

Updated by GBB 2/21/06

District Energy System

DES Revenue Bonds, 2002A \$66,700,000

15c2-12 Continuing Disclosure Update

Please refer to www.Nashville.gov for further information regarding the District Energy System (DES). The Official Statement is available online at: www.nashville.gov/finance/investor_relations.htm

THE SYSTEM AND ITS OPERATIONS

Overview

The District Energy System, a district heating and cooling system that provides steam and chilled water to the downtown metropolitan Nashville area for the purpose of general heating and air conditioning, is located in downtown Nashville. The Metropolitan Government is the owner of the System and the site on which the Energy Generating Facility is located. A portion of the Energy Distribution System that had been owned by the State was transferred to the Metropolitan Government in 2004.

Primary components of the System include (i) the steam production subsystem consisting of four 65,000 PPH forced draft, pressurized, dual-fuel boilers and a duplex soft water system; (ii) the chilled water subsystem comprised of nine 2,600-ton electrical drive chillers, 18 single-cell, induced draft cooling towers and 6 chilled water and 5 condenser water pump/motor sets; (iii) a 69/13/8 KV supply substation and two 69/13.8 KV transformers; and (iv) 14,000 linear feet of underground energy distribution piping.

Production and Sale of Energy

Sale of Energy Generated by the System

Historical Capacity and Sales: Under existing Customer Contracts between the Customers and the Metropolitan Government, the System provides steam and chilled water services to a total of 40 buildings in downtown Nashville, consisting of 16 privately owned buildings, 14 State owned buildings and 10 Metro-owned buildings. Historically, the private customers, the State and the Metropolitan Government have accounted for approximately 24%, 57% and 19%, respectively, of the total steam sales and 33%, 43% and 24%, respectively, of the total chilled water sales. Below is a five-year historical summary of total steam and chilled water sales for the System:

	<u>Historical Sales - Fiscal Years Ended June 30</u>					
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Steam Sales (1,000 lbs)	301,329	340,072	314,041	351,539	331,025	302,898
Chilled Water Sales (1,000 ton hours)	57,236	55,155	53,521	50,064	50,559	46,846

System Capacity and Sales: The Energy Generating Facility has been designed to produce a total installed capacity of 260,000 PPH of 150 PSIG saturated steam and 23,400 tons per hour of 42 degree Fahrenheit chilled water. Assuming one boiler and one chiller off-line and a 70.0% diversity for steam and chilled water services, the Metropolitan Government has estimated total available sales capacity at 250,714 PPH for steam and 29,714 tons for chilled water.

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

<u>Customer Commitments</u>	<u>Committed Capacity</u>		<u>Percentage of Total Available Capacity</u>	
	<u>Steam (PPH)</u>	<u>Chilled Water (tons)</u>	<u>Steam (PPH)</u>	<u>Chilled Water (tons)</u>
Commercial Customers				
Parkway Towers	4,500	550	1.79%	1.85%
Regions Bank	1,995	300	.80	1.01
Sheraton Hotel	12,660	950	5.05	3.20
South Trust Bank	2,000	233	.80	.78
Hermitage Hotel	7,000	400	2.79	1.35
501 Building	2,500	175	1.00	.59
Sun Trust Financial Center	0	1,043	.00	3.51
Renaissance Hotel	17,287	1,000	6.90	3.37
Renaissance Offices	0	255	.00	.86
Nashville City Center	0	1,000	.00	3.37
Saint Mary's Church	317	26	.13	.09
Ryman Auditorium	954	180	.38	.61
Wildhorse Saloon	1,600	193	.64	.65
Total Commercial	50,813	6,305	20.27%	21.22%
State of Tennessee				
Andrew Jackson	65,808	1,425	26.25%	4.80%
James K. Polk	14,560	1,309	5.81	4.41
John Sevier	(1)	404	-	1.36
Cordell Hull	(1)	498	-	1.68
Library and Archives	(1)	156	-	.53
State Capitol	(1)	222	-	.75
Supreme Court	(1)	78	-	.26
War Memorial	(1)	704	-	2.37
Tennessee State University	(1)	0	-	.00
Legislative Plaza	(1)	(3)	-	-
Central Services	(1)	(1)	-	-
Rachel Jackson	7,350	788	-	-
Citizen's Plaza	12,165	788	2.93	2.65
Tennessee Tower	<u>99,883</u>	<u>1,760</u>	<u>4.85</u>	<u>5.92</u>
Total State	99,883	7,344	39.84%	24.72%
Metropolitan Government				
Metropolitan Courthouse	7,000	350	2.79%	1.18%
Criminal Justice Center	13,210	585	5.27	1.97
Ben West/A.A. Birch	13,800	1,050	5.50	3.53
Municipal Auditorium	4,500	600	1.63	2.02
Convention Center	18,750	1,400	7.48	4.71
Gaylord Entertainment Center	15,269	2,500	6.09	8.41
Coliseum	0	2,000	.00	6.73
Total Metro	72,529	8,485	28.93%	28.56%
Additional Customer Contracts				
Hume Fogg Academic School	3,000	300	1.20	1.01
Sun Trust Bank	8,015	765	3.20	2.57
Schermerhorn Hall	4,200	500	1.68	1.68
Viridian Residential Tower	0	600	-	2.02
New Public Library	8374	700	3.34	2.36
Total Additional	23,589	2,865	9.41%	9.64%
TOTAL COMMITMENTS	246,814	24,999	98.44%	84.13%
Capacity Available For Sale	3,900	4,715	1.56%	15.87%
Total Available Capacity	250,714	29,714	100%	100%

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

Projected Operating Results; Projected Revenues and Expenses

The following table sets forth the operating results for the past year of operations, and certain base case financial projections developed by Gershman, Brickner & Bratton, Inc. (“GBB”) for the succeeding 5 years of operation of the System. The base case projections assume sales based on Customer Contracts existing as of the date hereof and not on sales of any remaining available capacity.

Forecast of Revenues and Expenses Fiscal Years Ended June 30

	<u>2005 Actual</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Total Operating Revenues ⁽¹⁾	\$16,711,484	\$20,144,500	\$23,175,091	\$23,870,344	\$24,586,454	\$24,912,048
Total Operating Expenses ⁽²⁾	\$12,466,429	\$15,600,705	\$18,237,752	\$18,942,941	\$19,656,150	\$19,985,346
Net Revenues	\$4,245,055	\$4,543,795	\$4,937,339	\$4,927,403	\$4,930,305	\$4,926,702
Total Debt Service ⁽³⁾	\$4,245,055	\$4,543,795	\$4,937,339	\$4,927,403	\$4,930,305	\$4,926,702
Net Revenue Available	-	-	-	-	-	-

Notes:

- Total Operating Revenues include the Metro Funding Amount which, assuming sales based on contracts executed as of the date hereof and not any sales of remaining available capacity, is projected to be \$2,124,157, \$2,272,995, \$2,341,185, \$2,411,420, and \$2,483,763, respectively, for fiscal years ended 2006 through 2010. The Metro Funding Amount for FY05 was \$1,581,242.
- Operating expenses include transfers made to the Operating Reserve Fund and the EDS Repair and Replacement Fund.
- Debt service amounts have been pro-rated on a 12-month Fiscal Year basis and are net of any interest earnings and capitalized interest payments.
- The 2005 actual results reported herein include settlements of year-end charges pursuant to the Customer Agreements, and are limited to the operating accounts of the System. Those results may differ, therefore, from the results reported in the annual financial statements.

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

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