

NEW ISSUE

Moody's: Aaa
Standard & Poor's: AAA
(See "Ratings" herein)

In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the Metropolitan Government, interest on the Bonds 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, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law, which may result from the ownership of the Bonds, see the discussion under the heading "Tax Matters" herein. Under existing law, the 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).

\$36,240,000

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

Water and Sewer Revenue Refunding Bonds, Series 2007

Dated: Date of Delivery

Due: January 1, as shown on the inside cover

The Metropolitan Government of Nashville and Davidson County (Tennessee) (the "Metropolitan Government") will issue its \$36,240,000 Water and Sewer Revenue Refunding Bonds, Series 2007 (the "Bonds") in fully registered form, without coupons, and, when issued, the Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository of the Bonds. Individual purchases of beneficial ownership interests in the Bonds will be made in book-entry form only, in denominations of \$5,000 or multiples thereof through DTC Participants. Interest on the Bonds will be payable semiannually on January 1 and July 1 of each year, commencing January 1, 2008, calculated on the basis of a 360-day year consisting of twelve 30-day months.

Payments of principal and interest on the Bonds are to be made to purchasers by DTC through the Participants (as such term is herein defined). Purchasers will not receive physical delivery of Bonds purchased by them. See "DESCRIPTION OF THE BONDS -- Book-Entry Only System."

THE BONDS ARE LIMITED OBLIGATIONS OF THE METROPOLITAN GOVERNMENT PAYABLE SOLELY FROM AND SECURED BY THE REVENUES RECEIVED BY THE METROPOLITAN GOVERNMENT FROM THE OPERATION OF ITS WATER AND SEWER SYSTEM (THE "SYSTEM") AND THE FUNDS AND ACCOUNTS (AS SUCH TERMS ARE HEREIN DEFINED) HELD UNDER THE RESOLUTION (AS SUCH TERM IS HEREIN DEFINED), ALL AS MORE FULLY DESCRIBED HEREIN. THE BONDS DO NOT 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.

Payment of principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by the MBIA Insurance Corporation simultaneously with the delivery of the Bonds.



The Bonds are offered when, as and if issued by the Metropolitan Government, subject to the approval of legality by Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel. Certain legal matters will be passed upon for the Metropolitan Government by Sue B. Cain, Deputy Director of Law (Acting Director). It is expected that the Bonds will be available for delivery through the Depository Trust Company in New York, New York, on or about July 31, 2007.

Merrill Lynch & Company, Inc.

\$36,240,000
THE METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY
(TENNESSEE)
Water and Sewer Revenue Refunding Bonds, Series 2007

Maturity January 1	Principal Amount*	Interest Rate	Price or Yield	Cusip⁽¹⁾
2009	\$ 210,000	4.25 %	3.78 %	592098C21
2010	220,000	4.25	3.82	592098C39
2011	230,000	4.25	3.87	592098C47
2012	240,000	4.25	3.91	592098C54
2013	10,960,000	5.00	3.98	592098C62
2014	11,510,000	5.00	4.02	592098C70
2015	10,410,000	5.00	4.08	592098C88
2016	2,460,000	4.25	4.09	592098C96

⁽¹⁾CUSIP numbers have been assigned by Standard & Poor's CUSIP Service Bureau, a Division of The McGraw-Hill Companies, Inc., and are included solely for convenience of the Bondholders. The Metropolitan Government is not responsible for the selection or use of these CUSIP numbers, nor is any representation made as to their correctness on the Bonds or as indicated herein.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such jurisdiction. No dealer, broker, salesman or any other person has been authorized to give any information or make any representation, other than those contained herein, in connection with the offering of the Bonds, and if given or made, such information or representation must not be relied upon. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor the sale of any of the Bonds implies that there has been no change in the affairs of the Metropolitan Government or the other matters described herein since the date hereof. The information set forth herein has been provided by the Metropolitan Government and by other sources believed to be reliable, but the information is not guaranteed as to its accuracy or completeness and is not to be construed as a representation by the Purchaser.

Questions regarding information in this Official Statement should be directed to Lannie Holland, Treasurer, Metropolitan Government, 222 Third Avenue North, Suite 110, Nashville, Tennessee 37201 (615-862-6210).

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GOVERNMENT OFFICIALS

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

The Honorable Bill Purcell
Metropolitan Mayor

The Honorable Howard Gentry, Jr.
Vice Mayor
President of the Metropolitan Council

David L. Manning
Director of Finance

Sue B. Cain
Deputy Director of Law
(Acting Director)

Kim McDoniel
Assistant Director of Finance

Lannie Holland
Treasurer

Marilyn S. Swing
Metropolitan Clerk

**DEPARTMENT OF WATER AND SEWERAGE
SERVICES OF THE METROPOLITAN
GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**

Scott Potter
Water Services Director

Hal Balthrop
Water Services Assistant Director
Systems Services

David Tucker
Water Services Assistant Director
Operations

Thomas Palko
Water Services Assistant Director
Stormwater

Cyrus Q. Toosi
Water Services Assistant Director
Engineering

Martha Segal
Water Services Assistant Director
Customer Service

**THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
DEPARTMENT OF WATER AND SEWERAGE SERVICES**

**HISTORICAL STATEMENT OF REVENUES, EXPENSES, DEBT, AND DEBT SERVICE
COVERAGE**

For Fiscal Year Ending June 30

	2002	2003	2004	2005	2006
Operating Revenues	151,189,267	147,977,245	152,785,636	151,258,130	155,826,854
Operating Expenses	(64,006,243)	(63,049,335)	(67,466,429)	(71,410,488)	(77,922,420)
Net Transfers to Other Departments In Metro Government	(4,000,000)	(8,539,980)	(14,008,880)	(21,306,393)	(12,370,483)
Adjustment for Transfer for Stormwater Capital included in Net Transfers for 2006				6,691,667	
Total Operating Expenses (exclusive of Depr. and Amort.)	(68,006,243)	(71,589,315)	(81,475,309)	(86,025,214)	(90,292,903)
Operating Income before Depreciation and Amortization	83,183,024	76,387,930	71,310,327	65,232,916	65,533,951
Depreciation Expense	(43,673,925)	(44,113,004)	(45,196,830)	(46,681,216)	(47,204,986)
Amortization Expense	(582,312)	(674,272)	(276,438)	(348,612)	(380,602)
Operating Income	38,926,787	31,600,654	25,837,059	18,203,087	17,948,363
Non-Operating Revenues					
Investment Income	13,492,125	8,712,562	6,361,839	4,187,377	5,899,974
Interest Expense	(33,742,082)	(31,936,494)	(30,840,286)	(29,300,253)	(26,812,319)
Gain (loss) on sale of property, plant and equipment	(74,746)	(9,027)	176	167,785	280,948
Arbitrage rebate income (expense)	500,000	(785,840)	-	-	(1,234)
Other	1,253,548	521,468	-	712,925	-
Subtotal Non-Operating Revenues	(18,571,155)	(23,497,331)	(24,478,271)	(24,232,166)	(20,632,631)
Capital Grants and contributions	23,580,339	10,075,842	11,291,219	16,889,196	25,609,986
Transfer for Stormwater Capital				(6,691,667)	-
Net Income	43,935,971	18,179,165	12,650,007	4,168,451	22,925,718
Calculation for Rate Covenant Requirement					
Operating Revenues	151,189,267	147,977,245	152,785,636	151,258,130	155,826,854
Plus:					
Interest Income	13,492,125	8,712,562	6,361,839	4,187,377	5,899,974
Other Income	1,253,548	521,468	-	712,925	-
Less:					
Interest Income (Debt Service Reserve Fund)	(2,539,385)	(3,292,318)	(4,509,000)	(1,645,663)	(2,503,376)
Interest Income (Construction Fund)	-	-	-	-	-
Revenues Available for Rate Covenant Requirement	163,395,555	153,918,957	154,638,475	154,512,769	159,223,452
Operating Expenses	68,006,243	71,589,315	81,475,309	86,025,214	90,292,903
Debt Service - Parity Debt					
Principal on Revenue Bonds	14,050,000	19,680,000	20,190,000	21,680,000	21,680,000
Interest on Revenue Bonds	30,284,920	27,966,030	28,620,637	27,531,176	27,531,176
Less: Debt Service Reserve Fund Interest	(2,539,385)	(3,292,318)	(4,614,738)	(1,645,663)	(2,503,376)
Net Debt Service - Parity Debt	41,795,535	44,353,712	44,195,899	47,565,513	46,707,800
Total Operating Expenses and Net Debt Service	109,801,778	115,943,027	125,671,208	133,590,728	137,000,703
Rate Covenant Requirement (1.10) (2)	1.49	1.33	1.23	1.16	1.16

(1) The figures in the above chart exclude any transfers and unallocated expenses from the Department's capital activity fund (Extension & Replacement Fund).

(2) As defined in Section 7.8.A of the Substitute Resolution No R85-762 (Water & Sewer Bond Resolution) dated November 5 1985, "... as will produce Revenues at least equal in such Fiscal Year to 110% of (1.10 times) the total of (i) Operating Expenses budgeted for such fiscal year plus (ii) the aggregate of the Debt Service to become due during such Fiscal Year."

**THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
DEPARTMENT OF WATER AND SEWERAGE SERVICES**

BUDGET SUMMARY

For Fiscal Year Ending June 30

	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>
Expenditures and Transfers:			
Water & Sewer Operating Funds*	\$ 81,764,600	\$ 82,064,600	\$ 93,106,300
Stormwater Fund	19,400,000	12,926,200	12,799,200
Water & Sewer Debt Service Funds**	56,779,700	58,407,100	61,770,800
Transfer to Capital Project Fund	<u>2,436,700</u>	<u>23,757,000</u>	<u>11,698,800</u>
Total Expenditures and Transfers	<u><u>\$160,381,000</u></u>	<u><u>\$177,154,900</u></u>	<u><u>\$179,375,100</u></u>
Revenues and Transfers:			
Program Revenue			
Charges, Commissions, and Fees	\$154,436,000	\$170,875,700	\$177,933,900
Other Governments and Agencies	0	0	0
Other Program Revenue	<u>5,945,000</u>	<u>6,279,200</u>	<u>1,441,200</u>
Total Program Revenue	<u>\$160,381,000</u>	<u>\$177,154,900</u>	<u>\$179,375,100</u>
Non-program Revenue	0	0	0
Transfers From Other Funds and Units	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenues	<u><u>\$160,381,000</u></u>	<u><u>\$177,154,900</u></u>	<u><u>\$179,375,100</u></u>

* Operating Funds include the Water and Sewer Operating Fund and the Operating Reserve Fund

** Debt Service Funds include the Debt Service Fund and the Debt Service Reserve Fund

This Summary Statement is not intended to be complete. Before purchasing the Bonds, the purchaser should refer to the Official Statement in its entirety.

SUMMARY OF THE OFFERING

THE BONDS	\$36,240,000 The Metropolitan Government of Nashville and Davidson County (Tennessee), Water and Sewer Revenue Refunding Bonds, Series 2007.
BOOK ENTRY SYSTEM	The Bonds will be registered to Cede & Co., as nominee of the Depository Trust Company, New York, New York, to which principal and interest payments on the Bonds will be made. Individual purchases will be made in book-entry form only, in principal amounts of \$5,000 or any integral multiple thereof. Beneficial owners of the Bonds will not receive physical delivery of bond certificates, but each beneficial owner will receive a credit balance on the books of the Participant (as defined herein) from whom the beneficial owner purchased the Bonds. The credit balance will be confirmed by an initial transaction statement stating the details of the Bonds purchased.
DENOMINATION	Fully registered bonds, \$5,000 or any integral multiple thereof.
DATE OF ISSUE, DELIVERY	The Bonds will be delivered on or about July 31, 2007 and will be dated as of the date of their delivery.
INTEREST PAYMENTS	Interest is payable on January 1 and July 1, commencing January 1, 2008.
PURPOSE	The Bonds are being issued to refund certain of the Metropolitan Government's outstanding Water and Sewer Revenue Bonds (see "DESCRIPTION OF THE BONDS – Plan of Refunding") and to pay costs of issuance related to the Bonds.
REDEMPTION	The Bonds are not subject to redemption prior to their maturities (see "DESCRIPTION OF THE BONDS – Redemption").

SECURITY

The Bonds are secured by the pledge under the Resolution (as herein defined, see “INTRODUCTORY STATEMENT”) of the Revenues of the System and amounts deposited in the Funds and Accounts created under the Resolution. The Bonds are limited obligations of the Metropolitan Government payable solely from said Revenues, Funds and Accounts.

The Bonds do not 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. The Bonds will be issued on a parity with other water and sewer revenue bonds previously issued by the Metropolitan Government, and the security for the Bonds shall also secure such other bonds on an equal basis. Upon the issuance of the Bonds, the total principal outstanding of all water and sewer revenue bonds subject to these parity provisions will be \$554,929,997. See “DESCRIPTION OF THE BONDS - Security” and Appendix A, “SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION.”

RATE COVENANT

The Metropolitan Government covenants in the Resolution that prior to the commencement of each Fiscal Year, it will fix, establish or maintain or cause to be maintained such rates and charges for the provision and sale of water and sewerage services of the System and revise the same prior to the commencement of each Fiscal Year, as necessary, as will produce Revenues at least equal in such Fiscal Year to 110% of (1.10 times) the total of (i) Operating Expenses budgeted for such Fiscal Year plus (ii) the aggregate of the Debt Service to become due during such Fiscal Year. See “DESCRIPTION OF THE BONDS – Security – Rate Covenant.”

ADDITIONAL BONDS

The Metropolitan Government may issue Additional Bonds on a parity with the Bonds and the other bonds Outstanding under the Resolution payable from Revenues for the purpose of acquiring and constructing improvements to the System; provided, among other things, that the System meets certain earnings tests, relating historical Revenues and projected Revenues to maximum annual principal and interest requirements on all bonds issued under the Resolution to be outstanding after the issuance of such Additional Bonds. See “DESCRIPTION OF THE BONDS – Security – Additional Bonds.”

INSURANCE.....	Payment of principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued by the MBIA Insurance Corporation simultaneously with the delivery of the Bonds.
BOND COUNSEL.....	Bass, Berry & Sims PLC, Nashville, Tennessee
TAX STATUS	In the opinion of Bond Counsel, based on existing law and assuming compliance with certain tax covenants of the Metropolitan Government, interest on the Bonds 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, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on corporations. For an explanation of certain tax consequences under federal law that may result from the ownership of the Bonds, see the discussion under the heading "Tax Matters" herein. Under existing law, the 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).
FINANCIAL ADVISOR	Public Financial Management, Inc.
PAYING AGENT/ESCROW AGENT/ REGISTRAR/TRUSTEE.....	Deutsche Bank National Trust Company
FINANCIAL STATEMENTS	Independent auditors have audited financial statements for the years ended June 30, 2003 through 2006. Information presented herein is derived from these audited financial statements.

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OFFICIAL STATEMENT

\$36,240,000

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

Water and Sewer Revenue Refunding Bonds, Series 2007

INTRODUCTORY STATEMENT

The purpose of this Official Statement, including the financial information contained in the Appendices attached hereto, is to furnish information in connection with the sale by The Metropolitan Government of Nashville and Davidson County (Tennessee) (the "Metropolitan Government") of \$36,240,000 Water and Sewer Revenue Refunding Bonds, Series 2007 (the "Bonds").

The Bonds are to be issued under and subject to the provisions of Title 9, Chapter 21, of Tennessee Code Annotated, as amended, (collectively the "Act") and Substitute Resolution No. R85-762 adopted by the Metropolitan County Council of the Issuer (the "Metropolitan Council") on November 5, 1985, as supplemented and amended by Resolution No. R86-1121 adopted by the Metropolitan Council on October 7, 1986, Resolution No. R89-919 adopted by the Metropolitan Council on October 3, 1989, Substitute Resolution No. R92-341 adopted by the Metropolitan Council on August 4, 1992, Substitute Resolution No. R93-770 adopted by the Metropolitan Council on July 20, 1993, Substitute Resolution No. R96-242 adopted by the Metropolitan Council on April 16, 1996, Substitute Resolution No. R98-1004 adopted by the Metropolitan Council on January 20, 1998, Substitute Resolution No. R98-1018 adopted by the Metropolitan Council on February 3, 1998, Resolution No. RS2002-1211 adopted by the Metropolitan Council on October 15, 2002 (collectively, the "General Resolution"), and as specifically supplemented by Resolution No. R2007-2066 adopted by the Metropolitan Council on June 19, 2007 and substitute Resolution No. RS 2007-2081 adopted by the Metropolitan Council on July 17, 2007 (together the "Supplemental Resolution"). The General Resolution and the Supplemental Resolution are referred to herein as the "Resolution." Capitalized terms not defined herein shall have the meanings ascribed in Appendix A, "Summary of Certain Provisions of the General Resolution."

All financial and other information presented in this Official Statement has been provided by the Metropolitan Government from its records except for information expressly attributed to other sources. The presentation of information is intended to show recent historic information, and is not intended, unless specifically stated, to indicate future or continuing trends in the financial position or other affairs of the Metropolitan Government or the Metropolitan Government's Department of Water and Sewerage Services. No representation is made that past experience, as is shown by such financial and other information, will necessarily continue or be repeated in the future.

This Official Statement should be considered in its entirety, and no one subject discussed should be considered less important than any other by reason of its location in the text. Reference should be made to laws, reports or other documents referred to in this Official Statement for more complete information regarding their contents.

DESCRIPTION OF THE BONDS

Purpose of the Bonds

The Bonds are being issued to refund certain of the Metropolitan Government's outstanding Water and Sewer Revenue Bonds (see "DESCRIPTION OF THE BONDS – Plan of Refunding") and to pay costs of issuance related to the Bonds.

Plan of Refunding

The Bonds are being offered to (1) currently refund \$13,390,000 of the Metropolitan Government's outstanding Water and Sewer Revenue Bonds, Series 1986, maturing January 1, 2016; and (2) currently refund \$23,925,000 of the Metropolitan Government's outstanding Water and Sewer Revenue Refunding Bonds, Series 1996, maturing January 1, 2009 through 2014 (together the "Refunded Bonds") and (3) pay costs of issuance associated with the Bonds. A portion of the proceeds of the sale of the Bonds will be deposited in an escrow fund (the "Escrow Fund") to be created pursuant to an escrow agreement to be dated as of the date of the Bonds (the "Escrow Agreement"), between the Metropolitan Government and Deutsche Bank National Trust Company, as escrow agent thereunder (the "Escrow Agent") to be used, together with the earnings thereon, to pay in full and retire the Refunded Bonds. The Escrow Agent shall invest monies on deposit in the Escrow Fund in direct obligations of, or obligations, the principal of and interest on which are guaranteed by, the United States of America, or any agency thereof, obligations of any agency or instrumentality of the United States or any other obligations which at the time of the purchase thereof are permitted investments under Tennessee law which bonds or other obligations shall not be subject to redemption prior to their maturity other than at the option of the registered owner thereof (the "Escrowed Securities"). The principal and interest on the Escrowed Securities, will be verified by Robert Thomas CPA, LLC, Inc. (see "VERIFICATION OF DEFEASANCE" herein) to be sufficient to provide for the payment of the principal of, redemption premium, if any, and interest on the Refunded Bonds. Neither principal of, redemption premium, if any, nor the interest on the Escrowed Securities will be available for the payment of the Bonds offered hereby. Upon deposit of the Escrowed Securities and moneys in the Escrow Fund and in compliance with provisions of the resolutions pursuant to which the Refunded Bonds were issued, the Refunded Bonds will be deemed paid and will cease to be entitled to any lien, benefit or security under such resolution and all covenants, agreements and obligations of the Metropolitan Government to the holders of the Refunded Bonds shall cease, terminate and become void and be discharged and satisfied. The Metropolitan Government will irrevocably instruct the Escrow Agent to redeem the Refunded Bonds on or about August 30, 2007.

Bonds to be Refunded

<u>Bonds</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount to be Refunded</u>	<u>Redemption Price</u>
Series 1986	January 1, 2016	5.500 %	\$ 13,390,000	100.00 %
Series 1996	January 1, 2009	5.375 %	\$ 250,000	101.00 %
Series 1996	January 1, 2010	5.375 %	260,000	101.00 %
Series 1996	January 1, 2011	5.500 %	275,000	101.00 %
Series 1996	January 1, 2012	5.500 %	290,000	101.00 %
Series 1996	January 1, 2013	5.500 %	11,120,000	101.00 %
Series 1996	January 1, 2014	5.500 %	11,730,000	101.00 %

General

The Bonds will be issued as fully registered bonds in the aggregate principal amount of \$36,240,000 and will be dated the date of delivery. Interest on the Bonds, at the rates per annum set forth on the inside of the cover page and calculated on the basis of a 360-day year, consisting of twelve 30-day months, will be payable semiannually on January 1 and July 1 of each year (herein an "Interest Payment Date"), commencing January 1, 2008.

The Bonds will mature on the dates set forth on the inside of the cover page.

The Bonds will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Deutsche Bank National Trust Company (the "Registration Agent") will make all interest payments with respect to the Bonds on each Interest Payment Date directly to the registered owners as shown on the Bond registration records maintained by the Registration Agent as of the close of business on the final day of the month next preceding the Interest Payment Date (the "Regular Record Date") by check or draft mailed to such owners at their addresses shown on said Bond registration records, without, except for final payment, the presentation or surrender of such registered Bonds, and all such payments shall discharge the obligations of the Metropolitan Government in respect of such Bonds to the extent of the payments so made. Payment of principal of and premium, if any, on the Bonds shall be made upon presentation and surrender of such Bonds to the Registration Agent, as the same shall become due and payable. All rates of interest specified in the Bond Resolution shall be computed on the basis of a three hundred sixty day year composed of twelve (12) months of thirty (30) days each. In the event the Bonds are no longer registered in the name of DTC or its successor or assigns, if requested by the Owner of at least \$1,000,000 in aggregate principal amount of the Bonds, payment of interest on such Bonds shall be paid by wire transfer to a bank within the continental United States or deposited to a designated account if such account is maintained with the Registration Agent and written notice of any such election and designated account is given to the Registration Agent prior to the record date.

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; and, in lieu thereof, 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 (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 Registration Agent 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 Registration Agent 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 Registration Agent 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. Thereupon, not less than ten (10) days after the receipt by the Registration Agent of the notice of the proposed payment, the Registration Agent shall fix a Special Record Date for the payment of such Defaulted Interest which date shall be not more than fifteen (15) nor less than ten (10) days prior to the date of the proposed payment to the registered owners. The Registration Agent shall promptly notify the Metropolitan Government of such Special Record Date and, in the name and at the expense of the Metropolitan Government, not less than ten (10) days prior to such Special Record Date, 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 registered owner at the address thereof as it appears in the Bond registration records maintained by the Registration Agent as of the date of such notice. Nothing contained in the Bond Resolution or in the Bonds shall impair any statutory or other rights in law or in equity of any registered owner arising as a result of the failure of the

Metropolitan Government to punctually pay or duly provide for the payment of principal of, premium, if any, and interest on the Bonds when due.

So long as Cede & Co. is the Registered Owner of the Bonds, as nominee of DTC, references herein to the Bondholders, Holders, Owners or Registered Owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds. See Appendix F –“Information Related to Depository Trust Company.”

Optional Redemption

The Bonds will not be subject to optional redemption prior to their stated maturities.

Security

The Bonds are payable from and secured by the pledge under the Resolution of the Revenues of the System and amounts deposited in the Funds and Accounts created under the Resolution. The Bonds are limited obligations of the Metropolitan Government payable solely from said Revenues, and Funds and Accounts as more fully described below.

The Bonds will not 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.

Revenues

The Bonds (and all Outstanding Bonds under the General Resolution) are payable from and secured by the pledge under the General Resolution of the Revenues of the System. “Revenues” are defined in the General Resolution to mean all rates, fees, rentals or other charges or other income received by the Metropolitan Government in connection with the management and operation of the System, including amounts received from the investment or deposit of moneys in any Fund or Account and any amounts contributed by the Metropolitan Government, all as calculated in accordance with sound accounting practice, but does not include the proceeds of any special assessments for water or sewer improvements or any amounts collected by the Metropolitan Government representing State sales taxes or State user fees which are required by law or agreement to be paid to the State.

The Metropolitan Government has previously issued other series of water and sewer revenue bonds under the Resolution (the “Outstanding Bonds”), which are also payable from and secured by a pledge of the Revenues of the System. The pledge of the Revenues as security for these Outstanding Bonds and the provisions, covenants, and agreements set forth in the Resolution shall be for the equal benefit, protection and security of the holders of all such Outstanding Bonds, each of which shall be of equal rank without preference, priority or distinction over any other except as expressly provided in the Resolution. Upon the issuance of the Bonds, the total principal outstanding of all water and sewer revenue bonds subject to these parity provisions will be \$554,929,997. The Outstanding Bonds on that date will consist of (i) the remaining balance of the Water and Sewer Revenue Refunding Bonds of 1986 not refunded by the Series 2007 Bonds, (ii) the remaining balance of the Water and Sewer Revenue Refunding Bonds, Series 1993, (iii) the Water and Sewer Revenue Refunding Bonds, Series 1996 not refunded by the Series 2007 Bonds, (iv) the Water and Sewer Revenue Refunding Bonds, Series 1998A, (v) the Water and Sewer Revenue Refunding Bonds, Series 1998B, (vi) the Water and Sewer Revenue Refunding Bonds, Series 2002 and (vi) the Bonds. See “ESTIMATED DEBT SERVICE REQUIREMENTS” herein.

Funds and Accounts

The Resolution establishes the following special trust funds:

- Construction Fund;
- Capitalized Interest Fund;
- Revenue Fund;
- Debt Service Fund;
- Debt Service Reserve Fund;
- Operating and Maintenance Fund;
- Operating Reserve Fund;
- Extension and Replacement Fund; and
- Redemption Fund.

The Debt Service Fund, the Debt Service Reserve Fund and the Redemption Fund are held by the Trustee. The Construction Fund, the Capitalized Interest Fund, the Revenue Fund, the Operating and Maintenance Fund, the Operating Reserve Fund and the Extension and Replacement Fund are held by the Metropolitan Government or a Depository. All moneys or securities held by the Trustee, the Metropolitan Government or any Depository pursuant to the Resolution are held in trust and applied only in accordance with the provisions of the Resolution.

Revenue Fund

There is deposited to the Revenue Fund all amounts required to be deposited in such Fund pursuant to the Resolution, including all Revenues, and any other amounts available therefor and determined by the Metropolitan Government to be deposited therein. All amounts collected by the Metropolitan Government as State sales taxes and State user fees which have been deposited in the Revenue Fund may be paid out of the Revenue Fund in the amounts and at the times determined by the Director of Finance.

Moneys deposited in the Revenue Fund (except amounts representing State sales tax and State user fees which have been deposited in the Revenue Fund) will be paid out in the following order of priority:

FIRST: On the first day of each month there will be paid to the Trustee for deposit in the Debt Service Fund an amount such that (after taking into consideration amounts then on deposit in the Debt Service Fund), if the same amount is transferred thereto on the first day of each succeeding month, there will be in the Debt Service Fund an amount equal to the interest due on the next succeeding Interest Payment Date;

SECOND: On the first day of each month there will be paid to the Trustee for deposit in the Debt Service Fund an amount such that (after taking into consideration amounts then on deposit in the Debt Service Fund), if the same amount is transferred thereto on the first day of each succeeding month, there will be in the Debt Service Fund an amount equal to the Principal Installment due on the next succeeding Principal Payment Date;

THIRD: On each date on which such a payment is due, there will be paid to the Bank the amount then due and payable;

FOURTH: On the first day of each month there will be transferred to the Operating and Maintenance Fund an amount such that the amounts paid will not exceed the amount shown for Operating Expenses in the Operating Budget for the applicable Fiscal Year or any quarterly allotment and any additional amount required pursuant to certain provisions of the Resolution;

FIFTH: On the first day of each month there will be paid to the Trustee for deposit in the Debt Service Reserve Fund the amount of any deficiency therein;

SIXTH: On the first day of each month there will be transferred to the Operating Reserve Fund any amount by which the Operating Reserve Requirement exceeds the aggregate amount that has been deposited to the Operating Reserve Fund since the beginning of the current Fiscal Year and any additional amount required pursuant to certain provisions of the Resolution; and

SEVENTH: On the first day of each month there will be transferred to the Extension and Replacement Fund any amounts remaining in the Revenue Fund.

Debt Service Fund

On each Interest Payment Date, the Trustee will make payment out of the Debt Service Fund to the holders of the Bonds of the interest due on Outstanding Bonds on such date. Subject to provisions of the Resolution requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee will pay out of the Debt Service Fund to the holders of the Bonds on each Principal Payment Date the amounts required for the payment of the Principal Installments including Sinking Fund Payments, Redemption Price or purchase price due on the Outstanding Bonds on such date.

In the event that on any Interest Payment Date or Principal Payment Date there is a deficiency in the Debt Service Fund, the amount of such deficiency will be made up from the following funds and in the order of priority set forth below:

- (1) Revenue Fund;
- (2) Capitalized Interest Fund;
- (3) Debt Service Reserve Fund;
- (4) Extension and Replacement Fund;
- (5) Construction Fund;
- (6) Operating Reserve Fund;
- (7) Operating and Maintenance Fund.

Debt Service Reserve Fund

The Debt Service Reserve Fund created under the General Resolution is required to be maintained in an amount equal to the "Debt Service Reserve Requirement," which is defined in the General Resolution to mean, as of any date of calculation, (i) with respect to any Series of Bonds which bear interest at a fixed rate, an amount equal to the maximum amount payable in the current or any future Fiscal Year for the payment of Debt Service, provided that such amount shall not exceed the amount permitted as a reasonably required reserve under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder, and (ii) with respect to any Series of Variable Rate Bonds, an amount equal to the amount calculated at the maximum rate allowable under the Code and the regulations thereunder, as said amounts are set forth in the supplemental resolution authorizing the issuance of such Series of Bonds.

In the event that on any principal or interest payment date there is a deficiency in the Debt Service Fund, the amount of such deficiency shall be made up first from the Revenue Fund, then from the Capitalized Interest Fund, then from the Debt Service Reserve Fund, and to the extent of any remaining deficiency, from the Extension and Replacement Fund, then from the Construction Fund, then from the Operating Reserve Fund and, finally, from the Operating and Maintenance Fund. The Debt Service Reserve Fund is fully funded and will remain fully funded after delivery of the Bonds (subject to the matter described in the following paragraph).

Simultaneous with the issuance of the Bonds, MBIA is expected to issue a surety policy for the debt service reserve fund for all Outstanding Parity Bonds under Resolution. The surety bond is expected to be in place prior to closing on the Bonds.

Rate Covenant

The Metropolitan Government covenants in the Resolution that prior to the commencement of each Fiscal Year it will fix, establish or maintain such rates and charges for the provision and sale of water and sewer services of the System and revise the same prior to the commencement of each Fiscal Year, as necessary, as will produce Revenues at least equal in such Fiscal Year to 110% of (1.10 times) the total of (i) Operating Expenses budgeted for such Fiscal Year plus (ii) the aggregate of the Debt Service to become due during such Fiscal Year.

At least one month prior to the time fixed by the Metropolitan Government for the filing of its Operating Budget, the firm of engineering, accounting, or water and sewer consultants serving as the Metropolitan Government's consultant (the "Rate Consultant") must submit a report to the Metropolitan Government addressed to the Department of Water and Sewerage Services of the Metropolitan Government of Nashville and Davidson County (the "Department"), the Metropolitan Council, the Metropolitan Mayor and the Director of Finance showing for the next succeeding Fiscal Year the projected Revenues, Debt Service and Operating Expenses for said next succeeding Fiscal Year and setting forth the recommendations of the Rate Consultant for the revision of rates and charges in order for the Metropolitan Government to comply with the Rate Covenant on the basis of projected Debt Service and projected Operating Expenses for the next succeeding Fiscal Year. Raftelis Financial Consultants, Inc. currently serves as the Rate Consultant for the Metropolitan Government.

In satisfying the Rate Covenant, there is deducted from the calculation of Debt Service (1) projected investment income from moneys deposited in the Capitalized Interest Fund and in the Debt Service Reserve Fund, and (2) interest payments scheduled to be paid from bond proceeds that have been deposited to the Capitalized Interest Fund.

Additional Bonds

The Metropolitan Government may issue Additional Bonds on a parity with the Bonds and the other bonds Outstanding under the General Resolution payable from Revenues, provided that either:

- (1) The Revenues for any twelve consecutive months in the eighteen calendar months immediately preceding the delivery of the Series of Bonds to be issued, adjusted in the manner described below, are at least equal to the sum of (i) the Operating Expenses for such twelve month period, plus (ii) 120% of (1.2 times) the maximum Debt Service/Additional Bonds to occur in any future Fiscal Year. If the Metropolitan Government has caused to be increased rates and charges for the provision and sale of water and sewer services or other services of the System, the Rate Consultant may be instructed to prepare a pro forma analysis of Revenues for the preceding eighteen months giving effect to the increases to the extent, and only to the extent, that said increases would be in effect for the eighteen month period beginning on the date of delivery of the Series of Bonds to be issued, and such analysis may be used for purposes of satisfying the covenant of this paragraph; or
- (2) (a) the Revenues for the Fiscal Year immediately preceding the delivery of the Series of Bonds to be issued were at least equal for such Fiscal Year to the sum of (i) the

Operating Expenses for such Fiscal Year, plus (ii) 120% of (1.2 times) the Debt Service for such Fiscal Year; and

- (b) the Revenues, as projected by the Rate Consultant, (i) during the period beginning on the first day of the Fiscal Year in which the Series of Bonds to be issued are to be delivered and ending on the last day of the Fiscal Year in which the expansion to be financed from the proceeds of such Series of Bonds is expected to be completed, are at least equal to the sum of (A) the Operating Expenses (as defined in the General Resolution) projected for such period, plus (B) 130% of (1.3 times) the Debt Service/Additional Bonds projected for such period; and (ii) for each of the two Fiscal Years following the Fiscal Year in which the expansion is expected to be completed, are equal to the sum of (A) Operating Expenses projected for such period, plus (B) 130% of (1.3 times) the maximum Debt Service/Additional Bonds to occur in any future Fiscal Year.

The calculation by the Metropolitan Government's rate consultant demonstrating compliance with the foregoing may be found in Appendix B.

Book-Entry Only System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered bonds registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Information relating to DTC and the Book-Entry Only system is contained in Appendix F.

So long as Cede & Co., as nominee for DTC, is the registered owner of the Bonds, the Registration Agent shall treat Cede & Co., as the only owner of the Bonds for all purposes under the Bond Resolution, including receipt of all principal of, premium, if any, and interest on the Bonds, receipt of notices, voting and requesting or directing the Registration Agent to take or not to take, or consenting to, certain actions under the Resolution.

Payments of principal, premium, if any, and interest with respect to the Bonds, so long as Cede & Co. is the registered owner of the Bonds, shall be paid by the Registration Agent directly to DTC or its nominee, Cede & Co. DTC shall remit such payments to DTC Participants, and such payments thereafter shall be paid by DTC Participants to the Beneficial Owners. Neither the Metropolitan Government nor the Registration Agent shall be responsible or liable for payment by DTC or DTC Participants, for sending transaction statements or for maintaining, supervising or reviewing records maintained by DTC or DTC Participants.

Neither the Metropolitan Government nor the Registration Agent shall have any responsibility or obligations to any DTC Participant or any Beneficial Owner with respect to (i) the Bonds; (ii) the accuracy of any records maintained by DTC or any DTC Participant; (iii) the payment by DTC or any DTC Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Bonds; (iv) the delivery or timeliness of delivery by DTC or any DTC Participant of any notice due to any Beneficial Owner that is required or permitted under the terms of the Bond Resolution to be given to Beneficial Owners, (v) the selection of Beneficial Owners to receive payments in the event of any partial redemption of the Bonds; or (vi) any consent given or other action taken by DTC, or its nominee, Cede & Co., as owner.

THE MBIA INSURANCE CORPORATION POLICY

The following information has been furnished by MBIA Insurance Corporation ("MBIA") for use in this Official Statement. Reference is made to Appendix G for a specimen of MBIA's policy (the "Policy").

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Policy and MBIA set forth under the heading "The MBIA Insurance Corporation Policy". Additionally, MBIA makes no representation regarding the Bonds or the advisability of investing in the Bonds.

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

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

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

MBIA Insurance Corporation

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA, either directly or through subsidiaries, is licensed to do business in the Republic of France, the United Kingdom and the Kingdom of Spain and is subject to regulation under the laws of those jurisdictions. In February 2007, MBIA Corp. incorporated a new subsidiary, MBIA México, S.A. de C.V. (“MBIA Mexico”), through which it intends to write financial guarantee insurance in Mexico beginning in 2007. To date, MBIA Mexico has had no operating activity.

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

Regulation

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

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Strength Ratings of MBIA

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

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

Fitch Ratings rates the financial strength of MBIA “AAA.”

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

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

MBIA Financial Information

As of December 31, 2006, MBIA had admitted assets of \$10.9 billion (audited), total liabilities of \$6.9 billion (audited), and total capital and surplus of \$4.0 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2007, MBIA had admitted assets of \$11.2 billion (unaudited), total liabilities of \$7.0 billion (unaudited), and total capital and surplus of \$4.2 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

For further information concerning MBIA, see the consolidated financial statements of MBIA and its subsidiaries as of December 31, 2006 and December 31, 2005 and for each of the three years in the period ended December 31, 2006, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of the Company for the year ended December 31, 2006 and the consolidated financial statements of MBIA and its subsidiaries as of March 31, 2007 and for the three month period ended March 31, 2007 and March 31, 2006 included in the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2007, which are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

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

Incorporation of Certain Documents by Reference

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

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2006; and
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

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

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the Company's SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2006, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA at its principal executive offices.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the sale of the Bonds are expected to be applied as follows:

SOURCES OF FUNDS

Par Amount of Bonds.....	\$ 36,240,000.00
Plus: Net Original Issue Premium.....	1,815,916.30
Plus: Prior Debt Service Fund Money	<u>202,714.58</u>
TOTAL	\$ <u>38,258,630.88</u>

USE OF FUNDS

Deposit to Escrow	\$ 37,949,125.27
Costs of Issuance*.....	298,452.41
Purchaser's Discount	<u>11,053.20</u>
TOTAL	\$ <u>38,258,630.88</u>

* Includes premium for bond insurance policy.

ESTIMATED DEBT SERVICE REQUIREMENTS

The following table details the estimated total annual debt service requirements for the Bonds and all other Bonds of the Metropolitan Government that are Outstanding under the General Resolution after issuance of the Bonds.

Fiscal Year	Water & Sewer			Water & Sewer		Water & Sewer	Water & Sewer	Total
	Revenue Refunding Series 1986*	Water & Sewer Revenue Series 1993	Water & Sewer Revenue Series 1996*	Revenue Refunding Series 1998A	Water & Sewer Revenue Series 1998B	Revenue Refunding Series 2002	Revenue Refunding Series 2007	
6/30/2008	8,805,775	13,876,605	7,635,888	11,121,138	7,433,848	1,426,031	749,463	51,048,747
6/30/2009	29,910,775	6,985,105	-	11,116,888	1,347,348	1,426,031	1,996,800	52,782,946
6/30/2010	29,915,690	6,989,655	-	11,103,375	1,346,773	1,426,031	1,997,875	52,779,399
6/30/2011	29,920,095	6,968,080	-	11,097,100	1,350,165	1,426,031	1,998,525	52,759,996
6/30/2012	29,914,365	6,933,180	-	11,095,475	1,347,263	1,426,031	1,998,750	52,715,064
6/30/2013	1,513,875	16,185,020	-	11,092,038	9,548,463	1,426,031	12,708,550	52,473,976
6/30/2014	1,513,875	-	-	11,097,200	9,540,913	17,191,031	12,710,550	52,053,569
6/30/2015	23,388,875	-	-	11,095,013	-	6,518,075	11,035,050	52,037,013
6/30/2016	5,960,750	-	-	17,370,238	-	6,475,700	2,564,550	32,371,238
6/30/2017	-	-	-	17,337,988	-	-	-	17,337,988
6/30/2018	-	-	-	17,361,238	-	-	-	17,361,238
6/30/2019	-	-	-	17,340,738	-	-	-	17,340,738
6/30/2020	-	-	-	17,266,988	-	-	-	17,266,988
6/30/2021	-	-	-	17,343,538	-	-	-	17,343,538
6/30/2022	-	-	-	17,257,563	-	-	-	17,257,563
Total	160,844,075	57,937,645	7,635,888	210,096,513	31,914,770	38,740,994	47,760,113	554,929,997

* Excludes the Refunded Bonds.

THE WATER AND SEWER SYSTEM

General

The formation of the Metropolitan Government of Nashville and Davidson County 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. 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 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.

On April 1, 2002, the Department began managing and partially funding the stormwater operations of the Metropolitan Government. The Public Works Department of the Metropolitan Government funded the balance until July 1, 2003. Beginning on July 1, 2003, the Department fully funded the Stormwater Division with a budget of \$14 million for Fiscal Year 2004. Funding for Fiscal Year 2007 is \$18.0 million including a \$3.0 million grant from the Tennessee Emergency Management Agency for buyouts of homes with repetitive flood losses, and \$5.5 million from the Metropolitan Government General Obligation Bonds.

The Stormwater Division performs a number of federally mandated functions including storm drainage infrastructure inventory and maintenance for water quality, roadway pollution reduction, public education, monitoring of the system for illicit discharges and construction site runoff, and habitat improvement. The storm drainage infrastructure is maintained through a cleaning and stabilization program, while capital expenditures involve projects that replace larger segments of the drainage system or improve its capacity.

The Water System

The water provided by the Department's water system (the "Water System") currently meets all physical, biological, 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, clarification, high rate 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 2006, net sales to retail customers were 23.3 billion gallons. The peak demand for water from the system during Fiscal Year 2006 was 119.8 million gallons on August 5, 2005.

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. Control panels located at this plant provide 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 by the Department and will ensure an adequate supply of potable water through the year 2010. In 1999, as a precaution against prolonged power outages caused by ice storms, tornadoes, or other disasters, the 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 2,771 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 44.5 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-six booster-pumping stations to deliver water to these higher regions.

The Water System has experienced continuous growth over the past decade, and as of Fiscal Year 2006, has provided direct service to 162,834 customers. In Fiscal Year 2006, 61% of the water provided by the Water System was consumed by commercial and industrial customers (including residential apartment complexes), and 39% by residential customers. The following table illustrates growth of the Water System over the past ten years.

Water System Facts in Brief

	Fiscal Year Ended June 30		
	<u>2006</u>	<u>1996</u>	(1996-2006) <u>Ten Year History</u>
Use of Water			
Water Customers - End of Period ⁽¹⁾ (thousands)	162,834	131,958	23.4%
Average Daily Treatment (millions of gallons)	97.1	86.1	12.8%
Water Sales for Fiscal Year (billions of gallons)	23.3	19.6	18.9%
Maximum Daily Demand (millions of Gallons)	119.8	136.2	(12.0%)
Growth of System			
Utility Plant Value ⁽²⁾ (millions)	\$1,386	\$1,056	31.2%
Reservoirs	45	44	2.3%
Storage Capacity (millions of gallons)	95.5	80.9	18.1%
Auxiliary Pump Stations	56	58	(3.5%)

Total Miles, Distribution Lines	2,771	2,559	8.3%
Fire Hydrants	18,547	16,310	13.7%
(1) As per billing records			
(2) Property, Plant & Equipment of the Combined Water and Sewer System, net of depreciation			

The Sewer System

The existing sewerage system (the “Sewer System”) comprises 2,759 miles of gravity sewers, 101 pumping stations, 142 miles of force main and four treatment plants, the three most important of 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 100 million gallons per day of tertiary treatment with sustained peak flows 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 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 law. Currently, the sludge is being transported to landfills. Beginning in Fiscal Year 2005 the Department started the design and construction of a \$135 million biosolids project that will allow the sale of a dryer and more viable product for consumer use. This project should eliminate the need for landfill space.

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 16.6% since Fiscal Year 1996 primarily due to the acquisition of Cumberland Utility District’s sewer facilities at the end of FY 1995. Over the last ten years, there has been a 12.2% increase in the number of sewerage pumping stations and a concurrent 24.6% increase in the miles of sewer lines.

	<u>Sewer System Facts in Brief</u>		
	<u>Fiscal Year Ended June 30</u>		
	<u>2006</u>	<u>1996</u>	<u>(1996 - 2006)</u> <u>Ten Year History</u>
Sewer Customers - End of Period	175,248	150,311	16.6%
Annual Sewage Treatment (billions of gallons)	45.7	54.3	(8.6%)
Average Daily Treatment (millions of gallons)	125.1	148.7	(15.9%)
Growth of System			
Utility Plant Value ⁽¹⁾ (millions)	\$1,386	\$1,056	31.2%
Total Miles of Sewer Lines	2,901	2,329	24.6%
Number of Treatment Plants	4	5	(20.0%)
Number of Pumping Stations	101	90	12.2%

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

Major Customers

The following list shows the largest customers of the Department for water and sewer services for the indicated recent one-year period, ranked according to billings.

WATER SERVICES LARGEST CUSTOMERS One Year Period Ending June 30, 2006 (in 1,000’s)

Vanderbilt University

\$ 1,764

Opryland, USA	528
District Energy Systems	328
Aerostructures Corporation	310
Baptist Hospital	290
Bridgestone Tire and Rubber Co.	257
Meharry Medical College	234
Metro Schools	234
Spring Industries	219
Centennial-Parkview Hospital	198

SEWER SERVICES LARGEST CUSTOMERS

One Year Period Ending June 30, 2006

(in 1,000's)

Vanderbilt University	\$ 2,075
Opryland, USA	975
Purity Dairies, Inc.	921
Metro Schools	422
Meharry Medical College	380
Level Valley Creamery, Inc.	353
Baptist Hospital	345
Tennessee State University	309
Portion Pack	297
Ford Motor Co. Glass Plant	272

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.

DAVID M. TUCKER, Assistant Director (Operation of Water and Wastewater Facilities), graduated from Tennessee State University with a Bachelor of Science Degree in Biological Sciences. He has twenty 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, Assistant Director (Engineering), graduated from the University of Texas, 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. In 1990 he joined the Department as a hydraulic modeler and flow monitoring specialist and has advanced to this present position. He holds a Professional Engineering License in the State of Tennessee.

HAL BALTHROP, 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. Hal is also Tennessee National Delegate of the Tennessee Society of Professional Engineers and 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 currently Chair-Elect for the KY/TN Section AWWA, and will take over as Chair in July 2007.

At the end of Fiscal Year 2006, the Department employed 647 persons. Employees of the Department are members of one of four pension plans. Two such plans are of the former City of Nashville and former Davidson County plans. Both are closed to new membership. The third, the Original Metro Plan is now closed to new membership. The fourth plan that has been established 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, after recognizing contributions from other moneys of the Metropolitan Government, employees and the State, is responsible for funding of the aforementioned plans.

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 Council adopted Ordinance 99-1502, which beginning May 1, 1999, established a table of charges for water services that decreased water rates by 25% for residential water customers, 20% for small commercial customers, 15% for intermediate commercial customers, and 5% for large commercial customers. These charges are presently in effect.

At the recommendation of the Department, the Metropolitan Council, pursuant to Ordinance 96-317, adopted on June 11, 1996, rescinded sewage service increases scheduled to take effect in January 1997 and January 1998. Sewerage rates have been constant since 1996.

The Metropolitan Government is reviewing the Department's future requirements and will make appropriate adjustments to rates and/or expenses to meet the Department's needs and ensure continued compliance with the Rate Covenant.

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 Council at or prior to the next regular meeting of the 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 Council to which it is entitled.

Under the Charter of the Metropolitan Government, the Mayor is obligated to submit an operating budget to the Council no later than March 31 of each year. Before the beginning of each Fiscal Year, and in no event later than June 30 the 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 Council fails to adopt a budget, the budget submitted by the Mayor becomes law and the Council must adopt a tax rate to fund that budget.

Pursuant to the Resolution, before the beginning of each Fiscal Year, the Metropolitan Government is obligated to fix or maintain rates for water and sewerage service so as to produce Revenues at least equal to 110% of the Operating Expenses for the Department budgeted for the ensuing Fiscal Year plus the aggregate of the Debt Service (being the amount of payments due during such ensuing year on the Bonds issued and outstanding pursuant to the Resolution).

Current Rates and Charges

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.

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	ANTICIPATED OR HISTORICAL USAGE
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

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

<u>Meter Size</u>	<u>WATER</u>				<u>SEWER</u>			
	<u>Residential</u>	<u>Small Commercial</u>	<u>Intermediate Commercial</u>	<u>Large Commercial</u>	<u>Residential</u>	<u>Small Commercial</u>	<u>Intermediate Commercial</u>	<u>Large Commercial</u>
5/8"	\$ 2.70	\$ 3.44	\$ 11.96	\$ 515.91	\$ 6.05	\$ 6.76	\$ 22.14	\$ 854.53
3/4"	9.17	9.78	16.97	521.49	17.17	19.23	31.40	863.77
1"	11.03	11.77	18.58	523.31	20.68	23.16	34.40	866.77
1 1/2"	16.22	17.30	23.07	528.32	30.40	34.05	42.72	875.08
2"	21.85	23.30	28.19	534.04	40.94	45.85	52.18	884.55
3"	28.84	30.76	35.28	539.07	54.02	60.50	65.31	892.86
4"	47.00	50.13	55.85	562.06	88.03	98.59	103.38	930.97
6"	73.79	78.71	86.22	596.01	138.23	154.82	159.61	987.20
8"	115.40	123.10	134.22	652.55	216.17	242.11	248.46	1,080.84
10"	115.40	123.10	134.22	652.55	216.17	242.11	248.46	1,080.84
	Water usage charges per 100 Cubic Feet (Usage over 200 Cubic Feet)				Sewer usage charges per 100 Cubic Feet (Usage over 200 Cubic Feet)			
Rates	\$ 2.01	\$ 2.14	\$ 1.85	\$ 1.56	\$ 3.76	\$ 4.21	\$ 3.43	\$ 2.59

In addition to the above rates, an additional charge of 10% of the sewerage charge is required to repay state loans. An 9.25% state and local sales tax is added to all water charges.

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. The Department reads meters quarterly and renders bills to customers monthly. Customers are billed for two months based on their historical average usage, and the third month's billing will be an adjusting bill based on the actual meter measurement for the three-month period.

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%. The 5% addition to the net billing is a form of penalty for the customer's failure to promptly pay the monthly bill for services, and the gross billing amount becomes applicable 15 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. The customer must then pay at least one-half of the amount due and the reconnection fee to have service restored. 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 99.19 % of all amounts billed during the past five Fiscal Years.

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. 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 all four wastewater treatment plants is tested to ensure compliance with the National Pollutant Discharge Elimination System as administered by the United States Environmental Protection Agency and the Tennessee Department of Environment and Conservation.

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 System. 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.

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 to be paid out of the Department's Operating and Maintenance Fund. Since the Department must make payments to the Debt Service Fund before any payments to the Operating and Maintenance Fund, payments to the Bondholders have priority over the payments in lieu of taxes.

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 2005 and 2006, this plan cost the Department \$4,658,921 and \$3,911,979 respectively. In Fiscal Year 2007 this plan will cost the Department \$3,678,600. The Metropolitan Government charges the Department for additional Shared Government Services such as Fleet Management, Information Systems, and Finance Services. These charges totaled \$4.6 million in Fiscal Year 2006. Payments in Lieu of Taxes, the Local Cost Allocation Plan payments, as well as all Shared Services charges have been included in the historical Expenses of the Department.

THE WATER AND SEWER SYSTEM IMPROVEMENT PLAN

The Water System

Beginning in 2002, the Metropolitan Government updated its Master Water Improvement Plan (the “Water Plan”) which sets out projected water needs for the service area through the year 2025. Most improvements projected in the Water Plan through 2007 are currently scheduled to be made. These improvements include \$14.1 million for the upgrade and parallel of approximately 29,000 feet of 24 inch water main in the Powell Avenue pressure system, with a new 36 inch water main scheduled for completion in 2007 / 2008, \$2.9 million for the Powell Avenue Water Pumping station upgrade, and \$4.8 million for an upgrade of 29,000 feet of 8” water main to a 12” water main in the Roxborough Pressure system.

Over the next five years, the Department has budgeted around \$10 million for its Water Infrastructure Rehabilitation (WIR) program, which is a program that systematically renews older water infrastructure and ensures the integrity of the infrastructure for current and future needs. This program includes the following anticipated projects in the near future:

- Centennial / 49th Ave WIR project – Replacement of approximately 18,400 feet of 12” and 16” cast iron water main – \$2.2 million
- Broadway & 8th Ave WIR project – Cleaning and lining approximately 20,430 feet of 24” and 36” cast iron water main - \$2.9 million
- 8th and 9th Avenue WIR project – Cleaning and lining approximately 13,500 feet of 10” and 12” cast iron main - \$2 million

The Sewer System

The Federal Water Pollution Control Act of 1972 (Public Law 92-500), as amended by the Clean Water Act of 1977 (Public Law 95-217) (collectively, the “FWPCA”), 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 US Environmental Protection Agency (“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 to obtain the primary objectives of the FWPCA 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 FWPCA.

Until 1990, Section 201 of the FWPCA authorized grants for the construction of wastewater treatment facilities. The purpose of Section 201 is to require and assist in the development and implementation of wastewater treatment management plans and practices which will achieve the goals of the FWPCA (the “201 Plan”). The FWPCA requires that publicly owned treatment works, such as the treatment portions of the wastewater system, achieve levels of secondary treatment as defined in the FWPCA or, where applicable, more stringent levels of treatment required to meet water quality standards established pursuant to applicable state and federal laws and regulations. In 1976, the Metropolitan Government completed its 201 Plan (the “Nashville 201 Plan”) for the Nashville area and surrounding communities (the “201 Plan Area”). The Nashville 201 plan, approved by the TDEC and the EPA, provided for the most cost-effective methods of treating and transporting sanitary waste in the 201 Plan Area and for an infrastructure for wastewater treatment through the year 2000. At present, neither EPA nor TDEC make use of the Section 201 planning process or require updated plans.

The TDEC makes State Revolving and Tennessee Local Development Authority loans available to the Metropolitan Government and other local governments to pay the cost of constructing capital projects such as those described above. The Department repays the Tennessee Local Development Loans from a 10% sewer surcharge, imposed pursuant to State law. This fee appears as a charge on sewer bills and upon collection, the Department remits sewer user fees to the State in the same manner as certain sales tax collections. The State sewer surcharges are not included in Revenues. In 1990, the grants program was converted to a State Revolving Loan Program under which debt service is paid from the Department's Extension and Replacement Fund as provided in the Resolution.

Many of the capital wastewater improvements (set forth in the following table) are required to be completed pursuant to Order 88-3364, issued by the TDEC in 1990 (the "1990 Order"). The 1990 Order resulted from violations by the Metropolitan Government of the Tennessee Water Quality Control Act of 1977 (Tenn. Code Ann. § 69-3-101 et seq., as amended) 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 FWPCA. 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 certain problems regarding the Metropolitan Government's wastewater treatment and required the Metropolitan Government to correct these problems. 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, which was approved by the TDEC. With exceptions for structures under construction, or those in which a legally binding commitment existed, the 1990 Order originally prevented the Metropolitan Government from making further line extensions or connections to its wastewater system, until TDEC approved a plan. TDEC removed the prohibition after the Metropolitan Government prepared an approved growth control plan. The 1990 Order provided for specific monetary penalties should the Metropolitan Government not meet certain scheduled deadlines for the completion of various system improvements.

Under the OAP, the Metropolitan Government continued its extensive program with the construction of additional facilities and the rehabilitation of existing facilities. These have included the construction or rehabilitation of approximately 1,552,000 linear feet of sewer lines, with plans to construct or rehabilitate over 500,000 additional feet. Twenty-four wastewater-pumping stations have been constructed or refurbished. Two wastewater treatment plants were improved with flow optimization projects. The Metropolitan Government has also constructed or upgraded nine wastewater force mains comprising approximately 129,000 feet. An additional equalization basin, to retain storm water flow, has been constructed at the Smith Springs Wastewater Pumping Station, and three other basins are planned for Dodson Chapel, West Park, and Omohundro Drive Wastewater Pumping Stations.

On September 17, 1999, the TDEC issued Order 99-0390 (the "1999 Order") replacing Order 88-3364 and citing the Metropolitan Government in violation of state law; "By causing or allowing discharges from its sewage system to waters of the state in a manner not authorized by its permit the Respondent has violated T. C. A. §69-3-108(b) and T. C. A. §69-3-114(b)...." This new order superseded the provisions of Order 88-3364, and required payment of a fine of \$600,000. Effective July 1, 2001, the Metropolitan Government was to immediately not permit or allow any overflows or bypasses from its combined sewer system 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 prepared a detailed response to each noted violation. The TDEC approved the Metropolitan Government's proposed commitment to bring its treatment and collection into compliance by December 31, 2007. If the Metropolitan Government continues to violate the requirement

that all CSO controls and elimination be in place and operational, the 1999 Order provides for a payment of \$500,000 on December 31, 2007.

The Metropolitan Government considers its relationship with TDEC to be good, and that the current OAP has addressed, and continues to address, the concerns expressed by the State of Tennessee about its wastewater treatment and collection system. On March 17, 2000, the TDEC recognized the tremendous commitment of effort and expense made by the Department toward safer, cleaner water by the Department's commitment of an additional \$471 million for capital projects, including specific OAP projects. This brings the Metropolitan Government's total capital commitment between 1990 and 2007 to \$1.1 billion to comply with water quality enforcement actions. All compliance dates in the 1999 Order have been met. TDEC has not assessed monetary penalties against the Metropolitan Government for failing to meet a schedule compliance date, and the Metropolitan Government is in compliance with the requirements approved in settling the 1999 Order.

In December 2005, the Department received an inquiry from the U.S. Environmental Protection Agency's Region IV headquarters. This inquiry requested certain documents and records pertaining to the Department's Operations, Capital Plan, and Stormwater Management. The Department's response was submitted in January 2006. The Department is engaged in meetings with the EPA to discuss its potential findings.

The Water and Sewer Capital Improvement Plan

Specific OAP projects include the Second Phase of the Dry Creek Wasterwater Treatment Plant Optimization, including upgrades to the on-site pumping station, fine bubble diffusion, and odor control systems, which is underway with a total project cost of \$38.6 million. (OAP is funding \$3.6 million of this effort for flow optimization). This project is estimated to be completed by 2007. Improvements to the Dodson Chapel Wastewater Pumping Station and the construction of a three million gallon wastewater equalization basin are estimated to be completed in 2007, at a cost of \$4.24 million. The improvements will provide a higher level of mechanical reliability at the pumping station and allow the equalization basin to store peak wet weather flows for processing after wet weather events have concluded so as to reduce overflows.

Sewer System Rehabilitation continues for the elimination of Inflow and Infiltration from the separated sanitary sewer system. Currently under construction are projects in the Smith Springs area (Phase 6, \$1.4 million), the Davidson Branch area (Phase 5, \$0.87 million), and the Lower East Nashville area (Phase 2, \$1.54 million). Rehabilitation projects are wrapping up in the Dry Creek, Charlotte Pike, and Dodson Chapel areas (\$1.6 million / \$2.13 million / \$1.59 million respectively). All of these projects are scheduled for completion in 2007.

Additional improvements to the Central Wastewater Treatment Plant are needed to address the handling of biosolids and odor issues. These include the installation of new odor control equipment, new thickening facilities, new digestion facilities, a centrifuge de-watering process, and a new solids drying system, which will convert the biosolids into a reusable product. The costs of these improvements are estimated at \$62 million over the remaining year of this project, funded by state revolving fund and Tennessee Local Development Authority loans. This is scheduled for completion in 2008. The Department is spending an additional \$39 million to improve the handling of biosolids at the Dry Creek Wastewater Treatment Plant, including the installation of new odor control facilities, new digesters, and refurbished thickening and dewatering facilities, that are scheduled for completion in August 2007.

The following table depicts the proposed commitments for capital improvements to be undertaken by the Department during the Fiscal Years Ending June 30, 2007 through 2011. Capital projects during the forecast period will be funded from the revenues of the Department, State Loan Programs, issuance of new revenue bonds, replacing reserves with surety instruments, or a combination of these. The plan as

shown assumes additional funding will be available from: a change to existing customer charges (beginning in 2008) increasing the amount of operating revenues available to the Department and/or issuance of new revenue bonds, with the resultant change to debt service requirements. Should one or more of the events contained in these assumptions not occur, it will require a substantial revision of the projected capital plan. Additionally, the plan may be adjusted based on discussion with the EPA as referenced above.

The Metropolitan Government has received approximately \$218 million in Tennessee Local Development Authority and State Revolving Fund loans to finance projects under the OAP, and anticipates additional approvals for funding from these sources of approximately \$128 million.

	2007	2008	2009	2010	2011	TOTAL
Overflow Abatement Program:						
Wastewater Pump Station Improvements	1,372,000	9,429,000	6,025,000	-	8,353,000	16,826,000
Sanitary Sewer Rehabilitation	7,380,000	3,653,000	10,042,000	16,172,000	11,399,000	37,247,000
Combined Sewer Improvements	2,678,000	13,363,000	522,000	8,023,000	3,931,000	24,586,000
Program Management & Water Quality	1,189,000	2,280,000	1,486,000	1,880,000	1,867,000	6,835,000
Total Overflow Abatement Program	\$ 12,619,000	\$ 28,725,000	\$ 18,075,000	\$ 26,075,000	\$ 25,550,000	\$ 85,494,000
Other:						
Biosolids and Odor Control	88,783,000	40,000,000	-	-	-	128,783,000
Trunk Sewer Additions	600,000	2,580,000	3,020,000	2,195,000	2,195,000	8,395,000
Wastewater Plant Improvements	7,185,000	5,333,000	2,718,000	2,768,000	4,198,000	18,004,000
Wastewater Pump Station Improvements	1,299,000	1,165,000	1,080,000	860,000	865,000	4,404,000
Water Plant Improvements	4,154,000	6,873,000	10,135,000	5,050,000	4,770,000	26,212,000
Water Reservoir & Pump Station Improvements	1,192,000	1,243,000	4,823,000	1,073,000	988,000	8,331,000
Water Distribution System Improvements	12,072,000	13,175,000	19,150,000	18,400,000	19,725,000	62,797,000
Utility Relocation Projects	687,000	-	-	-	-	687,000
Information Systems Improvements	2,029,000	460,000	520,000	420,000	370,000	3,429,000
Vehicles and Equipment	-	760,000	760,000	760,000	760,000	2,280,000
Meter Change-out Program	3,582,000	4,520,000	5,040,000	5,040,000	5,460,000	18,182,000
Stormwater Improvements	2,238,000	4,387,000	4,702,000	4,737,000	4,532,000	16,064,000
Miscellaneous	4,744,000	8,569,000	8,587,160	10,924,646	8,766,632	32,824,806
Total Other Capital Projects	\$ 128,565,000	\$ 89,065,000	\$ 60,535,160	\$ 52,227,646	\$ 52,629,632	\$ 330,392,806
TOTAL	\$ 141,184,000	\$ 117,790,000	\$ 78,610,160	\$ 78,302,646	\$ 78,179,632	\$ 415,886,806
Sources of Funds						
Extension and Replacement Fund	42,341,000	58,730,000	19,550,160	25,242,646	25,119,632	145,863,806
Proposed Revenue Bond Proceeds	-	9,000,000	49,000,000	43,000,000	43,000,000	101,000,000
Water Impact Fees	2,560,000	2,560,000	2,560,000	2,560,000	2,560,000	10,240,000
Sewer Impact Fees	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	30,000,000
State Revolving Fund Sewer Loan	52,000,000	25,000,000	-	-	-	77,000,000
Tennessee Local Development Authority Loans	36,783,000	15,000,000	-	-	-	51,783,000
Other (Grants)	-	-	-	-	-	-
TOTAL	\$ 141,184,000	\$ 117,790,000	\$ 78,610,160	\$ 78,302,646	\$ 78,179,632	\$ 415,886,806

ADDITIONAL BORROWING PLANS

Currently, the Department of Water and Sewerage Services anticipates borrowing approximately \$25,000,000 through state revolving fund loans and \$15,000,000 from Tennessee Local Development Authority Funds (TLDA) to finance a Biosolids/Odor Mitigation project.

LITIGATION AND OTHER PROCEEDINGS

At the time of delivery of and payment for the Bonds, the Metropolitan Government will deliver, or cause to be delivered, a certificate of the Metropolitan Government stating that there is no controversy or litigation of any nature then pending or threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Metropolitan Government taken with respect to the issuance or sale thereof or the pledge or application of any moneys or security provided for the payment of the Bonds or the corporate existence, boundaries or powers of the Metropolitan Government, or the title of its officials to their respective offices.

CONTINUING DISCLOSURE

Pursuant to Section 7.03 of the Supplemental Resolution, the Metropolitan Government has covenanted for the benefit of the holders and beneficial owners of the Bonds to distribute certain financial information and operating data relating to the Metropolitan Government by not later than nine months following the end of the Metropolitan Government's fiscal year, commencing with the fiscal year ending June 30, 2007 (the "Annual Report") and to provide notices of the occurrence of certain enumerated events, if deemed by the Metropolitan Government to be material under applicable federal securities laws. A copy of the Continuing Disclosure undertaking is attached hereto as Appendix D.

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

TAX MATTERS

Federal Taxes

In the opinion of Bass, Berry & Sims PLC, Bond Counsel, 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. Bond Counsel's opinion is subject to the condition that the Metropolitan Government comply with all requirements of the Code 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. The Metropolitan Government has covenanted to comply with all such requirements. 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.

Prospective purchasers of the Bonds should be aware that ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Bonds. Bond Counsel will not express any opinion as to such collateral tax consequences. Prospective purchasers of the Bonds should consult their tax advisors as to collateral federal income tax consequences.

The initial public offering prices of each maturity of the Bonds is greater than the amount payable on the Bonds at maturity. The difference between (a) the amount payable at maturity of the Bonds and (b) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount

of the Bonds of such maturities are sold, will constitute the "original issue premium." Under certain circumstances, as a result of the tax cost reduction requirements of the Code relating to the amortization of Bond premium, the owner of a Bond may realize a taxable gain upon its disposition even though the Bond is sold or redeemed for an amount not greater than the owner's original acquisition cost.

Owners of Bonds should consult their personal tax advisors with respect to the determination for federal income tax purposes of the amount of interest properly accruable with respect to the Bonds, other tax consequences of owning the Bonds, and with respect to the State of Tennessee and local tax consequences of holding the Bonds. The prices set forth on the inside cover page of the Official Statement may or may not reflect the prices at which a substantial amount of the Bonds were ultimately sold to the public.

State of Tennessee

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 interest on the Bonds during the period the 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 of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book of the value 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.

APPROVAL OF LEGAL PROCEEDINGS

All legal matters incident to the authorization and issuance of the Bonds are subject to the approval of Bass, Berry & Sims PLC, Nashville, Tennessee, Bond Counsel, whose approving opinion in substantially the form attached hereto as Appendix B will be delivered with the Bonds. Certain legal matters with respect to the Metropolitan Government will be passed upon by Sue B.Cain, Deputy Director of Law (Acting Director).

UNDERWRITING

The Bonds were sold at public sale to Merrill Lynch & Company, Inc. at a price of \$38,044,863.10, (which is equal to the par amount of the Bonds, plus original issue premium of \$1,815,916.30, less underwriting discount of \$11,053.20.

VERIFICATION OF DEFEASANCE

The arithmetical accuracy of certain computations included in the schedules provided by the Financial Advisor on behalf of the Metropolitan Government relating to (a) computation of forecasted receipts of principal and interest on the Escrowed Securities and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) computation of the yields on the Bonds and the Escrowed Securities was examined by Robert Thomas CPA, LLC. Such computations were based solely upon assumptions and information supplied by the Purchasers on behalf of the Metropolitan Government. Robert Thomas CPA, LLC has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluations of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

FINANCIAL ADVISOR

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

INDEPENDENT AUDITORS

The general purpose financial statements of the Department of Water and Sewerage Services of the Metropolitan Government as of the fiscal year ended June 30, 2006 included in Appendix C to this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report appearing in Appendix C.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Ratings have assigned the ratings of Aaa and AAA, respectively, to the Bonds with the understanding that a municipal bond insurance policy guaranteeing payment when due of principal of and interest on such maturities of the Bonds will be issued by MBIA Insurance Corporation. Moody's Investors Service, Inc., and Standard & Poor's Ratings have issued underlying ratings of Aa3, and AA- on the Bonds. Such ratings reflect only the view of such organizations and an explanation of the significance of such ratings may be obtained only from the respective rating agency. There is no assurance that such ratings will be maintained for any given period of time or that they will not be revised downward or be withdrawn entirely by the respective rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

The references, excerpts and summaries of all documents referred to in this Official Statement and in the Appendices to this Official Statement do not purport to be complete statements of the provisions of such documents, and reference is directed to all such documents for full and complete statements of all matters of fact relating to the Bonds, the security for the payment of the Bonds and the rights and obligations of the holders thereof.

The information contained in this Official Statement has been compiled from sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of this date.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement, which may have been made verbally or in writing, is to be construed as a contract with the holders of the Bonds.

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

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

/s/ Bill Purcell
Metropolitan Mayor

/s/ David L. Manning
Director of Finance

APPENDIX A

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

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

Definitions

“Account” or “Fund” means one of the special funds or accounts created and established pursuant to the General Resolution.

“Accreted Value” means the amount set forth in and the amounts computed pursuant to the formula set forth in the Supplemental Resolution authorizing the issuance of the Capital Appreciation Bonds, the Accreted Value of which is being determined.

“Additional Bonds” mean any Bonds delivered pursuant to the General Resolution to finance the costs of extensions, additions and capital improvements to, or the renewal and replacement of capital assets of, or purchasing and installing new equipment for, the System.

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

“Bank” means any bank, trust company, national banking association, insurance company or other entity other than the Metropolitan Government which is the issuer of a letter of credit, line of credit, insurance policy or other instruments securing payments of Bonds, including, but not limited to payment of principal of or Accreted Value thereof and interest thereon.

“Bond” means one of the bonds delivered pursuant to the General Resolution, including any Additional Bonds and any Refunding Bonds issued pursuant to Article II of the General Resolution.

“Capital Appreciation Bonds” means Bonds the bear interest payable at maturity, upon redemption prior to maturity or prior to maturity at the date set forth in the Supplemental Resolution authorizing the issuance of such Bonds in the amounts determined by reference to the Accreted Value of such Capital Appreciation Bonds in accordance with the provisions of the Supplemental Resolution authorizing the issuance of such Capital Appreciation Bonds.

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

“Consultant” means a firm of engineers, accountants or water and sewer consultants of national recognition in the business of advising municipalities with respect to the setting of rates and charges for the use of water and sewer systems selected as provided in the General Resolution.

“Debt Service” means, with respect to any particular Fiscal Year and any particular Series of Bonds, an amount equal to the sum of (1) all interest payable on such Bonds during such Fiscal Year, plus (2) any Principal Installments of such Bonds during such Fiscal Year. For purposes of computing Debt Service, the rate of interest used to determine (1) above shall be a rate per annum equal to (a) with respect

to any Series of Bonds which bear interest at a fixed rate, the rate of interest borne or to be borne by such Bonds, and (b) with respect to any Series of Variable Rate Bonds, the rate which is equal to the greater of (i) the average of all the interest rates in effect (or which would have been in effect had such Bonds been Outstanding) during the immediately preceding twelve month period or (ii) the average of all the interest rates in effect (or which would have been in effect had such Bonds been Outstanding) during the immediately preceding one month period.

“Debt Service/Additional Bonds” means, with respect to any Fiscal Year, an amount equal to the aggregate of (1) all interest payable during such Fiscal Year on all Bonds to be Outstanding as of the date immediately after the delivery of the Additional Bonds to be issued, plus (2) any Principal Installments payable during such Fiscal Year on all Bonds to be Outstanding as of the date immediately after the delivery of the Additional Bonds to be issued. For purposes of computing Debt Service/Additional Bonds, the rate of interest used to determine (1) above shall be a rate per annum equal to (a) with respect to any Series of Bonds which bear interest at a fixed rate, the rate of interest borne or to be borne by such Bonds, and (b) with respect to any Series of Variable Rate Bonds, the rate which is equal to the greater of (i) 125% of the average of all the interest rates in effect (or which would have been in effect had such Bonds been Outstanding) during the immediately preceding twelve month period, (ii) 125% of the average of all the interest rates in effect (or which would have been in effect had such Bonds been Outstanding) for the immediately preceding one month period, or (c) the rate equal to The Bond Buyer Revenue Bond Index most recently published by The Bond Buyer, or if said index is no longer published, any reasonably equivalent index selected by the Director of Finance.

“Debt Service Reserve Requirement” means, as of any date of calculation, (1) with respect to any Series of Bonds which bear interest at a fixed rate, an amount equal to the maximum amount payable in the current or any future Fiscal Year for the payment of Debt Service; provided that such amount shall not exceed the amount permitted as a reasonably required reserve under the Internal Revenue Code of 1986, as amended, and the regulations thereunder, and (2) with respect to any Series of Variable Rate Bonds, an amount equal to the amount calculated at the maximum rate allowable under the Internal Revenue Code of 1986, as amended, and the regulations thereunder, as said amounts are set forth in the Supplemental Resolution authorizing the issuance of any Series of Bonds.

“Depository” means any bank or trust company or national banking association selected by an Authorized Officer or the Trustee as a depository of moneys or securities held under the provisions of the General Resolution and may include the Trustee.

“Director of Finance” means the Director of Finance appointed pursuant to the provisions of the Charter or, in the absence of such appointment, the person appointed by the Metropolitan County Mayor to undertake the duties otherwise performed by the Director of Finance or his designee.

“Fiscal Year” means a twelve-month period commencing on the first day of July of any year, or such other twelve-month period adopted as the Fiscal Year of the Metropolitan Government pursuant to the Charter.

“General Resolution” means Substitute Resolution No. R85-762, The Metropolitan Government of Nashville and Davidson County Water and Sewer Revenue Bond Resolution, adopted November 5, 1985, as subsequently amended and as supplemented by any Supplemental Resolution, including specifically, but without limitation, Resolution No. R86-1121, adopted on October 7, 1986, Resolution No. R89-919, adopted on October 3, 1989, Substitute Resolution No. R92-341, adopted on August 4, 1992, Substitute Resolution R93-770, adopted on July 20, 1993, Substitute Resolution R96-242, adopted on April 16, 1996, Resolution No. RS2002-1211, adopted on October 15, 2002, and Resolution No. R2007-2006, adopted on June 19, 2007.

“Interest Payment Date” means any date upon which interest on the Bonds is due and payable in accordance with their terms.

“Investment Securities” means and includes any obligations which are at the time legal for investment of funds of the Metropolitan Government, including, but not limited to, the following:

- (1) Bonds, notes or treasury bills of the United States of America;
- (2) Bonds of Federal Land Banks;
- (3) Notes or bonds of Federal Home Loan Banks;
- (4) Notes or debentures of the Federal National Mortgage Association;
- (5) Debentures of Banks for Cooperatives;
- (6) Bonds or notes of any other agencies of the United States of America;
- (7) Obligations guaranteed as to principal and interest by the United States of America or any of its agencies with a maturity of not greater than one year;
- (8) The pooled investment fund established by Chapter 17 of Title 9 of the United States Code; and
- (9) The obligations described in (1) through (8) of the United States of America or its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself provided that the market value of the security itself shall not be less than the amount of funds invested;

Provided that for purposes of Article XII of the Resolution, relating to the defeasance of Bonds, Investment Securities shall have the meaning set forth in that Article.

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

“Operating Budget” means the annual budget described in Section 7.7 of the General Resolution adopted by the Metropolitan Government concerning the operation of the System for the succeeding Fiscal Year.

“Operating Expenses” means the current expenses, paid or accrued, of operation, maintenance and current repair of the System, as calculated in accordance with sound accounting practice, and includes, without limiting the generality of the foregoing, insurance premiums, administrative expenses of the Metropolitan Government relating solely to the System, labor, executive compensation, the cost of materials and supplies used for current operations, and charges for the accumulation of appropriate reserves for current expenses not annually recurrent, but which are such as may reasonably be expected to be incurred in accordance with sound accounting practice. Operating Expenses shall not include any allowance for depreciation or replacements of capital assets of the System.

“Outstanding,” when used with reference to Bonds, means, as of any date, all Bonds theretofore or thereupon being delivered under the General Resolution except:

- (1) Any Bond cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;
- (2) Any Bond (or portion of a Bond) for the payment or redemption of which there has been separately set aside and held in the Debt Service Fund or Redemption Fund under the General Resolution either:
 - (a) Moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price thereof, together with accrued interest on such Bond to the Redemption Date; or
 - (b) Direct obligations of or obligations guaranteed by the United States of America, in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as shall be necessary to provide moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or
 - (c) Any combination of (a) and (b) above;
- (3) Any Bond in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the General Resolution; or
- (4) Any Bond deemed to have been paid as provided in the General Resolution.

“Principal Installment” means, as of any date of calculation, (1) the aggregate principal amount of Outstanding Bonds due on a certain future date, reduced by the aggregate principal amount of such Bonds which would be retired by reason of the payment when due and application in accordance with the Supplemental Resolution relating to such Bonds of Sinking Fund Payments payable before such future date, plus (2) any Sinking Fund Payments due on such certain future date, together with the aggregate amount of the premiums, if any, applicable on such Sinking Fund Payments, plus (3) with respect to any Capital Appreciation Bonds due on such certain future date, the Accreted Value of such Capital Appreciation Bonds.

“Principal Payment Date” means any date upon which a Principal Installment is due and payable.

“Redemption Date” means the date upon which Bonds are to be called for redemption pursuant to the Supplemental Resolution relating to such Bonds.

“Redemption Price” means, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof.

“Refunding Bonds” means any series or portion of the Bonds delivered on original issuance in accordance with the conditions set forth in Section 2.5 of the General Resolution or thereafter delivered in lieu of or in substitution for any such Bond pursuant to the General Resolution.

“Revenues” means all rates, fees, rentals or other charges or other income received by the Metropolitan Government, in connection with the management and operation of the System, and all parts thereof, from the operation of the System, including amounts received from the investment or deposit of moneys in any Fund or Account (but not including amounts received from interest or other investment

income earned in the Construction Fund, the Capitalized Interest Fund or the Debt Service Reserve Fund, as described below) and any amounts contributed by the Metropolitan Government, all as calculated in accordance with sound accounting practice, but shall not include the proceeds of any special assessments for water or sewer improvements or any amounts collected by the Metropolitan Government representing State sales taxes or State user fees which are required by law or agreement to be paid to the State.

“Series” means all of the Bonds delivered on original issuance in a simultaneous transaction, regardless of variations in maturity, interest rate, Sinking Fund Payments or other provisions, and any Bonds thereafter delivered in lieu of or in substitution for (but not to refund) such Bonds as provided in the General Resolution.

“Sinking Fund Payment” means, as of any particular date of calculation, the amount required to be paid by the Metropolitan Government on a certain future date for the retirement of Outstanding Bonds which mature after said future date, but does not include any amount payable by the Metropolitan Government by reason of the maturity of a Bond or by call for redemption at the election of the Metropolitan Government.

“Supplemental Resolution” means any resolution supplementing or amending the General Resolution, adopted by the Metropolitan Government and effective in accordance with its terms.

“System” means the complete water and sewerage system of the Metropolitan Government now owned by the Metropolitan Government or hereafter constructed and acquired either from the proceeds of the Bonds authorized by the General Resolution or from any other sources at any time hereafter, and shall include (1) all wells, pumping stations, purification plants and other sources of supply of water and all pipes, mains and other parts of the facilities for the distribution of water and all equipment and property used in connection therewith, (2) all sanitary sewers, all waste water disposal and purification plants, and all equipment used in connection therewith, all facilities for the collection, treatment and disposal of sewage and waste matter, including industrial wastes, and (3) all other facilities or any nature or description, real or personal, now or hereafter owned or used by the Metropolitan Government in the supply, distribution and treatment of water or sewage by its municipally owned water and sewerage system.

“Trustee” means the trustee with respect to any Series of Bonds appointed pursuant to the Supplemental Resolution authorizing such Series, and any other person at any time substituted in its place as provided in the General Resolution.

Resolution to Constitute Contract

In consideration of the purchase and acceptance of the Bonds, the provisions of the General Resolution will be part of the contract of the Metropolitan Government with the holders of the Bonds and shall constitute a contract among the Metropolitan Government, the Trustee and the holders of the Bonds. (General Resolution, Section 2.1)

Pledge

The Revenues and all amounts held in any Fund or Account, including Investment Securities, but excluding all amounts collected by the Metropolitan Government as State sales taxes or State user fees, are pledged, and the Metropolitan Government grants a security interest therein, to the Trustee for the benefit of Bondholders, to secure the payment of Bonds (including the Sinking Fund Payments for the retirement thereof) in accordance with their terms and the provisions of the General Resolution, subject only to the provisions of the General Resolution permitting the application or exercise thereof for or to the

purposes and on the terms and conditions set forth in the General Resolution. The money and property pledged will immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien will be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice of the pledge. (General Resolution, Section 5.1)

Funds and Accounts

The Metropolitan Government has established the following special trust Funds which for administrative convenience may be divided into Accounts with appropriate identification:

Construction Fund; Capitalized Interest Fund; Revenue Fund; Debt Service Fund; Debt Service Reserve Fund; Operating and Maintenance Fund; Operating Reserve Fund; Extension and Replacement Fund; Redemption Fund.

The Debt Service Fund, the Debt Service Reserve Fund and the Redemption Fund are held by the Trustee. The Construction Fund, the Capitalized Interest Fund, the Revenue Fund, the Operating and Maintenance Fund, the Operating Reserve Fund and the Extension and Replacement Fund are held by the Metropolitan Government or a Depository. All moneys or securities held by the Trustee, the Metropolitan Government or any Depository pursuant to the General Resolution will be held in trust and applied only in accordance with the provisions of the General Resolution. (General Resolution, Section 5.2)

Construction Fund

There will be deposited from time to time in the Construction Fund all amounts required to be deposited therein pursuant to the General Resolution and any other amounts available therefor and determined by the Metropolitan Government to be deposited therein. Amounts in the Construction Fund will be expended as provided in the General Resolution. (General Resolution, Section 5.3)

Revenue Fund

There will be deposited in the Revenue Fund all amounts required to be deposited therein pursuant to the General Resolution, including all Revenues, and any other amounts available therefor and determined by the Metropolitan Government to be deposited therein. All amounts collected by the Metropolitan Government as State sales taxes and State user fees which have been deposited in the Revenue Fund may be paid out of the Revenue Fund in the amounts and at the times determined by the Director of Finance.

Unless otherwise provided with respect to any Series of Bonds as set forth in the Supplemental Resolution authorizing said Series of Bonds, moneys deposited in the Revenue Fund (except amounts representing State sales tax and State user fees which have been deposited in the Revenue Fund) will be paid out in the following order of priority:

FIRST: On the first day of each month there will be paid to the Trustee for deposit in the Debt Service Fund an amount such that (after taking into consideration amounts then on deposit in the Debt Service Fund), if the same amount is transferred thereto on the first day of each succeeding month, there will be in the Debt Service Fund an amount equal to the interest due on the next succeeding Interest Payment Date;

SECOND: On the first day of each month there will be paid to the Trustee for deposit in the Debt Service Fund an amount such that (after taking into consideration amounts then on deposit in the Debt Service Fund), if the same amount is transferred thereto on the first day of each succeeding month, there will be in the Debt Service Fund an amount equal to the Principal Installment due on the next succeeding Principal Payment Date;

THIRD: On each date, on which such a payment is due, there will be paid to the Bank the amount then due and payable;

FOURTH: On the first day of each month there will be transferred to the Operating and Maintenance Fund an amount such that the amounts paid will not exceed the amount shown for Operating Expenses in the Operating Budget for the applicable Fiscal Year or any quarterly allotment and any additional amount required pursuant to paragraph (c) of Section 5.7 of the General Resolution,

FIFTH: On the first day of each month there will be paid to the Trustee for deposit in the Debt Service Reserve Fund the amount of any deficiency therein;

SIXTH: On the first day of each month there will be transferred to the Operating Reserve Fund any amount by which the Operating Reserve Requirement exceeds the aggregate amount that has been deposited to the Operating Reserve Fund since the beginning of the current Fiscal Year and any additional amount required pursuant to paragraph (c) of Section 5.8 of the General Resolution;

SEVENTH: On the first day of each month there will be transferred to the Extension and Replacement Fund any amounts remaining in the Revenue Fund. (General Resolution, Section 5.4)

Debt Service Fund

The Trustee will pay out and permit the withdrawal of amounts deposited in the Debt Service Fund as follows:

- (1) On each Interest Payment Date, the Trustee will make payment out of the Debt Service Fund to the holders of the Bonds of the interest due on Outstanding Bonds on such date.
- (2) Subject to provisions of the General Resolution requiring the application thereof to the payment, purchase or redemption of any particular Bonds, the Trustee will pay out of the Debt Service Fund to the holders of the Bonds on each Principal Payment Date the amounts required for the payment of the Principal Installments, Redemption Price or purchase price due on the Outstanding Bonds on such date.
- (3) (a) Prior to the 45th day preceding the due date of each Sinking Fund Payment, any amount accumulated in the Debt Service Fund, and not designated for any other purpose, up to the unsatisfied balance of such Sinking Fund Payment may, and if so directed in writing by the Director of Finance shall, be applied in satisfaction of part or all of such Sinking Fund Payment to the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices (including any brokerage and other charges) not exceeding the Redemption Price for such Bonds when such Bonds are redeemable by application of said Sinking Fund Payment plus unpaid interest accrued to

the date of purchase, such purchases to be made in such manner as the Trustee determines.

(b) Upon the purchase of any Bond as provided in (3)(a) above, an amount equal to the principal amount of the Bond so purchased will be credited toward the next Sinking Fund Payment thereafter to become due. The amount of any excess of the amounts so credited over the amount of such Sinking Fund Payment will be credited by the Trustee against future payments as provided in 3(d) below unless the Trustee is otherwise instructed in writing by the Director of Finance at the time of such purchase or redemption. The portion of any Sinking Fund Payment remaining after the crediting thereto of any such amounts and of any amounts to be credited thereto as provided in paragraph 3(d) below (or the original amount of any such Sinking Fund Payment if no such amounts have been credited toward the same) will constitute the unsatisfied balance of such Sinking Fund Payment for the purpose of calculating Sinking Fund Payments due on a future date.

(c) As soon as practicable after the 45th day preceding the due date of any Sinking Fund Payment, the Trustee will proceed to call for redemption on such due date Bonds of the Series and maturity for which such Sinking Fund Payment was established in such amount as is necessary to complete the retirement of a principal amount of the Bonds of such maturity equal to the unsatisfied balance of such Sinking Fund Payment. The Trustee will call such Bonds for redemption whether or not it then has moneys in the Debt Service Fund sufficient to pay the applicable Redemption Price thereof on the Redemption Date. The Trustee will pay out of the Debt Service Fund to the holders of the Bonds on each such Redemption Date the amount required for the redemption of the Bonds so called for redemption.

(d) Upon the purchase or redemption of Bonds for which Sinking Fund Payments have been established from amounts in the Debt Service Fund, an amount equal to the principal amount of the Bonds so purchased or redeemed will be credited toward the next Sinking Fund Payment thereafter to become due. If, however, the Director of Finance files written instructions with the Trustee specifying a different method for crediting Sinking Fund Payments upon any such purchase or redemption of Bonds, then such Sinking Fund Payments will be credited in the manner provided in the written instructions.

(e) Except as otherwise specifically provided in the General Resolution, the Trustee will have no obligation to purchase or attempt to purchase Bonds at a price below the Redemption Price, principal amount or at any other price, and any arms' length purchase by the Trustee will conclusively be deemed fair and reasonable.

In the event that on any Interest Payment Date or Principal Payment Date there is a deficiency in the Debt Service Fund, the amount of such deficiency will be made up from the following funds and in the order of priority set forth:

- (1) Revenue Fund;
- (2) Capitalized Interest Fund;
- (3) Debt Service Reserve Fund;
- (4) Extension and Replacement Fund;
- (5) Construction Fund;
- (6) Operating Reserve Fund;
- (7) Operating and Maintenance Fund.

(General Resolution, Section 5.5)

Debt Service Reserve Fund

There will be deposited in the Debt Service Reserve Fund immediately after the delivery of any Series of Bonds all amounts sufficient to cause the amount on deposit in the Debt Service Reserve Fund to equal the Debt Service Reserve Requirement and any other amounts available therefor and determined by the Metropolitan Government to be deposited therein.

Amounts held in the Debt Service Reserve Fund will be applied to restore deficiencies in the Debt Service Fund in accordance with the order of priority for the making up of deficiencies therein as set forth above.

In the event that on any Interest Payment Date there is an excess in the Debt Service Reserve Fund over the Debt Service Reserve Requirement, the amount or such excess will be deposited in the Revenue Fund. (General Resolution, Section 5.6)

Operating and Maintenance Fund

There will be deposited in the Operating and Maintenance Fund all amounts required to be deposited therein pursuant to the General Resolution and any other amounts available therefor and determined by the Metropolitan Government to be deposited therein from time to time.

Amounts in the Operating and Maintenance Fund will be applied to the payment of Operating Expenses consistent with the Operating Budget of the Metropolitan Government and transferred to the Debt Service Fund to make up any deficiency therein in accordance with the order of priorities for the making up of deficiencies therein as set forth above. In no event will the aggregate disbursements from the Operating and Maintenance Fund in each Fiscal Year, excluding any amounts transferred to the Debt Service Fund as provided in Section 5.5 of the General Resolution, exceed the amount provided therefor in the Operating Budget of the Metropolitan Government.

In the event that a payment from the Operating and Maintenance Fund to the Debt Service Fund is required in accordance with the priorities established in Section 5.5 of the General Resolution, the amount of such payment shall be added to the amount otherwise required to be paid to the Operating and Maintenance Fund as provided in Section 5.4 of the General Resolution. (General Resolution, Section 5.7)

Operating Reserve Fund

There will be deposited in the Operating Reserve Fund all amounts required to be deposited therein pursuant to the General Resolution and any other amount available therefor and determined by the Metropolitan Government to be deposited therein.

Amounts held in the Operating Reserve Fund, with the written authorization of the Director of Finance, will be (1) applied to the payment of Operating Expenses to the extent that amounts available in the Operating and Maintenance Fund are insufficient to pay said Operating Expenses, (2) transferred to the Debt Service Fund to make up any deficiency therein in accordance with the order of priorities for the making up of deficiencies therein as set forth above, and (3) paid to the Trustee for deposit in the Redemption Fund at the direction of the Director of Finance, provided that the Director of Finance shall determine that the transfer to the Redemption Fund is consistent with the covenant of the Metropolitan Government to complete, operate and maintain the System.

In the event that a payment from the Operating Reserve Fund to the Debt Service Fund is required in accordance with the priorities established above, the amount of such payment will be added to the amount otherwise required to be paid to the Operating Reserve Fund as provided in the General Resolution. (General Resolution, Section 5.8)

Extension and Replacement Fund

There will be deposited in the Extension and Replacement Fund any amount authorized to be deposited therein pursuant to the General Resolution and any other amount available therefor and determined by the Metropolitan Government to be deposited therein.

Amounts on deposit in the Extension and Replacement Fund will be (1) used for the purpose of paying the cost of extensions, additions and capital improvements to, or the renewal and replacement of capital assets of, or purchasing and installing new equipment for, the System, or paying any extraordinary maintenance and repair, or any expenses which are not Operating Expenses, (2) applied to the repayment and/or defeasance of debt incurred in connection with capital improvements to the System or any portions thereof, including repayments of loans made by the State, (3) transferred to the Debt Service Fund to make up any deficiency therein in accordance with the order of priority for the making up of deficiencies therein set forth above and (4) paid to the Trustee for deposit in the Redemption Fund at the direction of the Director of Finance, provided that the Director of Finance shall determine that the transfer to the Redemption Fund is consistent with the covenant of the Metropolitan Government to complete, operate and maintain the System.

The Director of Finance will authorize disbursements to be made from the Extension and Replacement Fund for the purposes set forth in clauses (1) and (2) of the previous paragraph upon the filing from time to time of requisitions signed by the Director of Water and Sewerage Services. Each requisition shall set forth the purpose for which the disbursement is to be made and shall state that the work has been performed or that materials, supplies or equipment have been delivered, installed or fabricated or that the payment of principal of or interest on a loan is due, as appropriate or that it is necessary and in the best interest of the Metropolitan Government to use Funds in the Extension and Replacement Fund to defease indebtedness of the Metropolitan Government. (General Resolution, Section 5.9)

Redemption Fund

There may be paid to the Trustee for deposit in the Redemption Fund any amount authorized to be deposited therein pursuant to the General Resolution and any other amount available therefor and determined by the Metropolitan Government to be deposited therein from time to time.

Amounts on deposit in the Redemption Fund will be expended by the Trustee at the direction of the Director of Finance for the redemption of Bonds in accordance with the Supplemental Resolution applicable to the Bonds to be redeemed. Amounts on deposit in the Redemption Fund may be transferred by the Trustee, at the direction of the Director of Finance, prior to the giving to Bondholders of notice of redemption pursuant to the General Resolution, to any other Fund or Account, including the Debt Service Fund, in accordance with the General Resolution or may be applied to the purchase of Bonds at a purchase price not in excess of the greater of the then applicable Redemption Price (if any) or the principal amount of such Bonds. (General Resolution, Section 5.10)

Capitalized Interest Fund

There will be deposited in the Capitalized Interest Fund any amount authorized to be deposited therein pursuant to the Supplemental Resolution authorizing the issuance of a Series of Bonds and any other amount available therefor and determined by the Metropolitan Government to be deposited therein from time to time.

Amounts in the Capitalized Interest Fund shall be applied only with respect to the Series of Bonds from the proceeds of which the deposit to the Capitalized Interest Fund was made. (General Resolution, Section 5.11)

Deposits

Any amounts held under the General Resolution by the Trustee or any Depository (except amounts held in the Debt Service Reserve Fund) may, if and as directed by the Director of Finance, be deposited in the commercial banking department of the Trustee or Depository, which may honor checks and drafts on such deposit with the same force and effect as if it were not such Depository or Trustee. Any such Trustee or Depository will allow as a credit on such amounts at least such interest, if any, as it customarily allows upon similar funds of similar size and under similar conditions or as required by law.

All amounts deposited by the Trustee or any Depository pursuant to the preceding paragraph will be continuously and fully secured either (i) by lodging with the Trustee or Depository other than the Trustee or Depository in which the deposit is made, as custodian, as collateral security, Investment Securities having a market value (exclusive of accrued interest) not less than the amount of such deposit, or (ii) in such other manner as may then be required by applicable federal or State laws and regulations regarding security for the deposit of public funds applicable to the Metropolitan Government. It will not be necessary, unless required by applicable law, for the Trustee or Depository to give security for the deposit of any amounts to the extent that such deposit is insured by the Federal Deposit Insurance Corporation or its successors. (General Resolution, Section 5.12)

Investment of Certain Funds

Any fund or account held by the Metropolitan Government may be invested or reinvested or deposited in Investment Securities having yields and maturities as determined by the Director of Finance.

Subject to the right of the Director of Finance to direct the investment or deposit of funds under the General Resolution, moneys in any Fund or Account held by the Trustee will be continuously invested and reinvested or deposited and redeposited by the Trustee in the highest yield Investment Securities that may be reasonably known to the Trustee, with a view toward maximizing yield (with proper preservation of principal) and minimizing the instances of uninvested funds. The Director of Finance will consult with the Trustee from time to time as to the investment of amounts in the Funds and Accounts held by the Trustee. The Director of Finance may direct the Trustee to, or in the absence of direction, the Trustee will, invest and reinvest the moneys in all Funds and Accounts in Investment Securities so that the maturity date or date of redemption at the option of the holder thereof will coincide as nearly as practicable with the times at which moneys are needed to be so expended. The Investment Securities purchased will be held by the Trustee and will be deemed at all times to be part of such Fund or Account, and the Trustee will keep the Director of Finance advised as to the details of all such investments.

Investment Securities purchased as an investment or moneys in any Fund or Account under the provisions of the General Resolution will be deemed at all times to be a part of such Fund or Account, but the income or interest earned and gains realized in excess of losses suffered by a Fund or Account (except the income or interest earned and gains realized in excess of losses suffered by the Construction Fund, the Capitalized Interest Fund and the Debt Service Reserve Fund shall be retained therein) due to the

investment thereof will be deposited in the Revenue Fund or will be credited as Revenues to the Revenue Fund from time to time and reinvested. (General Resolution, Section 5.13)

Certain Covenants of the Metropolitan Government

Accounts and Reports. The Metropolitan Government will keep, or cause to be kept, proper books of record and account in which complete and accurate entries will be made relating to the System. Such books will at all reasonable times be subject to the inspection of the Trustee and the holders of an aggregate of not less than 5% in principal amount of Bonds Outstanding or their representatives duly authorized in writing.

The Metropolitan Government will annually file with the Trustee, within 180 days after the close of each Fiscal Year, a copy of an audited annual financial report as to its obligations and activities of the Department of Water and Sewerage Services of the Metropolitan Government of Nashville and Davidson County (the "Department") during such Fiscal Year and financial statements for such Fiscal Year, setting forth the information described in the General Resolution. The financial statements will be accompanied by a certificate of a reputable and experienced independent certified public accountant or a firm of independent certified public accountants selected by the Metropolitan Government pursuant to the Charter (an "Accountants Certificate") stating whether the financial statements examined fairly present the financial position of the Metropolitan Government relating to the System at the end of the Fiscal Year, and whether the results of its operations and the changes in financial position for the period examined are in conformity with generally accepted accounting principles.

The Metropolitan Government may employ a nationally known and recognized firm of consulting engineers on an annual basis to inspect the operation and maintenance of the System or to review the performance by the Metropolitan Government of the duties relating thereto provided for in the General Resolution. The Metropolitan Government will file any report of the consulting engineers regarding their inspection or review with the Trustee.

If an Event of Default (as defined herein) referred to in clause (1) or (2) under the heading "Events of Default" has occurred during any Fiscal Year, the Metropolitan Government shall file or cause to be filed with the Trustee, within 60 days after the close of such Fiscal Year, a special report accompanied by an Accountants Certificate as to the fair presentation of the financial statements contained therein. The special report will set forth in reasonable detail the individual balances and receipts and disbursements for each Fund under the General Resolution. (General Resolution, Section 7.6)

Operating Budgets. The Metropolitan Government will adopt an Operating Budget covering the fiscal operations of the Department for the Fiscal Year not later than the first day of such Fiscal Year and file it with the Trustee. Such Operating Budget need not necessarily be the budget prepared by the Metropolitan Government for Metropolitan Government budgeting purposes. The Operating Budget will set forth for such Fiscal Year the estimated Revenues, the Principal Installments of and interest on the Bonds due and payable or estimated to become due and payable during such Fiscal Year, and estimated Operating Expenses in quarterly allotments or as otherwise provided by the Charter. The Metropolitan Government may at any time adopt and file with the Trustee an amended Operating Budget for the remainder of the then current Fiscal Year in the manner provided in the General Resolution for the adoption of the Operating Budget. Copies of the Operating Budget as then amended and in effect will be made available by the Trustee at normal business hours in the Trustee's principal corporate trust office for inspection by any Bondholder. In the event the Metropolitan Government does not adopt an Operating Budget for a Fiscal Year on or before the first day of such Fiscal Year, the Operating Budget for the preceding Fiscal Year shall be deemed to have been adopted and be in effect for such Fiscal Year until the Operating Budget for such Fiscal Year has been adopted.

The Metropolitan Government shall not expend for Operating Expenses in any Fiscal Year in excess of the reasonable or necessary amount thereof. (General Resolution, Section 7.7)

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

The Metropolitan Government will not permit at any time or times any of the proceeds of the Bonds or any other funds of the Metropolitan Government to be used, directly or indirectly, to acquire any securities or obligations, the acquisition of which would cause any Bond to be an arbitrage bond as defined in Section 103(c)(2) of the Internal Revenue Code of 1954, as amended [now Section 148 of the Internal Revenue Code of 1986, as amended]. (General Resolution, Section 7.11)

Maintenance of the System. The Metropolitan Government will complete or cause to be completed the additions, extensions and improvements of the System provided for in the General Resolution in an economical and efficient manner with all practicable dispatch and thereafter will maintain or cause to be maintained the System in good condition and will continuously operate or cause to be operated the same in an efficient manner and at a reasonable cost as a municipal revenue producing enterprise. (General Resolution, Section 7.12)

Insurance. The Metropolitan Government will provide for self-insurance or carry or cause to be carried such other insurance with a reputable insurance carrier or carriers, such as is maintained or carried by private corporations owning or operating similar utilities as the System, including: public liability insurance against loss or damage by fire, explosion, hurricane, earthquake, cyclone, occupancy or other hazards and risks, and said property loss and damage insurance will at all times be in an amount sufficient to indemnify for loss of the System and of the Revenues and other payments derived therefrom, to the extent that such insurance is obtainable. (General Resolution, Section 7.13)

Sale of the System. The System may be sold, mortgaged, leased or otherwise disposed of to another political subdivision or public agency of the State authorized by law to own and operate such systems only if such political subdivision assumes all the obligations of the Metropolitan Government under the General Resolution and there is filed with the Trustee a report prepared by an independent consultant satisfactory to the Trustee showing that there is no material adverse effect on the ability of the System to produce Revenues in satisfaction of the rate covenant set forth in the General Resolution.

The System may be sold, mortgaged, leased or otherwise disposed of to a private utility only as a whole or substantially as a whole, and only if the net proceeds to be realized will be sufficient to discharge the lien of the Bondholders. (General Resolution, Section 7.14)

The Metropolitan Government will have the right to sell, lease or otherwise dispose of any of the property comprising a part of the System that it determines to be no longer necessary, useful or profitable in the operation thereof. An Authorized Officer must determine, in writing, that such property comprising part of the System is no longer necessary, useful or profitable in the operation thereof, and such finding must be approved by resolution of the Metropolitan Council if the amount to be received therefor is in excess of 1/50 of one percent of the total assets of the System. All proceeds derived from the sale, lease or other disposition of any property comprising part of the System provided in this paragraph shall be deposited in the Extension and Replacement Fund or the Redemption Fund, as may be determined by the Director of Finance (General Resolution, Section 7.14)

Amendments

Amendments of the General Resolution may be made by a Supplemental Resolution. (General Resolution, Section 9.2)

Supplemental Resolutions effective upon filing with the Trustee will be those which (1) close the General Resolution against, or provide limitations and restrictions in addition to those contained in the General Resolution, on the delivery of Bonds or the issuance of other evidences of indebtedness; (2) add covenants and agreements of the Metropolitan Government which are not inconsistent with those in the General Resolution to agreements of the Metropolitan Government; (3) add limitations and restrictions on the Metropolitan Government not inconsistent with those in the General Resolution to be observed by the Metropolitan Government; (4) surrender any right power or privilege reserved to or conferred upon the Metropolitan Government by the General Resolution, if such surrender is consistent with the covenants and agreements of the Metropolitan Government contained in the General Resolution; (5) confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the General Resolution of the Revenues or of any other revenues or assets; (6) modify any of the provisions of the General Resolution if (a) such modification is to be, and is expressed to be, effective only after all Bonds Outstanding at the date of the adoption of the Supplemental Resolution shall cease to be Outstanding and (b) such Supplemental Resolution is specifically referred to in the text of all Bonds delivered after the date of adoption of such Supplemental Resolution and of Bonds issued in exchange therefore or in place thereof; (7) authorize the issuance of additional Series of Bonds and prescribe the terms and conditions upon which such Bonds may be issued; (8) increase the Debt Service Reserve Requirement by removing the reference to the Internal Revenue Code of 1954, as amended [now the Internal Revenue Code of 1986], to the extent there is a change in such law or regulation permitting the removal of the limitation; and (9) provide for the issuance of Bonds in the form permitted by the General Resolution. (General Resolution, Section 8.1)

Supplemental Resolutions, which may become effective upon consent of the Trustee, will be those which cure or correct an ambiguity, omission, defect or inconsistency in the General Resolution or clarify such matters or questions arising under the General Resolution as are necessary or desirable and consistent with the General Resolution. (General Resolution, Section 8.2)

Other Supplemental Resolutions may become effective only with the consent of (1) the holders of at least two-thirds in principal amount of the Bonds Outstanding at the time the consent is given, (2) in case less than all of the several Series of Bonds Outstanding are affected by the amendment, the holders of at least two-thirds in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (3) in case less than all the maturities of a Series of Bonds are affected by the amendment, the holders of at least two-thirds in principal amount of the Bonds of each maturity so affected and Outstanding at the time such consent is given. (General Resolution, Section 9.2)

No amendment will permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon without the consent of the holder of such Bond, or will reduce the percentages or otherwise affect the classes of Bonds, the consent of the holders of which is required to effect any such amendment, or will change any of the rights or obligations of the Trustee without its written assent thereto. (General Resolution, Section 9.2)

Event of Default

Each of the following events will constitute an "Event of Default":

- (1) Failure to pay the principal or Redemption Price, if any, of any Bond when and as the same becomes due, whether at maturity or upon call for redemption or otherwise;
- (2) Failure to pay any installment of interest on any of the Bonds when and as the same becomes due; or
- (3) Failure or refusal on the part of the Metropolitan Government to comply with the provisions of the General Resolution, or default by the Metropolitan Government in the performance or observance of any of the covenants, agreements or conditions on its part contained in the General Resolution, in any Supplemental Resolution or in the Bonds, and the continuance of such failure, refusal or default for a period of 45 days after written notice thereof by the Trustee or the holders of not less than 25% in principal amount of the Outstanding Bonds. (General Resolution, Section 10.1)

Remedies

Upon the happening and continuance of any Event of Default referred to in clause (1) or (2) under the heading "Events of Default," the Trustee shall proceed or, upon the happening and continuance of any Event of Default specified in paragraph (3) of "Events of Default," the Trustee may proceed and, upon the written request of the holders of not less than 25% in principal amount of the Outstanding Bonds, shall proceed, in its own name, subject to the provisions of the General Resolution, to protect and enforce the rights of the Bondholders by such of the following remedies, which are then permitted by law, as the Trustee, being advised by counsel, deems most effectual to protect and enforce such rights:

- (1) By mandamus or other suit, action or proceeding, at law or in equity, to enforce all rights of the Bondholders, including the right to require the Metropolitan Government to receive and collect Revenues adequate to enable the Metropolitan Government to carry out any of the covenants or agreements with Bondholders and to perform its duties as prescribed by law;
- (2) By bringing suit upon the Bonds;
- (3) By action or suit in equity to require the Metropolitan Government to account as if it were the trustee of an express trust for the holders of the Bonds;
- (4) By action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the holders of the Bonds; or
- (5) By declaring all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of the holders of not less than 25% in principal amount of the Outstanding Bonds, by annulling such declaration and its consequences. (General Resolution, Section 10.2)

Defeasance

If the Metropolitan Government shall pay or cause to be paid to the holders of the Bonds the principal and interest to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then the pledge of any Revenues, payments made by the Metropolitan Government in satisfaction of covenants contained in the General Resolution and other moneys, securities and funds hereby pledged and all other rights granted thereby shall be discharged and satisfied. Payments of principal and interest on Bonds made by a bond insurer pursuant to its bond insurance policy shall not be deemed to have been paid within the meaning of this Section and such payments shall continue to be due and owing hereunder until paid by the Metropolitan Government within the meaning of this Section.

Bonds or interest installments for the payment of which moneys shall have been set aside and held in trust by the Trustee (through deposit by the Metropolitan Government of funds for such payment or otherwise) shall, at the maturity thereof, be deemed to have been paid within the meaning and with the effect expressed in the paragraph above.

All Bonds shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed above if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Metropolitan Government shall have given to the Trustee, in form satisfactory to it, irrevocable instructions to give notice of redemption of such Bonds on said date as provided in Article VI of the General Resolution, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Investment Securities, the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price of and interest due and to become due on said Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event said Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Metropolitan Government shall have given the Trustee, in form satisfactory to it, irrevocable instructions to publish a notice to the holders of such Bonds that the deposit required by (ii) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price of and interest on said Bonds.

For the purposes of this section, "Investment Securities" means and includes only the following:

(1) (a) Direct general obligations of or obligations guaranteed by the United States of America, including certificates or any other evidences of ownership interest in such obligations or in specified portions thereof (which may consist of the principal thereof or the interest thereon), provided that the obligations in which such certificates or other evidences of ownership evidence ownership shall be held in trust by a bank or trust company or a national banking association having capital stock and surplus aggregating at least \$100 million, and (b) new housing authority bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract with the United States of America, or project notes issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America, which are not subject to redemption prior to their maturity other than at the option of the owner thereof; and

(2) Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable prior to maturity or as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (b) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in paragraph (1) above which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the redemption date or dates specified in the irrevocable instructions referred to in clause (a) of this paragraph (2), as appropriate, and (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (a) of this paragraph (2) which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and

redemption premium, if any, on the bonds or other obligations described in this paragraph (2) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in clause (a) of this paragraph (2), as appropriate, which are not subject to redemption prior to their maturity other than at the option of the owner thereof or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not other-wise subject to redemption prior to such specified date other than at the option of the owner thereof;

(3) Upon compliance with the provisions of the General Resolution, securities described in paragraph (1) above which are subject to redemption prior to maturity at the option of the issuer thereof on a specified date or dates. (General Resolution Section 12.1)

1993 Amendment to General Resolution

Substitute Resolution No. R93-770, adopted on July 20, 1993, provided for the amendment of the General Resolution, effective upon the payment or defeasance in full of the Metropolitan Government's Water and Sewer Revenue Bonds of 1986, which mature finally in 2006, and its Water and Sewer Revenue Bonds, Series 1992, which matured in 2003.

These amendments include creation of and establishing the priority of funding for a Subordinate Debt Fund, termination of certain duties of the Trustee, and provisions relating to the treatment of revenues and indebtedness of utility systems, which may from time to time be acquired by the Metropolitan Government, all as more specifically discussed below.

Subordinate Debt Fund. A Subordinate Debt Fund is created into which will be deposited all amounts required to be deposited into such Fund pursuant to any resolution authorizing any bonds payable from Revenues of the System but junior and subordinate to Bonds Outstanding under the Resolution and subordinate to Operating Expenses. Amounts held in the Subordinate Debt Fund shall be applied to the payment of any bonds or notes payable from the Revenues of the System, but junior and subordinate in all respects to Operating Expenses and any Series of Bonds authorized and Outstanding under the Resolution. The Subordinate Debt Fund will be funded from the Revenue Fund as hereinabove provided after the funding requirements of the Debt Service Fund, the Operating and Maintenance Fund, and the Debt Service Reserve Fund are met but before any other periodic funding requirements of the Funds described above. Currently, debt service on subordinate obligations may be paid only out of funds in the Extension and Replacement Fund after all other funding requirements are met.

Trustee. All duties of the Trustee prior to the occurrence of and notice to the Trustee of an Event of Default except those duties as Registrar and Paying Agent will be terminated. The Trustee will continue to act as Trustee upon notice of an Event of Default under the Resolution.

Acquisition of Additional Utility Systems. From time to time, the Metropolitan Government may acquire water or sewer systems of utility districts, sanitary districts or other public service districts whose public functions, services or duties are performed within the geographical jurisdiction of the Metropolitan Government ("Acquired Systems"). In the event of such acquisition, the Metropolitan Government may take subject to or assume the obligations of any such Acquired System. In such case said obligations will be payable from all the Revenue of the System on a parity and equality of lien with all Bonds authorized by Bond Resolution, or, in the alternative, the Metropolitan Government may elect to operate any such Acquired System independently of the System and continue to pay bonds and other obligations of the Acquired System solely from revenue of the Acquired System separate from the System.

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APPENDIX B

CALCULATION OF ADDITIONAL BONDS TEST



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Phone 704 • 373 • 1199
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www.raftelis.com

July 17, 2007

To the Metropolitan Government of Nashville and Davidson County
Department of Water and Sewerage Services

Raftelis Financial Consultants, Inc. ("RFC") has completed the calculation of historical debt service coverage for the Department of Water and Sewerage Services of the Metropolitan Government of Nashville and Davidson County ("Department"). This calculation is required under the Additional Bonds Coverage test as defined in Section 7.10 of the Substitute Resolution No. R85-762 adopted November 5, 1985 in order for the Department to issue \$38,258,631 of Water and Sewer Revenue Refunding Bonds, Series 2007A ("Series 2007A Bonds").

As described in Section 7.10 – Issuance of Additional Obligations, the Department must satisfy either of two requirements identified in Section 7.10 in order to issue the proposed Series 2007A Bonds. The calculated coverage ratio is structured to address the requirements of Part B (1) which states that Revenues for any twelve consecutive months in the eighteen calendar months immediately preceding the delivery of the Series of Bonds to be issued, are at least equal to the sum of the Operating Expenses for such twelve month period, plus 120% of the maximum Debt Service (including the proposed Additional Bonds) to occur in any future Fiscal Year. The calculation is based on information supplied for the Department for a twelve month period from April 1, 2006 through March 31, 2007. As shown in Attachment A, the Department meets the requirements of Section 7.10 B (1).

For additional information regarding the coverage calculation and the specific requirements of the Additional Bonds Coverage test, please refer to the attachment.

Sincerely,

Alexis F. Warmath, Vice President
Raftelis Financial Consultants, Inc.

Attachment

Metropolitan Government of Nashville and Davidson County
 Metro Water Services
 Water and Sewer Revenue Bond Coverage Calculation

Additional Bonds Test

Test No. 1

Revenues Available for Debt Service	\$	166,308,579
Operating Expenses	\$	91,726,494
120% of Maximum Debt Service (1)	\$	<u>62,968,772</u>
Total Operating Expenses plus 120% Maximum Debt Service	\$	154,695,266
Coverage (At Least 1.0 Required) (2)		1.0751

- (1) Maximum debt service occurs in FY 2013 (\$52,473,976) and includes debt service on all outstanding Bonds, including the proposed Series 2007A Bonds and any adjustments for those Series to be refunded by the Series 2007A Bonds.
- (2) Calculated by dividing Revenues Available for Debt Service by Total Operating Expenses plus 120% of Maximum Debt Service.

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APPENDIX C

**WATER AND SEWER ANNUAL
FINANCIAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2006
(excerpt from Metro Nashville and Davidson County 2006 Annual Financial Report)**

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2006

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Department of Water and Sewerage Services	District Energy System	Other Enterprise Funds	Total Enterprise Funds	
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 13,772,909	\$ 4,896,501	\$ 5,064,927	\$ 23,734,337	\$ 48,241,522
Investments	6,472,591	-	3,200,976	11,673,567	30,823,909
Accounts receivable	15,628,603	2,478,188	798,615	18,905,406	55,208
Allowance for doubtful accounts	(319,737)	-	(89,625)	(409,362)	-
Accrued interest receivable	275,437	26,791	22,436	324,664	231,753
Due from other funds of the primary government	411,305	-	182,076	593,381	9,147,180
Due from component units	-	-	-	-	6,619
Inventories of supplies	1,832,127	-	-	1,832,127	1,892,495
Other current assets	1,136	-	10,385	11,521	1,642,772
Restricted assets:					
Debt service and reserve funds:					
Cash and cash equivalents	879,314	-	-	879,314	-
Investments	35,909,027	4,294,597	-	40,203,624	-
Accrued interest receivable	-	33,955	-	33,955	-
Construction funds:					
Cash and cash equivalents	15,043,801	638,944	-	15,682,745	-
Investments	-	926,889	-	926,889	-
Accounts receivable	231,422	-	-	231,422	-
Due from other governmental agencies	4,201,159	-	-	4,201,159	-
Total current assets	<u>96,339,094</u>	<u>13,295,865</u>	<u>9,189,790</u>	<u>118,824,749</u>	<u>92,041,458</u>
CAPITAL AND OTHER NONCURRENT ASSETS:					
Capital assets:					
Utility plant in service	1,790,613,494	46,286,411	-	1,836,899,905	-
Land	8,283,972	1,311,213	6,819,222	16,414,407	-
Buildings and improvements	30,043,251	22,249,491	66,974,491	119,267,233	363,651
Improvements other than buildings	37,731,961	273,754	3,518,423	41,524,138	-
Furniture, machinery and equipment	35,751,956	886,904	4,676,363	41,315,223	112,911,242
Property under capital lease	-	-	3,645,000	3,645,000	-
Construction work in progress	87,595,430	3,428,742	865,569	91,889,741	984,775
Less accumulated depreciation	(608,140,650)	(4,188,761)	(39,759,628)	(652,089,039)	(81,208,233)
Capital assets - net	<u>1,381,879,414</u>	<u>70,247,754</u>	<u>46,739,440</u>	<u>1,498,866,608</u>	<u>33,051,635</u>
Restricted assets:					
Debt service and reserve funds:					
Investments	39,797,221	-	-	39,797,221	-
Construction funds:					
Cash and cash equivalents	39,423,405	-	-	39,423,405	-
Investments	33,766,234	-	-	33,766,234	-
Other noncurrent assets	5,352,728	1,481,470	-	6,834,198	-
Total capital and other noncurrent assets	<u>1,500,219,002</u>	<u>71,729,224</u>	<u>46,739,440</u>	<u>1,618,687,666</u>	<u>33,051,635</u>
Total assets	<u>1,596,558,096</u>	<u>85,025,089</u>	<u>55,929,230</u>	<u>1,737,512,415</u>	<u>125,093,093</u>

The accompanying notes are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS (CONTINUED)

June 30, 2006

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Department of Water and Sewerage Services	District Energy System	Other Enterprise Funds	Total Enterprise Funds	
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	\$ 3,657,586	\$ 1,397,073	\$ 1,409,675	\$ 6,464,334	\$ 8,918,864
Accrued payroll	1,623,352	-	1,071,810	2,695,162	4,683,111
Claims payable	-	-	-	-	19,257,945
Due to other funds of the primary government	142,607	86,884	3,063,897	3,293,388	5,152,754
Due to component units	-	-	233	233	-
Customer deposits	3,313,514	-	74,999	3,388,513	-
Deferred revenue	-	-	609,208	609,208	-
Current portion of capital lease	-	-	160,000	160,000	-
Other current liabilities	3,148,300	-	14,204	3,162,504	-
Liabilities payable from restricted assets:					
Debt service and reserve funds:					
Accrued interest payable	12,517,221	975,317	-	13,492,538	-
Current portion of long term debt	27,280,000	1,475,000	-	28,755,000	-
Construction funds:					
Accounts payable	16,848,166	-	-	16,848,166	-
Current portion of state construction loans	2,602,116	-	-	2,602,116	-
Other restricted liabilities	26,100	-	-	26,100	-
Due to other funds of the primary government	712,324	-	-	712,324	-
Total current liabilities	<u>71,871,286</u>	<u>3,934,274</u>	<u>6,404,026</u>	<u>82,209,586</u>	<u>38,012,674</u>
NONCURRENT LIABILITIES:					
Revenue bonds payable	403,265,200	66,403,028	-	469,668,228	-
General obligation bonds payable	-	7,943,906	-	7,943,906	-
State construction loans	60,035,548	-	-	60,035,548	-
Capitalized lease obligations	-	-	1,620,000	1,620,000	-
Total noncurrent liabilities	<u>463,300,748</u>	<u>74,346,934</u>	<u>1,620,000</u>	<u>539,267,682</u>	<u>-</u>
Total liabilities	<u>535,172,034</u>	<u>78,281,208</u>	<u>8,024,026</u>	<u>621,477,268</u>	<u>38,012,674</u>
NET ASSETS:					
Invested in capital assets, net of related debt	967,238,916	(1,572,500)	44,959,440	1,010,625,856	33,051,635
Restricted for debt retirement	64,068,341	3,353,235	-	67,421,576	-
Restricted for construction	2,602,116	-	-	2,602,116	-
Unrestricted	27,476,689	4,963,146	2,945,764	35,385,599	54,028,784
Total net assets	<u>\$ 1,061,386,062</u>	<u>\$ 6,743,881</u>	<u>\$ 47,905,204</u>	<u>1,116,035,147</u>	<u>\$ 87,080,419</u>
Adjustment to reflect the consolidation of Internal service fund activities related to enterprise funds				(10,816,900)	
Net assets of business-type activities				<u>\$ 1,105,218,247</u>	

The accompanying notes are an integral part of this financial statement.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds				Governmental Activities - Internal Service Funds
	Department of Water and Sewerage Services	District Energy System	Other Enterprise Funds	Total Enterprise Funds	
OPERATING REVENUES:					
Charges for services	\$ 155,055,509	\$ 17,298,092	\$ 14,364,184	\$ 186,717,785	\$ 182,336,484
Other	771,345	-	5,827	777,172	569,034
Total operating revenues	<u>155,826,854</u>	<u>17,298,092</u>	<u>14,370,011</u>	<u>187,494,957</u>	<u>182,905,518</u>
OPERATING EXPENSES:					
Personal services	36,303,470	57,907	8,104,556	44,465,933	33,548,626
Contractual services	30,671,986	13,485,183	7,448,896	51,606,065	31,803,086
Supplies and materials	6,895,700	108,258	467,608	7,471,566	12,883,706
Depreciation	47,204,986	1,858,022	1,977,261	51,040,269	11,970,202
Amortization	380,602	55,003	-	435,605	-
Compensation for damages to property	-	-	-	-	1,832,350
Medical and insurance benefits	-	-	-	-	111,582,397
Other	4,421,708	36,221	463,385	4,921,314	4,816,712
Total operating expenses	<u>125,878,452</u>	<u>15,600,594</u>	<u>18,461,706</u>	<u>159,940,752</u>	<u>208,437,079</u>
OPERATING INCOME (LOSS)	<u>29,948,402</u>	<u>1,697,498</u>	<u>(4,091,695)</u>	<u>27,554,205</u>	<u>(25,531,561)</u>
NONOPERATING REVENUE (EXPENSE):					
Investment income	5,899,974	407,965	222,063	6,529,992	2,307,227
Interest expense	(26,812,319)	(3,595,401)	(158,790)	(30,566,510)	(74,115)
Gain (loss) on sale of property	280,948	-	(36)	280,912	336,754
Other	(1,234)	(56,931)	-	(58,165)	56,616
Total nonoperating revenue (expense)	<u>(20,632,631)</u>	<u>(3,244,367)</u>	<u>63,227</u>	<u>(23,813,771)</u>	<u>2,626,482</u>
INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL GRANTS AND CONTRIBUTIONS					
	<u>9,315,771</u>	<u>(1,546,869)</u>	<u>(4,028,468)</u>	<u>3,740,434</u>	<u>(22,905,079)</u>
CAPITAL GRANTS AND CONTRIBUTIONS	25,609,986	-	2,526,401	28,136,387	-
TRANSFERS IN	-	2,173,100	6,284,180	8,457,280	33,508,048
TRANSFERS OUT	<u>(24,122,260)</u>	<u>(91,161)</u>	<u>(3,253,517)</u>	<u>(27,466,938)</u>	<u>(16,029,335)</u>
CHANGE IN NET ASSETS	10,803,497	535,070	1,528,596	12,867,163	(5,426,366)
NET ASSETS, beginning of year, as restated (Note 3)	<u>1,050,582,565</u>	<u>6,208,811</u>	<u>46,376,608</u>		<u>92,506,785</u>
NET ASSETS, end of year	<u>\$ 1,061,386,062</u>	<u>\$ 6,743,881</u>	<u>\$ 47,905,204</u>		<u>\$ 87,080,419</u>
Adjustment to reflect the consolidation of Internal service fund activities related to enterprise funds				<u>(3,392,551)</u>	
Change in net assets of business-type activities				<u>\$ 9,474,612</u>	

The accompanying notes are an integral part of this financial statement.

APPENDIX D

CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE

The Metropolitan Government will at the time the Bonds are delivered execute a Continuing Disclosure Certificate under which it will covenant for the benefit of holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Metropolitan Government by not later than nine months after the end of the fiscal year commencing with the fiscal year ending June 30, 2007 (the "Annual Report"), and to provide notice of the occurrence of certain enumerated events, if determined by the Metropolitan Government to be material under applicable federal securities laws. The Annual Report (and audited financial statements if filed separately) will be filed by the Metropolitan Government with each Nationally Recognized Municipal Securities Information Repository (the "Repositories") and any State Information Depository which may be established in Tennessee (the "SID"). If the Metropolitan Government is unable to provide the Annual Report to the Repositories and the SID, if any, by the date set forth above for the filing of the Annual Report, notice of such failure shall be sent to the Repositories and the SID, if any, on or before such date. The notices of material events will be filed by the Metropolitan Government either with the Repositories or with the Municipal Securities Rulemaking Board and any SID. The specific nature of the information to be contained in the Annual Report or the notices of material events is summarized below. These covenants have been made in order to assist the Purchaser in complying with SEC Rule 15c2-12(b) (the "Rule"). The Metropolitan Government has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide Annual Reports or notices of Material Events.

Content of Annual Reports. The Metropolitan Government's Annual Report shall contain or incorporate by reference the audited financial statements of the Department for the 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 herein, and the audited financial statements shall be filed when available. The Annual Report shall also include the following information:

1. The historical information and data described under the heading, "HISTORICAL STATEMENT OF REVENUES, EXPENSES, DEBT, AND DEBT SERVICE COVERAGE;"
2. The operating data of the type presented under the heading, "THE WATER AND SEWER SYSTEM;" and,
3. The operating data of the type presented under the heading "THE WATER AND SEWER SYSTEM IMPROVEMENT PLAN."

Any or all of the items above may be incorporated by reference from other documents, including OFFICIAL STATEMENTS in final form for debt issues of the Metropolitan Government or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final OFFICIAL STATEMENT, in final form, it will be available from the Municipal Securities Rulemaking Board. The Metropolitan Government shall clearly identify each such other document so incorporated by reference.

Reporting of Significant Events. The Metropolitan Government will file notice regarding material events either with the Repositories or with the Municipal Securities Rulemaking Board and SID, if any, as follows:

1. Whenever the Metropolitan Government obtains knowledge of the occurrence of a Listed Event (as defined in (3) below), the Metropolitan Government shall as soon as possible determine if such event would be material under applicable Federal securities laws.
2. If the Metropolitan Government determines that knowledge of the occurrence of a Listed Event would be material (under applicable Federal securities laws), the Metropolitan Government shall promptly file a notice of such occurrence either with the Repositories or with the Municipal Securities Rulemaking Board and SID, if any. Notwithstanding the foregoing, notice of Listed Events described in subsection (3)(h) and (i) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Resolution.
3. The following are the Listed Events:
 - a. Principal and interest payment delinquencies;
 - b. Non-payment related defaults;
 - c. Unscheduled draws on debt service reserves reflecting financial difficulties;
 - d. Unscheduled draws on credit enhancements reflecting financial difficulties;
 - e. Substitution of credit or liquidity providers, or their failure to perform;
 - f. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
 - g. Modifications to rights of security Bondholders;
 - h. Bond calls;
 - i. Defeasances;
 - j. Release, substitution, or sale of property securing repayment of the Bonds; and
 - k. Rating changes.

Termination of Reporting Obligation. The Metropolitan Government's obligations under the Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds.

Amendment; Waiver. Notwithstanding any other provision of the Disclosure Certificate, the Metropolitan Government may amend the Disclosure Certificate, and any provision of the Disclosure Certificate may be waived, provided that the following conditions are satisfied:

- (a) If the amendment or waiver relates to the provisions concerning the Annual Report and Reporting of Significant Events it may only be made in connection with a change in circumstances that

arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of Holders, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Holders or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of the Disclosure Certificate, the Metropolitan Government shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Metropolitan Government. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Default. In the event of a failure of the Metropolitan Government to comply with any provision of the Disclosure Certificate, any Bondholder or any Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Metropolitan Government to comply with its obligations under the Disclosure Certificate. A default under the Disclosure Certificate shall not be deemed an event of default, if any, under the Resolution, and the sole remedy under the Disclosure Certificate in the event of any failure of the Metropolitan Government to comply with the Disclosure Certificate shall be an action to compel performance.

Central Post Office Filing. Any filing required may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at <http://www.disclosureusa.org> unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

APPENDIX E

FORM OF OPINION OF BOND COUNSEL

(Form of Opinion of Bond Counsel)

Bass, Berry & Sims PLC
AmSouth Center
315 Deaderick Street, Suite 2700
Nashville, Tennessee 37238-3001

(Closing Date)

Metropolitan County Council
of the Metropolitan Government of
Nashville and Davidson County
Nashville, Tennessee

Merrill Lynch & Company, Inc.
New York, NY

We have acted as bond counsel in connection with the issuance by The Metropolitan Government of Nashville and Davidson County (Tennessee) (the "Issuer") of its \$36,240,000 Water and Sewer Revenue Refunding Bonds, Series 2007, dated the date hereof (the "Series 2007 Bonds"). In such capacity, we have examined the law and such certified proceedings and other documents as we deemed necessary to render this opinion, including, but not limited to, Substitute Resolution No. R85-762 adopted by the Metropolitan County Council of the Issuer (the "Metropolitan Council") on November 5, 1985, as supplemented and amended by Resolution No. R86-1121 adopted by the Metropolitan Council on October 7, 1986, Resolution No. R89-919 adopted by the Metropolitan Council on October 3, 1989, Substitute Resolution No. R92-341 adopted by the Metropolitan Council on August 4, 1992, Substitute Resolution No. R93-770 adopted by the Metropolitan Council on July 20, 1993, Substitute Resolution No. R96-242 adopted by the Metropolitan Council on April 16, 1996, Substitute Resolution No. R98-1004 adopted by the Metropolitan Council on January 20, 1998, Substitute Resolution No. R98-1018 adopted by the Metropolitan Council on February 3, 1998, Resolution No. RS2002-1211 adopted by the Metropolitan Council on October 15, 2002, Resolution No. RS2007-2066 adopted by the Metropolitan Council on June 19, 2007 and Resolution No. RS2007-2081 adopted by the Metropolitan Council on July 17, 2007 (collectively, the "Resolution") authorizing, among other things, the issuance and sale of the Series 2007 Bonds.

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

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

1. The Series 2007 Bonds have been duly authorized, executed and issued in accordance with the constitution and laws of the State of Tennessee and are valid and binding obligations of the Issuer.
2. The Resolution of the Metropolitan Council authorizing the Series 2007 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, premium, if any, and interest on the Series 2007 Bonds are payable solely from, and secured by, a pledge of the income and revenues to be derived from the operation of the water and sewerage systems of the Issuer (collectively, the "System"), on a complete parity and quality of lien with the Issuer's outstanding Water and Sewer Revenue Refunding Bonds of 1986, its Water and Sewer Revenue Refunding Bonds, Series 1993, its Water and Sewer Revenue Refunding Bonds, Series 1996, its Water and Sewer Revenue Refunding Bonds, Series 1998A, its Water and Sewer Revenue Bonds, Series 1998B, its Water and Sewer Revenue Refunding Bonds, Series 2002, and any bonds hereafter issued on a parity therewith under the terms of the Resolution; subject only to the payment of the reasonable and necessary costs of operating, maintaining, repairing and insuring the System. We express no opinion as to the sufficiency of any of such revenues for the payment of principal of, premium, if any, or interest on the Series 2007 Bonds.
4. Interest on the Series 2007 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. 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 Series 2007 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 Series 2007 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2007 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 Series 2007 Bonds.
5. Under existing law, the Series 2007 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 the Series 2007 Bonds during the period such Series 7002 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 value of the Series 2007 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 Series 2007 Bonds and the enforceability of the Series 2007 Bonds and the resolution authorizing the Series 2007 Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Series 2007 Bonds.

This opinion is given as of the date hereof, and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Bass, Berry & Sims PLC

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APPENDIX F

INFORMATION RELATED TO DEPOSITORY TRUST COMPANY

INFORMATION RELATED TO DEPOSITORY TRUST COMPANY

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds (the “Securities”). The Securities 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 Security certificate will be issued for the Securities, in the aggregate principal amount of such issue, and will be deposited with DTC.
2. DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC’s records. The ownership interest of each actual purchaser of each Security (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities 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 Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities 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 Securities with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Securities 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.
5. 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 Securities may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Securities, such as redemptions, defaults, and proposed amendments to the security documents. Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.
6. Redemption notices shall be sent to DTC. If less than all the securities shall be called for redemption, the maturities to be redeemed shall be selected by the Metropolitan Council in its discretion. If less than all of the Securities within a maturity of an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.
 7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Securities. 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
 8. Redemption proceeds, distributions, and dividend payments on the Securities 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 Paying Agent on payable date 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, Paying 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, distributions, and dividends to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Metropolitan Government or Paying Agent, 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.
 9. DTC may discontinue providing its services as securities depository with respect to the Securities at any time by giving reasonable notice to the Metropolitan Government or Paying Agent. Under such circumstances, in the event that a successor securities depository is not obtained, Security certificates are required to be printed and delivered.
 10. 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, Security certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Metropolitan Government believes to be reliable, but the Metropolitan Government takes no responsibility for the accuracy thereof.

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APPENDIX G

**FORM OF INSURANCE POLICY
MBIA Insurance Corporation**

FINANCIAL GUARANTY INSURANCE POLICY
MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration, unless the Insurer elects, in its sole discretion, to pay in whole or in part any principal due by reason of such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary