

OFFICIAL STATEMENT

NEW ISSUE
Book Entry Only

Moody's: Aaa (Insured)
Aa3 (Underlying)
Standard & Poor's: AAA (Insured)
AA- (Underlying)
Fitch Ratings: AAA (Insured)
AA- (Underlying)
(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 Series 2008A 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. Interest on the Series 2008B Bonds will not be excluded from gross income for federal income tax purposes. 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, both series of 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).

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY (TENNESSEE)

\$122,530,000 Water and Sewer Revenue Refunding Bonds, Series 2008A
\$27,950,000 Water and Sewer Revenue Refunding Bonds, Series 2008B (Taxable)

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 \$122,530,000 Water and Sewer Revenue Refunding Bonds, Series 2008A (the "Series 2008A Bonds") and its \$27,950,000 Water and Sewer Revenue Refunding Bonds, Series 2008B (Taxable) (the "Series 2008B Bonds" and, together with the Series 2008A Bonds, 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 July 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") ON A PARITY AND COMPLETE EQUALITY OF LIEN WITH CERTAIN OTHER OBLIGATIONS OF THE METROPOLITAN GOVERNMENT AS DESCRIBED HEREIN 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.

The scheduled payment of principal and interest on the Bonds will be guaranteed by a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by FINANCIAL SECURITY ASSURANCE INC.



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 to the Metropolitan Government. Certain legal matters will be passed upon for the Metropolitan Government by Sue B. Cain, Director of Law, and for the Underwriters by Bone McAllester & Norton PLLC. It is expected that the Bonds will be available for delivery through the Depository Trust Company in New York, New York, on or about March 12, 2008.

MORGAN KEEGAN & COMPANY, INC.

WILEY BROS. - AINTREE CAPITAL, LLC

MERRILL LYNCH & CO.

LEHMAN BROTHERS

HARVESTONS SECURITIES, INC.

Dated: February 22, 2008

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

**\$122,530,000 Water and Sewer Revenue Refunding Bonds,
Series 2008A**

<u>Maturity (January 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP⁽¹⁾</u>
2011	\$5,125,000	3.250%	2.680%	592098 D20
2012	650,000	3.250	2.900	592098 D38
2012	4,635,000	5.000	2.900	592098 D46
2013	5,115,000	3.250	2.970	592098 D53
2014	5,285,000	3.500	3.170	592098 D61
2015	5,530,000	3.500	3.320	592098 D79
2016	3,350,000	3.500	3.510	592098 D87
2016	8,550,000	5.000	3.510	592098 D95
2017	5,185,000	3.750	3.670	592098 E29
2017	7,265,000	5.000	3.670	592098 E37
2018	3,030,000	4.000	3.810	592098 E45
2018	10,000,000	5.000	3.810	592098 E52
2019	13,630,000	5.250	3.970	592098 E60
2020	14,275,000	5.250	4.090	592098 E78
2021	15,100,000	5.250	4.190	592098 E86
2022	15,805,000	5.250	4.270	592098 E94

**\$27,950,000 Water and Sewer Revenue Refunding Bonds,
Series 2008B (Taxable)**

<u>Maturity (January 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>CUSIP⁽¹⁾</u>
2009	\$ 95,000	3.450%	3.450%	592098 F28
2010	100,000	3.850	3.850	592098 F36
2011	105,000	3.950	3.950	592098 F44
2012	105,000	4.050	4.050	592098 F51
2013	115,000	4.250	4.250	592098 F69
2014	120,000	4.400	4.400	592098 F77
2015	21,850,000	4.740	4.740	592098 F85
2016	5,460,000	4.840	4.840	592098 F93

⁽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.

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement in connection with the offering contained herein, and if given or made, such other information or representations must not be relied upon. 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 by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The delivery of this Official Statement at any time does not imply that any information herein is correct as of any time subsequent to its date. Any statements in this Official Statement involving estimates, assumptions and matters of opinion, whether or not so expressly stated, are intended as such and not representations of fact. The information contained in this Official Statement has been obtained from representatives of the Issuer and the Bond Insurer, public documents, records and other sources considered reliable, but is not guaranteed as to its accuracy or completeness.

NO REGISTRATION STATEMENT RELATING TO THE SERIES 2008 BONDS HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (“SEC”) OR ANY STATE SECURITIES AGENCY. THE BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE SECURITIES AGENCY, NOR HAS THE SEC OR ANY STATE SECURITIES AGENCY PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

In making an investment decision, investors must rely on their own examination of the Metropolitan Government, the System, the Bond Insurer and the terms of the offering, including the merits and risks involved.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning the Bond Insurer contained under the caption “BOND INSURANCE” and Appendix H, none of the information in this Official Statement has been supplied or verified by the Bond Insurer and the Bond Insurer makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Series 2008A Bonds.

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) or (lannie.holland@nashville.gov).

This Preliminary Official Statement is deemed to be final (except for permitted omissions) for purposes of complying with Rule 15c2-12 of the Securities and Exchange Commission.

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GOVERNMENT OFFICIALS

THE METROPOLITAN GOVERNMENT OF NASHVILLE
AND DAVIDSON COUNTY
(TENNESSEE)

The Honorable Karl F. Dean
Metropolitan Mayor

The Honorable Diane Neighbors
Vice Mayor
President of the Metropolitan Council

Richard M. Riebeling
Director of Finance

Sue B. Cain
Director of Law

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

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	The Metropolitan Government of Nashville and Davidson County (Tennessee) (the “Metropolitan Government”) \$122,530,000 Water and Sewer Revenue Refunding Bonds, Series 2008A (the “Series 2008A Bonds”) and \$27,950,000 Water and Sewer Revenue Refunding Bonds, Series 2008B (Taxable) (the “Series 2008B Bonds”) (together, the “Bonds”).
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. 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	\$5,000 or any integral multiple thereof.
DATE OF ISSUE, DELIVERY	The Bonds will be delivered on or about March 12, 2008 and will be dated as of the date of their delivery.
INTEREST PAYMENTS	Interest is payable on January 1 and July 1, commencing July 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 maturity.
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. 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 refunding bonds or 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 Financial Security Assurance Inc. simultaneously with the delivery of the Bonds.

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 Series 2008A 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. Interest on the Series 2008B Bonds will not be excluded from gross income for federal income tax purposes. For an explanation of certain tax consequences under federal law that may result from the ownership of the Series 2008A Bonds, see the discussion under the heading “Tax Matters” herein. Under existing law, both series of 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).

BOND COUNSEL..... Bass, Berry & Sims PLC, Nashville, Tennessee

FINANCIAL ADVISOR Public Financial Management, Inc.

UNDERWRITERS Morgan Keegan & Company, Inc., Lehman Brothers, Merrill Lynch & Co., Wiley Bros.—Aintree Capital, LLC, and Harvestons Securities, Inc.

PAYING AGENT/ESCROW AGENT/
REGISTRAR/TRUSTEE..... Deutsche Bank National Trust Company, Olive Branch, Mississippi

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

**\$122,530,000 Water and Sewer Revenue Refunding Bonds, Series 2008A
\$27,950,000 Water and Sewer Revenue Refunding Bonds, Series 2008B (Taxable)**

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 \$122,530,000 Water and Sewer Revenue Refunding Bonds, Series 2008A (the "Series 2008A Bonds") and \$27,950,000 Water and Sewer Revenue Refunding Bonds, Series 2008B (Taxable) (the "Series 2008B Bonds") (together, the "Bonds").

The Bonds are to be issued under and subject to the provisions of Title 9, Chapter 21 and Title 7, Chapter 34 of Tennessee Code Annotated, as amended, (collectively the "Act") and pursuant to a bond resolution adopted by the Metropolitan County Council (the "Council"), the Metropolitan Government's governing body, on November 5, 1985. This 1985 Resolution has since been supplemented and amended, and is hereafter referred to, in its supplemented and amended form, as the "General Bond Resolution". On February 5, 2008, the Council adopted a resolution (the "2008 Supplementing Resolution") authorizing the issuance of the Bonds, and further supplementing and amending the General Bond Resolution. The General Resolution, as supplemented and amended by the February 5, 2008 Council resolution, is referred to herein as the "Resolution." The Resolution is summarized in Appendix A, "Summary of Certain Provisions of the General Resolution," and capitalized terms not defined in the body of this Official Statement shall have the meanings ascribed in Appendix A, "Summary of Certain Provisions of the General Resolution." The 2008 Supplementing Resolution includes certain amendments that apply to the Bonds, but which will not become effective until the occurrence of certain events as described in Appendix A, "Summary of Certain Provisions of the General Resolution – 2008 Amendment to General Resolution."

Certain financial, operating and demographic information regarding the Metropolitan Government and its Water and Sewer System is set forth in the appendices hereto. Specifically, (1) Appendix B contains the audited financial statements for the Water and Sewer Department of the Metropolitan Government for the year ended June 30, 2007 (as part of the Metropolitan Government's government-wide audited financial statements), (2) Appendix C contains certain financial and operating information regarding the Metropolitan Government's Water and Sewer System, (3) Appendix D contains certain demographic information related to the Metropolitan Government, and (4) Appendix E contains a certificate prepared by Raftelis Financial Consultants, Inc., the rate consultant for the Metropolitan Government's Water and Sewer System, regarding the System's compliance with the Additional Bonds Test included in the 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. The Metropolitan Government is pursuing the refunding because it will result in debt service savings due to lower interest rates.

Plan of Refunding

The Series 2008A Bonds were offered to (1) refund \$127,775,000 of the Metropolitan Government's outstanding Water and Sewer Revenue Refunding Bonds, Series 1998A, maturing January 1, 2011 through January 1, 2019 and on January 1, 2022, and \$785,000 of the Metropolitan Government's outstanding Water and Sewer Revenue Bonds, Series 1998B, maturing January 1, 2011 through January 1, 2012; and (2) pay costs of issuance associated with the Series 2008A Bonds.

The Series 2008B Bonds were offered to (1) refund \$27,525,000 of the Metropolitan Government's outstanding Water and Sewer Revenue Refunding Bonds, Series 1986, maturing January 1, 2016 (such Series 1986 Bonds, together with the Series 1998A and 1998B Bonds described in the preceding paragraph, may be hereafter described as the "Refunded Bonds"); and (2) pay costs of issuance associated with the Series 2008B Bonds.

A portion of the proceeds of the sale of the Bonds, along with other monies of the Metropolitan Government, 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 on their earliest practicable redemption date following delivery of the 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, were verified by Robert Thomas CPA, LLC (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 approximately 30 days following the issuance of the Bonds.

General

The Bonds will be issued as fully registered bonds 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 July 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 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 and interest on the Bonds when due.

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 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 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; or (v) any consent given or other action taken by DTC, or its nominee, Cede & Co., as owner.

Optional Redemption

The Bonds are not subject to redemption prior to maturity.

SECURITY AND SOURCE OF PAYMENT

Limited Obligations

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.

Flow of Funds

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. The Outstanding Bonds on that date will consist of (i) the remaining balance of the Water and Sewer Revenue Refunding Bonds of 1986, (ii) the Water and Sewer Revenue Refunding Bonds, Series 1993, (iii) the remaining balance of the Water and Sewer Revenue Refunding Bonds, Series 1998A not refunded by the Series 2008A Bonds; (iv) the remaining balance of the Water and Sewer Revenue Bonds, Series 1998B not refunded by the Series 2008A Bonds, (v) the Water and Sewer Revenue Refunding Bonds, Series 2002, (vi) the Water and Sewer Revenue Refunding Bonds, Series 2007 and (vii) 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 provider of any credit enhancement on any Outstanding Bonds 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).

The Resolution authorizes the Metropolitan Government to satisfy the Debt Service Reserve Requirement by providing to the Trustee a debt service reserve fund surety bond with a face amount equal to the Debt Service Reserve Requirement; provided that the issuer of such a reserve fund surety bond shall be, at the issuance of the surety bond, rated “Aaa” by Moody’s Investors Service, Inc. and “AAA” by Standard & Poor’s Ratings. In 2007, the Metropolitan Government purchased such a debt service reserve fund surety bond meeting the requirements of the Resolution from MBIA Insurance Corporation (“MBIA”). MBIA’s reserve fund surety bond satisfies the Debt Service Reserve Requirement for all of the Outstanding Parity Bonds, including the Bonds. The Metropolitan Government is not required to replace the MBIA surety bond, or replenish the Debt Service Reserve Fund with cash, upon a downgrade of MBIA’s credit rating below “Aaa” by Moody’s Investors Service, Inc. or “AAA” by Standard & Poor’s Ratings.

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 Metropolitan Government has satisfied these Additional Bond requirements in connection with the issuance of the Bonds. The report of the Rate Consultant demonstrating compliance is attached hereto as Appendix E.

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Other Indebtedness Payable from Revenues

The Metropolitan Government is party to State Revolving Fund Loan Agreements ("SRF Loans") with agencies of the State of Tennessee. The proceeds of the SRF Loans have been used to finance improvements to the Water and Sewer System. The Metropolitan Government's obligations under the SRF Loans are payable from the Revenues on a subordinate basis to any Bonds outstanding under the Resolution. Payments on the SRF Loans are made from amounts on deposit in the Extension and Replacement Fund. The aggregate estimated principal and interest requirements on the SRF Loans are set forth below. The table below does not reflect a \$33,000,000 SRF Loan Commitment recently made by the State of Tennessee.

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 2,722,176	\$ 3,860,394	\$ 6,582,570
2009	7,396,080	4,948,740	12,344,820
2010	7,655,789	4,689,043	12,344,832
2011	7,925,222	4,419,598	12,344,820
2012	8,204,747	4,140,085	12,344,832
2013	8,494,731	3,850,089	12,344,820
2014	8,795,631	3,549,189	12,344,820
2015	9,107,879	3,236,953	12,344,832
2016	9,187,877	2,917,951	12,105,828
2017	9,512,866	2,592,962	12,105,828
2018	7,507,673	2,302,891	9,810,564
2019	7,751,814	2,058,749	9,810,564
2020	7,784,753	1,808,517	9,593,270
2021	6,617,345	1,583,879	8,201,224
2022	6,529,100	1,403,152	7,932,252
2023	6,713,220	1,219,032	7,932,252
2024	6,902,533	1,029,719	7,932,252
2025	7,097,185	835,067	7,932,252
2026	7,297,325	634,927	7,932,252
2027	7,503,110	429,142	7,932,252
2028	7,714,697	217,554	7,932,252
TOTAL	\$158,421,753	\$51,727,632	\$210,149,385

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2007, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,691,965,000 and its total net unearned premium reserve was approximately \$2,201,808,000 in accordance with statutory accounting principles. At September 30, 2007, Financial Security's consolidated shareholder's equity was approximately \$2,975,654,000 and its total net unearned premium reserve was approximately \$1,721,678,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2006 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Bonds or the advisability of investing in the Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

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SOURCES AND USES OF FUNDS

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

<u>Series 2008A Bonds</u>		<u>Series 2008B Bonds</u>	
SOURCES OF FUNDS		SOURCES OF FUNDS	
Par Amount of Bonds	\$122,530,000.00	Par Amount of Bonds	\$27,950,000.00
Original Issue Premium	9,503,684.50	Original Issue Premium	-0-
Issuer Contribution	<u>1,035,106.33</u>	Issuer Contribution	<u>251,937.23</u>
TOTAL	\$133,068,790.84	TOTAL	\$28,201,937.24
USE OF FUNDS		USE OF FUNDS	
Deposit to Escrow	\$131,353,641.40	Deposit to Escrow	\$27,899,616.06
Costs of Issuance*	1,064,896.93	Costs of Issuance*	148,596.17
Purchaser's Discount	<u>650,252.50</u>	Purchaser's Discount	<u>153,725.00</u>
TOTAL	\$133,068,790.83	TOTAL	\$28,201,937.23

*Includes premium for bond insurance policy.

DEBT SERVICE REQUIREMENTS

The following table details the total annual debt service requirements for the bonds currently outstanding under the Resolution.

Fiscal Year	Water & Sewer			Water & Sewer		Water & Sewer	Water & Sewer	Water & Sewer	Water & Sewer	Total
	Revenue Refunding Series 1986	Water & Sewer Revenue Series 1993	Water & Sewer Revenue Series 1996	Water & Sewer Revenue Refunding Series 1998A*	Water & Sewer Revenue Refunding Series 1998B*	Water & Sewer Revenue Refunding Series 2002	Water & Sewer Revenue Refunding Series 2007	Water & Sewer Revenue Refunding Series 2008A	Water & Sewer Revenue Refunding Series 2008B	
6/30/2008	7,291,900	13,876,605	7,635,888	4,924,038	7,397,145	1,426,031	749,463	-	-	43,301,070
6/30/2009	28,396,900	6,985,105	-	4,919,788	1,310,645	1,426,031	1,996,800	4,636,333	1,159,202	50,830,803
6/30/2010	28,401,815	6,989,655	-	4,906,275	1,310,070	1,426,031	1,997,875	5,775,363	1,422,372	52,229,455
6/30/2011	28,406,220	6,968,080	-	-	928,463	1,426,031	1,998,525	10,900,363	1,423,522	52,051,203
6/30/2012	28,400,490	6,933,180	-	-	928,463	1,426,031	1,998,750	10,893,800	1,419,374	52,000,088
6/30/2013	-	16,185,020	-	-	9,548,463	1,426,031	12,708,550	10,470,925	1,425,122	51,764,110
6/30/2014	-	-	-	-	9,540,913	17,191,031	12,710,550	10,474,688	1,425,234	51,342,415
6/30/2015	-	-	-	-	-	6,518,075	11,035,050	10,534,713	23,149,954	51,237,792
6/30/2016	-	-	-	-	-	6,475,700	2,564,550	16,711,163	5,724,264	31,475,677
6/30/2017	-	-	-	-	-	-	-	16,716,413	-	16,716,413
6/30/2018	-	-	-	-	-	-	-	16,738,725	-	16,738,725
6/30/2019	-	-	-	-	-	-	-	16,717,525	-	16,717,525
6/30/2020	-	-	-	-	-	-	-	16,646,950	-	16,646,950
6/30/2021	-	-	-	-	-	-	-	16,646,950	-	16,646,950
6/30/2022	-	-	-	-	-	-	-	16,722,513	-	16,722,513
Total	120,897,325	57,937,645	7,635,888	14,750,100	30,964,160	38,740,994	47,760,113	180,586,420	37,149,042	536,421,687

*Excludes the Refunded Bonds.

FINANCIAL, OPERATING AND DEMOGRAPHIC INFORMATION

Certain financial, operating and demographic information regarding the Metropolitan Government and its Water and Sewer System is set forth in the appendices hereto. Specifically, (1) Appendix B contains the audited financial statements for the Water and Sewer Department of the Metropolitan Government for the year ended June 30, 2007 (as part of the Metropolitan Government's government-wide audited financial statements), (2) Appendix C contains certain financial and operating information regarding the Metropolitan Government's Water and Sewer System, (3) Appendix D contains certain demographic information related to the Metropolitan Government, and (4) Appendix E contains a certificate prepared by the Rate Consultant, regarding the System's compliance with the Additional Bonds Test included in the Resolution.

ADDITIONAL BORROWING PLANS

The Metropolitan Government intends to issue additional bonds and enter into future SRF Loans for the purpose of constructing improvements to the Water and Sewer System. A detailed description of the Metropolitan Government's additional borrowing plans and the current financial constraints thereon, are set forth in Appendix C hereto, under the heading "The Water and Sewer System Improvement Plan".

LITIGATION AND OTHER PROCEEDINGS

There are no pending, nor to the knowledge of the Metropolitan Government are there threatened, any legal proceedings restraining, enjoining, or adversely affecting the issuance or delivery of the Bonds, the fixing or collecting of rates and charges for the services of the System other than as described in Appendix C under the heading "Wholesale Customers" the proceedings and authority under which the Bonds are to be issued or which affect in any way the validity of the Bonds. The Metropolitan Government is currently in litigation seeking to require certain Wholesale Customers to pay the increased wholesale sewage treatment rates implemented by the Metropolitan Government's Department of Water and Sewerage Services (the "Department"). The Metropolitan Government cannot predict the outcome of this litigation nor how the outcome may affect collections of increased rates from other Wholesale Customers. For further information refer to Appendix C under the heading "Wholesale Customers."

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, 2008 (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 historical and operating information of the type set forth in Appendix C.

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 Filings. Notwithstanding anything herein to the contrary, any filing required by this certificate 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.

TAX MATTERS

Federal Taxes

Series 2008A Bonds

In the opinion of Bass, Berry & Sims PLC, Bond Counsel, interest on the Series 2008A 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 Series 2008A 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 Series 2008A Bonds to be so included in gross income retroactive to the date of issuance of the Series 2008A Bonds.

Prospective purchasers of the Series 2008A Bonds should be aware that ownership of the Series 2008A 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 Series 2008A Bonds. Bond Counsel will not express any opinion as to such collateral tax consequences. Prospective purchasers of the Series 2008A Bonds should consult their tax advisors as to collateral federal income tax consequences.

The initial public offering price of the Series 2008A Bonds 3.50% maturing January 1, 2016 (the "Discount Bonds") is less than the amount payable at maturity. An amount not less than the difference between the initial public offering price of the Discount Bonds and the amount payable at maturity constitutes "original issue discount," which will be excludable from gross income for federal income tax purposes.

Under Section 1288 of the Internal Revenue Code of 1986, as amended, original issue discount on tax-exempt bonds accrues on a compound basis. The amount of original issue discount that accrues to an owner of a Discount Bond during any accrual period generally equals (i) the issue price of such Discount Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity of such Discount Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), minus (iii) any interest payable on such Discount Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excludable from gross income for federal income tax purposes, and will increase the owner's tax basis in such Discount Bond. A portion of the original issue discount that accrues in each year to an owner of a Discount Bond which is a corporation will not be excluded from the calculation of the corporation's alternative minimum tax liability. Consequently, corporate owners of the Discount Bonds should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability although the owners of such Discount Bonds have not received cash attributable to such original issue discount in such year.

The initial public offering prices of the Series 2008A Bonds maturing January 1, 2011 through January 1, 2015, inclusive, the Series 2008A Bonds 5.00% maturity January 1, 2016, and the Series

2008A Bonds maturing January 2017 through January 1, 2022, inclusive (collectively, the “Premium Bonds”) are greater than the amounts payable at maturity with respect to such Series 2008A Bonds. The difference between (a) the amount payable at maturity of the Premium Bonds and (b) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of the Premium 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 Premium Bond may realize a taxable gain upon its disposition even though the Premium Bond is sold or redeemed for an amount not greater than the owner’s original acquisition cost.

Owners of Discount Bonds or Premium Bonds should consult their personal tax advisors with respect to the determination for federal income tax purposes of the amount of original issue discount or interest properly accruable with respect to such Discount Bonds or Premium Bonds, other tax consequences of owning Discount Bonds or Premium Bonds, and with respect to the State of Tennessee and local tax consequences of holding such Discount Bonds or Premium Bonds.

Series 2008B Bonds

Interest on the Series 2008B Bonds will not be excluded from gross income for federal income tax purposes.

State of Tennessee

Under existing law, both series of 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 to the Metropolitan Government, whose approving opinion in substantially the form attached hereto as Appendix E will be delivered with the Bonds. Certain legal matters with respect to the Metropolitan Government will be passed upon by Sue B. Cain, Director of Law. Certain legal matters with respect to the Underwriters will be passed upon by Bone McAllester & Norton, PLLC.

UNDERWRITING

The Series 2008A Bonds were sold at negotiated sale to Morgan Keegan & Company, Inc. (the “Representative”) acting on behalf of itself, Lehman Brothers, Merrill Lynch & Co., Wiley Bros.-Aintree Capital, LLC, and Harvestons Securities, Inc. (together with the Representative, the “Underwriters”) under a Bond Purchase Agreement, dated February 22, 2008 (the “Bond Purchase Agreement”) by and between the Metropolitan Government and the Representative, at a price of \$131,383,432.00 (which is equal to the par amount of the Series 2008A Bonds plus original issue premium of \$9,503,684.50, less underwriting discount of \$650,252.50.

The Series 2008B Bonds were sold at negotiated sale to the Underwriters under the Bond Purchase Agreement at a price of \$27,796,275.00 (which is equal to the par amount of the Series 2008B Bonds, less underwriting discount of \$153,725.00).

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 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 was examined by Robert Thomas CPA, LLC. Such computations were based solely upon assumptions and information supplied by the Underwriters 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 Underwriters 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, 2007 included in Appendix B to this Official Statement, have been audited by KPMG LLP, independent auditors, as stated in their report appearing in Appendix B.

RATINGS

Moody’s Investors Service, Inc., Standard & Poor’s Ratings and Fitch Ratings have assigned the ratings of Aaa, 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 the Bonds will be issued by Financial Security Assurance Inc. Moody’s Investors Service, Inc., Standard & Poor’s Ratings and Fitch Ratings have issued underlying ratings of Aa3, AA- 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.

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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 Metropolitan Mayor and its Director of Finance.

THE METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY
(TENNESSEE)

/s/ Karl F. Dean

Metropolitan Mayor

/s/ Richard M. Riebeling

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.

“Series 2008 Bonds” shall mean the Metropolitan Government’s Water and Sewer Revenue Refunding Bonds, Series 2008A and its Water and Sewer Revenue Refunding Bonds, Series 2008B (Taxable).

“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. The Resolution authorizes the Metropolitan Government to satisfy the Debt Service Reserve Requirement by providing to the Trustee a debt service reserve fund surety bond with a face amount equal to the Debt Service Reserve Requirement; provided that the issuer of such a reserve fund surety bond shall be, at the issuance of the surety bond, rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's Ratings. The Metropolitan Government is not required to replace a surety bond, or replenish the Debt Service Reserve Fund with cash, upon a downgrade of a surety bond provider's credit rating below "Aaa" by Moody's Investors Service, Inc. or "AAA" by Standard & Poor's Ratings.

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 2012, 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.

2008 Amendment to General Resolution

Supplemental Resolution No. RS2008-142, adopted on February 5, 2008, provided for the amendment of the General Resolution as described below, effective upon the earlier to occur of the following: (i) all of the Bonds Outstanding and issued prior to the Series 2008 Bonds shall cease to be Outstanding; or (ii) the Bondholders shall have consented to these amendments in accordance with the provisions of the General Bond Resolution described above under the heading “Amendments”; provided, however, that for purposes of the amendment provisions of the General Bond Resolution, each Bondholder of the Series 2008 Bonds or any Bonds hereafter issued under the General Bond Resolution shall be deemed, by virtue of their ownership of such Series 2008 Bonds or future Bonds, to have consented to the amendments described below, without any further action on the part of such Bondholders. Furthermore, the provider of any municipal bond insurance policy ensuring the Series 2008 Bonds or future Bonds shall be deemed, so long as it is not in default of its obligations under such insurance policy, to be the sole Bondholder of each Bond it insures for purposes of consenting to amendments to the General Bond Resolution.

Supplemental Resolution No. RS2008-142 amends the General Bond Resolution by (1) adding another additional bonds test that would be applicable in the case of a refunding that achieved debt service savings, and (2) authorizing interest rate hedging and other derivative transactions, and providing for the payment of interest rate hedging obligations (other than termination payments) on parity with the payment of debt service on the Bonds. These amendments are more fully described below.

Amendment of Additional Bonds Test

Currently, the Metropolitan Government may only issue Additional Bonds if the System has met certain historical coverage tests (see the Official Statement, “SECURITY – Additional Bonds”). Supplemental Resolution No. RS2008-142 amends the General Bond Resolution by providing for an additional test that does not require that historical coverage tests be met. Specifically, Additional Bonds will be permitted if:

“the Additional Bonds shall be issued for the purpose of refunding Outstanding Bonds, and the Debt Service/Additional Bonds for each Fiscal Year (resulting from the issuance of the Additional Bonds) is not greater than the Debt Service on the Bonds Outstanding immediately prior to the refunding.”

Amendment Providing for Interest Rate Hedging Agreements

The General Bond Resolution did not accommodate interest rate hedging agreements either with respect to (a) their payment from Revenues, or (b) their calculation as Debt Service. Supplemental Resolution No. RS2008-142 amends the General Bond Resolution by providing for the payment of interest rate hedging obligations on parity with the payment of debt service on the Bonds, and providing for the calculation of Debt Service with respect to Bonds with respect to which the Metropolitan Government has entered into interest rate hedging agreements.

Authorization of Hedge Agreements

Supplemental Resolution No. RS2008-142 amends the General Bond Resolution by adding the following authorizations and covenants:

“Authorization to Enter Hedge Agreements; Counterparty Restrictions. In connection with the issuance of any Bonds or at any time thereafter so long as such Bonds remain Outstanding, the Metropolitan Government may enter into Hedge Agreements meeting the qualifications set forth below, and no other. The Metropolitan Government shall authorize the execution, delivery and performance of each Hedge Agreement by resolution of the Metropolitan Council. The Metropolitan Government’s obligation to pay Hedge Payments shall be secured by a pledge of Revenues on parity with the Outstanding Bonds. The Metropolitan Government shall not enter into a Hedge Agreement with any entity, other than an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, or whose payment obligations under the related Hedge Agreement are absolutely and unconditionally guaranteed or insured or collateralized by an entity whose senior unsecured long term obligations, financial program rating, counterparty rating, or claims paying ability, are rated at least as high as the second highest rating category of Moody’s and S&P (ignoring any gradations within a rating category). For purposes of this section, a potential hedge provider’s qualification with the requirements of the preceding sentence shall be determined only at the time the Metropolitan Government enters into a Hedge Agreement with such entity and will not be re-determined with respect to that Hedge Agreement.”

Incorporation of Hedge Agreements into Debt Service Calculations; Other Definitions

Supplemental Resolution No. RS2008-142 amends the General Bond Resolution by adding (or replacing where the definition currently exists) the following definitions:

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

immediately preceding the date of calculation for which such information is available (or shorter period if such information is not available for a 12-month period).

“Debt Service/Additional Bonds” means, with respect to any Fiscal Year, an amount equal to the Debt Service 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; provided, however, that for purposes of computing Debt Service/Additional Bonds, (a) the rate of interest with respect to any Series of Bonds which bear interest at a fixed rate shall be the rate of interest borne or to be borne by such Bonds, and (b) the rate of interest with respect to any Series of Variable Rate Bonds shall be deemed to be 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.

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

“Hedged Obligations” means any Bonds for which the Metropolitan Government shall have entered into a Hedge Agreement.

“Hedge Payments” means amounts payable by the Metropolitan Government pursuant to any Hedge Agreement, other than Termination Payments, fees, expenses, and indemnity payments.

“Hedge Period” means the period during which a Hedge Agreement is in effect.

“Hedge Receipts” means amounts payable by any provider of a Hedge Agreement pursuant to such Hedge Agreement, other than Termination Payments, fees, expenses, and indemnity payments.

“Termination Payments” means an amount payable by or to the Metropolitan Government upon termination of a Hedge Agreement.

Pledge of Revenues to Payment of Hedge Agreements; Flow of Funds

Supplemental Resolution No. RS2008-142 amends the General Bond Resolution by providing that Hedge Payments are secured by Revenues on parity with the payment of debt service on the Bonds. The provisions regarding the pledge of Revenues to the payment of Bonds would be amended and restated as follows:

“Pledge Effected by Resolution. 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 hereby pledged, and the Metropolitan Government hereby grants a security interest therein; to the Trustee for the benefit of Bondholders and any counterparty to a Hedge Agreement, to secure the payment of Bonds (including the Sinking Fund Payments for the retirement thereof) and the Metropolitan Government’s obligations to make Hedge Payments under any Hedge Agreement, in accordance with their terms and the provisions of the Resolution, subject only to the provisions of the Resolution permitting the application or exercise thereof for or to the purposes and on the terms and conditions herein set forth. The money and property hereby pledged shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act and such lien shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice hereof.”

The provisions of the General Bond Resolution described above under the heading “FUNDS AND ACCOUNTS – Revenue Fund” would be amended by adding the following sentence to the end of the subsection labeled “FIRST:”

“Each deposit as to interest may take into account expected Hedge Receipts and Hedge Payments related to such interest payments;”

The provisions of the General Bond Resolution described above under the heading “FUNDS AND ACCOUNTS – Debt Service Fund” would be amended by amending and restating the (1) subsection as follows:

“(1) On each Interest Payment Date, or with respect to Hedge Payments the date for payment thereof, the Trustee shall make payment out of the Debt Service Fund (a) to the holders of the Bonds the interest due on the Outstanding Bonds on such date, and (b) to the counterparty any Hedge Agreement the Hedge Payments due thereunder.”

The provisions of the General Bond Resolution described above under the heading “FUNDS AND ACCOUNTS – Extension and Replacement Fund” would be amended by adding “to the payment of Termination Payments” as an additional permitted use of funds from the Extension and Replacement Fund.

Clarification of Additional Bonds Test

Supplemental Resolution No. RS2008-142 amends the General Bond Resolution by clarifying the Additional Bonds test by substituting the words “Debt Service” for the words “Principal Installments of and interest” where such words are found therein.

Events of Default; Application of Revenues

Supplemental Resolution No. RS2008-142 amends the General Bond Resolution by adding the failure to make Hedge Payments (but not Termination Payments) as an Event of Default, and by causing Revenues to applied – in the event of an Event of Default – to the payment of Hedge Payments (but not Termination Payments) immediately after the payment of current debt service on the Bonds.

Provisions Regarding Municipal Bond Insurance Policy

Financial Security Assurance Inc., as the issuer of the Municipal Bond Insurance Policy for the Bonds, shall be deemed to be the sole holder of the Bonds for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the holders of the Bonds are entitled to take pursuant to the Resolution pertaining to (i) defaults and remedies and (ii) the duties and obligations of the Registrar.

Any amendment, supplement, modification to or waiver of, the Resolution or any other transaction document (each a "Related Document") requiring the consent of Bondholders or adversely affecting the rights and interests of Financial Security Assurance Inc. shall be subject to the prior written consent of Financial Security Assurance Inc.

APPENDIX B

**WATER AND SEWER SYSTEM
AUDITED FINANCIAL INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

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APPENDIX B

WATER AND SEWER SYSTEM AUDITED FINANCIAL INFORMATION FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Audited Financial Statements of the Metropolitan Government and supplementary information as of and for the fiscal year ending June 30, 2007, together with the independent auditors' report from KPMG LLP, are available through the website of the Metropolitan Government's Department of Finance at www.nashville.gov/finance/investor_relations.asp, and are hereby incorporated by reference as part of this Appendix B. The incorporated Audited Financial Statements include audited financial statements and supplementary information regarding the Department of Water and Sewerage Services. To the extent there are any differences between the electronically posted financial statements of the Metropolitan Government and the printed financial statements of the Metropolitan Government, the printed version shall control.

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APPENDIX C

**FINANCIAL AND OPERATING INFORMATION
REGARDING THE WATER AND SEWER SYSTEM**

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**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 the Fiscal Year Ending June 30

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Operating Revenues	147,977,245	152,785,636	151,258,130	155,826,854	164,356,620
Operating Expenses	(63,049,335)	(67,466,429)	(71,410,488)	(77,922,420)	(82,817,201)
Net Transfers to Other Departments in Metro Government	(8,539,980)	(14,008,880)	(21,306,393)	(12,370,483)	(14,252,800)
Adjustment for Transfer for Stormwater Capital in FY 2005 This is included in Net Transfers for 2006 & 2007			6,691,667		
Total Operating Expenses (exclusive of Depr and Amort)	(71,589,315)	(81,475,309)	(86,025,214)	(90,292,903)	(97,070,001)
Operating income before Depreciation and amortization	76,387,930	71,310,327	65,232,916	65,533,951	67,286,619
Depreciation Expense	(44,113,004)	(45,196,830)	(46,681,216)	(47,204,986)	(49,687,077)
Amortization Expense	(674,272)	(276,438)	(348,612)	(380,602)	(425,889)
Operating Income	31,600,654	25,837,059	18,203,087	17,948,363	17,173,653
Non-Operating Revenues					
Investment Income	8,712,562	6,361,839	4,187,377	5,899,974	8,319,893
Interest Expense	(31,936,494)	(30,840,286)	(29,300,253)	(26,812,319)	(23,024,476)
Gain (loss) on sale of property, plant and equipment	(9,027)	176	167,785	280,948	108,357
Arbitrage rebate income (expense)	(785,840)			(1,234)	
Other	521,468		712,925		542,991
Subtotal Non-Operating Revenues	(23,497,331)	(24,478,271)	(24,232,166)	(20,632,631)	(14,053,235)
Capital Grants and contributions	10,075,842	11,291,219	16,889,196	25,609,986	46,585,852
Transfer for Stormwater Capital (above)			(6,691,667)		
Net Income	18,179,165	12,650,007	4,168,451	22,925,718	49,706,270
Calculation for Rate Covenant Requirement					
Operating Revenues	147,977,245	152,785,636	151,258,130	155,826,854	164,356,620
Plus:					
Interest Income	8,712,562	6,361,839	4,187,377	5,899,974	8,319,893
Other Income	521,468		712,925		542,991
Less:					
Interest Income (Debt Service Reserve Fund)	(3,292,318)	(4,509,000)	(1,645,663)	(2,503,376)	(3,214,070)
Interest Income (Construction Fund)					
Revenues Available for Rate Covenant Requirement	153,918,957	154,638,475	154,512,769	159,223,452	170,005,434
Operating Expenses	71,589,315	81,475,309	86,025,214	90,292,903	97,070,001
Debt Service – Parity Debt					
Principal on Revenue Bonds	19,680,000	20,190,000	21,680,000	21,680,000	28,025,000
Interest on Revenue Bonds	27,966,030	28,620,637	27,531,176	27,531,176	24,307,706
Less: Debt Service Reserve Fund Interest	(3,292,318)	(4,614,738)	(1,645,663)	(2,503,376)	(3,214,070)
Net Debt Service – Parity Debt	44,353,712	44,195,899	47,565,513	46,707,800	49,118,636
Total Operating Expenses and Net Debt Service	115,943,027	125,671,208	133,590,728	137,000,703	146,188,637
Rate Covenant Requirement (1.10)(2)	1.33	1.23	1.16	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 WATER AND SEWER SYSTEM

General

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

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

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

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 2008 is \$12.8 million including a \$2.6 million grant from the Federal Emergency Management Agency for buyouts of homes with repetitive flood losses.

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 2007, net sales to retail customers were 24.1 billion gallons. The peak demand for water from the system during Fiscal Year 2007 was 123.2 million gallons on July 18, 2006.

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 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 2,888 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 42.5 million gallons and by tanks and stand pipes, many of which are utilized to provide water service in areas of higher elevation than the central urbanized area. The Water System has fifty-seven booster-pumping stations to deliver water to these higher regions.

The Water System has experienced continuous growth over the past decade, and as of Fiscal Year 2007, has provided direct service to 171,627 customers. In Fiscal Year 2007, 46% of the water provided by the Water System was consumed by commercial and industrial customers (including residential apartment complexes), and 54% 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>2007</u>	<u>1997</u>	<u>(1997-2007) Ten Year History</u>
Use of Water			
Water Customers – End of Period ⁽¹⁾ (thousands)	171,627	133,337	28.7%
Average Daily Treatment (millions of gallons)	97.1	82.7	17.5%
Water Sales for Fiscal Year (billions of gallons)	24.1	19.6	23.0%
Maximum Daily Demand (millions of gallons)	123.2	98.7	24.9%
Growth of System			
Utility Plant Value ⁽²⁾ (millions)	\$1,478	\$1,102	34.1%
Reservoirs	44	44	0.0%
Storage Capacity (millions of gallons)	93.5	80.9	15.6%
Auxiliary Pump Stations	57	58	(1.7%)
Total Miles, Distribution Lines	2,888	2,559	12.9%
Fire Hydrants	19,511	16,338	19.4%

⁽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 2,875 miles of gravity sewers, 103 pumping stations, 152 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 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, which should substantially reduce the need for landfill space, is due for completion in 2008.

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 20.8% since Fiscal Year 1997. Over the last ten years, there has been a 5.1% increase in the number of sewerage pumping stations and a concurrent 29.4% increase in the miles of sewer lines. Wastewater treatment has decreased by 12.2% partially due to our Overflow Abatement Program which has significantly reduced inflow and infiltration.

Sewer System Facts in Brief

	Fiscal Year Ended June 30		
	<u>2007</u>	<u>1997</u>	<u>(1997-2007)</u> <u>Ten Year History</u>
Sewer Customers – End of Period	183,695	152,064	20.8%
Annual Sewage Treatment (billions of gallons)	46.9	53.5	(12.3%)
Average Daily Treatment (millions of gallons)	128.6	146.5	(12.2%)
Growth of System			
Utility Plant Value ⁽¹⁾ (millions)	\$1,478	\$1,102	34.1%
Total Miles of Sewer Lines	3,027	2,339	29.4%
Number of Treatment Plans	4	6	(33.3%)
Number of Pumping Stations	103	98	5.1%
⁽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, 2007 (in 1,000's)

Vanderbilt University	\$1,840
Metro Schools	658
Opryland, USA	530
Metro District Energy Systems	333
Bridgestone Tire and Rubber Co.	309
Aerostructures Corporation	287
Baptist Hospital	278
Meharry Medical College	268
Purity Dairy	200
Spring Industries	197

SEWER SERVICES LARGEST CUSTOMERS One Year Period Ending June 30, 2007 (in 1,000's)

Vanderbilt University	\$2,070
Metro Schools	1,132
Purity Dairies, Inc.	1,064
Opryland, USA	964
Meharry Medical College	435
Baptist Hospital	361
Level Valley Creamery, Inc.	347
Tennessee State University	308
Country Delite Farms, Inc.	293
The Villages	246

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. Mr. Balthrop 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 of the KY/TN Section AWWA.

At the end of Fiscal Year 2007, the Department employed 657 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 currently 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 25 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.

Current Water Rates

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 DETERMINATION

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

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 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.

A 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. During Fiscal Year 2007, the Department read meters on a quarterly basis and renders bills to customers monthly. Customers were billed for two months based on their historical average usage, and the third month's billing was an adjusting bill based on the actual meter measurement for the three-month period. Beginning in Fiscal Year 2008, the Department will return to the practice of reading water meters each month and rendering bills to customers on a monthly basis.

The charges for water and sewerage services are included in a single, combined bill in terms of a "net billing," which is the charge calculated at established rates, and a "gross billing," which is the current net billing increased by 5% or by \$10.00, whichever is greater. 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. To have service restored the customer must then pay the total delinquent amount plus a reconnection fee. If the Department is unable to collect the amount owed, the account is then turned over to a commercial collection agency.

The foregoing billing and collection procedures have resulted in the collection of approximately 99.11 % of all amounts billed during the past five Fiscal Years.

Wholesale Customers

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

The wholesale contracts with Cities of Brentwood, Goodlettsville, Millersville, Belle Meade, Lavergne and Hendersonville Utility District and Old Hickory Utility District were either terminated, have expired or are set to expire in 2008. None of the Wholesale Sewer Customers have ready access to other sewage treatment facilities; absent the Department, the Wholesale Sewer Customers would have to construct new treatment facilities or new sewer connections to other sewage treatment providers. As such, the Department anticipates continuing to provide sewage treatment services to the Wholesale Sewer Customers for the foreseeable future. The Department is also attempting to negotiate new, long-term contracts with those Wholesale Sewer Customers whose contracts have expired.

At the recommendation of the Department's rate consultant, the Department has implemented increased wholesale sewage treatment rates for those Wholesale Sewer Customers whose contracts have expired or were terminated. Those Wholesale Sewer Customers have objected to the increased rates and have not paid such increased rates to date (the Wholesale Sewer Customers have continued to pay the

previously imposed rate). The Metropolitan Government is currently in litigation with the Cities of Brentwood, Laverne, and Millersville seeking to recover the full increased sewage treatment rate. The Department cannot predict the outcome of this litigation, or whether the Metropolitan Government will pursue similar litigation with respect to the other Wholesale Sewer Customers that have refused to pay the increased rates. The Department further cannot predict whether this rate dispute will cause any or all of the Wholesale Sewer Customers to pursue sewage treatment services from other providers.

The Department's annual revenues from Wholesale Sewer Customers are approximately \$6 million, and the annual operating expenses associated with the provision of treatment services to the Wholesale Sewer Customers is approximately \$5.1 million without any consideration of ongoing capital costs relative to capacity and treatment. Wholesale Sewer Customer flows were approximately 12% of total treated flows for fiscal year 2006-2007.

Operations and Maintenance

The Department has implemented operation and maintenance procedures with respect to the System and has undertaken several programs to upgrade performance, including a water quality testing program. Water quality within the water treatment facilities is tested on site on an hourly basis. Additional testing is conducted at a central laboratory maintained by the Department and certified by the State of Tennessee. Water discharged from the plants into the distribution system is monitored in accordance with the Federal Safe Drinking Water Act (42 U. S. C. 300f et seq.). Water discharged from 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 Systems. Although participation in the programs is not mandatory, employees who wish to be promoted to a higher job classification must demonstrate that they have the knowledge and skills that such programs provide.

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 2006 and 2007, the Department was charged \$3,915,655 and \$3,639,093 respectively. In Fiscal Year 2008 this plan will cost the Department \$4,181,024. The Metropolitan Government charges the Department for additional Shared Government Services such as Fleet Management, Information Systems, and Finance Services. These charges totaled \$6.2 million in Fiscal Year 2007. Payments in Lieu of Taxes, the Local Cost Allocation Plan payments, as well as all Shared Services charges have been included in the historical and forecasted Expenses of the Department in the Forecast Statement.

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 due to growth for the service area through the year 2025. Most improvements projected in the Water Plan through 2010 are currently scheduled to be made. The improvements resulting from the Water Plan and additional planning for drought conditions include \$62.7 million worth of projects. The following anticipated projects comprise this amount and are included in the 2009 – 2013 Capital Improvements Budget:

- Powell Avenue water main upgrade – Phase I (Phase II has already been completed)
- Powell Pumping Station upgrade
- City Low (KRH / CUD) water main addition
- Battery Lane Pumping Station upgrade
- Lebanon Road water main upgrade
- Dodson Chapel water main upgrade
- Central Pike water main upgrade
- New additional Cane Ridge water tank
- New additional Hillsboro water tank
- New additional Rice Road water tank
- New Oman Drive water pumping station
- Old Hickory Blvd water main upgrade
- Hillsboro Road water line upgrade
- Omohundro high service pumps and transmission main improvements
- Whites Creek and Bulls Run distribution system improvements
- Harding Place / Battery Lane / Granny White / Tyne Valley pressure zone improvements
- Bear Hollow water main upgrade
- Omohundro water main river crossing upgrade (24")
- Caldwell water line upgrade
- Study for a new west side water treatment plant

Over the next five years, the Department has budgeted approximately \$29.6 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:

- Harding Place Cleaning and Lining - \$1.6 million
- Belle Meade Blvd water line replacement - \$ 5 million
- Omohundro #1 36" water main cleaning and lining - \$ 4.8 million
- Omohundro #2 36" water main cleaning and lining - \$5.2 million
- 17th & 18th Avenue cleaning and lining - \$ 3 million
- Unidentified smaller WIR projects - \$10 million

The Sewer System

The Federal Water Pollution Control Act of 1972 (“FWPCA”), as amended by the Clean Water Act of 1977, and the Water Quality Act of 1987 (collectively, the “CWA”), provides for the restoration and maintenance of the chemical, physical and biological integrity of the nation’s waters. To achieve that end, the FWPCA established the National Pollution Discharge Elimination System (“NPDES”), a permit system administered by the 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 CWA and to qualify for full participation in the NPDES program established under Section 402 of the FWPCA. Pursuant to the authority granted to it, the Tennessee Water Quality Control Board has enacted regulations consistent with the CWA.

Until 1990, Section 201 of the CWA authorized grants for the construction of wastewater treatment facilities identified in an approved Facilities Plan. The grant program was converted to a loan program and the states were the recipients of a grant to establish and fund the program. The purpose of Section 201 is to require and assist in the development and implementation of wastewater treatment facilities plans and identified projects that will achieve the goals of the CWA (the “201 Plan”). The CWA requires that publicly owned treatment works, such as the treatment portions of the wastewater system, achieve levels of secondary treatment as defined in the CWA 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 approved Nashville planning area and portions of the six surrounding counties were included in the plan (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. The facility plan is currently used to identify projects as eligible for State Revolving Fund Loans.

The TDEC makes State Revolving and Tennessee Local Development Authority loans available to the Metropolitan Government and other local governments to fund the cost of constructing capital projects such as those described above. The Department repays the Tennessee Local Development Loans from a 10% sewer user fee, imposed pursuant to State law. The fee appears as a charge on sewer bills and upon collection, the Department remits the total collected sewer user fees to the State in the same manner as certain sales tax collections. The State sewer user fees are not included in revenues. In 1990, the grants program was converted to a State Revolving Loan Program (SRF). The repayment of the SRF loans is taken 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 CWA. The 1990 Order also stated that the Metropolitan Government’s failure to comply with certain agreed upon orders entered by the Tennessee Water Quality Control Board in 1985 and 1987 was also a basis for the 1990 Order.

The 1990 Order identified specific problems regarding the Metropolitan Government’s collection system and wastewater treatment, and required the Metropolitan Government to correct them. In response, the Department developed a detailed program, referred to as the “Overflow Abatement Program” (“OAP”), for making system improvements to correct the problems identified in the 1990

Order. This program was approved by the TDEC. The projects required under the 1990 Order that were not constructed at the time of Order 99-0390 (the “1999 Order”) were required in the 1999 Order. The compliance required in the 1999 Order has been completed.

On September 17, 1999, the TDEC issued 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 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. The compliance dates required by the 1999 Order have been met until the U. S. Environmental Protection Agency intervened into the compliance issue of the Metropolitan Government with its NPDES permits. 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. Metro Water Services (MWS) , the State of Tennessee Department of Environment and Conservation, and the United States Environmental Protection Agency agreed on a recommended consent decree to address and correct deficiencies within the Department’s sewer system that have caused violations of the Clean Water Act (CWA). The consent decree requires that MWS fully develop, in two years, a Corrective Action Plan / Engineering Report (CAP/ER) for its separate sewer system and a Long Term Control Plan (LTCP) for its combined sewer system to achieve the goals of the CWA. Upon submittal and approval of the plans, MWS will have an additional 9 years to complete the work as developed by the plans. The future related capital expenditures are expected to total between \$300 and \$500 million. Failure to comply with the mandate and meet future established deadlines could result in penalties up to \$3,000 per occurrence, and up to \$5,000 per day for failure to timely implement work.

Metro Council, by approving Resolution # RS2007-2144, on August 23, 2007, settled the existing 1999 Order and the Civil Action filed against the Metro Government. The Metro Council agreed to the terms of the consent decree filed in United States District Court for the Middle District of Tennessee for final approval.

The major elements of the settlement are as follows:

1. Payment of a civil penalty in the amount of \$282,019 to the United States Government;

2. Completion of certain specified environmental projects at the direction of United States Environmental Protection Agency and the State of Tennessee as set forth in Appendix E of the Consent Decree that (1) address water quality issues presented by septic tank failures in the 40 year old Brandywine Subdivision and (2) address water quality issues presented by septic tank failures in the Sanitarium Road area, both projects that, together, are estimated to cost approximately \$2.8 million to complete;
3. Issuance of a grant in the amount of \$282,019 over a six year period to a nonprofit environmental organization specified by the State of Tennessee as set forth in Appendix F of the Consent Decree;
4. Achieving compliance with provisions of the Clean Water Act and the Tennessee Water Quality Control Act in a manner set forth in the Consent Decree; and,
5. Imposition of stipulated civil penalties in the event timely compliance is not achieved; and
6. The State has directed that a nonprofit organization be designated to receive a grant in the amount of \$282,019 to be paid over six years.

The Consent Decree is pending the approval of the United States Department of Justice and the United States District Court before it can be implemented.

Specific OAP projects include the Second Phase of the Dry Creek Wastewater Treatment Plant Optimization, including upgrades to the on-site pumping station, fine bubble diffusion, and odor control systems, which is approaching completion at a total project cost of \$38.6 million. (OAP is funding \$3.6 million of this effort for flow optimization). Improvements to the Dodson Chapel Wastewater Pumping Station and the construction of a three million gallon wastewater equalization basin have been completed in 2007, at a cost of \$4.24 million. The improvements 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. Additional Equalization Basins are under design for the Barker Road / Omohundro Trunk sewer and the West Park wastewater Pumping Station. Each of these projects will include construction of a ten million gallon basin and related piping, pumping, and control systems, at an estimated cost of \$10 million for each project.

Improvements to the Combined Sewer System to reduce the frequency, volume, and duration of combined sewer overflows include the design of a new Washington Regulator (estimated construction cost \$10 million) and the Boscobel CSO – Village Court Sewer, for which bids are under review at this time (\$1.5 million).

Wastewater Pumping Station improvements to reduce or eliminate separated wastewater system overflows through increased reliability and flow capacity are also taking place. Improvements to the Hurricane Creek Wastewater Pumping Station are just beginning construction (\$2.48 million) and will be completed in 2008. Planning for the replacement Wastewater Pumping Station for Whites Creek basin is wrapping up; the results of that Planning Study will determine the scope for the replacement facility in that location.

Sewer System Rehabilitation continues for the elimination of Inflow and Infiltration from the separated sanitary sewer system. The Davidson Branch area (Phase 5, \$870 thousand) is near completion. Future rehabilitation projects include the Hermitage Area Rehabilitation, the Inglewood Rehabilitation Phase 3, and the 28th Avenue Rehabilitation Phases 1 & 2 project (\$1.10 million / \$1.50 million / \$1.80

million respectively). Design is complete for all of these projects, and construction starts are planned in FY 2008 pending receipt of SRF loans for construction.

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 \$13 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 will spend 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, scheduled for completion in 2008.

The following table depicts the proposed commitments for capital improvements to be undertaken by the Department during the Fiscal Years Ending June 30, 2008 through 2012. 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.

The Metropolitan Government has received approximately \$312 million in Tennessee Local Development Authority and State Revolving Fund loans to finance capital projects and those under the OAP, and anticipates additional approvals for funding from these sources of approximately \$46 million.

Financial Constraints on Implementing Capital Plan

Beginning in fiscal year 2008-2009, it will be difficult for the Department to fully fund the capital plan described above without either significantly raising water and sewerage service rates and/or reducing operating expenses. The Department intends to propose the adoption of rate increases for fiscal year 2008-2009; however, the amount of the proposed increases is under review, and there can be no assurance that any proposed rate increases will be approved. In the event such increases are not approved, the Department will consider reducing operating expenses in order to fund the capital plan.

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APPENDIX D

**DEMOGRAPHIC INFORMATION REGARDING
THE METROPOLITAN GOVERNMENT**

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The Water and Sewer Capital Improvement Plan

	2008	2009	2010	2011	2012	TOTAL
Overflow Abatement Program:						
Wastewater Treatment Plan Improvements	4,275,000	236,200	248,100	260,500	273,500	5,293,300
Wastewater Pump Station Improvements	3,420,000	4,826,200	878,100	1,003,000	15,753,500	25,880,800
Sanitary Sewer Rehabilitation	9,965,000	3,549,200	3,684,300	5,717,700	25,278,000	48,194,200
Combined Sewer Improvements	13,185,000	4,736,200	23,648,100	8,360,500	9,273,500	59,203,300
Program Management & Water Quality	4,455,000	1,782,000	1,404,000	1,431,000	\$1,467,000	10,539,000
Total Overflow Abatement Program	\$35,300,000	\$15,129,800	\$29,862,600	\$16,772,700	\$52,045,500	\$149,110,600
Other:						
Trunk Sewer Additions	1,515,000	2,537,000	1,560,100	1,584,400	1,609,800	8,806,300
Wastewater Plant Improvements	8,601,000	7,065,000	12,618,800	34,475,300	9,721,900	72,482,000
Wastewater Pump Station Improvements	3,310,000	3,517,000	3,204,300	2,387,100	2,455,200	14,873,600
Water Plant Improvements	10,280,000	26,688,000	11,252,400	7,248,300	8,405,700	63,874,400
Water Reservoir & Pump Station Improvements	8,257,000	12,276,000	11,581,000	4,687,200	2,994,500	39,795,700
Water Distribution System Improvements	19,365,000	16,777,000	13,642,100	21,910,400	16,982,200	88,676,700
Utility Relocation Projects	2,250,000	2,250,000	2,250,000	2,250,000	2,250,000	11,250,000
Information Systems Improvements	7,339,600	4,123,300	2,188,200	208,300	493,800	14,353,200
Vehicles and Equipment	4,111,000	3,642,000	3,179,000	2,804,000	2,704,000	16,400,000
Meter Change-out Program	4,475,000	5,434,700	4,115,900	4,427,700	1,440,100	19,893,400
Stormwater Improvements	2,005,200	5,000,000	5,000,000	5,000,000	5,000,000	22,005,200
Miscellaneous	7,545,000	8,282,000	6,235,000	6,150,000	6,140,000	34,352,000
Total Other Capital Projects	\$79,053,800	\$97,592,000	\$76,826,800	\$93,132,700	\$60,197,200	\$406,802,500
TOTAL	\$114,353,800	\$112,721,800	\$106,689,400	\$109,905,400	\$112,242,700	\$555,913,100
Sources of Funds						
Extension and Replacement Fund	2,005,200				15,000,000	17,005,200
Release of Debt Service Reserve Funds	45,000,000					45,000,000
Proposed Stormwater Revenue Funding		5,000,000	5,000,000	5,000,000	5,000,000	20,000,000
Proposed Revenue Bond Proceeds		72,661,800	91,629,400	94,845,400	82,182,700	341,319,300
Water Impact Fees	2,560,000	2,560,000	2,560,000	2,560,000	2,560,000	12,800,000
Sewer Impact Fees	7,500,000	7,500,000	7,500,000	7,500,000	7,500,000	37,500,000
State Revolving Fund Sewer Loan	25,505,600	25,000,000				50,505,600
Tennessee Local Development Authority Loans	31,783,000					31,783,000
Other (Grants)						
TOTAL	\$114,353,800	\$112,721,800	\$106,689,400	\$109,905,400	\$112,242,700	\$555,913,100

APPENDIX D

DEMOGRAPHIC INFORMATION REGARDING THE METROPOLITAN GOVERNMENT

Introduction

The Metropolitan Government of Nashville and Davidson County (“The Metropolitan Government”), as created in 1963, is in the north central part of Tennessee and covers 533 square miles. Nashville is the capital of the State of Tennessee and is situated in the Nashville Basin, between the Tennessee River on the west and the Eastern Highland Rim on the east.

Fiscal Year

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

Population Growth

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

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

Area	1990	2000	% Change 1990-2000	Estimated 2007	% Change 2000-2007
Nashville/Davidson ⁽¹⁾	510,786	569,691	11.5 %	578,698	1.6 %
MSA ⁽¹⁾	985,026	1,311,789	33.2	1,455,097	10.9
State ⁽²⁾	4,890,640	5,689,283	16.3	6,156,719	8.2
United States ⁽²⁾	248,709,925	281,421,906	13.2	301,621,157	7.2

Source: Population is from the U. S. Department of Commerce, Bureau of the Census except for "Estimated 2007" which are from the following sources:

⁽¹⁾ Bureau of the Census provides Population estimates as of July 1, 2006.

⁽²⁾ Bureau of the Census provides Population estimates as of July 1, 2007.

Growth within the MSA has occurred to the greatest extent in surrounding communities, which, although suburbs of Nashville, are in themselves residential, manufacturing and agricultural communities.

Per Capita Personal Income

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Nashville MSA	24,432	25,076	25,946	27,621	28,928	30,601	31,440	32,180	33,354	34,904	36,665
Davidson County	26,419	27,062	27,672	30,005	31,494	33,388	35,191	36,768	38,297	40,393	42,192
Tennessee	21,174	21,854	22,676	23,989	24,898	26,097	26,870	27,490	28,440	29,844	30,969
United States	23,076	24,175	25,334	26,883	27,939	29,845	30,574	30,810	31,484	33,050	34,471

Source: Bureau of Economic Analysis website - www.bea.gov

Economy of the Metropolitan Area

Nashville has a diverse economy, having considerable involvement in commerce and industry, education and government. Agriculture is also a major factor in the economy of the surrounding counties. Insurance, finance, publishing, banking, health care, music, tourism, manufacturing and distribution are all mainstays of the economy. Lack of dependency on one industry has helped to insulate Nashville from the impact of product business cycles. Businesses have been attracted to Nashville because of its location, work force, services and taxes. The central location of Nashville, approximately halfway between Houston and New York, has contributed to its emergence as an important wholesale and retail center.

Employment

The following table shows the labor force segments of the eight county Nashville Metropolitan Statistical Area for calendar years 2003 through June 2007.

NASHVILLE MSA EMPLOYMENT BY INDUSTRY ⁽¹⁾

Industry	<u>Ann 2003</u>	<u>Ann 2004</u>	<u>Ann 2005</u>	<u>Ann 2006</u>	<u>Ann 2007</u>
Total, all industries	791.8	811.2	832.3	849.8	859.3
Goods-Producing	116.2	118.0	120.5	123.7	124.4
Natural Resources, Mining and Construction	34.4	34.4	36.0	39.3	41.8
Manufacturing	81.8	83.6	84.5	84.4	82.6
Service-Providing	581.4	597.3	614.9	628.1	635.8
Trade, Transportation and Utilities	141.8	146.0	150.7	154.4	155.6
Information	18.6	19.4	19.7	19.7	19.7
Financial Activities	44.7	44.5	45.2	46.0	46.3
Professional and Business Services	84.1	91.5	96.7	98.7	99.2
Education and Health Services	94.9	98.4	101.4	104.1	105.4
Leisure and Hospitality	71.7	72.0	74.6	76.7	78.3
Other Services	30.2	29.7	29.7	30.6	31.5
Unclassified	95.4	95.8	96.9	97.9	99.9
Government	94.2	95.9	96.9	98.0	99.1

(1) Employment numbers in thousands.
Source: The Bureau of Labor Statistics

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

	Nashville MSA					Tennessee					United States				
	2007	2006	2005	2004	2003	2007	2006	2005	2004	2003	2007	2006	2005	2004	2003
Total, All Industries ⁽¹⁾	859.3	849.8	832.3	811.2	791.8	2,854.4	2,831.8	2,792.3	2,756.2	2,713.9	160,221.0	158,165.0	155,507.0	153,056.0	151,581.0
In Percentages:															
Construction & Mining	4.9%	4.6%	4.3%	4.2%	4.3%	5.0%	4.8%	4.5%	4.4%	4.4%	5.2%	5.3%	5.1%	4.9%	4.8%
Manufacturing	9.6%	9.9%	10.2%	10.3%	10.3%	13.7%	14.1%	14.6%	14.9%	15.2%	8.8%	9.0%	9.1%	9.4%	9.6%
Trade, Transportation & Utilities	18.1%	18.2%	18.1%	17.3%	17.9%	21.5%	21.5%	21.4%	21.3%	21.3%	16.5%	16.6%	16.7%	16.7%	16.7%
Information	2.3%	2.3%	2.4%	18.0%	2.3%	1.8%	1.8%	1.8%	1.8%	1.9%	1.9%	1.9%	2.0%	2.0%	2.1%
Financial Activities	5.4%	5.4%	5.4%	2.4%	5.6%	5.1%	5.1%	5.1%	5.1%	5.2%	5.3%	5.3%	5.2%	5.2%	5.3%
Professional & Business Services	11.5%	11.6%	11.6%	5.5%	10.6%	11.2%	11.3%	11.2%	11.0%	10.6%	11.2%	11.1%	10.9%	10.7%	10.5%
Education & Health Services	12.3%	12.2%	12.2%	11.3%	12.0%	12.1%	12.0%	11.8%	11.6%	11.5%	11.5%	11.3%	11.2%	11.1%	10.9%
Leisure & Hospitality	9.1%	9.0%	9.0%	12.1%	9.1%	9.8%	9.5%	9.4%	9.2%	9.1%	8.5%	8.3%	8.2%	8.2%	8.0%
Other Services	3.7%	3.6%	3.6%	8.9%	3.8%	3.6%	3.6%	3.6%	3.7%	3.8%	3.4%	3.4%	3.5%	3.5%	3.6%
Government	11.5%	11.5%	11.6%	3.7%	11.9%	1.7%	1.7%	1.8%	1.8%	1.9%	13.9%	13.9%	14.0%	14.1%	14.2%
Unclassified	11.62%	11.52%	11.6%	11.8%	12.0%	14.6%	14.7%	14.8%	15.1%	15.1%	13.9%	13.9%	14.0%	14.1%	14.2%

(1) Total Employment in thousands of persons

Source: The Bureau of Labor Statistics

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY
TEN LARGEST EMPLOYERS IN THE NASHVILLE MSA
(Including Government Agencies)

Employer	Unaudited June 30, 2007			June 30, 1998		
	Employees	Rank	% of Total Employment	Employees	Rank	% of Total Employment
State of Tennessee	20,029	1	2.51 %	24,400	1	3.76 %
Metro Nashville-Davidson Co. Government and Public Schools	19,188	2	2.40	18,990	2	2.93
Vanderbilt University and Medical Center	18,252	3	2.29	11,700	3	1.80
U.S. Government	11,216	4	1.40	11,000	4 (2)	1.70
HCA (including Tri-Star Health System)	9,649	5	1.21	8,100	6	1.25
St. Thomas Health Services	8,200	6	1.03	-	-	-
Nissan North America Inc.	8,100	7	1.01	6,000	7	0.92
Bridgestone Americas Holding Inc. (1)	4,900	8	0.61	-	-	-
Gaylord Entertainment Co. (1)	4,519	9	0.57	11,000	4 (2)	1.70
Wal-Mart Stores Inc.	4,500	10	0.56	-	-	-
Saturn Corporation	-	-	-	8,350	5	1.29
Kroger Company	-	-	-	5,750	8	0.89
United Parcel Service	-	-	-	4,500	9	0.69
First American National Bank	-	-	-	4,200	10	0.65
	<u>108,553</u>		<u>13.59 %</u>	<u>113,990</u>		<u>17.57 %</u>

Sources:

Principal Employers and Number of Employees - Nashville Area Chamber of Commerce, Nashville Business Journal

Total Employment - US Department of Labor Bureau of Labor Statistics

(1) National, State or Corporate Headquarters.

(2) Tie ranking.

Unemployment Rates

The following table sets forth the unemployment percentage rates in Nashville, the MSA, the State and the United States for the calendar years 1998-2007.

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Davidson County	2.80%	2.90%	3.20%	3.60%	4.50%	4.80%	4.60%	4.60%	4.30%	4.60%
Nashville MSA	3.10	2.90	3.20	3.80	4.40	4.70	4.30	4.40	4.20	3.70
TN	4.50	4.10	4.00	4.70	5.30	5.70	5.50	5.60	5.20	4.80
US	4.50	4.20	4.00	4.70	5.80	6.00	5.50	5.10	4.60	4.70

Investment and Job Creation

In the year 2007, the Nashville Area Chamber of Commerce announced some 53 business relocations or expansions into the Nashville MSA, collectively bringing 3,544 new jobs to the Metro area. The capital investment for these projects totaled \$335 million. Continued expansion has occurred in recent years in corporate and regional headquarters, information processing operations, the automotive industry, health care management and many areas where the local economy has established strength and growth potential.

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

Education

The School System had its beginning in 1963 with the merger of Nashville and Davidson County. The Nashville public schools make up the second largest school system in Tennessee. In the current 2007-2008 school year, Nashville has 136 public schools, with 75,000+ students and 5,786 teachers. In addition, there are 75 independent schools, which are attended by over 27,800 students from pre-kindergarten through 12th grade.

The Metropolitan Board of Education, consisting of 9 members, administers the school system.. Davidson County voters elect one member from each school district to a four-year term. The terms are staggered so that at least four members are elected every two years. The Board of Education holds regular meetings on the second and fourth Tuesday of each month. These meetings are open to the public.

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

**The Metropolitan Board of Public Education
2007-2008**

<u>Member</u>	<u>Office</u>	<u>Date Term Expires</u>
Marsha Warden	Chairman	2008
Edward T. Kindall	Vice-Chairman	2008
Jo Ann Brannon	Member	2010
David A. Fox	Member	2010
Mark North	Member	2008
Steve Glover	Member	2010
Karen Y. Johnson	Member	2010
Gracie Porter	Member	2008
George H. Thompson, III	Member	2008

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

SCHOOL SYSTEM
Public Education Facilities
2007-2008

<u>Educational Level</u>	<u>Number of Schools</u>	<u>2007-08 School Year Enrollment</u>
Elementary	74 ⁽¹⁾	32,426 (PK-4)
Middle	35 ⁽²⁾	20,463 (5-8)
High	17 ⁽³⁾	19,586 (9-12)
Special Education	4	2,009
Charter	3	444
Alternative Schools	3	-
Adult Center	1	-
	<u>137</u>	<u>74,928</u>
Total	<u><u>137</u></u>	<u><u>74,928</u></u>

⁽¹⁾ Includes three magnet schools.

⁽²⁾ Includes five magnet schools.

⁽³⁾ Includes four magnet schools and two non-traditional schools

SCHOOL SYSTEM
Public Schools Enrollment and Attendance

School Year	Enrollment ⁽¹⁾	Average Attendance
1996-1997	71,341	67,702
1997-1998	71,000	67,450
1998-1999	69,878	63,896
1999-2000	69,723	66,118
2000-2001	69,457	65,289
2001-2002	69,700	66,319
2002-2003	70,028	66,554
2003-2004	70,760	65,857
2004-2005	71,651	65,960
2005-2006	72,735	67,530
2006-2007	73,144	68,827
2007-2008	74,733	70,231

⁽¹⁾ Official enrollment as reported to the State Board of Education in October of each school year.

The Nashville Metropolitan Statistical Area has 15 colleges and universities, including Vanderbilt University, Belmont University, Tennessee State University, David Lipscomb University, Meharry Medical College, Nashville State Technical Institute and Fisk University. Total higher education enrollment exceeds 65,000 students annually.

Seven of Nashville's institutions of higher education offer graduate programs. Nashville is also a leading center for medical research and education with Vanderbilt University emphasizing medical research in addition to its programs in other disciplines and with Meharry Medical College specializing in health care delivery.

Several commercial and vocational schools are located in Nashville. In addition, the Adult Education Program operated by MNPS served 3,610 adult learners in 2006-07. This program enabled 362 adult learners to successfully pass the GED exam, provided 58,855 hours of English as a Second Language instruction and 55,654 hours of adult basic education instruction. Community Education classes offered by MNPS and the Community Education Alliance of Metro Government, provided additional learning opportunities to more than 20,500 participants in 200 different classes each semester.

Manufacturing

As of June 2006, an average of 83,800 persons were employed in the manufacturing industries in the MSA, engaging in a wide range of activities and producing a variety of products, including food, tobacco, textiles and furnishings, lumber and paper, printing and publishing, chemical and plastics, leather, concrete, glass, stone, primary metals, machinery and electronics, motor vehicle equipment, measuring and controlling devices, and consumer products.

Currently, the Nashville MSA's largest manufacturing employer is Nissan Motor Manufacturing Corp. U.S.A., which has some 8,100 employees and is situated 30 miles to the south of Nashville, on the edge of the MSA. Saturn Corporation employs 5,800 in its facilities in Spring Hill, TN and is the second largest manufacturing employer. Dell is third with 1,500 employees.

Trade

Nashville is the major wholesale and retail trade center for the MSA and some 50 counties in the central region of the State, southern Kentucky and northern Alabama, a retail trade area of more than 2.3 million people with retail sales of over \$27.0 billion. Major regional shopping centers register more than \$3.0 billion in retail sales annually, placing Nashville in the nation's top 50 markets. Outside the Nashville downtown area there are five major shopping centers, four of which are enclosed malls, and 60 smaller shopping complexes.

Agriculture

Nashville is surrounded by agricultural-based economies. The area encompassing middle Tennessee produces livestock, dairy products, soybeans, small grain, feed lot cattle, strawberries, hay and tobacco. Additionally, the area surrounding Nashville is the home of the Tennessee Walking Horse.

Transportation

Nashville serves as a conduit or trans-shipment point for much of the traffic between the northeast and southeast United States. Three interstate highways extending in six directions intersect in Nashville in addition to nine Federal highways and four State highways. Barge service on the Cumberland River, together with good rail and air services, give Nashville an excellent four-way transportation network.

The Cumberland River, connecting Nashville and the surrounding area to the Gulf of Mexico and intermediate points on the Ohio and Mississippi Rivers, is used by 51 commercial operators, 18 of which serve Nashville. With the completion of the Tennessee-Tombigbee Waterway in 1985, Cumberland River freight is able to reach the Port of Mobile, thereby eliminating approximately 600 miles of the distance from Nashville to the open sea and contributing to the development of foreign trade in Nashville. In addition, the Federal Government in 1982 approved Nashville as a Foreign Trade Zone, a secured area supervised by the United States Custom Service, which provides for the storing of foreign merchandise without duty payments.

The CSX System, a major national railroad, serves Nashville. In addition, five major rail lines link Nashville to all major markets in the nation. Rail carriers interchange freight and cooperate in providing and extending transit privileges covering both dry and cold storage and the processing or conversion of materials.

A commuter rail service from Lebanon to Nashville, approximately 32 miles, known as the Music City Star commenced transportation services in the September of 2006. It is operated under the direction of the Regional Transportation Authority, a multi-county agency. The ticket price includes Metropolitan Transportation Authority ("MTA") bus service on circulator routes in the downtown area.

The Metropolitan Nashville Airport Authority (the "Airport Authority") owns Nashville International and John C. Tune airports. Nashville International Airport (the "Airport") is situated approximately eight miles from downtown Nashville. It is serviced by sixteen scheduled airlines. According to the Authority, approximately 8.7 million passengers used the airport in 2006. As of August, 2006, the Airport served 89 markets with an average of 400 arriving and departing flights per day. The 820,000 square foot Airport

terminal has 61 air carrier gates and up to 78 commuter aircraft parking positions. The Airport has four runways of up to 11,000 feet, including parallels for simultaneous landings and takeoffs.

The Airport Authority also operates the John C. Tune Airport in the Cockrill Bend Industrial area west of Nashville. It serves the needs of regional corporate and private aircraft and allows Nashville International's air carrier traffic to flow with fewer constraints. Tune Airport also provides a pilot training environment and modern facilities for the transient and corporate operator.

The Metropolitan Transit Authority ("MTA") provides a comprehensive public transportation system covering the entire metropolitan area. In addition to regularly scheduled bus routes, MTA provides special transportation services for the handicapped and operates trolley cars in the downtown area for shoppers, tourists and downtown workers.

Construction

Construction in Nashville is illustrated by the following table describing the number and value of building permits issued by the Department of Codes Administration of the Metropolitan Government. Construction has grown through most of the 1990's. In 2007, the Metropolitan Government saw a total dollar volume of permit activity at \$1.75 billion.

Calendar Year	Residential Construction		Non-Residential Construction		Repairs, Alterations and Installations		Other (1)		Total Permit Value
	Number of Permits	Value	Number of Permits	Value	Number of Permits	Value	Number of Permits	Value	
1997	2,240	376,003,886	1,036	492,917,275	5,307	271,749,797	1,504	10,417,506	1,151,088,464
1998	2,487	397,690,382	1,040	498,439,904	5,805	357,775,227	1,466	14,520,549	1,268,426,062
1999	2,686	508,776,654	1,206	697,396,351	4,740	397,754,933	1,455	18,187,549	1,622,115,487
2000	2,421	444,626,418	1,010	386,428,784	4,673	479,932,778	1,272	11,960,044	1,322,948,024
2001	2,975	521,311,880	896	354,527,042	4,146	336,595,779	1,179	14,962,413	1,227,397,114
2002	2,846	476,572,494	851	173,707,294	4,302	405,697,860	1,433	20,029,867	1,076,007,515
2003	3,207	536,278,115	693	279,867,295	4,531	356,979,647	1,222	20,013,372	1,193,138,429
2004	3,708	655,382,120	849	398,788,311	4,023	351,762,279	1,291	23,195,687	1,429,128,397
2005	3,794	747,525,151	865	428,627,829	4,431	462,950,966	1,434	24,073,860	1,663,177,806
2006	3,801	758,964,847	620	503,077,069	5,094	553,177,902	1,422	15,722,367	1,830,942,185
2007	5,965	851,544,710	1,453	619,951,806	2,754	267,721,486	1,469	17,293,882	1,756,511,884

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

Source: Metropolitan Government Department of Codes Administration

Of the seven major areas of office development in Nashville, the Central Business District ("CBD") is by far the largest, with approximately 7 million square feet of leasable space. The CBD saw a year-to-date net absorption of 49,000 square feet of space as of the third quarter of 2007. Office vacancy in the CBD at the end of the third quarter of 2007 was 10.8%, about the same level as the previous year. The CBD has a great deal of office construction both scheduled and underway. SunTrust Plaza, a new 338,000 square foot office building adjacent to the Ryman Auditorium, was 85% leased in December 2007. The Pinnacle at Symphony Place (28-stories, 530,000 square feet) has broken ground in SoBro and is

scheduled for completion in 2009. The building will be anchored by the Bass, Berry & Sims law firm and more than half is already leased.

Tourism

Tourism is a major industry in Nashville. The Convention and Visitors Bureau and U. S. Travel Data Center estimate that more than 11 million tourists came to Nashville in 2006 and they spent approximately \$3.8 billion. Music, history, art and generous hospitality attract convention delegates and leisure visitors. Excellent air service combined with geographic location and a superior highway transportation system contribute to the cities success.

2006 saw the opening of the Schermerhorn Symphony Hall in downtown Nashville. The \$123 million concert hall is an acoustic masterpiece that impressed national and international music critics and journalists beginning with the opening concert and adds one more attraction to a city known world-wide as Music City.

The new Country Music Hall of Fame opened in downtown Nashville in May, 2001. The \$37 million facility is a striking architectural statement featuring music related icons both outside and inside the building. From a distance, the front façade of the building looks like a piano keyboard. The shape of the building is that of the musical notation for a bass clef. The conservatory entrance is available for after-hour events and spaces of varying sizes offer attractive event spaces. The new Hall of Fame features live entertainment daily with musical instruments demonstrations, songwriting sessions, and performances each day at lunch.

Each year, the Country Music Association coordinates a music festival known as CMA Music Fest. The event includes performances by more than 100 entertainers and groups, autograph sessions and activities directed at the attendees. In 2001, the music festival moved to downtown Nashville and attendance has steadily increased each year since then, with average estimates at 124,000 attendees annually.

Opry Mills is 1.1 million square foot megamall, which opened in May 2000. The mall contains 200 stores, theme restaurants, a multi-theater complex, an IMAX theater and Gibson Guitars Bluegrass instrument factory where visitors can see luthiers hand-crafting mandolins. The mall hosts more than 12 million visits annually.

The downtown entertainment district features the Hard Rock Café, the Wild Horse Saloon; a concert hall, restaurant, dance hall and TV production facility. The Ryman Auditorium (2,200 seats), a former home of the Grand Ole Opry, is known for outstanding acoustics. The Ryman has become a venue of choice by entertainers visiting Nashville and has twice been named Pollstar Magazines venue of the year for the United States. A three block section of the downtown area; called lower Broadway, features bars and clubs known as Honky Tonks. These venues are housed in historic brick buildings and feature “no-cover-charge” live bands performing 15 hours a day, 7 days a week. The close proximity of the Sommet Entertainment Center (20,000 seats) and the LP Stadium to this entertainment district assures good crowds on event days.

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

The Sommet Entertainment Center, formerly The Nashville Arena, is now in its eleventh year of operation as a premier entertainment facility. The Center is home of the Nashville Predators, an NHL team in its tenth season in Nashville.

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

The Tennessee State Museum, the Cheekwood Botanical Gardens and Fine Arts Center, President Andrew Jackson's Home: The Hermitage, Belmont Mansion, The Tennessee Performing Arts Center, the Adventure Science Center, and the Parthenon supplement educational and cultural opportunities in the City. The Tennessee Performing Arts Center, a State facility in Downtown Nashville, contains a 2,442-seat concert hall, a 1,054 seat theater and a 300 seat flexible theater.

The Adventure Science Center and the Nashville Zoo provide opportunities for Nashville's adults and children to learn how science and wildlife affect their lives. The Adventure Science Center is undergoing an expansion of the building which will feature a state-of-the-art Planetarium opening in 2008. The current Center features exhibits and programs which focus on geology, zoology, ecology, physics and other sciences. The Nashville Zoo is continuing its multi-year, multi-million dollar expansion program. The Zoo property is built around the historic Grassmere Home and features an ever-expanding display of reptiles, amphibians and birds from throughout the world.

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

The Nashville MSA has more than 280 hotels and motels that offer more than 33,000 rooms. The Gaylord Opryland Resort and Convention Center is the third largest hotel/convention center under one roof in the United States. The complex features 2,884 hotel rooms, 300,000 square feet of exhibit space and 300,000 square feet of meeting space. The hotel recently announced plans to build an additional 400 rooms and 450,000 square feet of exhibit and meeting space.

Below is a history of hotel/motel rooms in Nashville MSA and percentage of occupancy from 1997 through 2006:

HOTEL AND MOTEL ROOMS

Calendar Year	Rooms Available	Occupancy Rate
1996	27,041	67.2 %
1997	28,684	66.4
1998	30,122	61.9
1999	31,106	61.0
2000	32,385	59.9
2001	33,316	56.5
2002	33,474	56.9
2003	32,661	58.5
2004	32,727	60.7
2005	32,983	62.3
2006	33,052	66.2
2007	33056	66.9

Source: Nashville Conventions and Visitors
Bureau

Medical and Cultural Facilities

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

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

A new downtown main library, with over 280,000 square feet, opened in the spring of 2001. With the downtown public library, its 20 community branches, the Vanderbilt University Library, and the libraries of other schools, Nashville offers a wide range of books and other materials for instruction, research and innovation.

The highly anticipated Schermerhorn Symphony Center, named in honor of the late Maestro Kenneth Schermerhorn who led the Nashville Symphony for 22 years, opened in September 2006. Home to the critically acclaimed Nashville Symphony, the Schermerhorn Symphony Center plays host to more than 100 classical, pops, and special concert events each season. In addition, the Nashville Symphony presents recitals, choral concerts, cabaret, jazz, and world music events. With the Schermerhorn Symphony Center's debut, the Tennessee Performing Arts Center, a State cultural facility in Downtown Nashville which contains a 2,442-seat concert hall, a 1,054 seat legitimate theater and a 300 seat flexible theater, is now able to feature a multitude of additional cultural events each year.

The Frist Center for the Visual Arts opened in the spring of 2001 in Nashville's historic downtown post office building. A public-private partnership between the Metropolitan Government, the Frist Foundation and the Dr. Thomas F. Frist, Jr. family, the Center contains more than 24,000 square feet of gallery space capable of showcasing major national and international visual arts exhibitions. The Frist Center does not intend to build a permanent art collection but will instead place special emphasis on education, arts-related programs for the school children of Nashville, and community outreach. The Center will give Nashville the ability to host significant art shows that have not exhibited here in the past.

The Tennessee State Museum, the Cheekwood Botanical Gardens and Fine Arts Center, The Tennessee Performing Arts Center, the Adventure Science Center, and the Parthenon supplement educational and cultural opportunities in the City.

The Parthenon is a full-scale replica of the original in Athens Greece. The reproduction was built to honor Nashville's reputation for education and has attracted visitors since 1897. The recently restored building features a 41' tall gilded statue of Athena. The Adventure Science Center and the Nashville Zoo provide opportunities for Nashville's adults and children to learn how science and wildlife affect their lives. The Adventure Science Center is undergoing expansion of the building which will feature a state-of-the-art Planetarium. The current Center features exhibits and programs which focus on geology, zoology, ecology, physics and other sciences. The Nashville Zoo is continuing its multi-year, multi-million dollar expansion program. The Zoo property is built around the historic Grassmere Home and features an ever-expanding display of animals from throughout the world.

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APPENDIX E

**RATE CONSULTANT REPORT REGARDING COMPLIANCE
WITH ADDITIONAL BONDS TEST**

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February 22, 2008

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 approximately \$156,000,000 of proposed bonds, including the Water and Sewer Revenue Refunding Bonds, Series 2008A, and the Water and Sewer Revenue Refunding Bonds (Taxable), Series 2008B (combined, the “Series 2008 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 2008 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 December 1, 2006 through November 30, 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 (Section 7.10 B(1))

Revenues Available for Debt Service	\$	183,054,887
Operating Expenses	\$	97,304,742
120% of Maximum Debt Service (1)	\$	<u>62,675,346</u>
Total Operating Expenses plus 120% Maximum Debt Service	\$	159,980,088
Coverage (At Least 1.0 Required) (2)		1.1442

- (1) Maximum debt service occurs in FY 2010 (\$52,229,455) and includes debt service on all outstanding Bonds, including the proposed Series 2008 Bonds and any adjustments for those Series to be refunded by the Series 2008 Bonds.
- (2) Calculated by dividing Revenues Available for Debt Service by the sum of Total Operating Expenses plus 120% of Maximum Debt Service.

APPENDIX F

**FORM OF OPINION OF BOND COUNSEL
(SERIES 2008A BONDS)**

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APPENDIX F

**FORM OF OPINION OF BOND COUNSEL
(SERIES 2008A BONDS)**

(Closing Date)

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

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

Morgan Keegan & Company, Inc.
Memphis, Tennessee

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 \$122,530,000 Water and Sewer Revenue Refunding Bonds, Series 2008A, dated the date hereof (the “Series 2008A 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, including without limitation as supplemented and amended by Resolution No. RS2008-142 adopted by the Metropolitan Council on February 5, 2008 (collectively, the “Resolution”) authorizing, among other things, the issuance and sale of the Series 2008A 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 2008A 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 2008A Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.
3. The principal of and interest on the Series 2008A 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 1998A, its Water and Sewer

Revenue Bonds, Series 1998B, its Water and Sewer Revenue Refunding Bonds, Series 2002, its Water and Sewer Revenue Refunding Bonds, Series 2007, and its Water and Sewer Revenue Refunding Bonds, Series 2008B (Taxable) 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 or interest on the Series 2008A Bonds.

4. Interest on the Series 2008A Bonds (including any original issue discount properly allocable to an owner thereof) 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 2008A 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 2008A Bonds to be so included in gross income retroactive to the date of issuance of the Series 2008A 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 2008A Bonds.
5. Under existing law, the Series 2008A 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 2008A Bonds during the period such Series 2008A 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 2008A 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 2008A Bonds and the enforceability of the Series 2008A Bonds and the resolution authorizing the Series 2008A 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 2008A 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

**FORM OF OPINION OF BOND COUNSEL
(SERIES 2008B BONDS)**

(Closing Date)

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

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

Morgan Keegan & Company, Inc.
Memphis, Tennessee

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 \$27,950,000 Water and Sewer Revenue Refunding Bonds, Series 2008B (Taxable), dated the date hereof (the “Series 2008B 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, including without limitation as supplemented and amended by Resolution No. RS2008-142 adopted by the Metropolitan Council on February 5, 2008 (collectively, the “Resolution”) authorizing, among other things, the issuance and sale of the Series 2008B 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 2008B 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 2008B Bonds has been duly and lawfully adopted, is in full force and effect and is a valid and binding agreement of the Issuer enforceable in accordance with its terms.
3. The principal of and interest on the Series 2008B 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 Bonds, Series 1998B, its Water and Sewer Revenue Refunding Bonds, Series 2002, its Water and Sewer Revenue Refunding Bonds, Series 2007, its Water and Sewer Revenue Refunding Bonds, Series 2008A, 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 or interest on the Series 2008B Bonds.

4. Under existing law, the Series 2008B 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 2008B Bonds during the period such Series 2008B 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 2008B 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 2008B Bonds and the enforceability of the Series 2008B Bonds and the resolution authorizing the Series 2008B 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 2008B 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

APPENDIX G

INFORMATION RELATED TO DEPOSITORY TRUST COMPANY

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APPENDIX G

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 H

FORM OF MUNICIPAL BOND INSURANCE POLICY

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APPENDIX H

FORM OF MUNICIPAL BOND INSURANCE POLICY

	FINANCIAL SECURITY ASSURANCE®	MUNICIPAL BOND INSURANCE POLICY
ISSUER:		Policy No.: -N
BONDS:		Effective Date:
		Premium: \$

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment on the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment

made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By _____

By _____
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
31 West 52nd Street, New York, N.Y. 10019

(212) 826-0100

Form 500NY (5/90)