Member	2014
Anna Shepherd	Member	2014
Kay Simmons	Member	2012

[Remainder of Page Intentionally Left Blank]

The following tables summarize certain information regarding the School System's building facilities and enrollment and attendance trends.

SCHOOL SYSTEM
Public Education Facilities
2010 – 2011

<u>Education Level</u>	<u>Number of Schools</u>	<u>School Year Enrollment</u>
Pre-School	**	197
Pre-Kindergarten	**	2,071
Elementary	72	32,938
Middle	34	22,075
High	21	20,336
Alternative	3	***
Exceptional Education	4	***
Charter Schools	5	***
Total	139	77,617

**No Separate Facilities

***Included in grade totals

SCHOOL SYSTEM
Public Schools Enrollment and Attendance

<u>School Year</u>	<u>Enrollment</u>	<u>Average Attendance</u>
2000-2001	69,457	65,289
2001-2002	69,700	66,319
2002-2003	70,028	66,554
2003-2004	70,760	65,857
2004-2005	71,651	65,960
2005-2006	72,735	67,530
2006-2007	74,163	69,360
2007-2008	74,733	70,231
2008-2009	75,043	69,686
2009-2010	76,329	70,979
2010-2011	78,014	72,347

The Nashville Metropolitan Statistical Area has 15 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 65,000 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 with Meharry Medical College specializing in health care delivery.

Manufacturing

As of April 2011, an average of 60,100 persons were employed in the manufacturing industries in the Nashville 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.

Nashville MSA's largest manufacturing employers include Nissan North America, Bridgestone Americas, Electrolux Home Products, A.O. Smith Water Products and Vought Aircraft Industries.

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 consumer spending by Nashville MSA residents exceeding \$29.0 billion. Nashville is one of the top 50 retail markets in the country. In the Nashville region there are 242 shopping centers with 37.2 million square feet of gross leasable area. Eight of these centers are super-regional and 15 are regional.

Agriculture

Nashville is surrounded by agricultural-based economies. The area encompassing middle Tennessee produces livestock, dairy products, soybeans, small grain, feed lot cattle, strawberries, hay and tobacco. Additionally, 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 services, 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 Customs 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.

A commuter rail service from Lebanon, Tennessee to Nashville, approximately 32 miles, known as the Music City Star commenced transportation services in the September of 2006. It is operated under the direction of the Regional

Transportation Authority, a multi-county agency. The ticket price includes Metropolitan Transportation Authority (“MTA”) bus service on circulator routes in the downtown area.

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.

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.

Airport Facts:

- 900,000-square-foot terminal
- 45 gates and 15 commuter aircraft parking positions
- Up to 78 commuter aircraft parking positions on 4,500 acres
- Four runways
- Ranked sixth in the nation of airports its size in customer satisfaction in 2008 by J.D. Power and Associates
- Nearly 10 million passengers a year
- \$1.18 billion in wages and more than 39,700 jobs annually
- 46,000-plus tons of cargo in 2010
- Serving 66 markets; 46 nonstop (03/11)
- 366 daily flights (03/11)

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.

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 2000's. In 2010, the Metropolitan Government saw a total dollar volume of permit activity at \$1.38 billion.

Of the nine major areas of office development in Nashville, the Central Business District (“CBD”) is by far the largest, with approximately 7.5 million square feet of leasable space. The CBD remained relatively flat in 2010 in overall leasing. Office vacancy in the CBD at the end of the fourth quarter of 2010 was 19.9%, up slightly from 19.3% in the third quarter. Three other important office submarkets- Green Hills, West End and MetroCenter - in Nashville, meanwhile have vacancy rates at 10% or lower. Leasing activity remains steady in most Nashville office submarkets. New construction in downtown Nashville includes the new Music City Center, a 1.2 million square feet convention center scheduled to open in early 2013. Omni Hotel and Resorts is building an 800 room hotel adjacent to the Music City Center that will serve as the Center's headquarters hotel. The hotel is scheduled to open in 2013, shortly after the convention center.

**Number and Value of Building Permits in
The Metropolitan Government of Nashville and Davidson County**

Calendar Year	Residential Construction		Non-Residential Construction		Repairs, Alterations & Installations		Other (1)		Total	
	Number of		Number of		Number of		Number of		Number of	Permit
	Permits	Value	Permits	Value	Permits	Value	Permits	Value	Permits	Value
2000	2,421	\$444,626,418	1,010	\$386,428,784	4,673	\$479,932,778	1,272	11,960,044	9,376	1,322,948,024
2001	2,975	521,311,880	896	354,527,042	4,146	336,595,779	1,179	14,962,413	9,196	1,227,397,114
2002	2,846	476,572,494	851	173,707,294	4,302	405,697,860	1,433	20,029,867	9,432	1,076,007,515
2003	3,207	536,278,115	693	279,867,295	4,531	356,979,647	1,222	20,013,372	9,653	1,193,138,429
2004	3,708	655,382,120	849	398,788,311	4,023	351,762,279	1,291	23,195,687	9,871	1,429,128,397
2005	3,794	747,525,151	865	428,627,829	4,431	462,950,966	1,434	24,073,860	10,524	1,663,177,806
2006	3,801	758,964,847	620	503,077,069	5,094	553,177,902	1,422	15,722,367	10,937	1,830,942,185
2007	5,965	851,544,710	1,453	619,951,806	2,754	267,721,486	1,469	17,293,882	11,641	1,756,511,884
2008	4,361	412,842,242	489	408,945,106	3,597	460,743,268	858	21,723,839	9,305	1,304,254,455
2009	3,149	318,357,857	495	375,074,904	1,913	205,828,855	1,730	14,464,364	7,287	913,725,980
2010	2,067	294,470,986	528	647,479,914	6,722	424,461,986	1,663	15,189,625	10,980	1,381,602,481

(1) Includes moved residential buildings, house trailers, and the demolition of residential and non-residential buildings and signs & billboard permits

Source: Metropolitan Government Department of Code Administration

[Remainder of Page Intentionally Left Blank]

Tourism

Tourism is a major industry in Nashville. The Convention and Visitors Bureau and U. S. Travel Data Center estimate that more than 11 million tourists came to Nashville in 2010 and they spent approximately \$3.9 billion. Music, history, art and generous hospitality attract convention delegates and leisure visitors. Excellent air service combined with geographic location and a superior highway transportation system contribute to the city's success.

In the spring of 2010, the Convention Center Authority of the Metropolitan Government of Nashville and Davidson County began construction on the new Convention Center – the Music City Center. The Music City Center, scheduled for completion in February 2013, will feature an approximate 350,000 square foot exhibit hall, approximately 75,000 square feet of ballroom space (consisting of a 57,000 square foot grand ballroom and an 18,000 square foot junior ballroom), approximately 90,000 square feet of meeting rooms, and 31 loading docks. In addition, there are approximately 30,000 square feet of retail space and a parking garage with approximately 1,800 spaces. A new \$275 million headquarters hotel will be built next to the Music City Center. The 800-room Omni Hotel will feature four restaurants, two ballrooms, 64,000 square feet of meeting space, a pool and spa fitness center. A feature unique to Nashville will be the hotel's physical connection to the adjacent Country Music Hall of Fame and Museum. Omni, through an agreement with the Country Music Hall of Fame and Museum and the Metropolitan Government, will build an addition to the attraction including additional exhibit space and a 500 seat performance theater. The hotel and Country Music Hall of Fame and Museum will be connected and share some space. The project that will contain 765 underground parking spaces is scheduled to open summer 2013.

The new Convention Center and Omni hotel is located downtown in the Metropolitan Government's CBD, and is within walking distance of many notable attractions, including, but not limited to, the Bridgestone Arena, the Ryman Auditorium, Frist Center for the Visual Arts and the Schermerhorn Symphony Center.

Each year, the Country Music Association coordinates a music festival known as CMA Music Festival. The event includes performances by more than 100 entertainers and groups, autograph sessions and activities directed at the attendees. In 2001, the music festival moved to downtown Nashville and attendance has steadily increased each year since then, with average estimates at 124,000 attendees annually. The last three years CBS or ABC have broadcast a 2 hour show of highlights with Nashville featured as much as the music.

Opry Mills Mall, located adjacent to the Opryland Hotel, closed in May 2010 due to severe flooding. In September 2010, Bass Pro Shop re-opened in the space it previously occupied. Additional stores have opened in the fall of 2011 with others opening over the next several months. The official Mall re-opening is scheduled for late first quarter 2012.

The downtown entertainment district features the Hard Rock Café, Jimmy Buffett's Margaritaville and the Wild Horse Saloon- a concert hall, restaurant, dance hall and TV production facility. The Ryman Auditorium (2,200 seats), 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 and three times has been named Pollstar Magazines venue of the year for the United States. A four block section of the downtown area, called lower Broadway, features bars and clubs known as Honky Tonks. These venues are housed in historic brick buildings and feature "no-cover-charge/no minimum purchase" live bands performing 15 hours a day, 7 days a week. The close proximity of the Bridgestone Arena (20,000 seats) and LP Field, the NFL football stadium, to this entertainment district assures good crowds on event days.

The Grand Ole Opry is America's longest running live radio show. The Opry first broadcast in 1925 and the country music variety show now plays in a 4,400 seat theater in the Gaylord Opryland complex a few miles from downtown. Each show features 10 to 20 acts or performers, is unrehearsed, broadcast on WSM terrestrial and internet radio and draws fans from around the world.

The Bridgestone Arena is now in its twelfth year of operation as a premier entertainment facility. The Arena is home of the Nashville Predators, an NHL team that in 2011 played two rounds into the Stanley Cup playoffs, in its eleventh season in Nashville.

The Tennessee NFL Stadium, opened in 1999 and now named LP Field, is the home of the 1999 AFC Champion and 2002 AFC South Division Champion Tennessee Titans and the 1999 OVC Champion Tennessee State University Tigers. Now in its eleventh year of operation, 100% of Titans season ticket packages are sold, and the Titans have played every game since the facility opened in front of a sell-out crowd. LP Field seats nearly 69,000 fans.

The Tennessee State Museum, the Cheekwood Botanical Gardens and Fine Arts Center, President Andrew Jackson's Home: The Hermitage, Belmont Mansion, The Tennessee Performing Arts Center, the Adventure Science Center, and the Parthenon supplement educational and cultural opportunities in the Metropolitan Government.

The Adventure Science Center and the Nashville Zoo provide opportunities for Nashville's adults and children to learn how science and wildlife affect their lives. The Adventure Science Center features a state-of-the-art planetarium. It also features exhibits and programs which focus on geology, zoology, ecology, physics and other sciences. The Nashville Zoo is continuing its multi-year, multi-million dollar expansion program which will make it one of the largest zoos in the country. 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.

The Nashville MSA has more than 315 hotels and motels that offer more than 35,639 rooms. Developers are in the due diligence stage for multiple additional 300 to 500 room properties in the downtown area. The Gaylord Opryland Resort and Convention Center is the third largest hotel/convention center 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. The hotel was severely damaged in the May 2010 flood and closed for 6 months. Reopened in November 2010 the Gaylord company spent \$270 million in upgrades and repair. Below is a history of hotel/motel rooms in Nashville MSA and percentage of occupancy from 1996 through 2010:

HOTEL AND MOTEL ROOMS

Calendar Year	Rooms Available	Occupancy Rate
1996	27,041	67.20%
1997	28,684	66.40%
1998	30,122	61.90%
1999	31,106	61.00%
2000	32,385	59.90%
2001	33,316	56.50%
2002	33,474	56.90%
2003	32,661	58.50%
2004	32,727	60.70%
2005	32,983	62.30%
2006	33,052	66.20%
2007	33,056	66.90%
2008	34,921	62.50%
2009	35,662	57.00%
2010	35,639	59.50%

Source: Nashville Conventions and Visitors Bureau

Medical and Cultural Facilities

Nashville is one of the nation's leaders in the healthcare field. HCA Healthcare has its headquarters and operates several hospitals in the surrounding area. Baptist Hospital, Vanderbilt University Medical Center, and St. Thomas Hospital are the city's other primary hospitals.

The Metropolitan Government relocated the city-owned hospital, the Metropolitan Nashville General Hospital, to Hubbard Hospital of Meharry Medical College in 1998. In addition, Meharry provides medical staff to the Metropolitan Nashville General Hospital. The arrangement provides the city with a renovated facility staffed with residents from Meharry Medical College.

A new downtown main library, with over 280,000 square feet, opened in the spring of 2001. With the downtown public library, its 20 community branches, 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 Schermerhorn Symphony Center, named in honor of the late Maestro Kenneth Schermerhorn who led the Nashville Symphony for 22 years, opened in September 2006. The \$123 million concert hall is an acoustic masterpiece that impressed national and international music critics and journalists beginning with the opening concert and adds one more attraction to a city known world-wide as Music City. Home to the critically acclaimed Nashville Symphony, the Schermerhorn Symphony Center plays host to more than 100 classical, pops, and special concert events each season. The Nashville Symphony has become the top selling Naxos orchestra for Compact Disks, and the performance hall has garnered stellar reviews. In addition, the Nashville Symphony presents recitals, choral concerts, cabaret, jazz, and world music events. With the Schermerhorn Symphony Center's debut, the Tennessee Performing Arts Center, a State cultural facility in Downtown Nashville with a 2,442-seat concert hall, a 1,054 seat legitimate theater and a 300 seat flexible theater, is now able to feature a multitude of additional cultural events each year.

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 the Metropolitan Government, the Frist Foundation and the Dr. Thomas F. Frist, Jr. family, the Frist 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 house a permanent art collection but instead places 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.

The Parthenon is a full-scale replica of the original in Athens, Greece. The reproduction was built to honor Nashville's reputation for education and has attracted visitors since 1897. The recently restored building features a 41' tall gilded statue of Athena. Close ties have been established between Nashville and Athens, Greece to market and promote the two complimentary buildings.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E
FORM OF OPINION OF BOND COUNSEL

[THIS PAGE INTENTIONALLY LEFT BLANK]

(Form of Opinion of Bond Counsel)

Bass, Berry & Sims PLC
150 Third Avenue South, Suite 2800
Nashville, Tennessee 37201

February 2, 2012

We have acted as bond counsel to The Metropolitan Government of Nashville and Davidson County (the "Issuer") in connection with the issuance of \$129,625,000 Subordinate Lien Water and Sewer Revenue Refunding Bonds, Series 2012, dated February 2, 2012 (the "Bonds"). We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based on our examination, we are of the opinion, as of the date hereof, as follows:

1. The Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and constitute valid and binding obligations of the Issuer.

2. The resolution of the Metropolitan County Council of the Issuer authorizing the Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.

3. The principal of and interest on the Bonds are payable solely from, and secured solely by, a pledge of the revenues of the Issuer's water and sewer system (the "System"), subject to the costs of operating the System and subject further to prior pledges of such revenues to the payment of the Issuer's outstanding (a) Water and Sewer Revenue Refunding Bonds, Series 1986, Water and Sewer Revenue Refunding Bonds, Series 1993, Water and Sewer Revenue Bonds, Series 1998B, Water and Sewer Revenue Refunding Bonds, Series 2007, Water and Sewer Revenue Refunding Bonds, Series 2008A and Water and Sewer Revenue Refunding Bonds, Series 2008B (Taxable) (collectively, the "Senior Lien Bonds"); (b) Water and Sewer Revenue Bonds Federally Taxable, Series 2010A, Water and Sewer Revenue Bonds Federally Taxable, Series 2010B (Build America Bonds – Direct Payment), Water and Sewer Revenue Bonds Federally Taxable, Series 2010C (Recovery Zone Economic Development Bonds) and Water and Sewer Revenue Refunding Bonds Federally Taxable, Series 2010D (collectively, the "Series 2010 Bonds"); and (c) any bonds hereafter issued on parity with the Series 2010 Bonds pursuant to the resolution authorizing the Series 2010 Bonds. We express no opinion as to the sufficiency of any of such revenues for the payment of principal of or interest on the Bonds.

4. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, for purposes of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings under the federal corporate alternative minimum tax. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be so included in gross income retroactive to the date of issuance of the Bonds. The Issuer has covenanted to comply with all such requirements. Except as set forth in this Paragraph 4, we express no opinion regarding other federal tax consequences arising with respect to the Bonds.

5. Under existing law, the Bonds and the income therefrom are exempt from all present state, county and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any of the Bonds during the period such Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book of the Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership doing business in the State of Tennessee.

It is to be understood that the rights of the owners of the Bonds and the enforceability of the Bonds and the resolution authorizing the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds.

Yours truly,

Bass, Berry & Sims PLC

APPENDIX F
FORM OF CONTINUING DISCLOSURE AGREEMENT

[THIS PAGE INTENTIONALLY LEFT BLANK]

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

\$129,625,000

SUBORDINATE LIEN WATER AND SEWER REVENUE REFUNDING BONDS, SERIES 2012

CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered this 2nd day of February, 2012 by The Metropolitan Government of Nashville and Davidson County (the “Issuer”) in connection with the issuance of its \$129,625,000 Subordinate Lien Water and Sewer Revenue Refunding Bonds, Series 2012 (the “Bonds”). The Bonds are being issued pursuant to Resolution No. RS2011-114 adopted by the Metropolitan County Council of the Issuer on December 20, 2011, as supplemented by Resolution No. RS2011-115 adopted on December 20, 2011 (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 Beneficial Owners of the Bonds and in order to assist the Participating Underwriter 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 the Rule and this Disclosure Certificate.

“Beneficial Owner” shall mean any person who (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” means the Issuer or any successor designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

“Fiscal Year” shall mean any period of twelve consecutive months adopted by the Issuer as its fiscal year for financial reporting purposes and shall initially mean the period beginning on July 1 of each calendar year and ending June 30 of the following calendar year.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board, or any successor thereto.

“Official Statement” shall mean the Official Statement dated January 19, 2012, relating to the Bonds.

“Participating Underwriter” shall mean Morgan Stanley & Co. LLC, Morgan Keegan & Company, Inc., Piper Jaffray & Co., Wiley Bros.-Aintree Capital, LLC, Rice Financial Products Company, Stephens Inc., and Terminus Securities, LLC.

“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 as a state depository to which continuing disclosure information shall be sent pursuant to State law. As of the date of this Disclosure Certificate, there is no State Depository.

SECTION 3. Provision of Annual Reports. Not later than one year after the end of the Fiscal Year, commencing with Fiscal Year ending June 30, 2012, the Issuer shall provide an Annual Report to the MSRB at www.emma.msrb.org and to the State Depository, if any. In each case, 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. Notwithstanding the foregoing, the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report when such audited financial statements are available. In the event that the audited financial statements are not included with the Annual Report and will be submitted at a later date, the Issuer shall include unaudited financial statements of the Issuer in the Annual Report and shall indicate in the Annual Report the date on which the audited financial statements of the Issuer will be submitted. The audited financial statements of the Issuer, when available, will be provided to the MSRB and to the State Depository, if any. If the Annual Report (or audited financial statements which were to be separately submitted) is not timely filed, the Issuer shall in a timely manner send a notice to the MSRB and to the State Depository, if any. As of the date hereof, the Issuer is in compliance with the all required disclosure filings.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

The audited financial statements of the Issuer's Water and Sewer Department (the "Department") for the prior fiscal year, prepared in accordance with generally accepted accounting principles; provided; however, if the Department's 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 contained 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 information included as Appendix C to the Official Statement.

Any or all of the items listed above may be incorporated by specific reference to other documents, including official statements of debt issues with respect to which the Issuer is an obligated person, which have been filed in accordance with the Rule and the other rules of the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify each such other document so incorporated by reference.

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:
- (i) Principal and interest payment delinquencies.
 - (ii) Non-payment related defaults, if material.
 - (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
 - (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
 - (v) Substitution of credit or liquidity providers, or their failure to perform.
 - (vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds.
 - (vii) Modifications to rights of bondholders, if material.
 - (viii) Bond calls, if material, and tender offers.
 - (ix) Defeasances.
 - (x) Release, substitution or sale of property securing repayment of the Bonds, if material.
 - (xi) Rating changes.
 - (xii) Bankruptcy, insolvency, receivership or similar event of the obligated person.

(xiii) The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Upon the occurrence of a Listed Event, the Issuer shall in a timely manner, but in no event more than ten (10) business days after the occurrence of such event, file a notice of such occurrence with the MSRB and any State Depository.

(c) For Listed Events where notice is only required upon a determination that notice of such event would constitute material information for Beneficial Owners of the Bonds, the Issuer shall, within five (5) business days after the occurrence of such event, determine if notice of such event would constitute material information. If the Issuer determines that notice of such event would constitute material information, the Issuer shall file notice of such event as provided in subsection (b) above.

SECTION 6. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the defeasance (within the meaning of the Rule), prior redemption or payment in full of all of the Bonds. The Issuer shall notify the MSRB and any State Depository that the Issuer's obligations under this Disclosure Certificate have terminated. If the Issuer's obligations are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Certificate in the same manner as if it were the Issuer, and the original Issuer shall have no further responsibility hereunder.

SECTION 7. Dissemination Agent. The Issuer may, from time to time, appoint a dissemination agent to assist it in carrying out its obligations under this Disclosure Certificate, and the Issuer may, from time to time, discharge the dissemination agent, with or without appointing a successor dissemination agent. If at any time there is not a designated dissemination agent, the Issuer shall be the dissemination agent.

SECTION 8. Amendment. This Disclosure Certificate may not be amended unless independent counsel experienced in securities law matters has rendered an opinion to the Issuer to the effect that the amendment does not violate the provisions of the Rule.

In the event that this Disclosure Certificate is amended or any provision of the Disclosure Certificate is waived, the notice of a Listed Event pursuant to Section 5(a)(vii) hereof shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided in the Annual Report. If an amendment or waiver is made in this Disclosure Certificate which allows for a change in the accounting principles to be used in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and impact of the change in the accounting principles on the presentation of the financial information. A notice of the change in the accounting principles shall be deemed to be material and shall be sent to the MSRB and any State Depository.

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 Disclosure Certificate 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, the Participating Underwriter or any Beneficial Owner may take such actions as may be

necessary and appropriate, including seeking 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 an Event of Default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of any party to comply with this Disclosure Certificate shall be an action to compel performance. The cost to the Issuer of performing its obligations under the provisions of this Disclosure Certificate shall be paid solely from funds lawfully available for such purpose.

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 the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their 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 Dissemination Agent may consult with counsel (who may, but need not, be counsel for any party hereto or the Issuer), and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. 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 Participating Underwriter and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 13. Intermediaries; Expenses. The Dissemination Agent is hereby authorized to employ intermediaries to carry out its obligations hereunder. The Dissemination Agent shall be reimbursed immediately for all such expenses and any other reasonable expense incurred hereunder (including, but not limited to, attorneys' fees).

SECTION 14. Governing Law. This Disclosure Certificate shall be governed by and construed in accordance with the laws of the State.

SECTION 15. Severability. In case any one or more of the provisions of this Disclosure Certificate shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this Disclosure Certificate, and this Disclosure Certificate shall be construed and enforced as if such illegal or invalid provision had not been contained herein.

SECTION 16. Filings with the MSRB. All filings required to be made with the MSRB shall be made electronically at www.emma.msrb.org, shall be accompanied by identifying information as prescribed by the MSRB and shall be submitted in any other manner pursuant to, and in accordance with, SEC Release No. 34-59062.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND
DAVIDSON COUNTY

By: _____

Metropolitan Mayor

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]



Printed by: ImageMaster
www.ImageMaster.com