

**ANNUAL REPORT TO BONDHOLDERS**

OF THE

**CITY OF LAKELAND, FLORIDA**

FOR THE

**FISCAL YEAR ENDED SEPTEMBER 30, 2006**

**GREGORY M. FINCH, CPA**  
FINANCE DIRECTOR

**MICHAEL C. BROSSART, CPA**  
ASSISTANT FINANCE DIRECTOR

**CITY COMMISSION AND ADMINISTRATION**

**R. L. (BUDDY) FLETCHER**  
Mayor

**A. DEAN BORING**  
Commissioner

**GOW B. FIELDS**  
Commissioner

**EDITH YATES**  
Commissioner

**JAMES S. VERPLANCK**  
Commissioner

**GLENN E. HIGGINS**  
Commissioner

**HOWARD R. WIGGS**  
Commissioner

**DOUGLAS B. THOMAS**  
City Manager

**TONY DELGADO**  
Deputy City Manager

**STANLEY HAWTHORNE**  
Assistant To The City Manager

**TIM MCCAUSLAND**  
City Attorney

**MICHAEL CRAIG**  
Assistant City Attorney

**PALMER DAVIS**  
Assistant City Attorney

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April 30, 2007

On Behalf of the Members of the City Commission, I am pleased to present the 2006 Annual Report to Bondholders. This report provides information to you, the investor, relating to the City's finances and outstanding bond indebtedness. We, in the City of Lakeland, are proud of our accomplishments during the last year. It is our goal to continue to provide a high level of service to our community at a fair price.

The City team is committed to making Lakeland a great city in which to live and work. We understand that to achieve this goal, we must be mission driven and results oriented. To facilitate growth and development of the City, we must be pro-active and not reactive. We must anticipate the future in our comprehensive planning, visioning, and long range financing of City infrastructure. We must secure the future of our children and grandchildren through cooperative efforts among all levels of government and private enterprise. We must develop and maintain partnerships and strategic alliances which address common goals and priorities.

We thank you for your past support and interest in the City of Lakeland. We also pledge to you and our citizens to continue the past tradition of superior management, and sound fiscal policy as we carry out our responsibilities as stewards of the City's future.

Sincerely,

Ralph L. "Buddy" Fletcher  
Mayor



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## **PURPOSE OF THE ANNUAL REPORT TO BONDHOLDERS**

The ANNUAL REPORT TO BONDHOLDERS has been prepared by the City of Lakeland, Florida (City) to provide information concerning the City, its financial operations, and its indebtedness.

The Securities and Exchange Commission (SEC) issued interpretive guidance in 1994 regarding continuing disclosure requirements under rule 15c2-12. This rule provides that a Broker<sup>1</sup> may not act as a Participating Underwriter<sup>1</sup> in a primary offering of municipal securities with an aggregate principal amount of \$1,000,000 or more, unless the underwriter reasonably determines that the issuer of such municipal securities has undertaken in a written agreement or contract, to provide to each Nationally Recognized Municipal Securities Information Repository [NRMSIR] certain disclosure information as enumerated in the rule. The effect is to require continuing disclosure, to the secondary market, for issuers of municipal securities.

The City of Lakeland has covenanted for the benefit of bondholders to provide certain financial information and operating data relating to the City in each year, and to provide notices of the occurrence of certain enumerated material events. The City has agreed to file annual financial information and operating data and the audited financial statements with each nationally recognized municipal securities information repository approved by the Securities and Exchange Commission (the “NRMSIRs”), as well as any state information depository that is established in the State (the “SID”). Currently, there are no such SIDs. The City has agreed to file notices of certain enumerated material events, when and if they occur, with the NRMSIRs or the Municipal Securities Rulemaking Board, and with the SIDs, if any. In conjunction with the continuing disclosure requirement, the City entered into an agreement with Digital Assurance Certification, L.L.C. (“DAC”) in October 2002, providing for DAC to act as a Dissemination Agent for the City.

<sup>1</sup>See SEC rules for definitions of capitalized terms in the Purpose of Annual Report to Bondholders section.

## INTRODUCTION

The following report represents the Eleventh ANNUAL REPORT TO BONDHOLDERS prepared by the City. This report is designed to provide useful information to current and potential investors, rating agencies, bond insurers, municipal analysts, and other interested parties. In achieving this objective, the ANNUAL REPORT TO BONDHOLDERS also fulfills SEC requirements to provide updated information to the secondary bond market that is consistent with other official statements relating to the City's indebtedness.

Included in the ANNUAL REPORT TO BONDHOLDERS is background information about the City and its services, key staff, and demographics. Financial information, particularly data related to revenues that have been pledged to support debt service requirements on outstanding bonds, is also included. Additionally, the ANNUAL REPORT TO BONDHOLDERS includes details about each outstanding bond issue for which the City has a legal obligation. All of the information is presented as of the fiscal year ending September 30, 2006, unless otherwise noted.

In addition to the ANNUAL REPORT TO BONDHOLDERS, City is filing a copy of its "Comprehensive Annual Financial Report" (CAFR) for the fiscal year ended September 30, 2006. The CAFR is being transmitted as a separate document in an effort to preserve the conciseness of the ANNUAL REPORT TO BONDHOLDERS and also to make pertinent financial information available that may be of interest to the reader. The ANNUAL REPORT TO BONDHOLDERS is a supplementary document and should be reviewed in conjunction with the CAFR, and not as a replacement of the CAFR.

The ANNUAL REPORT TO BONDHOLDERS together with the accompanying CAFR represent a complete picture of the City's finances. Anyone requesting financial information about the City will be referred to these documents. Copies of the ANNUAL REPORT TO BONDHOLDERS are being furnished to current or potential bondholders upon request, rating agencies, insurers of municipal debt, and to Nationally Recognized Municipal Securities Information Repositories [NRMSIRs]. Anyone interested in receiving this report should make a request in writing to the address provided below. If it is determined that any future requested information is not included in this document or the CAFR, but should be made available to the "market," a response will be provided through a filing with the NRMSIRs and the requester will be notified accordingly.

City of Lakeland  
Finance Director  
228 South Massachusetts Avenue  
Lakeland, Florida 33801-5012

Certain information presented in the ANNUAL REPORT TO BONDHOLDERS was obtained from sources external to the City that are believed by the City to be reliable. The City has not undertaken an independent review or investigation to determine the accuracy of the information that has been obtained from other sources. Neither the City nor the elected or appointed officials make any representations or warranties with respect to the accuracy or completeness of that information.

To the extent that certain portions of the ANNUAL REPORT TO BONDHOLDERS constitutes summaries of documents, reports, resolutions or other agreements relating to the operations or outstanding debt of the City, this report is qualified by reference to each such document, copies of which may be obtained from the Director of Finance.

The ANNUAL REPORT TO BONDHOLDERS contains certain capitalized terms that are not defined within this report. Such terms are defined in the ordinances or resolutions of the City authorizing the issuance of the respective bonds.



## GENERAL & STATISTICAL INFORMATION

The City of Lakeland was incorporated in 1885 as a political subdivision of the State of Florida. The City is operated using a Commission-Manager form of government. This system provides a centralized professional administration and a seven member City Commission. Four Commission members are elected from single member districts and the other three members are elected at large. All Commissioners serve four-year terms of service. The Mayor is elected by popular vote and is recognized as the head of City government for all ceremonial occasions. The City employs a full-time manager, appointed by the Commission, who is the chief executive and administrative officer of the City.

The City of Lakeland provides a full range of municipal services including public works, public safety, health and social services, recreation and cultural activities. In addition, the City's enterprise activities include electric and water utilities, airport operations, and sanitation services.

### PRINCIPAL OFFICIALS

The legislative power of Lakeland is vested in a commission of seven members. The City Commission generally meets on the first and third Monday of each month in the commission chambers at City Hall, 228 South Massachusetts Avenue. The following table lists the elected officials of the City as of September 30, 2006:

<u>District</u>	<u>Elected Officials</u>	<u>Service</u>	<u>Term Expires</u>
At large	Ralph L. (Buddy) Fletcher (Mayor)	17 years	December 2009
Northwest	Gow B. Fields	14 years	December 2007
Northeast	Glenn E. Higgins	3 years	December 2007
Southwest	James Verplanck	5 years	December 2010
Southeast	Edith Yates	1 year	December 2010
At large	A. Dean Boring	9 years	December 2007
At large	R. Howard Wiggs	13 years	December 2010

### SENIOR MANAGEMENT – CITY

#### **DOUGLAS B. THOMAS - CITY MANAGER**

Doug Thomas became City Manager in December 2003. Doug was selected after a nationwide search for a replacement for retiring City Manager, Roger Haar. Before accepting this position, Doug served as City Manager for the City of Alma, Michigan for over 14 years. His academic credentials include attainment of a Master's of Public Administration from the American University, Washington, D.C. in 1983 with a concentration in Urban Affairs, and a Bachelor of Arts in Political Science and History from Bowling Green State University, Ohio in 1981

#### **ANTHONY J. DELGADO - DEPUTY CITY MANAGER**

Anthony Delgado has over 20 years experience in public administration. He started with the City in 1997, as Assistant Director of the Lakeland Center. He was appointed Assistant City Manager in November 2000. He has a Bachelor of Science Degree in Parks and Community/Commercial Recreation from Southern Illinois University.

#### **STANLEY HAWTHORNE – ASSISTANT TO THE CITY MANAGER**

Stanley Hawthorne was appointed as Assistant to the City Manager in January 2005. Before accepting this position, Stanley served as District General Manager for the Sun 'n Lake of Sebring Improvement District. He has more than 12 years of city management experience and leadership in high growth Florida communities. He holds a Bachelor of Science Degree in Social Science and Economics from Troy State University in Alabama and Master of Arts in Public Administration from the University of Virginia. He is a Certified Government Financial Manager and a graduate of the Senior Executive Institute at the Darden Business School. Stanley is very involved in community service activities and several professional affiliations.

**GREGORY M. FINCH - FINANCE DIRECTOR**

Greg Finch started with the City in 1985, as Assistant Finance Director. He was appointed Finance Director in December 2003. Prior to that, he spent 6 years with the accounting firm of Evans, Parrish & Fisk, Lakeland, Florida. He is a certified public accountant and holds a Bachelor of Science Degree in Accounting from Florida Southern College.

**MICHAEL C. BROSSART - ASSISTANT FINANCE DIRECTOR**

Mike Brossart started with the City in 1996. He was appointed Assistant Finance Director in December 2003. Prior to working for the City, Mike was the Accounting Manager for a large tile manufacturer. Mike is a certified public accountant and holds Bachelor of Science Degree's in both Accounting and Marketing from Florida Southern College.

**DON ECKERT - ASSISTANT FINANCE DIRECTOR, ELECTRIC**

Don was appointed Assistant Finance Director - Electric for the City of Lakeland in June, 2006. In this capacity, Don is responsible for all financial aspects of Lakeland Electric's operations. Prior to joining the City, Don had over ten years experience in the Electric Utility industry. He has a Bachelor's degree in Business Administration from the University of Michigan and a Master's of Accountancy from the University of Southern California.

***SENIOR MANAGEMENT – ELECTRIC UTILITIES***

The management of Lakeland Electric was reorganized in anticipation of deregulation in the State of Florida. This was deemed necessary in order for the Department to compete effectively in the public power industry. The Department was reorganized to group its divisions into four business units (Energy Supply, Energy Delivery, Customer Service, and Corporate Services).

**JAMES STANFIELD - GENERAL MANAGER, ELECTRIC UTILITIES**

Jim joined Lakeland Electric in March, 2001 as the Director of Legislative and Regulatory Affairs. Jim was appointed interim General Manager in November 2003, and was permanently assigned to this position in March 2004. Jim holds a Bachelor of Science in Journalism and Juris Doctorate from the University of Florida. Jim was accepted by the American Bar Association in 1975. Jim has over 30 years of experience in the Electric Utility industry with the Cities of Gainesville, Florida Municipal Utilities Association, Salt River Project (Phoenix, Arizona), and Florida Power Corporation (now Progress Energy Florida).

**JAMES M. PENNINGTON – DEPUTY GENERAL MANAGER, ELECTRIC**

Jim was appointed Deputy General Manager of Lakeland Electric in March, 2006. Prior to that, Jim had served as the Assistant Finance Director - Electric for the City of Lakeland since November, 2003. Prior to coming to Lakeland, Jim has held a variety of financial leadership positions, including Chief Financial Officer for two startup businesses and has nearly two decades of financial experience in the electric utility business including serving as Vice President and Corporate Controller for Central Vermont Public Service. Jim earned his Bachelor's Degree in Accounting from Indiana University and a Masters Degree in Business Administration from Rensselaer Polytechnic Institute in Troy, NY.

**ANTONIO CANDALES – ASSISTANT GENERAL MANAGER - PRODUCTION**

Tony was appointed Assistant General Manager – Production in May, 2006. Tony oversees that entire Production Division within Lakeland Electric. Prior to joining the City, Tony had over 20 years of experience working in Electric Utility industry. Tony has a Bachelor's degree in Electrical Engineering as well as a Bachelor's degree in Construction Management. Tony also completed his Engineer in Training in the State of Florida.

**ALLAN SHAFFER – ASSISTANT GENERAL MANAGER - DELIVERY**

Alan Shaffer was appointed Assistant General Manager - Delivery in 2003. As Assistant General Manager - Delivery, he is responsible for the coordination and direction of all functions pertaining to the planning, construction, maintenance, and operation of the Lakeland Electric transmission and distribution systems. Prior to assuming his present role, he was Manager of Substation Operations. He began his career as an electric engineer with Lakeland Electric in 1979 after receiving a Bachelor's Degree in Engineering from the University of South Florida. He also holds a Master's Degree in Engineering Management and has been a registered Professional Engineer since 1983.

**DAVID KUS – ASSISTANT GENERAL MANAGER - CUSTOMER SERVICE**

David Kus was appointed Assistant General Manager - Customer Service in January, 2007. As Assistant General Manager - Customer Service, he is responsible for overseeing all of the utility's customer service operations and offices, including the call center and billing and collections functions. He is also responsible for directing the utility's focus on major accounts and economic development. David has over 21 years experience in leading Customer Service Operations in both investor-owned and municipal utilities. David has a Bachelor's Degree from the University of Michigan.

**BETSY LEVINGSTON – ASSISTANT GENERAL MANAGER – GENERAL SERVICES**

Betsy began her career with the City in 1989. She became Administrative Assistant to the Managing Director of Lakeland Electric in 1995. In December 2000 Betsy was appointed Manager of Staff Support Services. Betsy has a bachelor degree in Business Administration from the Ferris State College in Big Rapids, MI and a Master of Arts degree in General Studies: Leadership and Development from the Ohio State University in 1985. Betsy is a Certified Senior Professional of Human Resources and Public Personnel Professional.

***SENIOR MANAGEMENT – WATER/WASTEWATER UTILITIES***

**CHARLES “CHUCK” GARING – DIRECTOR OF WATER UTILITIES**

Charles “Chuck” Garing was appointed Director of Water Utilities in April 2002. He has 33 years of service with the City. Prior to joining the Water Utilities Department in 1995, he worked for 25 years in power plant management with the City. He holds a Bachelor of Science Degree in Electrical Engineering from the University of South Florida.

***SENIOR MANAGEMENT – PUBLIC WORKS DEPARTMENT***

**RICHARD E. LILYQUIST, P.E. – PUBLIC WORKS DIRECTOR**

Richard Lilyquist was appointed Public Works Director in October 1998. He was previously County Engineer for Highlands County, Florida and more recently served as the Director of Environmental Services/County Engineer for Spartanburg County, South Carolina. He also has experience working for private firms performing civil engineering duties. He holds a Master of Engineering and a Bachelor of Science in Civil Engineering from the University of Florida, and is a registered professional engineer in the States of Florida and South Carolina.

## **ECONOMIC CONDITION AND OUTLOOK FOR POLK COUNTY**

The City of Lakeland is located in Polk County at the geographic center of the Sunshine State along the I-4 corridor between the cities of Tampa and Orlando. Lakeland is the largest city in Polk County with an estimated population of 91,623 as of December 2006 and covers an area of approximately 72 square miles.

The City of Lakeland is the wholesale and retail trade center for the surrounding area which is supported by agriculture, cattle production, citrus production, phosphate mining, diversified industry, and tourism. The City is also a warehousing and distribution center, with over 1,000,000 square feet of warehousing facilities within the service area being utilized.

Executive and administrative headquarters of the State of Florida Department of Citrus, Florida Citrus Mutual, Florida Phosphate Council, Inc., Publix Supermarkets, FedEx, Advanced Discount Auto Parts and other produce and shipping companies are located in the City or adjacent urban areas. There are nine major phosphate extractive and processing facilities within a 12-mile radius of the City. The Lakeland area benefits from over 300 diversified manufacturing and industrial concerns which produce a great variety of products. Among those firms are Country Hearth (bread); Keymark of FL (aluminum extrusions), KeySafety Systems of FL (airbags), Lakeland Ledger Publishing (newspaper publishing), McDonald Construction Corp. (construction), Carpenter Company (insulation), FMC Corporation (citrus processing machinery), Pepperidge Farm, Inc. (bread, cookies, and crackers), and Tampa Maid Foods (seafood processing and packaging). A more comprehensive list of the largest employers in the Lakeland area can be found on the website of the Lakeland Area Economic Development Council at [www.lakelandedc.com](http://www.lakelandedc.com)

### **POPULATION**

The population growth in Polk County over the last five years has remained strong. Polk County's population in 2006 was approximately 565,049, an increase of about 23,209 compared to an increase of about 13,451 new residents in 2005.

### **EMPLOYMENT**

The average level of employment during 2006 was 260,766.

### **UNEMPLOYMENT**

The average unemployment for the County in 2006 was 9,524, which represents a decrease of 697 from 2005. The average unemployment rate was 3.5%, down from 5.0% and 4.0% in 2004 and 2005, respectively.

### **HOUSING STARTS**

There were 4,448 building permits issued for single family homes in Polk County during 2006. This represents an decrease of 60.53% compared to the 11,269 permits issued in 2005.

**POLK COUNTY STATISTICAL AREA ECONOMIC TRENDS**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Population	528,389	541,840	565,049
Population Change	+16,460	+13,451	+23,209
Employment	235,933	247,752	260,766
Employment Change	+10,356	+11,819	+13,014
Unemployment Rate	5.0%	4.0%	3.5%
Total Housing Starts	8,282	11,269	4,448

Source: Central Florida Economic Development Council, Polk Demographics

**EDUCATION**

Public Schools are administered by the School Board of Polk County for the county-wide school district. There are 27 public elementary schools, 7 public middle schools, 5 public high schools, and 11 Charter schools in the Lakeland area. In addition, there are several private elementary, middle, and high schools. Florida Southern College, a four-year liberal arts institution, a regional campus for the University of South Florida, and Polk Community College are located in Lakeland. Southeastern University, a private biblical studies institution, is also located in Lakeland. Lakeland Regional Medical Center, is one the largest private not for profit hospitals in the State, is owned by the City, but is operated by a not-for-profit corporation pursuant to a lease and franchise agreement between the corporation and the City.

**TRANSPORTATION**

Transportation facilities include CSX Railroad; Greyhound-Trailways bus line; Lakeland Linder Regional Airport; Interstate Highway 4; Polk County Parkway; other Federal and State primary highways and toll roads; and access to major airport terminal facilities in Tampa and Orlando and seaport facilities in the Tampa Bay area. The City and County have joined together to form the Lakeland Area Mass Transit District to provide public transportation throughout the City and surrounding areas of unincorporated Polk County.

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**GENERAL FUND – REVENUES AND OTHER FINANCING SOURCES**

<u>Fiscal Year <sup>1</sup></u>	<u>Taxes</u>	<u>Licenses and Permits</u>	<u>Inter- Governmental</u>	<u>Charges for Services</u>	<u>Fines and Forfeits</u>	<u>Miscellaneous</u>	<u>Other Financing Sources</u>	<u>Total</u>
2006	\$ 29,237,557	\$ 4,464,447	\$ 10,655,304	\$ 3,856,070	\$ 1,356,977	\$ 1,327,415	\$ 30,459,809	\$ 81,357,579
2005	27,463,900	2,954,750	9,643,087	3,206,424	1,016,958	745,896	29,832,516	74,863,531
2004	26,177,314	2,467,512	8,759,356	2,707,179	1,020,071	830,479	28,401,795	70,363,706
2003	23,268,025	2,223,201	8,246,861	2,344,922	1,049,606	841,572	27,434,853	70,363,706
2002	20,802,918	2,413,095	8,410,050	2,405,521	1,017,180	1,024,558	25,179,660	65,409,040
2001	18,526,620	2,143,017	8,490,130	2,543,268	1,174,308	1,630,245	22,533,533	61,252,982
2000	17,076,077	2,300,251	9,146,573	2,155,860	1,182,458	1,559,995	21,452,470	57,041,121
1999	16,366,275	2,190,881	8,336,026	2,334,269	1,045,254	1,487,268	20,408,900	54,873,684
1998	15,303,436	1,876,562	7,823,299	2,136,239	923,004	1,881,713	19,480,294	52,168,873
1997	14,531,688	1,708,479	6,685,592	1,706,371	906,245	1,655,493	19,310,950	49,424,547

**SCHEDULE OF PROPERTY TAX RATES – DIRECT AND OVERLAPPING GOVERNMENTS**

Fiscal Year Ending September 30	Municipal	Lakeland Area Mass Transit District	Lakeland Downtown Development District	Total	Polk County	Southwest Florida Water Management District	Polk County School Board	Peace River Water Basin	Lake Deeson Water Basin
2006	3.545	0.488	1.956	5.989	8.330	0.284	7.770	0.195	—
2005	3.545	0.500	1.956	6.001	8.727	0.284	8.078	0.195	—
2004	3.545	0.488	1.956	5.989	7.727	0.284	8.206	0.195	0.422
2003	2.995	0.488	1.956	5.989	7.727	0.284	8.317	0.195	0.420
2002	2.995	0.488	1.956	5.439	7.727	0.422	8.578	0.195	0.420
2001	2.995	0.488	1.956	5.439	7.727	0.422	8.722	0.195	0.420
2000	2.995	0.488	1.956	5.439	7.727	0.422	8.846	0.195	0.420
1999	2.995	0.488	1.956	5.439	7.977	0.422	9.072	0.195	0.430
1998	2.995	0.488	1.956	5.439	7.977	0.422	9.431	0.195	0.450
1997	2.995	0.488	2.000	5.483	7.977	0.422	9.336	0.195	—

## SOCIOECONOMIC DATA

Fiscal Year	Population <sup>1</sup>	Per Capita Personal Income <sup>2</sup>	Median Age <sup>3</sup>	Education Level (in years of formal schooling) <sup>3</sup>	School Enrollment <sup>4</sup>	Unemployment Rate <sup>1</sup>
2006	91,623	*	38.34	*	34,686	4.10%
2005	90,851	25,323	*	12.856	33,059	4.10%
2004	89,731	25,777	*	*	32,151	5.00%
2003	88,741	23,991	*	*	31,239	5.60%
2002	85,517	23,285	*	*	30,533	5.90%
2001	82,706	23,294	*	*	29,268	5.10%
2000	78,452	22,609	*	*	30,871	4.20%
1999	77,487	20,625	*	*	26,102	5.50%
1998	77,113	19,905	*	*	25,985	5.00%
1997	75,265	19,126	*	*	25,883	5.90%

<sup>1</sup>City of Lakeland, Community Development

<sup>2</sup>University of Florida, BEBR

<sup>3</sup>Central Florida Economic Development Council Demographics

<sup>4</sup>Polk County School Board

\* Information not available



**TEN LARGEST TAXPAYERS**

**SEPTEMBER 30, 2006**

Taxpayer Name	Type of Business	2006			1997		
		Assessed Value of Real And Personal Property	Rank	Percentage of Total Assessed Value of Real And Personal Property	Assessed Value of Real And Personal Property	Rank	Percentage of Total Assessed Value of Real And Personal Property
Publix Supermarkets, Inc.	Retail/Distribution-Grocery	\$ 272,186,891	1	6.32%	\$ 34,252,208	3	1.63%
Rooms To Go Furniture Corp.	Retail/Distribution-Furniture	57,530,058	2	1.33%	-		
Watson Clinic	Medical Facility	51,993,936	3	1.21%	19,326,650	4	0.92%
Verizon	Telecommunications	51,165,921	4	1.19%	-		
H-D Lakeland Mall Joint Venture	Retail/General Merchandise	40,884,415	5	0.95%	39,673,251	1	1.88%
Lakeland Ledger Publishing Corp	Print Media	38,554,133	6	0.89%	-		
Carlton Arms of North Lakeland	Real Estate-Apartment Complex	33,181,809	7	0.77%	-		
Casto Oakbridge Venture Ltd	Retail/General Merchandise	32,592,630	8	0.76%			
Lakeland Property Partners LLC	Real Estate	28,006,160	9	0.65%			
Butterkrust Bakeries Inc	Manufacturing-Bakery	26,825,968	10	0.62%			
WalMart	Retail/General Merchandise	-			18,727,550	5	0.89%
Breed Automotive of Florida Inc	Manufacturing-Automotive Parts	-			10,161,220	9	0.48%
Drummond Coal Company	Real Estate-Apartment Complex	-			37,371,440	2	1.78%
Paddock Club Lakeland	Real Estate-Apartment Complex	-			13,672,280	6	0.65%
Watkins Motor Lines	Transportation	-			11,941,530	7	0.57%
Huntington Bank	Banking	-			10,528,940	8	0.50%
Ramco-Gershenson	Shopping Center	-			9,802,494	10	0.47%
		<u>\$ 632,921,921</u>		<u>14.69%</u>	<u>\$ 205,457,563</u>		<u>9.77%</u>



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## FINANCIAL INFORMATION

### REPORTING ENTITY

The financial statements present the City (the primary government) and its component units, the Lakeland Area Mass Transit District and the Lakeland Downtown Development Authority. Component units are legally separate government entities that provide services within the incorporated boundaries of the City of Lakeland, and which are either financially dependent on the City or are subject to the governance of the same City Commission which directs the activities of the municipal government. Both component units are reported discretely in the financial statements.

### INTERNAL CONTROLS

Management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

The City employs a staff of Internal Auditors whose responsibility is to audit City operations and procedures, provide findings, and recommend improvements in internal controls or other procedures as deemed appropriate. These audits include detailed reviews of established financial policies and procedures to ensure compliance with: agreements and contracts; ordinances and resolutions; federal and state regulations; budgetary procedures; cash collection and disbursement procedures; purchasing policies; payroll policies; and bond covenants. The staff is independent of the Finance Department and reports directly to the City Manager's office and is also monitored by an advisory committee.

### BUDGETARY CONTROL

Budgetary control is maintained through an annual budget ordinance passed by the City Commission which establishes budgets at the departmental level of control within funds. Generally, line item transfers within departments may be accomplished during the fiscal year without legislative approval. However, budget adjustments affecting payroll and equipment accounts require City Manager approval. Adjustments to capital expenditure accounts in excess of \$5,000 and additional appropriations involving departmental or fund totals are subject to City Commission approval.

With respect to the Department of Electric Utilities and Water and Wastewater Utilities, the City Manager has the authority to approve budget transfers between operating and capital accounts without regard to amount as long as the overall budget authority as set forth in the budget ordinance is not exceeded.

### MILLAGE

The City adopted the following millage rates for the respective fiscal years as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>	
Gross Taxable Property	\$ 4,309,816,685	3,856,729,399	\$ 3,618,060,210	\$
Property tax millage (rates per \$1,000) operating purposes	<u>3.545</u>	<u>3.545</u>	<u>3.545</u>	

## **GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, AND THEIR UNDERLYING BASIS OF ACCOUNTING**

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). This board issues and enforces the rules for accounting and disclosure to be followed by all state and local government entities.

In June 1999 the GASB issued Statement 34 entitled *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The City implemented this new standard for the fiscal year ending September 30, 2002. Certain of the significant changes in the Statement include the following:

The financial statements include:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the City's overall financial position and results of operations.
- Fund financial statements that focus on individual, "major" fund types of the City, with only non-major funds presented in aggregate totals. The traditional accounting policies and procedures that are unique to governmental operations are utilized within the financial statements.
- Government-Wide financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc). These statements are intended to provide accounting data that is prepared using uniform application of the same accounting policies adopted by entities in the private sector.

Both the government-wide and fund financial statements categorize activities as either governmental or business-type based on their nature and funding practices. The City's planning and zoning, police and fire protection, parks and recreation, public works, and general governmental functions are classified as governmental activities since they generally cannot pass the full cost of providing those services directly to the users of those services in the form of a user fee. The electric, water, wastewater, solid waste, sanitation, parking, airport, civic center and golf course activities are classified as business type activities because they are able to assess user fees that are intended to satisfy at least the majority of their annual operating costs.

The City's comprehensive Annual Financial Report is published under separate cover. The financial information contained within this report is comprised of three sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. A summation of the more significant information contained that report appears on the following pages.

### **GOVERNMENT-WIDE STATEMENTS**

In the government-wide Statement of Net Assets, both the government and business-type activities are presented on a consolidated basis in separate columns. This statement is prepared using the economic resources measurement focus, which means that all assets and liabilities (including fixed assets and long-term debt) are included in the Statement of Net Assets. This accounting methodology is much more consistent with methodology used for business accounting in the private sector than "traditional" governmental accounting methodology.

Within this statement, the net assets of the City (assets minus liabilities) are reported in three separate components – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City utilizes restricted resources first to satisfy financial obligations whenever possible.

The government-wide Statement of Activities reports the degree to which the gross expenses, including depreciation, of the significant governmental and business-type functions provided by the City are financed by the program revenues and the operating and capital grants that are directly related to the costs of providing each function. The statement then reports the extent to which the resulting net costs of these functions (gross expenses less directly-

related program revenues and grants) are financed by general revenues of the City (i.e. taxes, interest income, etc.) This statement is prepared using the full accrual basis of accounting, which determines the timing of the recording of revenues and expenditures/expenses. Under this basis of accounting, revenues are recorded when earned, and expenses are recorded when an obligation is incurred. These accounting methods are also more consistent with the methodologies used for business accounting in the private sector than “traditional” governmental accounting methodology.

Within the government-wide Statement of Activities, the City has elected not to include an allocation of indirect expenses to related functions. Administrative fees are charged by the General Fund to other funds, which are eliminated (reducing the revenue and expense of the General Fund) to recover the direct costs of providing services to those funds (i.e. finance, personnel, legal, technology management, etc). All other internal transactions related to services provided by internal service funds of the City to other functions within the City are also eliminated, insuring that the related expenses appear only once and are categorized within the appropriate functional activity.

A condensed Statement of Net Assets and Statement of Activities for the City for the fiscal year ended September 30, 2006 are presented in the following tables:

	Primary Government			Component Units
	Governmental	Business-type Activities	Total	
<b>ASSETS</b>				
Current Assets	\$ 49,890,658	\$ 195,226,284	\$ 245,116,942	\$ 9,530,554
Noncurrent assets				
Designated assets	10,980,840	56,200,070	67,180,910	2,562,848
Restricted assets	19,095,079	72,233,874	91,328,953	-
Capital assets	185,758,426	911,081,172	1,096,839,598	9,956,382
Other noncurrent assets	3,435,968	18,921,129	22,357,097	-
Total assets	<u>269,160,971</u>	<u>1,253,662,529</u>	<u>1,522,823,500</u>	<u>22,049,784</u>
<b>LIABILITIES</b>				
Current liabilities	8,735,415	64,499,043	73,234,458	386,711
Noncurrent liabilities				
Designated liabilities	805,591	6,304,762	7,110,353	-
Restricted liabilities	2,005,649	32,862,620	34,868,269	-
Other noncurrent liabilities	46,611,234	619,812,910	666,424,144	253,925
Total liabilities	<u>58,157,889</u>	<u>723,479,335</u>	<u>781,637,224</u>	<u>640,636</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	143,705,095	338,161,658	481,866,753	9,929,157
Restricted	18,845,273	16,832,079	35,677,352	
Unrestricted	48,452,713	175,189,457	223,642,170	11,479,991
Total net assets	<u>\$ 211,003,081</u>	<u>\$ 530,183,194</u>	<u>\$ 741,186,275</u>	<u>\$ 21,409,148</u>

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Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities				
General government	\$ 9,790,387	\$ 2,073,359	\$ 22,750	\$ -
Public safety	43,312,280	6,563,741	5,442,631	5,836
Physical environment	8,441,653	2,381,274	668,656	403,923
Transportation	8,955,508	197,981	50,942	1,356,024
Economic environment	3,771,122	-	2,855,615	-
Human services	233,823	-	-	-
Culture/recreation	16,256,784	2,986,301	1,531,756	6,074,048
Interest on long-term debt	2,129,212	-	-	-
Total governmental activities	<u>92,890,769</u>	<u>14,202,656</u>	<u>10,572,350</u>	<u>7,839,831</u>
Business-type activities:				
Electric	377,276,849	377,047,401	-	-
Water and Wastewater	33,481,404	39,385,836	-	12,240,769
Parking	811,878	584,570	-	-
Lakeland Center	7,735,584	4,532,987	78,593	-
Lakeland Linder Regional Airport	5,585,522	4,551,665	-	3,816,965
Solid Waste	10,341,417	12,570,157	-	-
Cleveland Heights Golf Course	2,708,676	2,669,625	-	-
Total business-type activities	<u>437,941,330</u>	<u>441,342,241</u>	<u>78,593</u>	<u>16,057,734</u>
Total primary government	<u>\$ 530,832,099</u>	<u>\$ 455,544,897</u>	<u>\$ 10,650,943</u>	<u>\$ 23,897,565</u>
Component unit:				
Mass Transit District	<u>\$ 10,264,736</u>	<u>\$ 2,664,428</u>	<u>\$ 3,183,541</u>	<u>\$ 3,487,495</u>
Total component unit	<u>\$ 10,264,736</u>	<u>\$ 2,664,428</u>	<u>\$ 3,183,541</u>	<u>\$ 3,487,495</u>
General revenues:				
Property taxes				
Franchise taxes				
Motor fuel taxes				
Utility taxes				
Tourism taxes				
State shared revenues (unrestricted)				
Payments from Lakeland Regional Medical Center				
Investment earnings				
Miscellaneous				
Net transfers (to)/from other funds				
Total general revenues, special items, and transfers				
Change in net assets				
Net assets, beginning of year (Note 2)				
Net assets, end of year				

Net (Expense) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (7,694,278)	\$ -	\$ (7,694,278)	\$ -
(31,300,073)	-	(31,300,073)	-
(4,987,800)	-	(4,987,800)	-
(7,350,561)	-	(7,350,561)	-
(915,507)	-	(915,507)	-
(233,823)	-	(233,823)	-
(5,664,679)	-	(5,664,679)	-
(2,129,212)	-	(2,129,212)	-
<u>(60,275,933)</u>	<u>-</u>	<u>(60,275,933)</u>	<u>-</u>
-	(229,448)	(229,448)	-
-	18,145,201	18,145,201	-
-	(227,308)	(227,308)	-
-	(3,124,004)	(3,124,004)	-
-	2,783,108	2,783,108	-
-	2,228,740	2,228,740	-
-	(39,051)	(39,051)	-
-	19,537,238	19,537,238	-
<u>(60,275,933)</u>	<u>19,537,238</u>	<u>(40,738,695)</u>	<u>-</u>
-	-	-	(929,272)
-	-	-	(929,272)
17,845,105	-	17,845,105	2,853,565
320,781	-	320,781	-
5,599,243	-	5,599,243	-
14,161,883	-	14,161,883	-
-	482,573	482,573	-
8,617,171	-	8,617,171	-
9,131,143	-	9,131,143	-
2,603,140	6,023,576	8,626,716	433,572
5,205,425	1,761,782	6,967,207	(26,177)
21,709,198	(21,709,198)	-	-
<u>85,193,089</u>	<u>(13,441,267)</u>	<u>71,751,822</u>	<u>3,260,960</u>
24,917,156	6,095,971	31,013,127	2,331,688
186,085,925	524,087,223	710,173,148	19,077,460
<u>\$ 211,003,081</u>	<u>\$ 530,183,194</u>	<u>\$ 741,186,275</u>	<u>\$ 21,409,148</u>

## FUND FINANCIAL STATEMENTS

These statements report information at a higher level of detail, focusing on separate reporting of individual major funds, rather than consolidating financial data into two very broad categories of governmental and business-type activities. Those funds that are considered non-major are consolidated into a single column.

The financial transactions of the City are reported in individual funds within the City's accounting system. Each fund is accounted for by providing a separate, self-balancing set of accounts comprising the assets, liabilities, reserves, fund equity, revenues and expenditures/expenses of each fund. GASB 34 sets forth the minimum criteria used to determine whether the individual funds are considered major versus non-major, based on the value of assets, liabilities, revenues and expenditures/expenses of each fund considered in relation to all funds taken as a whole. Those major funds for which detailed financial information is provided based on these criteria are the City's General Fund, Electric Utility Fund, and Water/Wastewater Utility Fund.

Within the fund financial statements, funds are also classified into fund types. Different basis of accounting are applied to the various fund types, based on the nature of the financial information needed to sustain the types of services provided. The various funds are classified based on fund types as follows:

### GOVERNMENTAL FUNDS

Within the fund financial statements, the accounting policies applied to governmental funds is intended to capture only those transactions that will occur in the short-term, and the ability to finance those activities as needed. The financial focus applied to governmental funds is called the modified accrual basis of accounting. Revenues are susceptible to accrual in the accounting period in which they become available and measurable, which generally means those revenues that are collected within 60 days after year end. The City accrues an asset equal to the value of all material revenue to which it is entitled. Intergovernmental revenues included in this accrual are recognized as revenue while all other types are deferred. Major sources of revenue that meet the availability criterion include investment earnings, federal and state grants, state shared revenues, and the City's share of State collected taxes. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due and the long-term portion of accumulated unpaid vacation and sick pay which is recognized when paid.

Within governmental fund types, assets and liabilities are recorded using the flow of current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

The governmental fund types utilized by the City are broken down as follows:

- General Fund – a “catch-all” fund used to account for all financial activities and resources not required to be accounted for in other funds.
- Special Revenue Funds – account for the proceeds of specific revenue sources that are legally restricted to expenditures for a specific purpose, such as gas taxes that are expended on transportation-related services.
- Debt Service Fund – accounts for the accumulation of resources needed to make that component of principal and interest payments on long term debt which will be payable in the current year.



Condensed Governmental Funds Financial Statements for the fiscal year ended September 30, 2006 are presented in the following tables:

	General Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>
ASSETS	\$ 21,760,962	\$ 50,281,536	\$ 72,042,498
LIABILITIES	\$ 7,337,335	\$ 15,084,259	\$ 22,421,594
FUND BALANCES			
Reserved	1,267,921	23,248,627	24,516,548
Unreserved			
Designated	7,591,789		7,591,789
Undesignated	5,563,917	2,201,176	7,765,093
Special revenue funds	-	9,747,474	9,747,474
Total fund balances	<u>14,423,627</u>	<u>35,197,277</u>	<u>49,620,904</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 21,760,962</u>	<u>\$ 50,281,536</u>	<u>\$ 72,042,498</u>
REVENUES			
Taxes	\$ 29,237,557	\$ 8,689,455	\$ 37,927,012
Licenses and permits	4,464,447	-	4,464,447
Intergovernmental	10,655,304	11,244,224	21,899,528
Charges for services	3,856,070	4,331,743	8,187,813
Fines and forfeits	1,356,977	-	1,356,977
Miscellaneous	1,327,415	15,368,795	16,696,210
Total revenues	<u>50,897,770</u>	<u>39,634,217</u>	<u>90,531,987</u>
EXPENDITURES			
Current	\$ 74,640,925	\$ 8,343,785	\$ 82,984,710
Capital outlay	311,594	18,331,347	18,642,941
Debt service	-	5,628,472	5,628,472
Total expenditures	<u>74,952,519</u>	<u>32,303,604</u>	<u>107,256,123</u>
Excess (deficiency) of revenues over expenditures	<u>(24,054,749)</u>	<u>7,330,613</u>	<u>(16,724,136)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of long-term debt	-	3,925,920	3,925,920
Transfers from other funds	30,459,809	3,080,721	33,540,530
Transfers to other funds	-	-	-
Total other financing sources and uses	<u>27,990,535</u>	<u>(3,107,578)</u>	<u>24,882,957</u>
Net change in fund balances	3,935,786	4,223,035	8,158,821
FUND BALANCE, beginning of year	10,487,841	30,974,242	41,462,083
FUND BALANCE, end of year	<u>\$ 14,423,627</u>	<u>\$ 35,197,277</u>	<u>\$ 49,620,904</u>

## PROPRIETARY FUNDS

Within the fund financial statements, the financial focus for proprietary funds is identical to the full accrual, “private sector” focus applied within the government-wide statements. Revenues are recognized when they are earned and expenses are recognized when they are incurred, without application of the “measurable and available” criteria applied to governmental funds. Accordingly, full recognition is given to fixed assets (and depreciation thereof) and all long-term liabilities. The emphasis is on recovering the costs of supplying needed services over the long-term from user fees charged directly to the persons using those services.

The proprietary fund types utilized by the City are broken down as follows:

- Enterprise Funds account for operations for which a fee is charged to external users for goods or services, i.e. utility services provided to residents in the geographic areas served by the City’s electric, water and wastewater utilities.
- Internal Service Funds account for operations for which a fee is charged to internal users for goods or services. This includes the administrative cost of purchasing and acquisition; the purchase, maintenance and fueling of motorized equipment used by various City departments; the cost of self-insured risk programs administered by the City; and an internal loan program. To the extent possible, the ultimate costs of these services are reported in the appropriate functional activity.

Condensed Proprietary Funds financial statements for the fiscal year ended September 30, 2006 are presented in the following tables:

	Department of Electric Utilities	Water and Wastewater Utilities	Other Enterprise Funds	Total	Internal Service Funds
<b>ASSETS</b>					
Current assets	\$ 171,888,069	\$ 12,240,370	\$ 11,161,778	\$ 195,290,217	\$ 12,680,912
Noncurrent assets:					
Designated assets	58,209,192	11,503,940	23,725	69,736,857	37,622,122
Restricted assets	37,998,888	25,804,326	654,473	64,457,687	7,776,187
Capital assets	605,533,416	202,306,654	85,535,546	893,375,616	17,705,556
Other noncurrent assets	10,203,072	873,767	1,981,034	13,057,873	17,496,410
Total assets	<u>883,832,637</u>	<u>252,729,057</u>	<u>99,356,556</u>	<u>1,235,918,250</u>	<u>93,281,187</u>
<b>LIABILITIES</b>					
Current liabilities	90,516,437	5,912,523	4,745,392	101,174,352	5,763,530
Noncurrent liabilities				-	
Designated liabilities	-	322,886	-	322,886	5,981,876
Restricted liabilities	9,688,249	16,949,382	627,076	27,264,707	5,597,913
Other noncurrent liabilities	524,507,829	77,122,560	22,171,901	623,802,290	19,485,092
Total liabilities	<u>624,712,515</u>	<u>100,307,351</u>	<u>27,544,369</u>	<u>752,564,235</u>	<u>36,828,411</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	134,123,306	120,356,272	64,366,265	318,845,843	17,553,332
Restricted	-	15,835,008	27,397	15,862,405	969,674
Unrestricted	124,996,816	16,230,426	7,418,525	148,645,767	37,929,770
Total net assets	<u>\$ 259,120,122</u>	<u>\$ 152,421,706</u>	<u>\$ 71,812,187</u>	<u>\$ 483,354,015</u>	<u>\$ 56,452,776</u>

	Department of Electric Utilities Fund	Water and Wastewater Utilities Fund	Other Enterprise Funds	Total	Internal Service Funds
OPERATING REVENUES	\$ 377,047,401	\$ 39,385,836	\$ 24,909,004	\$ 441,342,241	\$ 43,487,073
OPERATING EXPENSES	352,472,555	29,876,551	26,181,101	408,530,207	42,283,595
Operating income (loss)	24,574,846	9,509,285	(1,272,097)	32,812,034	1,203,478
NONOPERATING REVENUES (EXPENSES)	(20,865,995)	(2,029,477)	117,736	(22,777,736)	2,239,094
Income (loss) before contributions, transfers, and other	3,708,851	7,479,808	(1,154,361)	10,034,298	3,442,572
Capital grants and contributions	-	12,240,769	3,816,965	16,057,734	5,000
Transfers from other funds:	31,353	-	3,085,623	3,116,976	1,208,424
Transfers to other funds	(18,140,000)	(5,508,332)	(1,498,506)	(25,146,838)	(97,815)
	(18,108,647)	6,732,437	5,404,082	(5,972,128)	1,115,609
Change in net assets	(14,399,796)	14,212,245	4,249,721	4,062,170	4,558,181
NET ASSETS, beginning of year	273,519,918	138,209,461	67,562,466	479,291,845	51,894,595
NET ASSETS, end of year	\$ 259,120,122	\$ 152,421,706	\$ 71,812,187	\$ 483,354,015	\$ 56,452,776

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## FIDUCIARY FUNDS

Within the fund financial statements, fiduciary fund types are used to report assets that are held in trust or in an agency capacity by the City on behalf of designated beneficiaries. These consist of pension and other post-employment benefit funds maintained on behalf of retired City employees; and an agency fund use to accumulate impact fee revenues collected on behalf of Polk County, Florida. The same financial focus applied to proprietary funds types is applied to fiduciary fund.

Fiduciary Funds financial statements for the fiscal year ended September 30, 2006 are presented in the following table:

	Pension and Other Employees Benefit Trust Funds	Agency Fund
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 32,971,084	\$ 11,726,938
Investments	490,130,454	-
Accrued interest receivable	619,897	-
Receivables	3,038,354	272
Loans receivable	-	-
Due from other governments	-	-
Total assets	<u>526,759,789</u>	<u>11,727,210</u>
<b>LIABILITIES</b>		
Accounts payable	2,384,491	-
Accrued liabilities	4,450,499	-
Due to other governmental units	-	11,727,210
Total liabilities	<u>6,834,990</u>	<u>11,727,210</u>
<b>NET ASSETS</b>		
Held in trust for pension benefits and other purposes	<u>\$ 519,924,799</u>	<u>\$ -</u>
<b>ADDITIONS</b>		
Contributions:		
State of Florida	\$ 1,198,694	
Employer	13,359,576	
Employee	7,841,865	
Total contributions	<u>22,400,135</u>	
Net investment income (loss)	<u>41,003,997</u>	
Miscellaneous income	<u>29,017</u>	
Total contributions, net	<u>63,433,149</u>	
<b>DEDUCTIONS</b>		
Benefits paid	24,775,442	
Refunds, former employees	1,949,181	
Plan Transfers	595,618	
Actuarial fee	21,400	
Audit fee	6,000	
Other	460,763	
Interest on DROP disbursements	229,012	
Transfers to other funds	<u>52,063</u>	
Total deductions	<u>28,089,479</u>	
Change in net assets	35,343,670	
NET ASSETS, beginning of year	<u>484,581,129</u>	
NET ASSETS, end of year	<u>\$ 519,924,799</u>	

## NOTES TO THE FINANCIAL STATEMENTS

The notes to the financial statements provide a further level of detail necessary to better understand the information provided within the government-wide financial statements and fund financial statements.

Included in the notes to the financial statements is a note addressing the financial condition and results of operations of the two component units of the City.

### COMPONENT UNITS

The Lakeland Area Mass Transit District was created under the authority of Chapter 125, Florida Statutes. The City of Lakeland's governing board appoints a voting majority of the organization's governing body and is able to impose its will on the organization. There are no significant financial transactions occurring between the City and the District.

The condensed Statement of Net Assets and Statement of Activities for the component units of the City for the fiscal year ended September 30, 2006 are presented in the following tables:

	Business-type Activities (Lakeland Area Mass Transit District)
<b>ASSETS</b>	
Current assets	<u>\$ 9,530,554</u>
Noncurrent assets:	
Designated assets	2,562,848
Restricted assets	-
Capital assets	<u>9,956,382</u>
Total noncurrent assets	<u>12,519,230</u>
Total assets	<u>22,049,784</u>
<b>LIABILITIES</b>	
Current liabilities	386,711
Noncurrent liabilities	<u>253,925</u>
Total liabilities	<u>640,636</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	9,929,157
Restricted:	
Capital improvements	-
Unrestricted	<u>11,479,991</u>
Total net assets	<u>\$ 21,409,148</u>

<u>Functions/Programs:</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Business Type Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Business-type activities					
Lakeland Area					
Mass Transit District	10,264,736	2,664,428	3,183,541	3,487,495	(929,272)
Total	<u>\$ 10,264,736</u>	<u>\$ 2,664,428</u>	<u>\$ 3,183,541</u>	<u>\$ 3,487,495</u>	<u>(929,272)</u>
General revenues:					
Property taxes					2,853,565
Investment earnings					433,572
Miscellaneous					(26,177)
Total general revenues and transfers					<u>3,260,960</u>
Change in net assets					2,331,688
Net assets, beginning of year					19,077,460
Net assets, end of year					<u>\$ 21,409,148</u>

#### **ADDITIONAL INFORMATION**

In addition to the three major types of data included in the basic financial statements, the annual financial report also includes supplementary information intended to provide additional information on the financial condition and results of operations of the city. This information is organized within the report as follows:

#### **OTHER REQUIRED SUPPLEMENTARY INFORMATION**

Included in this section of the report is a schedule that compares the annual operating budget adopted by the City for the General Fund to the actual revenues and expenditures reported for the year.

This section also includes information regarding the performance of those defined benefit pension funds that are sponsored by the City.

#### **COMBINING STATEMENTS**

Included in this section is detailed financial information for each of the various funds maintained by the City that have been aggregated into consolidated columns within the fund financial statements. The level of detail appearing within these statements is generally compatible with the level of detail appearing in the fund financial statements, allowing the totals to be traced back and forth from these two sections of the report.

## **CASH MANAGEMENT**

The City has defined cash and cash equivalents to include cash on hand, demand deposits, cash with paying agents, money market funds, as well as each Fund's equity in pooled cash.

The various funds of the City have combined their resources into a cash pool for the purpose of maximizing investment earnings on daily cash balances. The investment pool is comprised of money market funds, time deposits, notes, bonds, amounts invested with the Florida State Board of Administration (SBA), other securities, and accrued interest. Amounts invested with the SBA and money market funds are reported at cost, all other investments are recorded at fair value. Revenue from pooled cash and investments is allocated on the basis of the participation by each fund. Each fund's pro-rata share of pooled cash and investments is included in the caption "cash and cash equivalents". These amounts are also considered a cash equivalent because each fund can withdraw cash at any time without prior notice or penalty.

Investments owned by individual funds, comprised of time deposits, notes, bonds, and other securities, are reported at fair value. Amounts invested with the SBA and money market funds are reported at cost, which approximates fair value. Fixed income, equity and equity securities are reported at the last reported sales price.

Revenue from investments owned by the individual funds is recorded in the respective fund as it is earned.

Several forms of legal and contractual provisions govern the types of investments in which the City may directly invest. Allowable investments consist of direct obligations of the Federal Government, interest bearing time deposits, obligations of the Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation, Federal Home Loan Bank or obligations guaranteed by the Government National Mortgage Association or the Federal National Mortgage Association, repurchase agreements and the Florida State Board of Administration Investment Pool (SBA). The SBA is part of the Local Government Surplus Funds Trust Fund which is governed by Chapter 19-7 of the Florida Administrative Code. The pension trust funds are also authorized for investment in corporate stocks and bonds, money market funds and other qualified securities.

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. All trades, where applicable, will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Safekeeping receipts or other evidence of ownership will be audited on a semi-annual basis with a variance report issued to the Investment Administrator.

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The following investments held by the various funds of the City as of September 30, 2006 are collateralized by registered securities held by the City or its agents in the City's name:

Investment Type	Reported Amount - Fair Value		Investment Maturities (in years)			
	Primary Government	Component Units	Less than 1	1-5	6-10	More than 10
US Treasury Notes	\$ 9,578,779	\$ -	\$ 8,179,201	\$ 1,382,164	\$ -	\$ 17,414
U.S. Treasury Bonds	647,282	-	-	34,628	564,708	47,946
US Treasury Strips	3,173,608	-	3,173,608	-	-	-
Federal Farm Credit Bank	1,372,071	-	-	-	1,372,071	-
Federal Home Loan Bank	141,627,354	-	53,904,275	87,723,079	-	-
Fed Home Loan Mortgage Corp.	11,774,053	-	-	141,977	21,240	11,610,836
Federal National Mortgage Assoc.	9,751,838	-	-	3,179,769	-	6,572,069
Federal Agencies Mortgage Backed	2,349,324	-	-	-	-	2,349,324
Freddie Mac Gold	1,411,426	-	-	-	-	1,411,426
Corporate Notes and Bonds (1)	38,013,991	-	897,820	6,706,849	9,494,770	20,582,841
Corporate Stocks (1)	283,120,527	-	283,120,527	-	-	-
Repurchase Agreements (2)	2,977,289	-	-	-	-	-
Foreign Government Securities:						
Bundes Obligation	199,184	-	-	199,184	-	-
Republic of Austria	45,215	-	-	45,215	-	-
Federal Republic of Brazil	103,500	-	-	-	-	103,500
Norwegian Government	367,587	-	-	367,587	-	-
Republic of Argentina	342,423	-	-	-	342,423	-
Sweden	325,798	-	-	325,798	-	-
Sub-total	<u>507,181,249</u>	<u>-</u>	<u>349,275,431</u>	<u>100,106,250</u>	<u>11,795,212</u>	<u>42,695,356</u>

Other investments are collateralized by securities that exist in physical or book entry form and thus cannot be held in the City's name. The breakdown of these investments, held as of September 30, 2006, is as follows:

Investment Type	Reported Amount - Fair Value		Investment Maturities (in years)			
	Primary Government	Component Units	Less than 1	1-5	6-10	More than 10
State Board of Administration (3)	72,369,557	7,870,157	80,239,714	-	-	-
Money Market Funds (4)	34,863,061	-	34,863,061	-	-	-
Mutual Funds (4)	128,825,017	-	128,825,017	-	-	-
Commingled Trust Funds (4)	10,280,798	-	10,280,798	-	-	-
Accrued Interest Receivable (5)	956,143	-	956,143	-	-	-
Sub-total	<u>247,294,576</u>	<u>7,870,157</u>	<u>\$ 255,164,733</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Investments	<u>\$ 754,475,825</u>	<u>\$ 7,870,157</u>	<u>\$ 604,440,164</u>	<u>\$ 100,106,250</u>	<u>\$ 11,795,212</u>	<u>\$ 42,695,356</u>

(1) Corporate Notes and Bonds balance includes \$23,663 in net transactions in the Pension Funds that had been executed but not settled as of September 30, 2006. Corporate Stocks balance includes \$113,744 in net transactions in the Pension Funds that had been executed but not settled as of September 30, 2006.

(2) The repurchase agreement was collateralized by government-backed securities having a fair value of \$2,977,289 as of September 30, 2006.

(3) Funds are invested in the SBA's local governments pooled investment account. The rate of interest fluctuates daily. The interest rate on September 30, 2006 was 5.39 percent. The fair value of the position in the external investment pool is the same as the value of the pool shares. The SBA's duties related to the Local Government Surplus Funds Trust Fund are defined in Sections 218.40-218.41, Florida



Statutes. The executive director is authorized to use all investment authority spelled out in Section 215.47, Florida Statutes and is responsible for all internal measurement, regulatory and rules defined in these sections of the Florida Statutes.

- (4) The rate of return on the money market funds, commingled trust funds, and mutual funds fluctuates during the year based on market conditions. Also, there is no stated maturity date for this type of investment. These funds may be invested, withdrawn, or reinvested at the discretion of the City.
- (5) Represents accrued interest accounted for within the internally managed investment pool. This asset is allocated to participating funds on a pro-rata basis and is included within the investment caption.

#### **RISK MANAGEMENT**

The City is currently self-insured for worker's compensation, general liability, auto, public officials' liability, and pension fund trustees' liability. The City relies on the State of Florida's sovereign immunity statute, which limits governmental liability to \$100,000 per person and \$200,000 for multiple claims arising out of one incident. In order to reduce the City's potential exposure, excess workers' compensation insurance and airport liability insurance has been purchased through a conventional carrier.

Significant losses from other forms of risk, including property damage, are also covered by commercial insurance. The City has also purchased a stop-loss policy to reduce the City's exposure to large losses on health insurance claims. This policy reimburses the City for expenses related to claims exceeding \$200,000.

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## DEBT ADMINISTRATION

The City has not had any outstanding general obligation bond debt since fiscal year 1971. The following revenue bond issues are outstanding for fiscal year ended 2006 (in thousands):

Issue	2005	Issued	Retired	2006
Electric Refunding Revenue Bonds, Series 1999A	193,785	-	555	193,230
Energy System Refunding Revenue Bonds, Series 1999B	81,310	-	30,125 <sup>(1)</sup>	51,185
Energy System Refunding Revenue Bonds, Series 1999C	64,525	-	-	64,525
Energy System Variable Rate Revenue Bonds, Series 2001A	90,000	-	90,000	-
Energy System Revenue Bonds, Series 2001B	30,000	-	-	30,000
Energy System Variable Rate Revenue Bonds, Series 2003	47,860	-	47,860	-
Energy System Revenue and Refunding Bonds, Series 2006	-	44,870	-	44,870
Energy System Variable Rate Refunding Revenue Bonds, Series 2006A	-	139,475	-	139,475
<b>Total Electric Bonds</b>	<b>\$ 507,480</b>	<b>\$ 184,345</b>	<b>\$ 168,540</b>	<b>\$ 523,285</b>
 Water and Wastewater Revenue Refunding & Improvement Bonds, Series 2002	 \$ 67,940	 \$ -	 \$ 2,520	 \$ 65,420
 Utility Tax Revenue Refunding and Improvement Bonds, Series 2002A	 12,395	 -	 890	 11,505
Utility Tax Revenue Refunding and Improvement Bonds, Series 2002B	15,355	-	165	15,190
<b>Total Utility Tax Revenue Bonds</b>	<b>\$ 27,750</b>	<b>\$ -</b>	<b>\$ 1,055</b>	<b>\$ 26,695</b>
 Tourist Development Tax Revenue Bonds, Series 2002C	 4,950	 -	 320	 4,630
<b>Total Tourist Development Bonds</b>	<b>\$ 4,950</b>	<b>\$ -</b>	<b>\$ 320</b>	<b>\$ 4,630</b>
 Capital Improvement Revenue Bonds, Series 1997	 \$ 33,980	 \$ -	 \$ 1,960	 \$ 32,020

<sup>(1)</sup> Includes \$15,585,000 retired in August, 2006 in conjunction with a current refunding of the maturity coming due on October 1, 2006.

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## **CAPITAL IMPROVEMENT REVENUE BONDS**

The Capital Improvement Revenue Bonds were issued July 15, 1997 to refund all outstanding amounts related to the 1987, 1990, and 1992 Sunshine loans, and \$1,500,000 of the 1995 Sunshine loan. With the interest rate at that time for the variable rate Sunshine loan, the current refunding did not result in any economic gain (there was no difference between the present values of the old and new debt service payments). Amounts for repayment were irrevocably deposited into an escrow fund created under an Escrow Deposit Agreement between the City and the Bank of New York, dated August 1, 1997 for defeasance of these loans. This refunding resulted in a fixed repayment schedule for the City, and guaranteed that interest rates would not exceed 5.00%.

## **ELECTRIC REVENUE REFUNDING BONDS, SERIES 1999**

In May 1999, the City issued its Electric & Water Revenue Refunding Bonds Series 1999A, Series 1999B, and Series 1999C. Through the issuance of the 1999 bonds, the City entered into a refunding and exchange program in preparation for the deregulation of the electric utility industry. The City undertook the program because the legal documents governing the issuance of the Series 1989, 1992, and 1996 bonds were too restrictive and inflexible for the rapidly changing electric utility business environment. Through refunding, defeasance, and exchange of these bonds for new bonds, the City was able to modify its bond ordinance so that future decisions regarding the City's electric utility system could be made based upon industry challenges. The City amended and restated its existing senior lien bond ordinance and enacted less restrictive requirements. This enables the electric utility to compete more effectively in the electric industry.

The Series 1999A bonds refunded all of the Series 1989 and Series 1996 Senior Lien bonds for savings. The City realized a present value savings from refunding of \$3,197,403. The savings were then used to structure an exchange program. The Series 1999B bonds and the Series 1999C bonds were issued to accomplish an exchange of the Series 1996 and 1996B Subordinate Lien bonds, respectively. The cost of the exchange program was \$2,925,635; by entering into the exchange program, the City was able to issue the senior lien bonds under a new bond ordinance. Under the new ordinance the City was able to release bond reserve funds which were then used for a partial cash defeasance of the Series 1996 and 1996B Subordinate Lien bonds, which were not exchanged by bondholders, as well as a portion of the Series 1992 bonds. The total net present value saving from the refunding and exchange program combined was \$271,767. The 1999 bonds are insured and carry an AAA rating from Standard & Poor's, Moody's and Fitch rating services.

As a means to reduce borrowing costs on the 1999A series of bonds, the City entered into an interest rate swap in June 2004 with CitiGroup Financial Products Inc (the counterparty) wherein the City makes a semi-annual payment equal to \$159.265 million (the notional amount) times an interest rate equal to the BMA Municipal Bond index. In return, the counterparty pays the City an amount equal the notional amount times an interest rate equal to 68 percent of the three-month USD-LIBOR-BBA index, plus a spread of .046%. To the extent the relationship between BMA and LIBOR approximates a marginal tax rate of more than 33 percent, the net borrowing costs on the underlying debt will be reduced. The notional amount of the swap will always equal the amount of the outstanding amount of that component of the underlying issue consisting of term bonds which mature serially from October 2004 thru October 2036. For the fiscal year ended September 30, 2006, total cash flows on the swap resulted in a payment to the City of \$881,321. The market value of this swap instrument was \$1,485,838 as of September 30, 2006.

On August of 2006 the City refunded, on a current basis, \$15,585,000 of Series 1999B bonds having a maturity date of October 1, 2006. This transaction required in a deposit of \$16,095,408 into an irrevocable escrow account, which represented the total principal and interest due on that maturity date. \$10 million of that deposit was financed from a portion of the proceeds of Energy System Revenue Bonds Series 2006, with the remainder funded from available revenues of the electric utility. The effect of this refunding was to increase the revenue coverage, calculated per the terms of the underlying ordinance, from 2.39 to 4.01 times debt service.

## **Bond Warrant Financing Agreement**

On January 16, 2007, the City of Lakeland entered into a Bond Warrant Agreement with an underwriter, Goldman, Sachs & Co, in which the City granted an irrevocable option to the underwriter which, if exercised, would cause the City of Lakeland to issue parity revenue bonds of the Energy System in the amount of approximately \$158,600,000. The new bonds would be issued at terms and fixed interest rates that would generate an annual debt service requirement that equals the annual debt service requirement on the existing Energy System Revenue bonds Series 1999A. If the option is exercised, the bonds would be issued with effective dates of either October 1, 2009; October 1, 2010; October 1, 2011; or October 1, 2012 at the discretion of the underwriter.

In exchange for granting this option, the underwriter made a single, up-front payment of \$7,680,000 to the City of Lakeland.

Should the underwriter exercise their option under this agreement, the City can use the proceeds of the new bond issue to either call the Series 1999A bonds (which are callable any time after October 1, 2009) or use the proceeds to finance qualified capital improvements projects of the Electric Utility System.

The economics of the transaction are equivalent to the refunding the issue at a weighted average yield of approximately 4.25 percent, which approximates the MMD yield curve plus 13 basis points.

The City will recognize the proceeds of this transaction on the balance sheet of the Department of Electric Utilities as a deferred credit. To the extent the underwriter exercise their option to require issuance of new bonds that deferred credit will be amortized to the income statement of Department of Electric Utilities over the life of the new bond issue. The underwriter may exercise their option anytime between the dates of August 1, 2009 and August 1, 2012. In the event the underwriter does not exercise that option, the deferred credit will be a charge against income in it's entirety in the fiscal year ending September 30, 2012.

## **ENERGY SYSTEM REVENUE BONDS, SERIES 2001A AND 2001B**

In January 2001 the City issued its Energy System Variable Rate Revenue Bonds Series 2001A in the amount of \$90 million. These bonds were issued to fund a portion of the cost related to the conversion of the Electric System (Model 501G) 249-megawatt turbine to a 360 megawatt combined cycle unit.

In May of 2001, the City entered into an interest rate swap agreement with Salomon Brothers Holding Company Inc. The notional amount of this swap is \$90,000,000. Under the terms of this agreement, the City makes a quarterly payment in an amount equal the notional amount times the weighted average of the BMA Municipal Bond Index for the preceding quarter. Simultaneously, Salomon Brothers Holding Company Inc pays to the City an amount equal to the notional amount times the weighted average of 74.125 percent of the monthly USD-LIBOR-BBA index. For the fiscal year ended September 30, 2005, the net cash flows from this transaction have resulted in a net payment to the City of \$257,909. The market value of this swap instrument was a negative \$71,610 as of September 30, 2006.

In May 2001 The City issued Energy System Revenue Bonds Series 2001B in the amount of \$30 million for the purpose of financing improvements to various generating units owned by Lakeland Electric and to finance purchase of a 50Mw peaking unit and pay costs of issuance. These bonds were issued at a fixed rate of interest averaging approximately 5.25 percent.

On August 17, 2006, these bonds were refunded by proceeds from the issuance of Energy System Variable Rate Refunding Revenue Bonds, Series 2006A. The swap agreement associated with the 2001A was maintained by the City, for application to the 2006A bonds.

## **WATER AND WASTEWATER REVENUE REFUNDING AND IMPROVEMENTS BONDS, SERIES 2002\***

On August 21, 2002, the City issued its Water and Wastewater Revenue Refunding and Improvement Bonds Series 2002 in the amount of \$72,755,000. The Series 2002 Bonds were issued to (i) finance the cost of acquisition, construction, and installation of improvements to the City's water and sewer utility system, (ii) refund, on a current basis, all of the City outstanding Wastewater System Revenue Bonds, Refunding Series 1993, and (iii) and pay certain costs and expenses relating to the issuance of the Series 2002 Bonds.

\* A portion of the proceeds from the issuance of the Water and Wastewater Revenue Refunding and Improvement Bonds, Series 2002 were used to refund, on a current basis, all of the City's outstanding Wastewater System Revenue Bonds, Refunding Series 1993.

### **SERIES 2002 A, B, C BONDS**

On January 31, 2003, the City issued the Utilities Tax Revenue Refunding Bonds, Series 2002A in the amount of \$15,020,000. The proceeds provided funds to (1) refund all of the City's outstanding Utilities Tax Revenue Refunding and Improvement Bonds, Series 1994A, (2) fund a deposit to the 2002 Debt Service Reserve Account, and (3) pay costs associated with the issuance of the Series 2002A Bonds, including municipal bond insurance premium.

On January 31, 2003, the City also issued the Utilities Tax Revenue Bonds, Series 2002B in the amount of \$15,355,000. The proceeds provided funds to (1) finance (a) the acquisition, construction, and installation of public park facilities at Lake Mirror, (b) construction and installation of a radio tower for the City's 800 MHz radio system, (c) certain road improvements, (d) the construction of a new fire station in the northeast quadrant of the City, (2) fund a deposit to the 2002 Debt Service Reserve Account, and (3) pay the costs associated with the issuance of the Series 2002B Bonds, including municipal bond insurance premiums.

Interest on the Series A and B bonds is payable semi-annually on April 1 and October 1 of each year. Principal payments payable, when due, are to be made annually on October 1 of each year for the term of the bonds. The principal and interest payments are to be paid from the proceeds of the utilities tax imposed by the City on the purchase of certain utility services, including electricity, water, metered and bottled gas, and local communication services.

On January 31, 2003, the City issued the Tourist Development Tax and Utilities Tax Revenue Refunding Bonds, Series 2002C in the amount of \$5,660,000. The proceeds provided funds to (1) refund all of the City's outstanding Tourist Development Tax and Utilities Tax Revenue Bonds, Series 1994B, (2) fund a deposit to the 2002 Debt Service Reserve Account, and (3) pay costs associated with the issuance of the Series 2002C Bonds, including municipal bond insurance premium. Interest is payable semi-annually on April 1 and October 1 of each year. Principal payments payable, when due, are to be made annually on October 1 of each year for the term of the bonds. The interest and principal payments are to be paid from the proceeds of the Tourist Development Tax and are further secured by the utilities tax imposed by the City on the purchase of certain utility services, including electricity, water, metered and bottled gas, and local communication services.

### **SERIES 2003 BONDS**

On January 21, 2003, the City issued the Energy System Variable Rate Refunding Revenue Bonds in the amount of \$47,860,000. The proceeds provided funds to (1) refund all of the outstanding City of Lakeland Energy System Revenue Bonds, Series 2000B, (2) pay the cost of certain distribution facilities, including substations and related circuits, development/customer service facilities, system upgrades and reliability improvements, and (3) pay certain costs and expenses related to the issuance of the Series 2003 Bonds. Interest is payable the first Wednesday of each calendar month. The Series 2003 Bonds and the interest thereof are payable from certain revenues derived by the City from the operation of its electric power system.

In conjunction with the issuance of these bonds, the City entered into a market spread language (MSL) swap agreement with Salomon Brothers Holding Company Inc. Under the terms of this arrangement, the City makes a

monthly payment in an amount equal to an annualized rate of 3.74 percent against a notional amount of \$47,860,000 to Salomon Brothers Holding Company Inc. Salomon Brothers Holding Company, Inc will make a monthly payment to the City in an amount equal to the notional amount times 67% of the average monthly LIBOR rate of interest. The effect of this hedge was to synthetically establish a fixed rate of interest on this bond issue of approximately 4.1 percent, inclusive of all marketing and liquidity fees associated with the underlying variable rate debt. The market value of this swap instrument was a negative \$1,671,650 as of September 30, 2006.

On August 17, 2006, these bonds were refunded by proceeds from the issuance of Energy System Variable Rate Refunding Revenue Bonds, Series 2006A. The swap agreement associated with the 2001A was maintained by the City, for application to the 2006A bonds.

#### **ENERGY SYSTEM VARIABLE RATE REFUNDING REVENUE BONDS, SERIES 2006A**

On August 17, 2006, the City issued its Energy System Variable Rate Refunding Revenue Bonds, Series 2006A in the amount \$139,495,000. The 2006A bonds were issued for the purpose of refunding, on a current basis, the City's 2001A and 2003 bonds. The 2006A bonds have, maturities similar to the 2001A and 2003 bonds, on a combined basis. The 2006A bonds are multi-modal, but were issued initially as Auction Reset Securities with an initial auction period of 7 days. Swap agreements associated with the 2001A and 2003 bonds were maintained by the City, but now apply to the 2006A bonds. In conjunction with this issue, the City entered into swap transactions with Citigroup Financial Products, Inc and Goldman Sachs Mitsui Marine Derivative Products having a combined notional amount of \$90,000,000. Under the terms of these agreements, the City pays a fixed interest rate equal to the notional amount times 4.283 percent and the counterparties pay a variable rate of interest equal to the notional amount times the USD-BMA index. The effect of these hedges was to synthetically establish a fixed rate of interest on this entire bond issue of approximately 4.2 percent, considering the cumulative effect of all three swap transactions outstanding on this issue. The market value of these two swap instruments was a negative \$3,407,812 as of September 30, 2006.

#### **ENERGY SYSTEM REVENUE BONDS, SERIES 2006**

On August 17, 2006, the City issued its Energy System Refunding and Revenue Bonds, Series 2006 in the amount \$47,870,000. The 2006 bonds were issued for the purpose of refunding, on a current basis, \$10,000,000 of principal maturing on October 1, 2006 in conjunction with the Series 1999B bonds and to provide financing for certain generating and distribution system improvements related to growth and environmental compliance requirements.

The 2006 bonds mature in series starting in October of 2007 thru October 2036. The bonds carry a fixed rate of interest with an average coupon of 4.2 percent. In conjunction with this issue, the City entered into a basis swap transaction with Goldman Sachs Mitsui Marine at a notional amount and maturity dates that substantially match the maturity schedule on this bond issue. Under the terms of that agreement the City pays a fixed interest rate equal to the notional amount times 3.637 percent and the counterparty pay a variable rate of interest equal to the notional amount times 67 percent of the one month LIBOR index. The effect of these hedges was to synthetically establish a fixed rate of interest on this entire bond issue of approximately 4.2 percent, considering the cumulative effect of all three swap transactions outstanding on this issue. The market value of this swap instrument was a negative \$662,759 as of September 30, 2006.

#### **ENERGY SYSTEM REVENUE BONDS, SERIES 2007**

In March of, 2006, the City entered into a fixed payor swap transaction with Goldman Sachs Mitsui Marine at a notional amount of \$ 45 million and maturity dates that are intended to substantially match the maturity schedule on a bond issue expected to be sold in August of 2007. Under the terms of that agreement the City will pay a fixed interest rate equal to the notional amount times 3.637 percent and the counterparty pay a variable rate of interest equal to the notional amount times 67 percent of the one month LIBOR index. The effect of this swap is to synthetically hedge the upcoming bond issue at a fixed interest rate less than 4 percent. The market value of this swap instrument was a negative \$662,759 as of September 30, 2006.

## BOND RATINGS

Ratings that are designated by independent nationally recognized agencies have a significant influence in establishing interest rates and interest expense the City must pay when the bonds are sold. The City has consistently maintained high credit ratings and its debt are considered to be of outstanding quality.

The following table summarizes ratings as of September 30, 2006, by three major rating agencies:

	<u>Moody's Investors Service</u>	<u>Standard &amp; Poors</u>	<u>Fitch Ratings</u>	<u>Source of Repayment</u>
*Electric Refunding Revenue Bonds, Series 1999A	Aaa	AAA	AAA	Electric Revenues
***Energy System Refunding Bonds, Series 1999B	Aaa	AAA	AAA	Electric Revenues
***Energy System Refunding Bonds, Series 1999C	Aaa	AAA	AAA	Electric Revenues
****Energy System Variable Rate Revenue Bonds, Series 2001A	A1/VMIG1	AA-/A-1+	AA-/F1+	Electric Revenues
*Energy System Revenue Bonds, Series 2001B	Aaa	AAA	AAA	Electric Revenues
*****Energy System Variable Rate Revenue Bonds 2003	A1/VMIG1	AA-/A-1+	AA-/F1+	Electric Revenues
****Energy System Revenue and Refunding Bonds, Series 2006	Aaa	AAA	AAA	Electric Revenues
****Energy System Variable Rate Refunding Revenue Bonds, Series 2006 A	Aaa	AAA	AAA	Electric Revenues
*****Water and Wastewater Revenue Refunding and Improvement Bonds, Series 2002	Aa3	AA-	AA	Water and Wastewater Revenues
**Utility Tax Revenue Refunding and Improvement Bonds, Series 2002A	Aaa	AAA	AAA	Utility Tax
**Utility Tax Revenue Refunding and Improvement Bonds, Series 2002B	Aaa	AAA	AAA	Utility Tax
**Utility Tax Revenue Refunding and Improvement Bonds, Series 2002C	Aaa	AAA	AAA	Utility Tax
**Tourist Development Tax Revenue Bonds, Series 2002C	Aaa	AAA	AAA	Tourist Development & Utility Tax
*Capital Improvement Revenue Bonds, Series 1997	Aaa	AAA	-	Non-Ad Valorem
*Insured by MBIA				
**Insured by FGIC				
***Insured by FSA				
**** Insured by XL Capital Assurance				
***** Not Insured				

The City also obtains an underlying rating on the insured bonds issued by Lakeland Electric. Effective April 2006, the underlying rating assigned is A1/A+ by Moodys, and Fitch Ratings, respectively. In April 2006, Standard and Poors, downgraded their underlying rating from A+ to A. These ratings remained in effect as of September 30, 2006.

## LOAN PROGRAMS

The City had the following loans outstanding as of September 30, 2006:

Lender	Series	Issue Amount	Maturity Date	Interest Rates	Year-end Balances
<b>Governmental Activities:</b>					
Sunshine State Governmental Financing Commission	2001	\$ 9,760,000	10/31/16	Variable rate	\$ 7,584,000
Nally Property		455,000	01/01/18	N/A	340,000
					<u>7,924,000</u>
<b>Business-type Activities:</b>					
Sun Trust Bank		\$ 620,000	01/10/07	7.050%	22,203
Wastewater Revolving Loan Program		13,655,627	03/31/15	2.450%	5,999,941
Wastewater Revolving Loan Program		13,337,755	09/30/24	2.960%	6,350,738
Sunshine State Governmental Financing Commission	1995	6,955,000	07/15/15	Variable rate	2,555,000
Sunshine State Governmental Financing Commission	1999	4,120,000	09/01/14	Variable rate	3,245,000
Sunshine State Governmental Financing Commission	2000	4,750,000	10/31/20	Variable rate	1,394,000
Sunshine State Governmental Financing Commission	2003	5,000,000	11/30/13	Variable rate	5,000,000
Textron Financial		433,880	09/15/06	5.850%	2,881
Gilchrest Property		225,000	10/03/08	4.750%	225,000
					<u>24,794,763</u>
					<u>\$ 32,718,763</u>

### SUNSHINE STATE GOVERNMENTAL FINANCING COMMISSION, SERIES 1995

On June 26, 1995, the City executed a supplemental loan agreement with the Sunshine State Governmental Financing Commission in the amount of \$6,955,000. The proceeds were used to finance the acquisition and renovation of buildings containing commercial and industrial rental space at the Lakeland Airside Center. Since the loan date, revenues collected from land acquisition grants have been used to repay a portion of the loan. As of September 30, 2006, \$2,555,000 remains outstanding on this loan. This loan is structured as an interest only loan with a balloon payment due in July 2015. Debt service is being paid from the City's Internal Loan Fund.

### SUNSHINE STATE GOVERNMENTAL FINANCING COMMISSION, SERIES 1999

On September 21, 1999, the City entered into a loan agreement with the Sunshine State Governmental Financing Commission in the amount of \$4,120,000. The proceeds were used to finance the acquisition of a new radio system (\$1,854,000) and to provide infrastructure improvements to Cleveland Heights Golf Course (\$2,266,000), a city owned facility. The radio system was amortized over a 10-year period in substantially level debt service payments. In 2005, the portion of the loan (\$1,854,000) for the new radio system was paid in full. The golf course loan is structured as an interest only payment with a balloon payment after 15 years. Either loan may be pre-paid without penalty. Debt Service on the loan obligation is paid from Cleveland Heights Golf Course and Internal Loan Funds.

### SUNSHINE STATE GOVERNMENTAL FINANCING COMMISSION, SERIES 2000

On December 12, 2000, the City entered into a loan with the Sunshine State Governmental Financing Commission in the amount of \$4,750,000 for the purpose of constructing a 27,500-sq. ft. terminal building at the Lakeland Linder Regional Airport. The loan carries a variable rate of interest and will be amortized over a 20-year period. Debt service on the loan obligation is paid from the Lakeland Linder Regional Airport Fund



### **SUNSHINE STATE GOVERNMENTAL FINANCING COMMISSION, SERIES 2001**

On October 26, 2002, the City executed a supplemental loan agreement with the Sunshine State Governmental Financing Commission in the amount of \$9,760,000. The proceeds are to be used to finance major renovations to Joker Marchant Stadium, spring training home of the Detroit Tigers major league baseball team and the Lakeland Tigers minor league team. The loan carries a variable, taxable rate of interest, payable monthly over a fifteen year period commencing November of 2001. Principal payments are to be made annually in an amount that generates level debt service over the term of the loan. The loan is to be repaid from three sources; a grant awarded to the City from the Florida Office of Trade, Tourism, and Economic Development; funds from the County's Tourist Development Tax provided by the interlocal agreement with Polk County, Florida; and from the proceeds of a long-term lease agreement with the Detroit Tigers.

### **SUNSHINE STATE GOVERNMENTAL FINANCING COMMISSION, SERIES 2003**

On December 31, 2003, the City entered into a loan with the Sunshine State Governmental Financing Commission in the amount of \$5,000,000 for the purpose of renovation of the New Florida Regency Hotel. The loan carries a taxable variable rate of interest and will be amortized over a 10-year period. Debt service on the loan obligation is paid from a variety of non-ad valorem revenues.

These loans were issued under a "covenant to budget and appropriate" from non-ad valorem revenues of the City, which is equivalent to a private sector "Corporate Promise to Pay".

### **SUNTRUST BANK**

In December 1991, the City executed promissory notes series A (\$500,000) and B (\$120,000) with Sun First National Bank of Polk County. The notes financed several capital projects at the Lakeland Linder Regional Airport to include the construction of a T-Hangar (Gifts of Flight) and expansion of Sun 'n Fun museum facilities. The notes carry a fixed rate of 7.05% for a fifteen-year period. Principal and interest are paid in equal monthly installments from the Lakeland Linder Regional Airport Fund.

### **WASTEWATER REVOLVING LOAN PROGRAM**

In 1994, the City entered into an agreement with the State of Florida Department of Environmental Protection (FDEP) whereby the State would provide a low interest loan to the City to finance the cost of specified capital improvements to the wastewater system. The loan was executed in two installments carrying separate rates of interest, but with identical repayment terms. The loans carry a fixed interest rate of approximately 2.36% and 2.59% and are to be repaid over a period of 20 years.

In 2004, an additional agreement provided \$13,337,755 in funding for the design and construction of new Wastewater facilities. This loan has a fixed interest rate of 2.96 and is to be repaid over a period of 20 years.

These loans are secured by a pledge of excess revenues of the wastewater system, and by a pledge of certain amounts deposited into a loan amortization account and loan amortization reserve established by the City for the purpose of funding future debt service on the loans. Amounts required for deposit are classified as a restricted asset.

### **NALLY PROPERTY**

On December 01, 2002, the City entered into a lease purchase agreement for property appraised at \$210,000. The agreement did not state an interest rate. The interest rate is calculated as the difference between the total lease payments of \$2,500 per month for 182 months and the appraised value of \$210,000. Because the City has the option to purchase the property for \$1 at the end of the 182 months, the agreement is being treated as a capital lease. The interest will be treated as simple and deducted equally over the life of the lease. Lease payments are paid from the Public Improvement Fund.

## **TEXTRON FINANCIAL**

On October 29, 2001, the City executed a four-year capital lease with Textron Financial in the amount of \$433,880. The capital lease was issued to finance the purchase of 120 golf carts. The lease carries an interest rate of 5.85%. Ownership transfers to the City at the termination of the lease with no additional payment required. Lease payments are paid from the Cleveland Heights Golf Course Fund.

## **GILCHREST PROPERTY**

On October 03, 2003, the City executed a promissory note for the purchase of property in the amount of \$225,000. The property will be used for the future expansion of the Runway 927 at the Lakeland Linder Airport. The note carries an interest rate of 4.75% and provides for interest only payments for 5 years with the full principal amount payable on October 03, 2008.

## **INTERNAL LOANS**

The City created an Internal Loan Fund during fiscal year 1996 for the purpose of financing relatively short-term capital projects. The corpus of this Fund was established from surplus revenue of the general government. Loans will be made to various Funds of the City requiring a financing mechanism without going to the bond market and incurring additional costs associated with the issuance of bonds. As loans are made, the interest rate and amortization period will be established.

## **REPORTING ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lakeland, Florida, for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2005. In order to be awarded a Certificate of Achievement for Excellence in Financial Reporting, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, which contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. We believe our current report continues to conform to Certificate of Achievement for Excellence in Financial Reporting Program requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

## **SUBSEQUENT EVENTS**

### **Natural Gas Commodity Swap**

The City of Lakeland owns and operates an Electric Utility system, which includes not only the electric distribution system, but the generating assets as well.

In conjunction with operating that utility, the City hedges its exposure to fluctuations in the price of natural gas by purchasing natural gas futures contracts on the New York Mercantile Exchange (NYMEX) and using natural gas commodity swaps with a financial institution and a gas supplier. The majority of these hedge transactions mature with a period of 30 months from balance sheet date.

The City follows the guidance of FAS 80 with respect to accounting for futures contracts acquired through the NYMEX. Per the terms of that accounting guidance, these contracts qualify as "effective hedges" and as a result, the change in the market value of these instruments is not recognized as a gain or loss in the accounting period in which the change occurs. Any change in the market value is deferred until the period in which the contract is settled.

The City follows the guidance of GASB Technical Bulletin 2003-1 with respect to accounting for hedge transactions entered into using commodity swaps. Accordingly, any change in the market value of these hedges is also deferred until the account period in which the swap transaction is ultimately settled.

As of September 30, 2006, the City held futures contracts purchased with NYMEX having a negative market value of approximately \$27 million. That change in market value, in addition to the initial margin requirements of NYMEX resulted in a combined cash balance in the City's margin account that exceeded \$40 million. The decline in market value of those positions was not recognized on the face of the financial statements accordance with the provisions of FAS 80 as described above (See note 1).

The Electric Utility Fund participates in a pooled cash and investments fund with various other funds of the City. To offset the impact of the margin deposit requirements on working capital as of September 30, 2006, the City recorded a temporary cash transfer to the Electric Utility Fund equal to the balance in the NYMEX margin account of \$40,994,035. The source of this temporary cash transfer was the unrestricted cash balances in various other funds of the City that participate along with the Electric Utility Fund in the pooled cash and investments program. This cash transfer was offset by an internal due to / due from on the balance sheets of the affected funds (See note 5)

On November 3, 2006 the City entered into a transaction in which all of its outstanding futures contracts on NYMEX were electronically transferred to the NYMEX accounts of J Aron & Company, which is a financial institution that the City uses to hedge natural gas prices using commodity swaps. Simultaneously, the City entered into a commodity swap with J Aron & Company that consists of notional amount, maturity dates, and unit prices that equal the quantities, maturity dates and prices that will be electronically transferred to swap provider from its account on NYMEX.

As a result of this transaction, the City closed its margin account on NYMEX, and was refunded all of its margin account balance, less a commodity pricing spread equal to 4 cents per mmbtu, or \$505,600. The proceeds of that transaction along with other available cash of the utility were used to immediately settle the interfund due to / due from.

As a result of this transaction, the Utility was left with the same portfolio of natural gas hedges after this transaction (in the form of commodity swaps) as it held in natural gas hedges on NYMEX immediately prior to the transaction. Per the accounting guidance of both FAS 80 and GASB Technical Bulletin 2003-1, any gain or loss on hedging transactions is deferred until the underlying financial instruments mature, regardless of whether those hedges take the form of NYMEX futures or commodity swaps.

However, because the commodity swap transaction represented a trade at prices that were above then-current market prices, J Aron & Company was required to make a cash outlay to take over the City's positions on NYMEX. A portion of the 4 cents per mmbtu spread paid by the City to J Aron represents embedded financing costs of that transaction. The fee paid to J Aron & Company has been capitalized on the balance sheet of the Electric Utility Fund and will be amortized over the remaining term of the underlying commodity swaps.

The Statement of Cash Flows for the fiscal year ending September 30, 2007 will show a source of cash, disclosed as an operating activity, equal to the cash value of the amount removed from the margin account on NYMEX and simultaneously deposited into the unrestricted cash and cash equivalents account of the Electric Utility Fund. That portion of the transaction which represents the embedded financing cost will appear on the Statement of Cash Flows as cash flows from investing activities.

### **Bond Warrant Financing Agreement**

On January 16, 2007, the City of Lakeland entered into a Bond Warrant Agreement with an underwriter, Goldman, Sachs & Co, in which the City granted an irrevocable option to the underwriter which, if exercised, would cause the City of Lakeland to issue parity revenue bonds of the Energy System in the amount of approximately \$158,600,000. The new bonds would be issued at terms and fixed interest rates that would generate an annual debt service requirement that equals the annual debt service requirement on the existing Energy System Revenue bonds Series 1999A. If the option is exercised, the bonds would be issued with effective dates of either October 1, 2009; October 1, 2010; October 1, 2011; or October 1, 2012 at the discretion of the underwriter.

In exchange for granting this option, the underwriter made a single, up-front payment of \$7,680,000 to the City of Lakeland.

Should the underwriter exercise their option under this agreement, the City can use the proceeds of the new bond issue to either call the Series 1999A bonds (which are callable any time after October 1, 2009) or use the proceeds to finance qualified capital improvements projects of the Electric Utility System.

The economics of the transaction are equivalent to the refunding the issue at a weighted average yield of approximately 4.25 percent, which approximates the MMD yield curve plus 13 basis points.

The City will recognize the proceeds of this transaction on the balance sheet of the Department of Electric Utilities as a deferred credit. To the extent the underwriter exercise their option to require issuance of new bonds that deferred credit will be amortized to the income statement of Department of Electric Utilities over the life of the new bond issue. The underwriter may exercise their option anytime between the dates of August 1, 2009 and August 1, 2012. In the event the underwriter does not exercise that option, the deferred credit will be a charge against income in it's entirety in the fiscal year ending September 30, 2012.

### **McIntosh Unit 5 Settlement Agreement**

During a routine maintenance outage of McIntosh Unit 5 during November 2006, rust was discovered on the generator's turbine blades. The problem was associated with moisture in the turbine casing which resulted in scale or oxidation coming loose during generator start-up after outage events. McIntosh Unit 5 was expected to be off-line until February or March of 2007. Lakeland Electric has been negotiating a settlement agreement with Siemens/Westinghouse, the generator's manufacturer, relative to turbine blade failure and other issues in general. As part of the settlement, Siemens/Westinghouse has tentatively agreed to confer benefits to Lakeland Electric in the aggregate amount of \$9,470,000. Included in the tentative settlement was a \$1,700,000 credit against the fiscal year 2007 long term service agreement payment representing incremental purchased power costs during the outage caused by the blade failure.

### **Defined Pension Plan – Change in Actuarial Method**

The City operates a defined benefit pension plan for the benefit of all full time employees.

Liabilities and annual funding requirements of that plan have historically been evaluated using the aggregate actuarial cost method. Under this method, the excess of the present value of actuarial present value of projected benefits over the actuarial value of plan assets is spread over the earnings and service of all the participants in the group, taken as a whole, between the valuation date and the plan exit date. Under this method, the actuarial accrued liability is always equal to the actuarial value of plan assets and accordingly, there is no recognition within the financial statements of an unfunded liability.

Effective October 1, 2006 the City changed the actuarial method to the Entry Age Normal method. Under this method, the actuarial present value of projected benefits is spread over the earnings and service of each individual participant in the plan between each participants plan entry date and the plan exit date. To the extent the actuarial accrued liability exceeds the actuarial value of plan assets, and unfunded actuarial accrued liability is recognized within the financial statements.

The estimated value of the unfunded Actuarial Accrued Liability as of October 1, 2006 is \$42,620,765 – which represents approximately 8 percent of the total actuarial accrued liability and approximately 45 percent of covered payroll. The Statement of Changes in Fiduciary Net Assets that will appear in the basic financial statements for the coming fiscal year ending September 30, 2007 will require restatement of the Net Assets, beginning of year to reflect the recognition of this actuarial accrued liability.

## **Pooled Investments – Swap Transaction**

In late October of 2006, the City entered into a series of forward starting, fixed receiver investment swap transactions with two counterparties that are intended to accommodate a laddered re-investment strategy for the City's pooled investment portfolio. The total notional amount of the swaps is \$148,184,386 with commencement dates starting on April 7, 2007 and maturing no later than December 31, 2013.

The portfolio of swaps is intended to provide certainty over the fixed rate of return that will be realized upon the reinvestment of large amounts of investments held within the City's pooled investment fund that will mature in four large blocks in February, August, and October of 2007, October of 2008, and January of 2009. The notional amounts and start dates of the swap transactions entered into correspond exactly to the maturity amount and maturity dates of these four investments.

Assuming that the City elects to accept delivery of each swap transaction on its scheduled start date, the City will receive a fixed rate of interest ranging from 5.00 to 5.06 percent multiplied by the notional amount of each swap. The City would pay the counterparty a variable amount equal to the notional amount multiplied by 94.875 percent of 1 month LIBOR plus 17 basis points. Under this scenario, the City would re-invest the proceeds from the investment of the currently held fixed-rate investments in the investment pool managed by the State of Florida Board of Administration. Yields on that pool have historically compared very closely to the 1 month LIBOR index.

It is anticipated that each swap transaction will be terminated at its then market value on the scheduled start date. Any termination payment made or received on each of those dates will enable the City to acquire government-backed fixed rate investments at effective yields which, considered together with any cash flow resulting from termination of the swap, will range between 5.00 and 5.06 percent rate.

As of December 29, 2006 the swap transactions had positive market values of approximately \$740,000.

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**COMPUTATION OF DIRECT AND OVERLAPPING DEBT**

**SEPTEMBER 30, 2006**

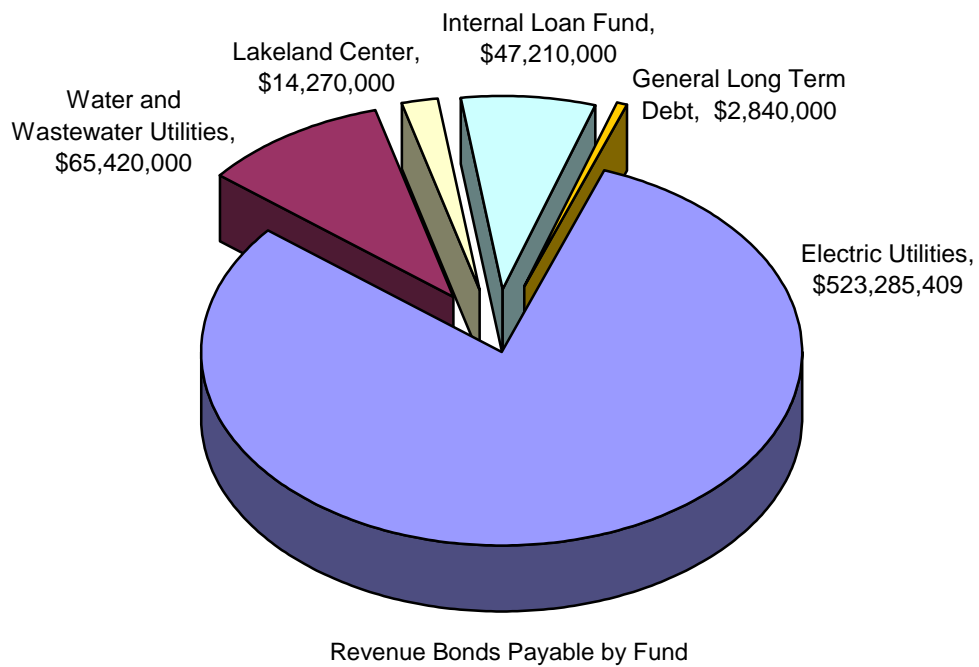
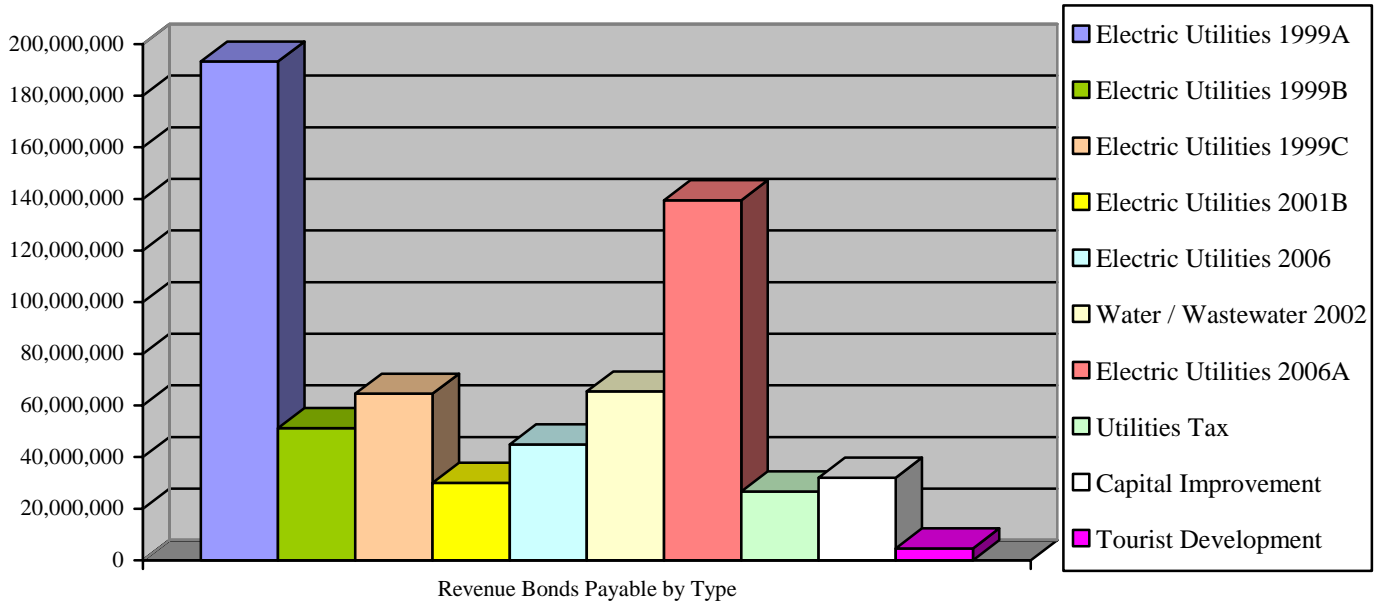
**DIRECT DEBT**

<u>Tax Supported Ad Valorem Debt:</u>	\$	-
<u>Non Self-Supported Bonded Revenue Debt:</u>		
Utilities Tax Revenue Refunding Bonds, Series 2002A	11,505,000	
Utilities Tax Revenue Bonds, Series 2002B	15,190,000	
Tourist Development Tax and Utilities Tax Revenue Refunding bonds, Series 2002C	4,630,000	
Capital Improvement Revenue Bonds, Series 1997	<u>32,020,000</u>	
 Total non self-supported bonded revenue debt		 63,345,000
<u>Self-Supported Bonded Revenue Debt:</u>		
Electric Utility Revenue Bonds:		
Series 1999A	193,230,409	
Series 1999B	51,185,000	
Series 1999C	64,525,000	
Series 2001B	30,000,000	
Series 2006	44,870,000	
Series 2006A	139,475,000	
Water and Wastewater Revenue Refunding Bonds, Series 2002	<u>65,420,000</u>	
 Total self-supported bonded revenue debt		 <u>588,705,409</u>
<b>TOTAL DIRECT BONDED DEBT</b>		<b>652,050,409</b>
<b>OVERLAPPING DEBT</b>		
District School Board of Polk County (applicable percentage 15% )		 <u>28,214,100</u>
<b>TOTAL DIRECT AND OVERLAPPING BONDED DEBT</b>	<b>\$</b>	<b><u><u>680,264,509</u></u></b>

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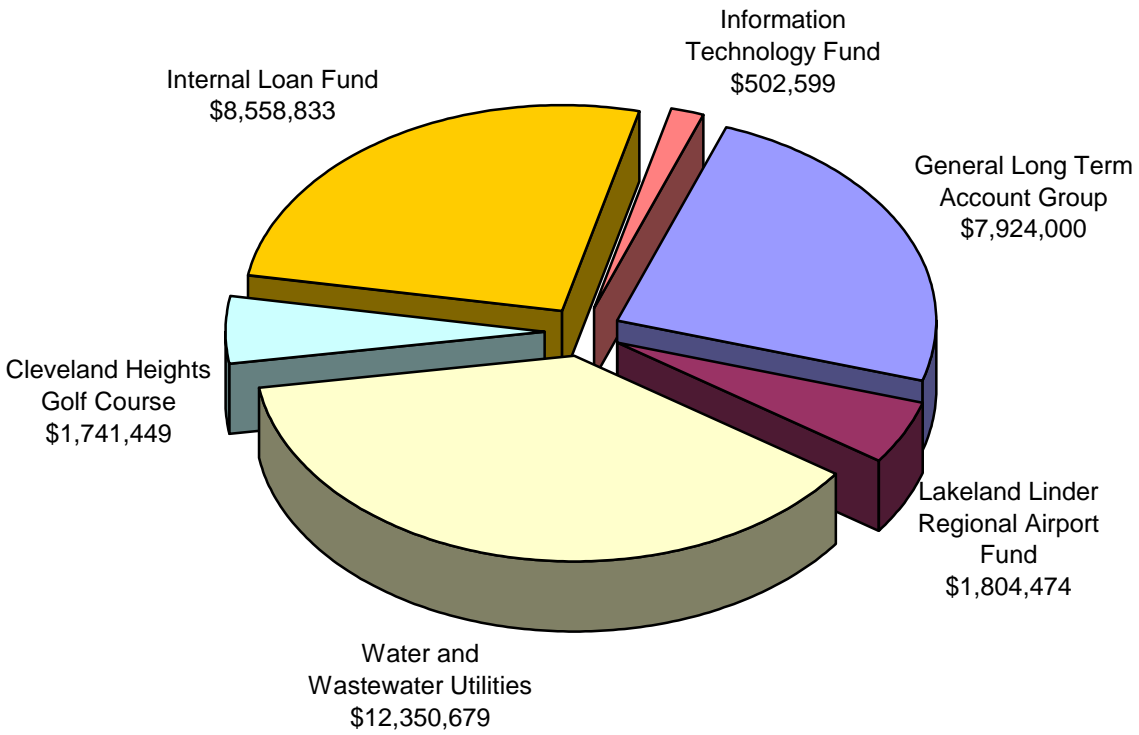
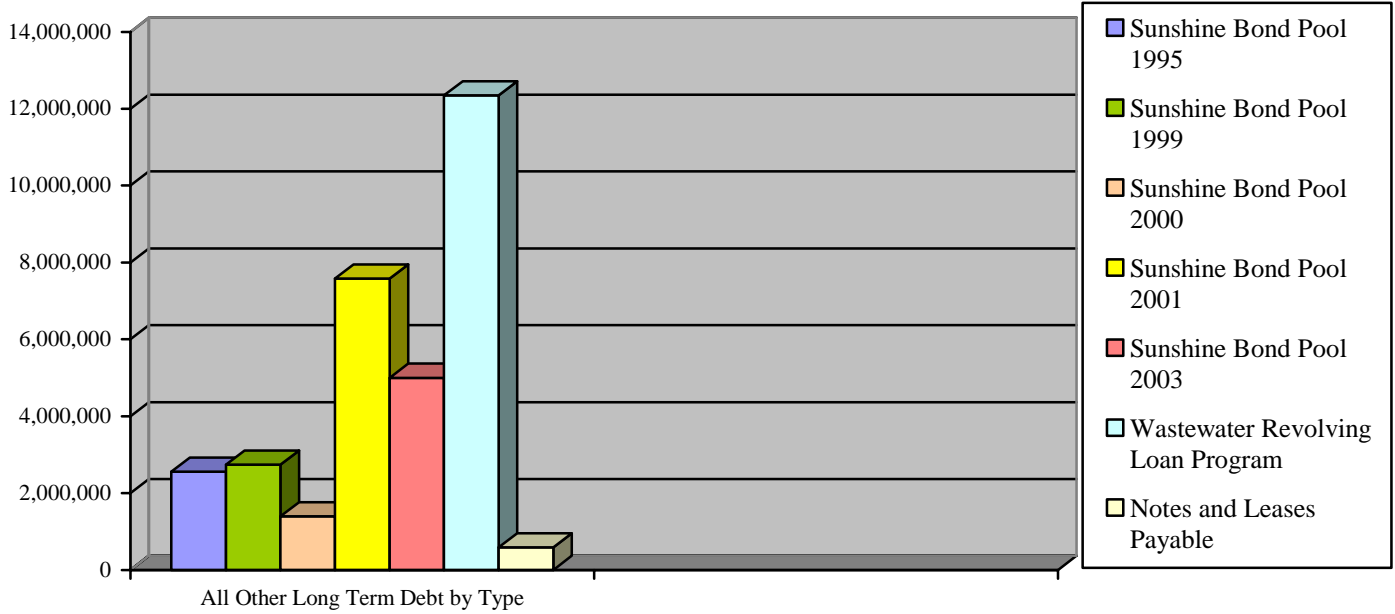
**REVENUE BONDS PAYABLE**

**SEPTEMBER 30, 2006**



**ALL OTHER LONG TERM DEBT**

**SEPTEMBER 30, 2006**

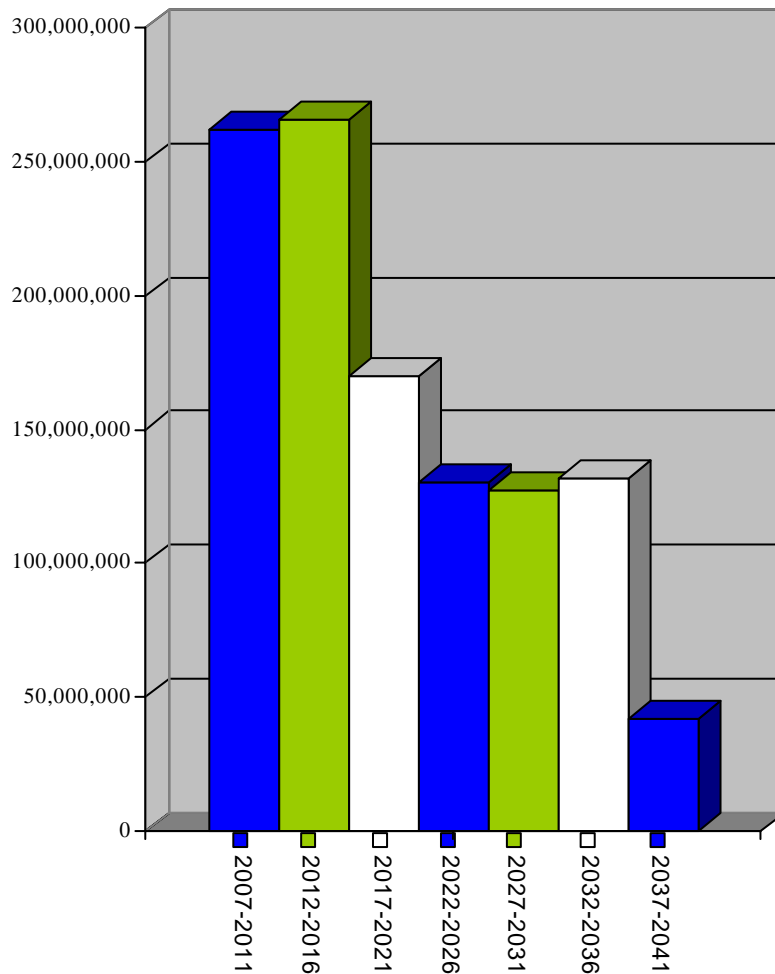


All Other Long Term Debt by Fund



**REQUIRED DEBT PAYMENTS TO MATURITY – ALL LONG TERM DEBT**

**SEPTEMBER 30, 2006**



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**STATISTICAL DATA**

**REVENUE BOND COVERAGE – ELECTRIC UTILITIES REVENUE BONDS**

Fiscal Year	Net Revenues**					Coverage
	Available for Debt Service	Principal	Interest	Total		
2006 *	\$ 68,195,585	\$ 575,000	\$ 23,093,002	\$ 23,668,002		2.88 %
2005	70,275,504	15,095,000	22,439,513	37,534,513		1.87 %
2004	78,217,986	13,250,000	22,416,570	35,666,570		2.19 %
2003	83,203,722	11,745,000	23,940,419	35,685,419		2.33 %
2002	74,687,403	12,550,000	24,740,702	37,290,702		2.00 %
2001	85,911,139	10,085,000	25,381,228	35,466,228		2.42 %
2000	91,543,250	9,520,000	22,392,786	31,912,786		2.87 %
1999	94,495,229	8,335,000	23,700,878	32,035,878		2.95 %
1998	89,134,341	10,815,000	23,200,761	34,015,761		2.62 %
1997	74,773,381	10,225,000	24,049,996	34,274,996		2.18 %

\*Excludes October 1, 2006 principal and interest requirement of \$16,095,408 on the 1999B series of bonds, which was refunded in August, 2006. The 2006 coverage calculation including that refunded debt service requirement was 1.78%. The 2001A and 2003 Energy System Variable Rate Revenue Bonds were refunded in conjunction with the issuance of the Series 2006 and 2006 A Energy System Revenue and Refunding Bonds.

\*\*The definition of net revenues available for Debt Service per the bond ordinance includes an amount equivalent to 20% of certain net current assets of the Lakeland Electric Fund. This equals \$26,756,517 and \$33,626,290 for fiscal years 2006 and 2005, respectively.

**REVENUE BOND COVERAGE – UTILITIES TAX AND TOURIST DEVELOPMENT TAX REVENUE BONDS**

Fiscal Year	Net Revenues					Coverage
	Available for Debt Service	Principal	Interest	Total		
2006	\$ 14,638,554	\$ 1,405,000	\$ 487,804	\$ 1,892,804		7.73 %
2005	14,397,927	1,375,000	566,049	1,941,049		7.42 %
2004	13,934,282	1,535,000	579,292	2,114,292		6.59 %
2003	13,693,470	1,800,000	610,920	2,410,920		5.68 %
2002 *	11,857,680	1,200,000	1,069,196	2,269,196		5.23 %
2001 *	10,047,915	1,155,000	1,069,605	2,224,605		4.52 %
2000 *	9,689,522	1,070,000	1,111,158	2,181,158		4.42 %
1999 *	9,157,829	1,020,000	1,184,347	2,204,347		4.15 %
1998 *	8,561,301	970,000	1,208,485	2,178,485		3.93 %
1997 *	8,111,298	895,000	1,242,335	2,137,335		3.80 %

\*Represent net revenues, principal, interest and coverage on the 1994 Utilities Tax and Tourist Development Tax Revenue Bonds, which were refunded in conjunction with the issuance of the Series 2002 Utilities Tax and Tourist Development Tax Revenue Refunding Bonds.

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**REVENUE BOND COVERAGE - WATER AND WASTEWATER REVENUE REFUNDING AND IMPROVEMENT BONDS**

Fiscal Year	Net Revenues Available for Debt Service					Coverage
		Principal	Interest	Total		
2005	\$ 16,330,825	\$ 2,575,000	\$ 3,120,000	\$ 5,695,000	2.87%	
2005	15,943,059	2,520,000	3,173,551	5,693,551	2.80%	
2004	14,739,985	2,445,000	3,259,126	5,704,126	2.58%	
2003	13,343,601	2,370,000	3,342,075	5,712,075	2.34%	
2002 <sup>1</sup>	14,519,194	980,833	1,493,804	2,474,637	5.87%	
2001 *	5,509,566	1,020,000	1,166,728	2,186,728	2.52%	
2000 *	5,909,566	970,000	1,223,474	2,193,474	2.69%	
1999 *	5,186,776	935,000	1,227,833	2,162,833	2.40%	
1998 *	4,754,373	715,000	1,243,303	1,958,303	2.43%	
1997 *	5,292,280	570,000	1,272,975	1,842,975	2.87%	

<sup>1</sup> There was not a full year of debt service requirement on these bonds in fiscal 2002.

\* Represent net revenues, principal, interest and coverage on the 1993 Wastewater System Revenue Bonds, which were refunded in conjunction with the issuance of the Series 2002 Water and Wastewater Revenue Refunding and Improvement Bonds.

**REVENUE BOND COVERAGE – 1997 CAPITAL IMPROVEMENT REVENUE BONDS**

This issue is secured by a pledge on all non-ad valorem revenues budgeted and appropriated and deposited into the sinking funds established to pay principal and interest on this issue. (A covenant to budget and appropriate). As such, there is no numeric debt coverage requirement assigned to this bond issue.

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## DEPARTMENT OF ELECTRIC UTILITIES (Lakeland Electric)

### THE SYSTEM

#### General

The Department of Electric Utilities ("Lakeland Electric") is one of fifteen (15) operating departments of the City which have been organized to perform the services provided by the City government. Lakeland Electric is responsible for all operations of the System, including plant engineering; transmission and distribution engineering; operations and maintenance; customer service; customer rate design, load forecasting and evaluation; accounting; budget formulation; and financial forecasting and management. The cost of the services used by Lakeland Electric is recovered through user charges for electric power.

As of September 30, 2006, Lakeland Electric had a staff of 575, including 88 professional employees with degrees in engineering, business and other related fields, 7 of whom are registered professional engineers in the State of Florida.

All financial reports covering operations of Lakeland Electric are prepared by the City's Finance Department according to accounting methods prescribed by the Federal Energy Regulatory Commission. Monthly financial reports are prepared by the City Finance Director and submitted to the City Commission.

#### Service Area

The System service territory consists of approximately 246 square miles including the incorporated area of the City and a number of unincorporated communities lying within a 15-mile radius of the City. The City is bisected by Interstate 4 connecting Tampa and Orlando and is located approximately halfway between the two cities. During Fiscal Year 2005-06, an average of 119,896 electric customers were served. The System's service area is bordered on the north by Withlacoochee Rural Electric Cooperative, Inc., on the south by the City of Bartow, and on the east and west by Tampa Electric Company. The City has entered into territorial agreements with each of them.

#### Generation

The System's existing electric generating facilities are located on three sites bordering Lake Parker in the City and one site near the Lakeland airport. The Larsen Memorial Plant is located on the southeast shore of the lake and the McIntosh Plant is located on the north shore. The Winston Plant is located in the southwestern part of the service territory near the Lakeland airport. The System presently has 995 Megawatts ("MW") of generating capability to meet customer load. This represents the "net dependable winter capacity" of the generation units. "Net dependable capacity" is a standard electric industry measure of a generating unit's capability to serve customer load on any given day ("net dependable capacities" are used throughout this section when referring to generating capacities). For generating capacity of each facility see the table entitled "Existing Generation Facilities" below.

The Larsen Plant provides 124 MW of base to intermediate load capacity (Unit No. 8) and 27 MW of peaking capacity (Unit Nos. 2 and 3). The 27 MW of peaking capacity is provided by gas turbines that are designed to be placed into service rapidly, since the System's peak demands have normally occurred in the winter and have been of relatively short duration. They also have black-start capability in case of total system outage.

The Larsen Plant site consists of approximately 8.9 acres and it has limited growth options with the existing infrastructure. Potentially, additional generation capacity of approximately 100 MW could be added to this site using existing technology.

The McIntosh Plant site consists of approximately 513 acres. The size and configuration of this site would allow for the addition of significant generation facilities using existing infrastructure. The McIntosh Plant provides 205 MW of base load capacity (Unit No. 3), 371 MW of intermediate gas fired capacity (Unit No. 5), 193 MW of intermediate to peaking capacity (Steam Condensing Unit Nos. 1 and 2) and 25 MW of quick start peaking capacity (Diesel Unit Nos. 1 and 2 and Combustion Turbine Unit No. 1). There is room for up to 1,000 MW of additional generation capacity.

At the McIntosh Plant site, Unit No. 3 began commercial operations in September 1982 as a coal-fired steam turbine generator. Unit No. 3 was designed to burn high sulphur pulverized coal as its primary fuel with the ability to operate on #2 fuel oil or gas on a limited basis. Petroleum coke, a by-product of the oil refining process, can be used for up to 20% of the fuel supply. Sulfur dioxide and particulate matter are removed from the boiler and flue gasses by means of a wet limestone scrubber and electrostatic precipitator. The wet limestone scrubber is undergoing conversion to forced oxidation to allow for the production of gypsum. This will allow the ability to sell the combustion by-products and minimize the amount of material that will require landfill, thus reducing future operation and maintenance costs. Unit No. 3 has an approximate remaining useful life of 22 years.

Pursuant to a 50-year Participation Agreement between the City and the Orlando Utilities Commission ("OUC") dated April 4, 1978 (the "Participation Agreement"), the City owns a 60% undivided interest in Unit No. 3, while OUC owns the remaining 40% share. The City's share (205 MW) provides very economical base load power. Pursuant to the Participation Agreement, the City is responsible for the operation, fueling and maintenance of this unit and bills OUC for 40% of these costs.

During Fiscal Year 2002, the City completed construction of McIntosh Plant Unit No. 5, a Siemens-Westinghouse 501G combined cycle unit. The unit is comprised of a 501G combustion turbine with the waste heat going into a heat recovery steam generator (HRSG) to drive a separate steam turbine electric generator set. Unit No. 5 was the first of its kind in the "G" class machine built by Siemens-Westinghouse. As a combined cycle unit, Unit No. 5 has a total net dependable rating of 371 MW with a heat rate of 6600 BTU/kilowatt hours. The City obtained a long term maintenance agreement from Siemens-Westinghouse to cover a minimum of the first six years of operation of Unit No. 5.

During Fiscal Year 2005, Unit No. 5 incurred an unplanned outage that spanned a period of 58 days from June 7, 2005 thru August 4, 2005. This outage was the result of the failure of a major internal component, a rotor bolt, in the combustion turbine. While no physical damage occurred as a result of the failure, the outage was lengthy as the manufacturer performed extensive tests to determine the cause of the failure. A failure of this type had never occurred with respect to this type of unit before. The failure appeared to be caused by metallurgical failure. All the rotor bolts have been replaced.

During a routine maintenance outage of McIntosh Unit 5 in November 2006, rust was discovered on the generator's turbine blades. The problem was associated with moisture in the turbine casing resulting in scale or oxidation that comes loose during generator start-up after outage events. McIntosh Unit 5 was expected to be off-line until February or March 2007. Lakeland Electric has been negotiating a settlement agreement with Siemens/Westinghouse, the generator's manufacturer, relative to turbine blade failure and other issues in general. As part of the settlement, Siemens/Westinghouse has tentatively agreed to confer benefits to Lakeland Electric in the aggregate amount of \$9,470,000. Included in the tentative settlement was a \$1,700,000 credit against the fiscal year 2007 long term service agreement payment representing incremental purchased power costs during the outage caused by the blade failure.

Unit No. 3 and Unit No. 5, together with power purchased by the City from the Florida Municipal Power Pool, generally provide the required load for the System. See "THE SYSTEM - Florida Municipal Power Pool" for more information concerning the Florida Municipal Power Pool.

The Florida Municipal Power Pool (the "FMPP") sells power to its members at a price that represents the direct fuel and variable operating and maintenance cost of the next most efficient unit that is available for dispatch. Accordingly, each member of the FMPP is frequently able to purchase power at a price that is substantially less than the incremental cost of all but the most efficient generation units in each member's own fleet. Because of this, Lakeland Electric typically purchases power from the FMPP. In June 2004, one of the members of the FMPP, OUC, brought online a 600MW combined cycle gas unit with a heat rate that is nearly identical to the City's Unit No. 5. As a result, Lakeland Electric has been acquiring a larger portion of its power requirements from the FMPP and has operated Unit No. 5 less. The following table outlines the percentage of the gross generation requirements of Lakeland Electric provided by each resource (to serve both native load and wholesale sales obligations) for the past five fiscal years and an estimate for the 2006 Fiscal Year.

**Gross Generation Requirements**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Unit No. 3 (McIntosh)	37%	35%	32%	42%	39%
Unit No. 5 (McIntosh)	31%	42%	43%	20%	23%
Other Lakeland Electric Units	23%	14%	5%	9%	9%
Purchases <sup>1</sup>	9%	9%	20%	29%	29%

<sup>1</sup>Nearly all of such purchases are through the FMPP.

Source: Lakeland Electric

The following table sets forth the capacity factors of each of Lakeland Electric's own generating resources for the past five fiscal years. "Capacity factor" represents the percentage of a generating resource's capacity that was actually utilized.

**Capacity Factors of Lakeland Electric  
Generating Resources**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Unit No. 3 (McIntosh)	77%	78%	66%	86%	82%
Unit No. 5 (McIntosh)	35%	52%	49%	22%	28%
Other Lakeland Electric Units	23%	16%	5%	9%	9%

Source: Lakeland Electric

The Winston Plant houses 20 diesel generators that provide 50 MW of peaking capacity designed for quick start capability. The site is designed to allow for a second facility of approximately the same size.

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The following table shows certain information regarding the City's existing generation facilities.

### Existing Generation Facilities

	<u>Fuel Type</u>		<u>Installed</u>	Net Dependable	<u>Equivalent Availability</u> <sup>3</sup>	Remaining	
	<u>Primary</u>	<u>Alternate</u>		<u>Capacity (MW)</u>		<u>Useful Life</u> <sup>5</sup>	
<b>Larsen Plant</b>							
<u>Combustion Turbines:</u>							
Unit 2	FO2	NG	1962	14	99.1%	--	
Unit 3	FO2	NG	1962	13	99.9	--	
Unit 8	NG	FO2	1992	93	99.3	20.0	
<u>Steam Condensing Turbines:</u>							
Unit 8	WW	FO2	1992	31	99.3	20.0	
<b>Larsen Plant Total:</b>				<u>151</u>			
<b>McIntosh Plant</b>							
<u>Diesels:</u>							
Unit 1	FO2	B	1970	2.5	98.81%	--	
Unit 2	FO2	B	1970	2.5	99.0	--	
<u>Combustion Turbines:</u>							
Unit 1	FO2	NG	1973	20	98.3%	--	
Unit 5 <sup>1</sup>	NG/WW	FO2	2001	371	58.7	31.0	
<u>Steam Condensing Turbines:</u>							
Unit 1	NG	FO6	1971	87	90.35%	--	
Unit 2	NG	FO6	1976	106	97.36	--	
Unit 3 <sup>2</sup>	CO	NG	1982	<u>205</u>	89.3	22.0	
<b>McIntosh Plant Total:</b>				<u>794</u>			
<b>Winston Plant Diesel Units 1-20<sup>4</sup></b>			FO2	2001	<u>50</u>	97.8%	31.0
<b>Total: All Plants</b>				<u>995</u>	<u>82.1%</u>		

Legend: **CO**-Coal    **NG**-Natural Gas    **FO2**-Light Oil    **FO6**-Fuel Oil    **WW**-Wasted Heat Recovery

<sup>1</sup> Commercial operation commenced in May 2001. Unit 5 was converted to a combined cycle unit in May 2002.

<sup>2</sup> Reflects the City's 60% share.

<sup>3</sup> Represents the percentage of capacity that was available for generation during fiscal year 2005. Unit No. 5 experienced unexpected extended outages in 2005 that contributed to its lower availability figure. See "THE SYSTEM - Generation" for more information concerning such outages.

<sup>4</sup> Each peaking unit is 2.5 MW, but are combined and treated as one dispatchable unit of 50 MW capacity.

<sup>5</sup> Estimates only. The final determination of the remaining economic useful lives of the Units with no remaining useful lives identified in the table have not been made subject to the final implementation of Lakeland Electric's 2005 Integrated Resource Plan. These Units will continue to be kept in service to the extent the incremental maintenance costs compare favorably to the cost of replacement generating capacity. These Units provide approximately 245 MW of generation capacity, however they are rarely dispatched given the relative high cost of the underlying fuel source.

Source: Lakeland Electric.



System Capacity and Load. The System has a current net dependable winter capacity of 995 MW. The System net peak load reached 680 MW and the net integrated summer peak load reached 628 MW.

Except for incidental power purchases, Lakeland Electric has in the past generated the System's total energy requirements.

The following table indicates the historical electrical system demand and energy load for the last five years.

**Historical System Demand and Energy Load**

Fiscal Year Ending September 30	Winter Peak (Mw)	Percent Increase (Decrease)	Summer Peak (Mw)	Percent Increase (Decrease)	Energy Use (gWh) <sup>2</sup>	Percent Increase
2006	680	4.9%	628	-1.7%	2,881	3.5%
2005	648	12.1%	639	10.2%	2,784	1.1%
2004	578	-16.7%	580	0.2%	2,753	1.0%
2003	694	5.3%	579	0.5%	2,725	4.1%
2002	659	0.6%	576	5.5%	2,618	1.4%

<sup>1</sup>Winter peak resulted from an unusually mild winter.

<sup>2</sup>Excludes sales for resale.

Source: Lakeland Electric

**Transmission and Distribution System**

The 230 and 69 kilovolt (kV) systems make up the primary transmission network for the System. There are currently 119 miles of 69 kV single and double circuit construction and most of the 69/12 kV substations have a minimum of two transmission sources.

The System currently has 29.15 miles of 230 kV transmission lines connecting the West Substation to the McIntosh Plant, the McIntosh Plant to the Eaton Park Substation and the Eaton Park Substation to the Crews Lake Substation.

At the present time, there are a total of twenty-three 69/12 kV and one 230/12 kV substations feeding one hundred eleven 12 kV circuits. There are 1,274 miles of overhead and 548 miles of underground 12 kV distribution lines in service.

**Interconnections and Interchange Agreements**

The City has entered into various interconnection and interchange power agreements with neighboring electric utilities to coordinate and pool major power supplies generated throughout the region. These agreements ensure that the City has a sufficient bulk power supply to conform to appropriate reliability standards in the most economical manner. They also allow the City opportunities for sale of excess power to all Florida utilities as well as most of the southeastern United States utilities. Additionally, these power agreements provide for sharing, assistance, and other benefits normally associated with the direct interconnection of electric utilities.

The City currently has interchange agreements with the following utilities: Progress Energy (formerly known as Florida Power Corporation), Florida Power & Light Company, Tampa Electric Company, Orlando Utilities Commission, Jacksonville Electric Authority, Seminole Electric Cooperative, City of Tallahassee, Gainesville Regional Utilities, Reliant Energy, Southern Energy Trading and Marketing, City of Homestead, Florida Municipal Power Agency, Reedy Creek Improvement District, TVA, Oglethorpe, Auburndale Power Partners, Louisville Gas & Electric, the Utilities Commission-New Smyrna Beach and The Energy Authority.

Lakeland Electric's interconnection capacity with neighboring utilities is approximately 660 MW. This capacity is made up of five 230 kV lines and three 69 kV lines. Lakeland Electric has two 230 kV ties with Progress Energy at Lakeland Electric's West Substation. One line ties with Progress Energy's Griffin Substation and the other with their Barcola Substation. Lakeland Electric's third 230 kV tie is with the Orlando Utilities Commission and connects Lakeland Electric's McIntosh Substation with Orlando's Taft Substation via Tampa Electric Company's Lake Agnes Substation. The fourth and fifth 230kV ties are with Tampa Electric Company connecting Lakeland Electric's Crews Lake Substation with Tampa Electric Company's Pebbledale and Recker Substations. All three of Lakeland Electric's 69 kV tie lines are with Tampa Electric Company. They connect Lakeland Electric's Orangedale Substation to Tampa Electric Company's Polk City Substation, the East Substation to Tampa Electric's Gapway Substation and the Crews Lake Substation to Tampa Electric's Sandhill Substation.

## **Fuel Supply**

*Oil and Natural Gas.* The City has a storage capacity of 359,899 barrels for No. 6 residual oil, and 27,855 barrels for No. 2 distillate. This storage capacity affords the System a 40-day reserve for No. 6 residual oil and an 8-10 day reserve for No. 2 distillate at normal burn rates. Oil fuels are delivered by tank truck to Lakeland Electric's facilities.

The City is currently obtaining all of its fuel oil through purchases via the spot market, and has no long term purchase contracts. In the opinion of Lakeland Electric, this currently provides the lowest cost for fuel oil consistent with usage, current price stabilization and on-site storage. Lakeland Electric continuously monitors the cost effectiveness of spot market purchasing.

The Florida Gas Transmission Company ("FGT") achieved "open access" status for their natural gas pipeline on August 1, 1990. This pipeline is an underground pipeline running from the Mobile Bay area of the Gulf Coast across the Florida Panhandle and down through the center of the state. The majority of the FGT supply comes from land-based wells. The City holds firm transportation rights on the FGT pipeline that varies by month, and falls under two rate classifications; FTS-1 and FTS-2, both under the jurisdiction of the Federal Energy Regulatory Commission. Thirty-seven percent (37%) of the City's FGT firm transportation rights are under the less expensive FTS-1 rate, and sixty-three percent (63%) is under FTS-2. The two contracts under FTS-1 expire in 2010 and the two contracts under FTS-2 expire in 2015 and 2017.

In June 2002, the Gulfstream Pipeline became operational. This pipeline crosses the Gulf of Mexico starting from the Mobile Bay region and making landfall just south of Tampa, Florida near Port Manatee. The supply sources for the Gulfstream pipeline are offshore wells. Lakeland Electric is also connected to and has purchased firm transportation rights in this pipeline which provides a second source of natural gas and gives it access to additional gas suppliers. Also, this second pipeline significantly reduces the risk of interruption of the gas supply. Gulfstream has only one jurisdictional rate under the Federal Energy Regulatory Commission for firm transportation service, and the City has contracted for a fixed volume for each month. The contract is in effect until 2022.

Each pipeline is capable of handling all of the System's natural gas requirements. The transportation rights in both pipelines provide added reliability and competitive pricing. The City currently has fifteen North American Energy Standards Board contracts and two International Swap Dealers Association contracts with suppliers. Several of the suppliers are able to transport gas on either the FGT pipeline or the Gulfstream pipeline.

The City has formalized the policies and procedures utilized for a much expanded fuel hedging program. Risk Management Inc. was hired in 2003 to prepare a comprehensive hedging/risk management program. The initial focus of the program is the purchase of natural gas. Under the terms of this program, time parameters have been adopted which will result in the hedging of 100% of forecasted natural gas requirements one month prior to the closing of the current month, 75% of the forecasted requirements six months prior to the closing of the current month, 60% of the forecasted requirements twelve months prior to the closing of the current month, 30% of the forecasted requirements eighteen months prior to the closing of the current month, 20% of the forecasted requirements twenty-four months prior to the closing of the current month, and 10% of the forecasted requirements thirty months prior to the closing of the current month. A forecast of predefined price triggers has been adopted which the fuels division of Lakeland Electric can use as authorization points to hedge certain quantities of fuel based on relative prices of fuel strips, financial hedges, caps, collars, etc. A Risk Oversight Committee oversees and guides this fuel hedging program

concentrated on natural gas and other energy risk management activities. The City has historically executed these hedging activities through options and contracts purchased on the New York Mercantile Exchange (NYMEX) or commodity swap contracts with certain counterparties. Currently, all such hedging activities are in the form of swap contracts. Under certain circumstances, some within the City's control and some outside the control of the City, a hedge transaction may be terminated and the City may be obligated to make a termination payment.

The City also is considering obtaining a letter of credit to satisfy any collateral requirements with respect to its fuel hedging program. The face amount of such a letter of credit would initially approximate between \$15,000,000 and \$20,000,000. This would allow the City to utilize a like amount of cash for other System purposes. In the event the letter of credit was ever drawn upon the City's principal repayment obligations would be considered a cost of Operation and Maintenance. The City is currently in the process of contracting with certain outside parties to provide advice with regard to its fuel hedging program and expertise in executing and tracking such activities.

*Coal.* The City estimates that McIntosh Unit No. 3 will burn approximately 850,000 to 900,000 tons of coal per year. Normally a 30 to 35-day coal supply reserve (90,000-110,000 tons) is maintained at the McIntosh Plant. The City is currently a party to two intermediate term contracts that expire on December 31, 2006 and December 31, 2007 and is negotiating for a third contract that will expire at the end of 2007. All contain competitive pricing, and the total contracted tons will comprise approximately 70% of the annual needs for 2007 and 2008, 60% for 2009, and 40% for 2010. The City began using petroleum coke as a fuel in 1995. Since then, the City has received over 750,000 tons of petroleum coke. The use of petroleum coke and coal as a blended fuel has resulted in significant savings for McIntosh Unit 3.

The coal sources are located in eastern Kentucky which affords the City a single rail line via CSX Transportation ("CSX"). The City entered into an eight-year coal transportation contract effective January 1, 2000 with CSX. Negotiations are currently underway to extend this contract and to allow more coal to be hauled in each railcar, resulting in more coal being provided per delivery.

In May 1991, the City placed 198 new aluminum railcars into service which replaced 169 ten-year old steel railcars. The increased aluminum railcar fleet allows the City to enjoy cost discounts from CSX. Entering into the new coal transportation agreement, increasing the railcar fleet size, and utilizing aluminum railcars has resulted in a substantially lower delivered coal cost since 1991. A new project got underway in May 2006 to determine the economic feasibility of upgrading the railcar loading capacity from 263,000 lbs. to 286,000 lbs. An additional project is also in progress to determine possible cost advantages of increasing the size of the railcar fleet to run 95 car unit trains. Incorporating such changes should result in lower freight rates from CSX.

The City also imports a portion of its solid fuel needs through the Port of Tampa. Delivery to the McIntosh Plant is by truck. The ability to import solid fuel allows for more competitive pricing from sources outside of central Appalachian mining.

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*Fuel Utilization.* The following table shows the historical utilization of fuels by Lakeland Electric as a percentage of total generation based on megawatt hours (mWh). See "CAPITAL IMPROVEMENT PLANS" herein for general information regarding capital improvements that may effect fuel utilization.

**Historical Fuel Utilization  
As a Percent of Total Generation (mWh)**

Fiscal Year Ending September 30	Coal	Oil	Natural Gas	Refuse	Petroleum Coke
2006	51%	3%	42%	0%	4%
2005	54%	5%	37%	0%	4%
2004	39%	3%	58%	0%	0%
2003	35%	7%	55%	0%	3%
2002	47%	2%	45%	0%	6%
2001	60%	5%	27%	1%	7%
2000	62%	3 %	31%	1%	3%
1999	56 %	3 %	34 %	1 %	6 %
1998	50 %	6 %	33 %	1 %	10 %
1997	57 %	3 %	30 %	1 %	9 %

Source: Lakeland Electric

**Conservation**

In April 1993, the Florida Public Service Corporation ("FPSC") adopted rules implementing the Florida Energy Efficiency and Conservation Act ("FEECA") which require each electric utility to establish numeric demand-side management goals. The goals are to be based on an estimate of the total cost effective kilowatt and kilowatt hours savings reasonably achievable through demand-side management in each utility's service area over a 10-year period. These rules require the FPSC to set goals for each electric utility at least once every five years.

During the 1996 Legislative Session the Florida Legislature modified Section 366.82 of the Florida Statutes pertaining to FEECA to eliminate utilities with sales below 2,000,000 megawatt hours ("MWh") as of June 30, 1993. As of June 30, 1993, Lakeland's sales were 1,966,250 MWh, thereby releasing Lakeland from complying with FEECA rules. Lakeland continues, however, evaluating conservation efforts. Those which are cost effective are pursued.

Lakeland Electric has been, and continues to be, dedicated to reducing the System's weather-sensitive peak demand. Lakeland Electric continues to support its conservation and demand-side management programs implemented pursuant to FEECA. Lakeland Electric continues to evaluate other potential programs to promote conservation, efficient use of energy, and the reduction of weather-sensitive peak demands as reflected in it's load and energy forecast for future years.

**Wholesale Power Exchange**

The City currently has bilateral contracts with nearly all of the municipally-owned and investor-owned utilities located within the State of Florida for the exchange of wholesale power. Transactions are conducted directly by the City and through the Florida Municipal Power Pool described below. As Federal and State regulation of the power industry continues to change it is likely that the process for purchasing power on the wholesale market will also change.

## **Florida Municipal Power Pool**

On July 1, 1988, the City, the Orlando Utilities Commission ("OUC"), and the Florida Municipal Power Agency ("FMPPA") implemented the FMPP. The FMPP was developed to produce operational savings by better utilization of FMPP members' most economical generating units and cycling off of less-efficient units. OUC is the FMPP's operator because it currently has an Energy Management System which can perform the control necessary to operate the FMPP. All FMPP members share the operation costs. The City provides the backup control system for OUC.

Participation in the FMPP ensures that the City has the lowest possible generation cost. Currently, the City can withdraw from FMPP with one year's written notice or at any time upon mutual agreement of all members.

In May 1998, the FMPP formed a marketing group to respond to the change in the bulk power market. This group has been very successful in selling pool energy resources on a non-firm basis. Participation in the FMPP has resulted in significant savings for the City.

In March 2006, the General Managers of Lakeland Electric, OUC and FMPPA met to discuss the future vision for the FMPP. The result of that meeting was the decision to extend the term of the FMPP to a 5 year commitment. In addition it was agreed to hire an Executive Director for the FMPP to oversee day to day operations, establish the FMPP as a legal entity, formalize joint resource planning and evaluate the possible benefits of joint fuel procurement, scheduling and transportation.

See also "THE SYSTEM - Generation" for information regarding the relative amount of Lakeland Electric's energy needs that are met through FMPP.

## **Florida Reliability Coordinating Council**

The North American Reliability Council designated the State of Florida as an independent reliability region in 1996. The Florida Reliability Coordinating Council ("FRCC") was established to oversee the region to assure the reliability of electric power within the State. The City is a member of all FRCC committees and has a representative on FRCC's board of directors.

## **Generation Mutual Aid Agreement**

On October 17, 2002, the City, the City of Tallahassee, the Florida Municipal Power Agency, the City of Gainesville d/b/a Gainesville Regional Utilities, the Jacksonville Electric Authority, the Orlando Utilities Commission, the Municipal Electric Authority of Georgia, and the Seminole Electric Cooperative, Inc. entered into a mutual aid agreement for extended generation outages. The purpose of the agreement is to provide mutual aid in the form of energy and price commitment in the event of an extended outage (over 60 days and up to 365 days) of one of the designated base-load generating units. The agreement has an initial term of five years commencing October 2002, and is renewable for additional five-year terms. The agreement is to provide a physical hedge against the exposure to a volatile energy market in the event of an extended outage of a base-load unit. The agreement is an example of how public power utilities work together for the benefit of their customers and communities.

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## Customers

The System's customers are predominantly residential in number (82% in Fiscal Year 2006). Of the 119,701 average customers in Fiscal Year 2006, 12,393 are commercial and industrial customers, providing approximately 43% of retail sales revenue. All City-owned facilities are metered and pay Lakeland Electric for services rendered on a current basis. The following table lists the ten largest users of electric energy as of September 30, 2006, which in total represent approximately 17 of retail electric sales revenue.

### Ten Largest Electric Customers (as of September 30, 2005)

Customer	kWh Used in Fiscal 2006	kWh Used in Fiscal 2005	Percent Change from 2005	% Total 2006 kWh Sold	Peak Demand 2006 (Mw)
Publix Super Market <sup>1</sup>	186,479,527	182,359,293	2.3%	6.5%	30.0
City of Lakeland	76,288,975	74,711,587	2.1%	2.6%	19.2
Polk County School Board	46,505,181	43,349,915	7.3%	1.6%	22.3
Lakeland Regional Medical Center	50,377,810	48,675,563	3.5%	1.7%	8.1
Fibertek Insulation Llc	33,076,800	-	-	1.1%	5.9
Key Safety Systems, Inc	27,986,400	24,350,400	14.9%	1.0%	4.5
Florida Southern College	21,468,740	21,890,128	-1.9%	0.7%	3.8
Winn Dixie Stores <sup>2</sup>	15,224,000	15,941,400	-4.5%	0.5%	2.4
Pepperidge Farm, Inc.	16,078,031	16,786,126	-4.2%	0.6%	2.6
Tampa Maid Foods, Inc.	14,313,581	14,688,141	-2.6%	0.5%	2.7
Totals	487,799,045	442,752,553	10.2%	16.9%	101.5

<sup>1</sup>Consists of nine supermarkets and centralized office, warehouse, production and distribution facilities.

<sup>2</sup>Consists of six supermarkets.

Source: Lakeland Electric

## Wholesale Power Contract

In December of 1998 the City entered into a wholesale contract (the "FMPA Contract") to provide up to 100 MW of power to the Florida Municipal Power Agency ("FMPA"). This delivery of power under the FMPA Contract commenced in December of 2000 and originally covered a ten year period ending December 14, 2010. During Fiscal Year 2004, management of Lakeland Electric and the City negotiated with FMPA to reduce the length of the FMPA Contract by three years so that it now runs through December 15, 2007. The per MW price is determined by a fixed price schedule which sets forth the price components of capacity, fuel and operations and maintenance.

The contract does not contain a fuel escalation clause. As a result, increases in the price of fuel are absorbed by the City as the seller. Since the inception of the contract, the City has experienced fuel costs attributable to the contract which exceed the contract fuel cost recovery by approximately \$110 million (thru FY 2006). Offsetting this under-recovery are revenues received under the contract for O&M costs in excess of actual O&M costs. Those excess revenues approximate \$28.3 million. Finally, after offsetting approximately \$17.5 million of capacity charges which have been paid under the contract Lakeland's negative cash flow attributable to the contract approximates \$64.2 million. Continued increases in natural gas prices will result in increasing cumulative losses through the remainder of the contract term.

The utility currently has hedged approximately 90% of the estimated natural gas required to service the remainder of the FMPA Contract. Lakeland Electric cannot reasonably estimate the total potential contractual loss because of the volatility of natural gas prices and the associated impact and uncertainty of future sales volumes. See also the information immediately following the table set forth on page 55 entitled "Lakeland Electric Summary of Results of Operations" for a discussion of certain of the financial impacts resulting from the FMPA Contract.

## Electric Rates

*General.* The level of rates charged to each class of customer for electricity is subject to periodic cost of service studies performed by Lakeland Electric. These studies, performed a minimum of every two years, evaluate the appropriateness of the current rate structure and the equitable allocation of costs among the various customer classes. These analyses form the basis of recommended rate adjustments. It is the policy of the City to establish electric rates that will be adequate to meet the cash flow requirements of the System, including sufficient funds to cover annual expenditures for operations and maintenance, debt service, renewal and replacement, transfers to the City's general fund and other reserves deemed necessary by Lakeland Electric to meet future capital requirements. City Commission approval is required before adjustments to rate schedules become effective. A formal rate study was begun during fiscal year 2006 and completed during fiscal year 2007. Any changes adopted by the City Commission as a result of the most recent rate study will be effective on a bills rendered basis, April 1, 2007.

*Rate Formula.* The basic rate formula applied by Lakeland Electric to all electric customers combines a usage charge based on kilowatt hours used and a fuel charge based on kilowatt hours used to a minimum service charge. Additional charges are applied to specific user classes. Most significant among such additional charges is the demand charge billed to large commercial and industrial customers. Demand charges are derived by multiplying a specified charge per kW times the maximum kW consumed during any 30-minute interval during the billing period.

Electric rates are subject to a 10% utility tax on all purchases of electricity within the City and a 10% surcharge on purchases outside the City. The surcharges are calculated on only that portion of the fuel charge contained in the base rate on October 1, 1973. All other fuel is exempt. Utility tax collections are not considered revenues of the System, but surcharges on purchases outside the City are included as revenues. Utility taxes and surcharges are billed to and paid by System customers.

*Fuel Charge.* No less than quarterly, Lakeland Electric prepares a fuel cost forecast for the next twelve months. If the projected cumulative recovery of retail fuel costs at the end of the twelve month period results in a projected cumulative under-recovery of fuel costs in an amount exceeding 0.5 mills of the forecasted annual sales volume, the City Commission is required by ordinance to implement an adjustment to the fuel charge component of the retail electric rates in an amount sufficient to reduce the forecasted under-recovery to an amount that falls below the threshold. As of September 30, 2006, the fuel charge was 65.00 mills per kilowatt hour (kWh). *Comparison of Rates.* A comparison of monthly electric rates in effect on September 30, 2006, charged by the City with the rates for comparable service charged by other municipal electric systems and investor-owned utilities in the State of Florida is presented in the following table. The charges listed in the following table include basic rates plus a fuel adjustment charge.

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Florida Utilities	Residential 1,000 kWh	GS <sup>1</sup> 1,500 kWh	GSD <sup>2</sup> 60,000 kWh 150 kW	GSLD <sup>3</sup> 200,000 kWh 500 kW
Jacksonville Electric Authority	\$ 88.33	\$ 126.02	\$ 4,329.80	\$ 14,316.00
Orlando Utilities Commission	99.95	155.38	5,098.20	16,959.00
Florida Power and Light*	105.89	171.36	5,756.05	19,074.55
Gainesville Regional Utility	105.92	144.89	5,170.25	16,940.25
Progress Energy*	106.82	167.12	5,382.12	17,726.35
Tampa Electric Company*	106.87	155.42	5,168.70	17,131.00
<b>Lakeland, City of</b>	<b>118.91</b>	<b>174.80</b>	<b>6,060.85</b>	<b>20,577.30</b>
Tallahassee, City of	137.44	186.26	7,030.80	23,244.00

Source: Monthly bill comparison prepared by the Florida Municipal Electric Association.

\*Investor owned utility; Investor-owned utilities also charge an additional fee to customers which relates to the electric franchises granted to such utilities.

<sup>1</sup>Small commercial.

<sup>2</sup>Large commercial.

<sup>3</sup>Industrial.

*Historical Rate Changes.* The City has put into effect the following rate changes in recent years.

	Residential		General Service	
	% Increase (Decrease) in Base Rate	Net Change % Total Bill Including Fuel	% Increase (Decrease) in Base Rate	Net Change % Total Bill Including Fuel
	2006	-	13.0	-
2005	-	10.0	-	10.4
2004	-	5.4	-	5.6
2003	-	14.5	-	15.2
2002	6.5	(7.0)	1.4	(10.0)
2001	-	17.1	-	17.3
2000	-	-	-	-
1999	-	-	-	-
1998	-	1.3	-	1.3
1997	-	2.7	(3.2)	0.5
1996	-	(2.7)	(10.1)	(9.5)

\*Commercial and Industrial  
Source: Lakeland Electric.

On June 3, 1996, the City Commission enacted Ordinance No. 3720 permitting the City to enter into contracts with customers of the System having a peak power demand of at least one megawatt and at least a 60% load factor which would offer reduced rates to such customers. The contract offers these customers reduced rates and require them to purchase their power requirements from the System for a period of at least ten years. Such contracts are, by their nature, available only to the largest customers of the System. It is anticipated that a portion of any revenue decreases resulting from such contracts would be recovered through reduced costs obtained from operating efficiencies, and the long-term nature of the contracts would provide the System with some assurance of long-term commitment from these customers. As of September 30, 2006, 14 customers representing 29 accounts had executed contracts representing 51.3 MW of demand, .348 gigawatts of energy and comprising 9% of total energy sales. All of the existing contracts



will expire within the next five years. The City currently does not intend to enter into any additional contracts of this nature and the existing contracts will most likely revert to a large industrial rate schedule upon expiration.

## Operating Statistics

The following table presents a five-year history of the operation of the System:

Description	Fiscal Year Ended September 30				
	2002	2003	2004	2005	2006
60 Minute net peak demand (Mw)	659	694	580	648	680
Increase/(decrease) from prior year	0.6 %	5.3 %	-16.4%	11.7 %	4.9 %
<u>Energy Sales (gWh):</u>					
Residential	1,328	1,418	1,403	1,424	1,444
Commercial and industrial	1,262	1,280	1,321	1,330	1,405
Other <sup>1</sup>	28	27	29	30	31
Total	<u>2,618</u>	<u>2,725</u>	<u>2,753</u>	<u>2,784</u>	<u>2,880</u>
Increase/(decrease) from prior year	<u>1.4 %</u>	<u>4.1 %</u>	<u>1.0 %</u>	<u>1.1 %</u>	<u>3.4 %</u>
<u>Average customers for period:</u>					
Residential	90,915	92,274	93,620	95,675	97,849
Commercial and industrial	11,314	11,068	11,339	11,519	11,892
Other <sup>1</sup>	10,104	10,502	10,378	10,237	9,960
Total	<u>112,333</u>	<u>113,844</u>	<u>115,337</u>	<u>117,431</u>	<u>119,701</u>
<u>Residential service:</u>					
Average kWh sales per customer	14,603	15,366	14,985	14,881	14,743
Average revenue per customer	\$ 1,297	\$ 1,385	\$ 1,495	\$ 1,603	\$ 1,794
Average revenue per kWh	0.0888	0.0901	0.0998	0.1077	0.1217
<u>Operating revenue (\$ 000):</u>					
Residential	\$ 74,850	\$ 84,617	\$ 88,768	\$ 90,254	\$ 92,826
Commercial and industrial	48,734	45,191	45,726	47,522	52,578
Other electric sales <sup>1</sup>	7,615	8,616	6,170	5,541	5,954
Sales for resale	38,997	56,779	36,737	42,333	39,440
Subtotal	170,196	195,203	177,401	185,650	190,798
Fuel charge	87,489	91,674	114,388	144,436	180,810
Other revenues	6,601	7,486	6,774	6,134	5,440
Total electric operating revenue	<u>\$ 264,286</u>	<u>\$ 294,363</u>	<u>\$ 298,563</u>	<u>\$ 336,220</u>	<u>\$ 377,048</u>

<sup>1</sup>Includes private area lights, street lights, and municipal uses. Excludes sales for resale.

<sup>1</sup> Includes private area lights, street lights and municipal uses. Excludes sales for resale.

Source: Lakeland Electric.

## **Factors Affecting the Electric Utility Industry**

*General.* The electric utility industry has been in the past, and in the future likely will be, affected by a number of factors which could impact the business affairs, financial condition, and competitiveness of an electric utility and the level of utilization of its generating facilities, including those of the City. These factors likely would affect individual utilities in different ways. Some of the more significant factors involve increased environmental requirements and varying efforts on national and local levels to restructure the electric utility industry from a significantly regulated monopoly to an industry in which there is open competition for power supply on both the wholesale and retail level. Although recent efforts for open competition at the retail level have been limited, there is still interest by various groups for open competition.

Additional factors impacting electric utilities include, but are not limited to: (1) effects of competition from other suppliers of electricity and new methods of producing low cost electricity, (2) effects of compliance with rapidly changing environmental, licensing, regulatory and legislative requirements, (3) regulatory changes and changes that might result from a national energy policy, (4) uncertain access to low cost capital for replacement of aging fixed assets, (5) increases in operating costs, (6) availability and cost of fuel supply, (7) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (8) "self-generation" by certain industrial and commercial customers, (9) issues relating to the ability to issue or maintain tax exempt obligations, (10) shifts in availability and relative costs of various fuels, (11) changes from projected load requirements and (12) restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax exempt obligations. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility, including the System, and likely will affect individual utilities in different ways.

The City cannot determine with certainty what effects such factors will have on its business operations and financial condition, including that of the System, but any effect(s) could be significant. The following is a brief discussion of some of these factors. However, this discussion is not intended to be comprehensive or definitive, and these matters are subject to change. Any such changes could be significant. Extensive information on the electric utility industry is, and will be, available from sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

*Energy Policy Act of 1992.* The Energy Policy Act of 1992 (the "1992 Energy Policy Act") made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access. The purpose of these changes, in part, was to bring about increased wholesale electric competition. In particular, the 1992 Energy Policy Act provides the Federal Energy Regulatory Commission ("FERC") with the authority, upon application by an electric utility, federal power marketing agency, or other non-utility power generator, to require a transmitting utility to provide transmission services to the applicant essentially on a cost-of-service basis. Municipally-owned electric utilities are "transmitting utilities" for purposes of these provisions of the 1992 Energy Policy Act. At this time, FERC does not have the authority to regulate "retail wheeling," under which a retail customer of one utility could obtain power from another utility or non-utility power generator.

The 1992 Energy Policy Act also addressed nuclear power licensing and related regulations, energy efficiency standards and use of alternative transportation fuels. The City has no ownership interests in any nuclear power plants and currently has no intention of acquiring any such interests in the future. Title XVI of the 1992 Energy Policy Act established voluntary greenhouse gas mitigation and reporting programs, and the City is participating in the United States Department of Energy greenhouse gas mitigation program entitled "Climate Challenge."

The energy efficiency title of the 1992 Energy Policy Act required states and utilities to consider adopting integrated resource planning ("IRP"), which allows utility investments in conservation and other demand-side management techniques to be at least as profitable as supply investments. The 1992 Energy Policy Act also established new efficiency standards in industrial and commercial equipment and lighting and required states to establish commercial and residential building codes with energy efficiency standards. Additionally, the 1992 Energy Policy Act required utilities to consider energy efficiency programs in their IRPs. The Florida Public Service Commission ("FPSC") has adopted an IRP and the City is already complying with its own IRP policy. Additional effects on the City and the System, if any, of these standards and requirements cannot be determined at this time.

*Certain FERC Initiatives.* On April 24, 1996, FERC issued two final rules, Orders No. 888 and 889, respectively, to address and implement the transmission access provisions of the 1992 Energy Policy Act. The final rules effect significant changes regarding transmission service performed by electric utilities subject to FERC's jurisdiction under the Federal Power Act. Among other things, FERC requires utilities to submit open-access, mandatory transmission tariffs. The goal of the rules, according to FERC, is to deny to an owner of transmission and generation facilities any unfair advantage over its competitors that exist by virtue of such owner's control of its transmission system.

Order No. 888 (i) requires the provision of open access transmission services on a non-discriminatory basis by all jurisdictional utilities by requiring all such utilities to file open access transmission tariffs that offer other entities seeking to effect wholesale power transactions the same transmission services they provide themselves, under comparable terms and conditions and (ii) requires non-jurisdictional utilities (including municipal and consumer-owned utilities) that purchase transmission service from FERC jurisdictional utilities under open access transmission tariffs and which own or control transmission facilities to, in turn, provide open access service to the transmitting utility under terms that are comparable to the service that the non-jurisdictional utility provides itself. Order No. 888 also includes provisions which, in effect, would permit utilities to recover so-called "stranded costs" for generating and other facilities from wholesale customers of a utility who opt to purchase from other power suppliers. The City has developed a open access transmission rate and tariff that conform to Order No. 888 requirements.

Order No. 889, implements standards of conduct for utilities that offer open access transmission services to ensure that transmission owners and their affiliates do not have an unfair competitive advantage in using transmission to sell power, notably the separating of marketing from transmission and power operations.

Municipally-owned electric utilities (including the System) are not subject to FERC jurisdiction under these rules but may be denied reciprocal transmission services from a FERC jurisdictional utility if they do not offer comparable transmission services. FERC stated that its overall objective in promulgating such rules was to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. In certain circumstances, the rules would require non-jurisdictional utilities to pay compensation to their present suppliers of wholesale power and energy for this stranded investment that may arise when the non-jurisdictional utilities exercise their option to switch to an alternative supplier of electricity. Accordingly, such rules could have a significant impact on such utilities' operations.

On December 20, 1999, FERC issued its Order No. 2000. Order No. 2000 represents a further measure in FERC's attempt to foster competition in wholesale power markets by encouraging all transmission-owning utilities (including municipal utilities) to join Regional Transmission Organizations ("RTOs"). Order No. 2000 contemplates RTOs as voluntary participation associations of power transmission owning entities comprised of public and non-public utility entities, which could more efficiently address operational and reliability issues confronting the industry, in particular by improving grid reliability, increasing efficiencies in transmission grid management, preventing discriminatory practices and improving market performance. The implications of Order No. 2000 were further clarified in July 2002, when FERC issued a Notice of Proposed Rulemaking ("NOPR") for a standard market design ("SMD") to accompany formation of RTOs. However, as described below, the Energy Policy Act of 2005 defused the impact of the NOPR by making the SMD non-mandatory.

Presently there are no active RTO development activities in the Southeastern United States. Two previous efforts to develop a RTO for the Southeastern United States failed. In each case, the City believes, that the effort failed because of the lack of demonstrable benefits from forming a RTO and the lack of consensus support and acceptance from all applicable state and federal agencies for the proposed RTO structure.

*Energy Policy Act of 2005.* The Energy Policy Act of 2005 (the "2005 Energy Policy Act") was signed into law on August 8, 2005. The 2005 Energy Policy Act, described by proponents as an attempt to combat growing energy problems, provides tax incentives and loan guarantees for energy production of various types and sets reliability standards for grids. The 2005 Energy Policy Act is intended to establish a comprehensive, long-range energy policy. It provides incentives for traditional energy production as well as newer, more efficient energy technologies, and conservation.

The 2005 Energy Policy Act introduces a new Section 211A of the Federal Power Act (the "FPA") entitled "Open Access by Unregulated Transmitting Utilities." Under Section 211A, FERC has the authority to require an otherwise non-jurisdictional owner, such as the City, owning or operating transmission facilities to provide transmission services at (i) rates that are comparable to those they charge themselves and (ii) terms and conditions that are comparable to those they charged themselves and that are not unduly discriminatory or preferential.

The 2005 Energy Policy Act also introduces a new Section 217 of the FPA entitled "Native Load Service Obligation." Under this provision, any load-serving entity with a service obligation, including an otherwise non-jurisdictional transmission owner, is entitled to use its transmission capacity to meet its native load service obligation in preference to other uses of the grid. A service obligation is defined in Section 217 to mean a requirement applicable to a utility under federal, state or local law, or under a long-term contract to provide electric service to end users or a distribution utility. The statutory right that an otherwise non-jurisdictional transmission owner has to use its transmission facilities to serve native load qualifies the obligation it has to provide open access transmission service under Section 211A of the FPA.

The Energy Policy Act of 2005 additionally introduces a new Section 215 of the FPA which authorizes the FERC to designate an Electric Reliability Organization ("ERO") that would propose reliability standards that would be reviewed by FERC before becoming final. All users, owners and operators of the bulk power system, including an otherwise non-jurisdictional transmission owner, must comply with the standards. The ERO may delegate to a regional entity the authority to propose reliability standards to the ERO and to enforce the reliability standards. States may take action to ensure reliability, as long as such action is not inconsistent with a reliability standard approved by FERC.

It is not possible at this time to predict that final forms and possible effects of the consequent rules and programs that will be enacted in order to implement the provisions of the 2005 Energy Policy Act. Additionally, it is possible that one or more electric utility restructuring bills may be introduced in future sessions of Congress. The City cannot predict whether, or in what form, any bill may be introduced, or whether any such bill will be enacted into law. There can, therefore, be no accurate predictions as to the effect of any such legislation on the City and the System.

Overall competition in the electric utility industry continues to increase. Pursuant to FERC mandates, full open access to the electric transmission network, including the City's, is now available to all electric providers seeking to transmit electricity for resale. The authority to order retail wheeling, which allows a retail customer to be located in one utility's service area and to obtain power from another utility or non-utility source, is presently specifically excluded from the enhanced authority granted to FERC under the 1992 Energy Policy Act. How quickly competition continues to be implemented and how far competition will be extended is uncertain. As a result of these market forces, the City is continuing to pursue initiatives and strategies which will result in the System maintaining its favorable market position.

*Recent Florida Legislative Developments.* On November 10, 2005, Governor Jeb Bush signed an executive order calling for the creation of the 2005 Florida Energy Forum (the "Forum") to develop an energy plan and strategy for Florida. The panel host for the Forum was the Secretary of the Florida Department of Environmental Protection (the "FDEP"). Panel participants included, among others, utility representatives, FPSC representatives, oil and gas company representatives, state legislative representatives and local government representatives. As a result of the activities of the Forum, a report entitled, "Florida's Energy Plan" (the "Report") was issued on January 17, 2006 by the Florida Department of Environmental Protection.

The Report contained numerous recommendations for achieving a diverse and reliable energy future for the State that is built on underlying principles of conservation and efficiency. Such recommendations describe administrative actions for immediate implementation, proposals for legislative action during the 2006 legislative session and policy improvements that will enhance electric power generation and transportation fuel supply to help provide energy over the long-term.

Based on the recommendations of the Forum contained in the Report, the Florida legislature during its 2006 legislative session passed an omnibus energy bill (S.B. 888), which is referred to herein as the "2006 Florida Energy Bill." The 2006 Energy Bill, among other things, created the Florida Energy Commission (the "FEC") to develop

recommendations for legislation to establish a state energy policy based on the guiding principles of reliability, efficiency, affordability and diversity. Specifically, the 2006 Florida Energy Bill specifies certain issues for the FEC to consider including, among other things, fuel diversity and alternative energy technology, demand side management and efficiency, transmission and distribution facilities, the relationship between energy and growth management and research, development, and deployment of new or alternative energy technologies.

In accordance with the 2006 Florida Energy Bill, the FEC's initial report (due in December 2007) must, among other things, set forth recommendations on improvements to the electricity transmission and distribution system including recommended incentives to encourage utilities and local governments to work together in good faith on underground utility issues and must set forth the appropriate test for the FPSC to use in determining which energy efficiency programs are cost effective and should be implemented.

The 2006 Florida Energy Bill also requires the FPSC to direct a study of the transmission grid reliability, including hardening of infrastructure and steps to be taken to enhance the reliability of the transmission and distribution systems during extreme weather, including consideration of underground installation.

Other sections of the 2006 Florida Energy Bill (i) provide financial incentives for renewable energy technologies, energy efficient appliances, solar energy and alternative fuels, (ii) revise the safety standards for public utility transmission facilities and (iii) modify certain provisions of the Florida Electrical Power Siting Act and Transmission Line Siting Act.

It is uncertain at this time what impact the 2006 Florida Energy Bill will have on the City and the System. Additionally, it is possible that one or more electric utility restructuring bills may be introduced in future sessions of the Florida Legislature. The City cannot predict whether, or in what form, any bill may be introduced, or whether any such bill will be enacted into law. There can, therefore, be no assurance as to the effect of any legislation on the City and the System.

*Rate Regulation.* The City Commission, under existing Florida law, has the exclusive authority to establish the level of electric rates for the System. While the FPSC has no authority to set rates for a municipal electric utility, it does have jurisdiction over municipal electric utilities to prescribe uniform systems and classifications of accounts, to require electric power conservation and reliability, to approve territorial agreements, to settle territorial disputes, to approve the need for new steam-electric power plants and transmission lines and to prescribe rate structures for municipal utilities. The current rate structure for the System has been approved by the FPSC.

The Florida Supreme Court, while continuing to hold that the FPSC has no authority to regulate municipal utility "rates," that is the specific dollar amounts charged by a municipal electric utility for specific service, has held that the FPSC has jurisdiction and authority to regulate the "rate structure" of a municipal electric utility, that is, the classification system used to justify charging different rates to different classes of customers. It is not clear at this time how broadly the Court may ultimately interpret "rate structures" to permit additional regulation of rates of municipal utilities by FPSC.

*Environmental.* Electric utilities (including the System) are subject to continuing environmental, conservation and other regulation and permitting requirements by federal, state and local authorities. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the City's facilities will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain or maintain all required permits. An inability to comply with environmental standards or deadlines could result in fines and/or legal action as well as reduced operating levels or complete shutdown of individual electric generating units or water plant facilities not in compliance. Furthermore, clean air laws, compliance with environmental standards or deadlines may substantially increase capital and operating costs.

There has been, and continues to be, concern by individuals, the scientific community and Congress regarding environmental damage resulting from the use of fossil fuels. The System's plants use fossil fuels. From time to time, there are a number of legislative proposals regarding the regulation of air, water and contaminants which affect the

electric utility industry. In 1990 Congress enacted certain amendments that substantially revised the Federal Clean Air Act (the "1990 Amendments"). The 1990 Amendments sought to improve the ambient air quality throughout the United States by the year 2000. A main feature of the 1990 Amendments is the reduction of sulfur dioxide and nitrogen oxide emissions caused by electric utility power plants. The 1990 Amendments also provide facility operators with sulfur dioxide "allowances" based upon a facility's prior operating emission levels of 1985 and additional statutory allowances auctioned by Environmental Protection Agency (the "EPA") to provide for new units operating as applicable. The sulfur dioxide emissions from a facility are limited to these allocated sulfur dioxide allowances. Moreover, the 1990 Amendments allow facility operators to buy and sell excess sulfur dioxide allowances. The City has sold excess allowances each year since the purchase and sale program began. The City believes it was, and currently is, in compliance with all of the requirements of the 1990 Amendments.

In mid-2005, the EPA issued the final Clean Air Interstate Rule ("CAIR") and the Clean Air Mercury Rule ("CAMR"). CAIR requires reductions in the emissions of nitrogen oxides ("NO<sub>x</sub>") and sulfur dioxide ("SO<sub>2</sub>") from electric generating units ("EGUs"). Under CAIR, the EPA defines EGUs as stationary, fossil-fuel-fired boilers or turbines serving at any time since the start-up of a unit's combustion chamber or a generator with a nameplate capacity of more than 25 MW producing electricity for sale.

In accordance with CAIR, the first phase of NO<sub>x</sub> and SO<sub>2</sub> emissions reductions must be implemented by 2009 and 2010, respectively. The EPA accelerated the NO<sub>x</sub> reductions by one year based on its determination that sources could meet a NO<sub>x</sub> cap in 2009 based on the average installation time for selective catalytic reduction. For SO<sub>2</sub>, the EPA concluded that sources might need until 2010 to obtain all permitting needed to install a flue gas desulphurization device. Second phase emissions reductions for both NO<sub>x</sub> and SO<sub>2</sub> must be implemented by 2015.

For SO<sub>2</sub>, EPA calculated annual state SO<sub>2</sub> budgets based on each state's allowances under Title IV of the Clean Air Act. A state's annual budget for the years 2010-2014 (Phase I) is based on a 50 percent reduction from Title IV allocations for all units in the state. A state's annual budget for 2015 and beyond (Phase II) is based on a 65 percent reduction of Title IV allowances allocated to units in the state. As with the annual NO<sub>x</sub> state budgets, EPA calculated ozone-season NO<sub>x</sub> state budgets through a fuel-adjusted heat input basis. The Agency established state budgets by multiplying state-level average historic ozone-season heat input data (summed by fuel) by different adjustment factors for the different fuels (1.0 for coal, 0.4 for gas, and 0.6 for oil). The total ozone-season state budgets were then determined by calculating each state's share of total fuel-adjusted heat input, and multiplying this share by the region-wide budget.

The State of Florida has an option to either adopt the Federal CAIR model cap and trade rule or design its own rule that meets the EPA's budgetary allowances and required emissions reductions. The CAIR rule will affect the cost of purchased power from EGUs and will have a material impact on the cost of power generated at affected electric generating units. The impact on the City's capital costs and operations as a result of these regulations are likely to be substantial. A portion of the proceeds of the Bonds and the expected Series 2007 Bonds are to be used to finance various capital improvements intended to satisfy some of the above-described regulations. Incremental operation and maintenance costs resulting from these new regulations could reach \$1,000,000 annually.

Additionally, The Clean Air Mercury Rule (CAMR) of May 19, 2005, establishes an emissions cap for mercury to which all coal-fired Utility Units will be subject. The mercury cap will be implemented in two phases. The first phase cap is set at 38 tons per year (tpy) and becomes effective in 2010, coinciding with the first phase of the SO<sub>2</sub> cap under the Clean Air Interstate Rule (CAIR). The second phase of the mercury cap is set at 15 tpy and begins in 2018, three years after the Phase two CAIR caps for SO<sub>2</sub> and NO<sub>x</sub>. Therefore, to ensure necessary CAIR and CAMR pollutant/s reductions, EPA has established budget of allowances for each effected State that could be implemented through application of pollution controls on EGUs (EGU is defined as a fossil-fired boiler or combustion turbine greater than 25 MW) or a market driven Cap and Trade.

In the opinion of Lakeland Electric, the System is currently in compliance with all current Federal, state and local environmental regulations. The City cannot predict at this time whether any additional legislation or rules will be enacted which will affect the City's operations and, if such laws or rules are enacted, what the additional capital and operating costs, if any, to the City might be in the future because of such action.

## LAKELAND ELECTRIC – RESULTS OF OPERATIONS\*

City of Lakeland  
Lakeland Electric  
Results of Operations

	Fiscal Year Ending September 30 (\$000)				
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Gross revenues:					
Electric Retail- Base rate	\$ 131,199	\$ 138,424	\$ 140,664	\$ 143,317	\$ 151,358
Electric wholesale	38,997	56,779	36,736	42,333	39,440
Fuel Charge	87,489	91,674	114,388	144,436	180,810
Other electric	5,610	6,222	5,474	6,134	5,440
Investment income	2,502	1,566	1,849	1,428	3,723
Other	444	606	643	489	1,195
Total gross revenues	<u>266,241</u>	<u>295,271</u>	<u>299,754</u>	<u>338,137</u>	<u>381,966</u>
Operating expenses 2					
Electric production					
Fuel 3	121,990	144,164	154,285	200,563	245,648
Energy supply	26,764	24,200	21,897	22,279	21,145
sub-total	<u>148,754</u>	<u>168,364</u>	<u>176,182</u>	<u>222,842</u>	<u>266,793</u>
Energy delivery	17,075	17,742	17,310	16,144	16,635
Customer Service	7,631	7,179	7,756	7,408	7,727
General & Administrative	14,959	21,061	20,289	21,481	22,605
Total operating expenses	<u>188,419</u>	<u>214,346</u>	<u>221,537</u>	<u>267,875</u>	<u>313,760</u>
Net Revenues	<u>77,822</u>	<u>80,925</u>	<u>78,217</u>	<u>70,262</u>	<u>68,206</u>
Bond Service Requirement	<u>38,037</u>	<u>35,685</u>	<u>35,667</u>	<u>37,534</u>	<u>23,668</u>
Balance available for other obligations, capital improvements and expansion	<u>\$ 39,785</u>	<u>\$ 45,240</u>	<u>\$ 42,550</u>	<u>\$ 32,728</u>	<u>\$ 44,538</u>
Debt Service Coverage from Operations 4	2.05	2.27	2.19	1.87	2.88
20 percent of fund balance	<u>28,549</u>	<u>25,085</u>	<u>31,926</u>	<u>33,626</u>	<u>26,752</u>
Net revenues plus 20 percent of fund balance	113,656	107,862	110,005	103,888	94,958
Bond Service Requirement	<u>38,037</u>	<u>35,685</u>	<u>35,667</u>	<u>37,534</u>	<u>23,668</u>
Debt Service Coverage Ratio 5	<u>2.99</u>	<u>3.02</u>	<u>3.08</u>	<u>2.77</u>	<u>4.01</u>

1 The lien on net revenues of the water system ended after August 2002.

2 Does not include depreciation expense

3 Includes purchased power and fuel handling

4 Equals "Net Revenues" divided by the "Bond Service Requirement"

5 Equals "Net revenues plus 20 percent of fund balance" divided by the "Bond Service Requirement"

\*Gross revenues, operating expenses and net revenues available for debt service and other purposes are derived from the City's audited financial statements certified by Carter, Belcourt & Atkinson, P.A.. Certain amounts reported in the FY2005 column differ from originally reported in the prior year because of an accounting change.

The fiscal year 2006 calculation incorporates the impact of advance refunding of a portion of the Electric and Water Revenue Bonds Series 1999B in August of 2006. The total amount of principal and interest refunded was \$16.1 million.

The Summary of Results of Operations set forth in the immediately preceding table includes the impact of the annual losses incurred by Lakeland Electric with respect to the FMPA Contract, which Contract is described under "THE SYSTEM - Wholesale Power Contract" herein. The decline in total Net Revenues Available for Debt Service in years 2004 and 2005, 2006 are primarily the result of increases in losses incurred in conjunction with the FMPA Contract.

Lakeland Electric obtains the energy necessary to serve Lakeland Electric's obligations under the FMPA Contract from Unit No. 5 owned by Lakeland Electric and/or gas-fired units operated by the FMPP. The energy price paid by FMPA per the terms of the FMPA Contract is sufficient to offset the cost of generating that power to the extent natural gas prices are in the \$4.50-\$5.00 range per mmbtu. The magnitude of actual losses incurred by Lakeland Electric under the terms of the FMPA Contract are directly related to the costs incurred to obtain that fuel, which in recent years has substantially exceeded that break-even price.

The FMPA Contract will expire in December 2007. Lakeland Electric has hedged it's natural gas requirement for the majority of the underlying fuel required to serve the FMPA Contract through its termination date; however anticipated losses are currently estimated at as \$29 million in Fiscal Year 2007, and \$5 million in Fiscal Year 2008.

The City has made no provision for recovery of these losses within the retail rate structure used to charge customers for the cost of electricity. Accordingly, the impact of these losses is being absorbed within Lakeland Electric. Liquidity balances within Lakeland Electric have been and are expected to continue to be sufficient to offset these losses.

The impact of these losses on the liquidity of Lakeland Electric for the Fiscal Years 2001-2005 can be summarized as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual FMPA Contract Losses	707	384	6,064	7,386	18,459	30,555
Cash and Cash Equivalents						
Revenue Fund	2,525	3,737	1,129	6,792	16,820	20,758
Capital Projects Fund*	49,715	60,239	51,672	42,823	40,779	15,361
Emergency Repair Fund	7,609	7,916	7,916	8,838	8,221	8,741
Future Debt Service	6,385	14,362	23,427	25,216	25,000	24,998
Total Cash and Equivalents	66,234	86,254	84,144	83,669	90,820	69,858
Other Net Current Assets:	44,008	46,761	43,180	40,219	41,329	54,242
Total Net Current Assets	110,242	133,015	127,324	123,888	132,149	124,100

All figures are in thousands.

\*Excludes unspent bond proceeds.

Source: Lakeland Electric.



The anticipated losses and expected liquidity for the remainder of the FMPA Contract term (Fiscal Years 2007-2008) are as follows:

	<u>2007</u>	<u>2008</u>
Annual FMPA Contract Losses	25,900	1,898
Cash and Cash Equivalents		
Revenue Fund	33,507	37,431
Capital Projects Fund*	10,361	5,361
Emergency Repair Fund	9,041	9,341
Future Debt Service	24,998	24,998
Total Cash and Equivalents	<u>77,907</u>	<u>77,131</u>
Other Net Current Assets:	<u>39,542</u>	<u>39,542</u>
Total Net Current Assets	<u><u>117,449</u></u>	<u><u>116,673</u></u>

All figures are in thousands.

\*Excludes unspent bond proceeds.

Source: Lakeland Electric.

The impact of these losses on debt service coverage ratios for the Fiscal Years 2001-2006 can be summarized as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Debt Service Coverage Ratio from operations, as reported	2.38	2.05	2.27	2.19	1.87	2.88
Net Revenues Available for Debt Service	83,180	77,822	80,925	78,217	70,262	68,206
Add back:						
Losses on FMPA Contract	707	384	6,064	7,386	18,459	30,586
Net Revenues Available for Debt Service, as adjusted	83,887	78,206	86,359	85,603	88,721	98,792
Bond Service Requirement*	34,887	38,037	35,685	35,667	37,534	23,668
Debt Service Coverage Ratio from Operations, excluding impact of FMPA contract	2.40	2.06	2.42	2.40	2.36	4.17

All figures are in thousands.

Source: Lakeland Electric.

\* The fiscal year 2006 calculation incorporates the impact of advance refunding of a portion of the Electric and Water Revenue Bonds Series 1999B in August of 2006. The total amount of principal and interest refunded was \$16.1 million.

The projection of coverage ratios during the remaining term of the contract (Fiscal Years 2006-2008) are as follows:

	<u>2007</u>	<u>2008</u>
Net Revenues Available for Debt Service	97,620	109,248
Add back:		
Losses on FMPA Contract	<u>25,900</u>	<u>1,898</u>
Net Revenues Available for Debt Service, as adjusted	71,720	107,350
Bond Service Requirement*	41,400	42,277
Debt Service Coverage Ratio from Operations, excluding impact of FMPA Contract	1.73	2.54

All figures are in thousands.

\*Includes estimated debt service on the Bonds, the Series 2006A Bonds and the proposed Series 2007 Bonds.

Source: Lakeland Electric.

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## Capital Improvement Plan

Lakeland Electric's rate structure and other internal capital funds are expected to provide sufficient funding for various ongoing capital improvements to the System through the end of Fiscal Year 2012. In addition, Lakeland Electric anticipates an additional level of capital spending through Fiscal Year 2012 relating principally to transmission and distribution improvements, improvements required to comply with recently adopted federal and state environmental legislation and construction of new generation unit. The improvements to the transmission and distribution system are associated with a much higher than normal pattern of growth expected in the eastern portion of Lakeland Electric's service territory. The improvements related to the environmental requirements include retro-fitting Unit No. 3 to enable that coal-fired generation unit to comply with the recently adopted federal and state environmental legislation requirements and upgrades to the production and transmission to comply with NERC proclamations. The following table represents a summary of Lakeland Electric's projected capital improvement requirements by division through Fiscal Year 2012

<b>Projected Capital Improvements</b>						
<b>(in thousands)</b>						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
General Services	\$ -	\$ 620	\$ 1,500	\$ 2,350	\$ -	\$ -
Technical Services	300	2,635	200	-	-	-
Customer Services	262	737	-	-	-	-
Energy Production	35,275	40,751	23,223	37,829	152,734	162,061
Energy Delivery	20,386	17,428	22,650	20,900	27,104	19,334
<b>Total</b>	<b>\$ 56,223</b>	<b>\$ 62,171</b>	<b>\$ 47,573</b>	<b>\$ 61,079</b>	<b>\$ 179,838</b>	<b>\$ 181,395</b>

Source: Lakeland Electric

Approximate \$202.1 million of such improvements are expected to be funded with moneys generated by Lakeland Electric's rate structure and other internal capital funds. The remaining improvements (approximately \$386 million) are expected to be financed with \$90 million of proceeds from the Series 2007 Bonds and future Bond proceeds with the construction of the new generation power plant.

**ELECTRIC REVENUE REFUNDING BONDS, SERIES 1999 A**

**\$195,635,408.60**

**SERIAL & TERM CURRENT INTEREST BONDS — DATED APRIL 1, 1999**

**CAPITAL APPRECIATION BONDS — DATED MAY 13, 1999**

**CUSIP Numbers**

<b>511678PP</b>	<b>511678QK</b>	<b>511678PT</b>	<b>511678PY</b>
<b>511678PU</b>	<b>511678PQ</b>	<b>511678PV</b>	<b>511678PZ</b>
<b>511678QA</b>	<b>511678PR</b>	<b>511678PW</b>	<b>511678QL</b>
<b>511678QB</b>	<b>511678PS</b>	<b>511678PX</b>	<b>511678QC</b>

**PURPOSE**

The Series 1999A Bonds were issued for the purpose of providing funds to: (i) refund all of the City's outstanding Electric & Water Revenue Bonds, Series 1989, Electric & Water Revenue Bonds, Series 1996, and Electric & Water Revenue Bonds, Series 1996B; and (ii) to pay certain costs and expenses related to the issuance of the Series 1999A Bonds.

**SECURITY**

The Series 1999A Bonds and the interest thereon are payable from certain revenues derived by the City from the operation of its electric power system on parity in all respects as to the lien thereon and pledge thereof granted with respect to the (i) Series 1999B Bonds and Series 1999C Bonds and (ii) its Series 2001B and (iii) its Series 2001A and (iv) its Series 2003 Bonds.

Revenues of the Water System were eliminated from the source of repayment for such Bonds upon the defeasance of the 1992 bonds in August of 2002.

**INSURANCE**

A municipal bond insurance policy was purchased to unconditionally and irrevocably guarantee the full and complete payment required to be made by or on behalf of the City.

**RATINGS**

**Moody's Investor Service: Aaa**

**Standard & Poor's Ratings Services: AAA**

**Fitch Ratings: AAA**

**ELECTRIC REVENUE REFUNDING BONDS, SERIES 1999 A (CONTINUED)**

**MANDATORY REDEMPTION**

The Current Interest Bonds which mature on October 1, 2028 will be subject to mandatory redemption in part prior to maturity by lot at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning October 1, 2020 and on each October 1, thereafter in the following principal amounts in the year specified:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2020	\$ 3,775,000	2023	\$ 4,370,000	2026	\$ 5,060,000
2021	3,960,000	2024	4,585,000	2027	5,305,000
2022	4,160,000	2025	4,820,000	* 2028	5,570,000

\* Final maturity.

**MANDATORY REDEMPTION**

The Current Interest Bonds which mature on October 1, 2036 will be subject to mandatory redemption in part prior to maturity by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning October 1, 2009 and on each October 1, thereafter in the following principal amounts in the years specified:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2029	\$ 5,855,000	2033	\$ 7,115,000
2030	6,145,000	2034	7,470,000
2031	6,455,000	2035	7,840,000
2032	6,775,000	* 2036	8,235,000

\* Final maturity.

**OPTIONAL REDEMPTION**

The Capital Appreciation Bonds are not subject to optional redemption prior to maturity. The Current Interest Bonds maturing on or before October 1, 2009 are not subject to optional redemption prior to maturity.

The Current Interest Bonds maturing on or after October 1, 2010 are subject to optional early redemption prior to their respective dates of maturity on or after October 1, 2009 together with accrued interest to the redemption date as follows:

<u>Redemption Dates</u>	<u>Prices</u>
10/1/2009 — 9/30/2010	101 %
10/1/2010 — 9/30/2011	100.5 %
10/1/2011 — thereafter	100 %

## AGENTS

Registrar:	The Bank of New York, New York, New York
Paying Agent:	The Bank of New York, New York, New York
Trustee:	The Bank of New York, New York, New York
Issuer's Bond Counsel:	Holland & Knight LLP, Lakeland, Florida
Issuer's Financial Advisors:	Fishkind & Associates, Inc., Orlando, Florida & William R. Hough & Co., St. Petersburg, Florida
Managing Underwriter:	Salomon Smith Barney, Inc., West Palm Beach, Florida
Underwriters' Counsel:	Nabors, Giblin, & Nickerson, PA, Tampa, Florida
Insurance:	MBIA Insurance Corporation, Armonk, New York

As a means to reduce borrowing costs on a portion of the Electric and Water Refunding Revenue Bonds Series 1999A the City entered into an interest rate swap in June 2004. Under the swap, the City pays CitiGroup Financial Products Inc. (the counterparty) a payment equal to \$159.265 million (the notional amount) times an interest rate equal to the BMA Municipal Bond index. In return, the counterparty pays the City an amount equal the notional amount times an interest rate equal to 67 percent of the three-month USD-LIBOR-BBA index, plus a spread of .046%. To the extent the relationship between BMA and LIBOR approximates a marginal tax rate of more than 33 percent; the net borrowing costs on the underlying debt will be reduced. The notional amount of the swap will always equal the amount of the outstanding amount of that component of the underlying issue consisting of term bonds which mature serially from October 2004 thru October 2036. Settlement payments are made semi-annually. As of September 30, 2005, the swap had a negative fair value of \$2,938,087, developed using the Market Quotation method. The negative fair value may be countered by reductions in total net interest payments on the underlying debt resulting from the swap. As of September 30, 2005, the City was not exposed to credit risk because the swap had a negative fair value. The City is exposed to basis risk to the extent the relationship of BMA to LIBOR increases to greater than 33 percent. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay, bankruptcy, or a rating downgrade by Moody's or S&P issued to either the City or the counterparty.

### **Bond Warrant Financing Agreement**

On January 16, 2007, the City of Lakeland entered into a Bond Warrant Agreement with an underwriter, Goldman, Sachs & Co, in which the City granted an irrevocable option to the underwriter which, if exercised, would cause the City of Lakeland to issue parity revenue bonds of the Energy System in the amount of approximately \$158,600,000. The new bonds would be issued at terms and fixed interest rates that would generate an annual debt service requirement that equals the annual debt service requirement on the existing Energy System Revenue bonds Series 1999A. If the option is exercised, the bonds would be issued with effective dates of either October 1, 2009; October 1, 2010; October 1, 2011; or October 1, 2012 at the discretion of the underwriter.

In exchange for granting this option, the underwriter made a single, up-front payment of \$7,680,000 to the City of Lakeland.

Should the underwriter exercise their option under this agreement, the City can use the proceeds of the new bond issue to either call the Series 1999A bonds (which are callable any time after October 1, 2009) or use the proceeds to finance qualified capital improvements projects of the Electric Utility System.

The economics of the transaction are equivalent to the refunding the issue at a weighted average yield of approximately 4.25 percent, which approximates the MMD yield curve plus 13 basis points.

The City will recognize the proceeds of this transaction on the balance sheet of the Department of Electric Utilities as a deferred credit. To the extent the underwriter exercise their option to require issuance of new bonds that deferred credit will be amortized to the income statement of Department of Electric Utilities over the life of the new bond issue. The underwriter may exercise their option anytime between the dates of August 1, 2009 and August 1, 2012.

In the event the underwriter does not exercise that option, the deferred credit will be a charge against income in its entirety in the fiscal year ending September 30, 2012.

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**ELECTRIC REVENUE REFUNDING BONDS, SERIES 1999 A (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENT**

<b><u>Maturity</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Compound Interest</u></b>	<b><u>Total</u></b>
10/01/06	575,000.00	3,921,146.88		4,496,146.88
04/01/07		3,909,646.88		3,909,646.88
10/01/07	600,000.00	3,909,646.88		4,509,646.88
04/01/08		3,897,646.88		3,897,646.88
10/01/08	625,000.00	3,897,646.88		4,522,646.88
04/01/09		3,884,756.25		3,884,756.25
10/01/09	6,700,718.75	3,884,756.25	3,914,281.25	14,499,756.25
04/01/10		3,884,756.25		3,884,756.25
10/01/10	6,307,218.00	3,884,756.25	4,312,782.00	14,504,756.25
04/01/11		3,884,756.25		3,884,756.25
10/01/11	5,952,510.00	3,884,756.25	4,667,490.00	14,504,756.25
04/01/12		3,884,756.25		3,884,756.25
10/01/12	5,626,268.45	3,884,756.25	4,988,731.55	14,499,756.25
04/01/13		3,884,756.25		3,884,756.25
10/01/13	5,308,194.60	3,884,756.25	5,311,805.40	14,504,756.25
04/01/14		3,884,756.25		3,884,756.25
10/01/14	5,020,498.80	3,884,756.25	5,599,501.20	14,504,756.25
04/01/15		3,884,756.25		3,884,756.25
10/01/15	10,710,000.00	3,884,756.25		14,594,756.25
04/01/16		3,630,393.75		3,630,393.75
10/01/16	11,225,000.00	3,630,393.75		14,855,393.75
04/01/17		3,349,768.75		3,349,768.75
10/01/17	11,785,000.00	3,349,768.75		15,134,768.75
04/01/18		3,069,875.00		3,069,875.00
10/01/18	12,340,000.00	3,069,875.00		15,409,875.00

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**ELECTRIC REVENUE REFUNDING BONDS, SERIES 1999 A (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENT (CONTINUED)**

<b><u>Maturity</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Compound Interest</u></b>	<b><u>Total</u></b>
10/01/18	\$ 12,340,000.00	\$ 3,069,875.00	\$	\$ 15,409,875.00
04/01/19		2,761,375.00		2,761,375.00
10/01/19	12,960,000.00	2,761,375.00		15,721,375.00
04/01/20		2,437,375.00		2,437,375.00
10/01/20	3,775,000.00	2,437,375.00		6,212,375.00
04/01/21		2,343,000.00		2,343,000.00
10/01/21	3,960,000.00	2,343,000.00		6,303,000.00
04/01/22		2,244,000.00		2,244,000.00
10/01/22	4,160,000.00	2,244,000.00		6,404,000.00
04/01/23		2,140,000.00		2,140,000.00
10/01/23	4,370,000.00	2,140,000.00		6,510,000.00
04/01/24		2,030,750.00		2,030,750.00
10/01/24	4,585,000.00	2,030,750.00		6,615,750.00
04/01/25		1,916,125.00		1,916,125.00
10/01/25	4,820,000.00	1,916,125.00		6,736,125.00
04/01/26		1,795,625.00		1,795,625.00
10/01/26	5,060,000.00	1,795,625.00		6,855,625.00
04/01/27		1,669,125.00		1,669,125.00
10/01/27	5,305,000.00	1,669,125.00		6,974,125.00
04/01/28		1,536,500.00		1,536,500.00
10/01/28	5,570,000.00	1,536,500.00		7,106,500.00
04/01/29		1,397,250.00		1,397,250.00
10/01/29	5,855,000.00	1,397,250.00		7,252,250.00
04/01/30		1,250,875.00		1,250,875.00
10/01/30	6,145,000.00	1,250,875.00		7,395,875.00
04/01/31		1,097,250.00		1,097,250.00
10/01/31	6,455,000.00	1,097,250.00		7,552,250.00
04/01/32		935,875.00		935,875.00
10/01/32	6,775,000.00	935,875.00		7,710,875.00
04/01/33		766,500.00		766,500.00
10/01/33	7,115,000.00	766,500.00		7,881,500.00
04/01/34		588,625.00		588,625.00
10/01/34	7,470,000.00	588,625.00		8,058,625.00
04/01/35		401,875.00		401,875.00
10/01/35	7,840,000.00	401,875.00		8,241,875.00
04/01/36		205,875.00		205,875.00
10/01/36	8,235,000.00	205,875.00		8,440,875.00
	<u>\$ 193,785,408.60</u>	<u>\$ 156,911,790.72</u>	<u>\$ 28,794,591.40</u>	<u>\$ 379,491,790.72</u>

**ENERGY SYSTEM REFUNDING REVENUE BONDS, SERIES 1999 B**

**\$144,305,000**

**TERM BONDS  
DATED APRIL 1, 1999  
CUSIP NUMBERS**

**511678QM 511678QQ 511678QT 511678QW  
511678QN 511678QR 511678QU 511678QX  
511678QP 511678QS 511678QV 511678QY  
511678QZ**

**PURPOSE**

The City delivered the Series 1999B Bonds to the owners of, and in exchange for, the City's outstanding Electric and Water Revenue Bonds (Junior Subordinate Lien), Refunding Series 1996. This exchange was undertaken in connection with the City's preparation for the deregulation of the electric utility industry. As a result, a new bond ordinance became effective, replacing existing electric utility bond documents, which were too restrictive and inflexible. The exchange will enable the City to compete more effectively in the electric utility industry, as the industry becomes more deregulated and competitive.

**SECURITY**

The Series 1999A Bonds and the interest thereon are payable from certain revenues derived by the City from the operation of its electric power system on parity in all respects as to the lien thereon and pledge thereof granted with respect to the (i) Series 1999A Bonds and Series 1999C Bonds and (ii) its Series 2001B and (iii) its Series 2001A and (iv) its Series 2003 Bonds.

Revenues of the Water System were eliminated from the source of repayment for such Bonds upon the defeasance of the 1992 bonds in August of 2002.

**INSURANCE**

A municipal bond insurance policy was purchased to unconditionally and irrevocably guarantee the full and complete payment of principal and interest on the Series 1999B First Lien Bonds when due.

**RATINGS**

**Moody's Investor Service: Aaa      Standard & Poor's Ratings Services: AAA      Fitch Ratings: AAA**

**MANDATORY REDEMPTION**

Not applicable to this bond issue.

**OPTIONAL REDEMPTION**

Not applicable to this bond issue.

**Agents**

Registrar: The Bank of New York, New York, New York  
Paying Agent: The Bank of New York, New York, New York  
Issuer's Bond Counsel: Holland & Knight LLP, Lakeland, Florida  
Issuer's Financial Advisors: Fishkind & Associates, Inc., Orlando, Florida  
William R. Hough & Co., St. Petersburg, Florida  
Dealer/Manager: Salomon Smith Barney, Inc. West Palm Beach, Florida  
Dealer/Manager Counsel: Nabors, Giblin, and Nickerson, PA, Tampa, Florida  
Insurance: Financial Security Assurance, Inc. (FSA), New York, New York

**ENERGY SYSTEM REFUNDING REVENUE BONDS, SERIES 1999 B (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENT**

<b><u>Maturity</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
10/01/06	15,585,000.00	2,109,426.25	17,694,426.25
04/01/07		1,599,017.50	1,599,017.50
10/01/07	11,130,000.00	1,599,017.50	12,729,017.50
04/01/08		1,234,510.00	1,234,510.00
10/01/08	12,005,000.00	1,234,510.00	13,239,510.00
04/01/09		880,362.50	880,362.50
10/01/09	12,740,000.00	880,362.50	13,620,362.50
04/01/10		463,127.50	463,127.50
10/01/10		463,127.50	463,127.50
04/01/11		463,127.50	463,127.50
10/01/11		463,127.50	463,127.50
04/01/12		463,127.50	463,127.50
10/01/12		463,127.50	463,127.50
04/01/13		463,127.50	463,127.50
10/01/13	6,815,000.00	463,127.50	7,278,127.50
04/01/14		256,973.75	256,973.75
10/01/14	8,495,000.00	256,973.75	8,751,973.75
	<b><u>\$ 81,310,000.00</u></b>	<b><u>\$ 18,451,211.25</u></b>	<b><u>\$ 99,761,211.25</u></b>

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**ENERGY SYSTEM REFUNDING REVENUE BONDS, SERIES 1999 C**

**\$64,525,000**

**TERM BONDS  
DATED APRIL 1, 1999  
CUSIP NUMBERS**

**511678RA 511678RD  
511678RB 511678RE  
511678RC 511678RF**

**PURPOSE**

The City delivered the Series 1999C Bonds to the owners of, and in exchange for, the City's outstanding Electric and Water Revenue Bonds (Junior Subordinate Lien), Refunding Series 1996B. This exchange was undertaken in connection with the City's preparation for the deregulation of the electric utility industry. As a result, a new bond ordinance became effective, replacing existing electric utility bond documents, which were too restrictive and inflexible. The exchange will enable the City to compete more effectively in the electric utility industry, as the industry becomes more deregulated and competitive.

**SECURITY**

The Series 1999C Bonds and the interest thereon are payable from certain revenues derived by the City from the operation of its electric power system on parity in all respects as to the lien thereon and pledge thereof granted with respect to the (i) City's Series 1999A and Series 1999B and (ii) its Series 2001B Bonds and (iii) its Series 2001A Bonds and (iv) its Series 2003 Bonds.

Revenues of the Water System were eliminated from the source of repayment for such Bonds upon the defeasance of the 1992 bonds in August of 2002.

**INSURANCE**

A municipal bond insurance policy was purchased to unconditionally and irrevocably guarantee the full and complete payment of principal and interest on the Series 1999C First Lien Bonds when due.

**RATINGS**

**Moody's Investor Service: Aaa      Standard & Poor's Ratings Services: AAA      Fitch Ratings: AAA**

**MANDATORY REDEMPTION**

Not applicable to this bond issue.

**OPTIONAL REDEMPTION**

Not applicable to this bond issue.

**AGENTS**

Registrar: The Bank of New York, New York, New York  
Paying Agent: The Bank of New York, New York, New York  
Issuer's Bond Counsel: Holland & Knight LLP, Lakeland, Florida  
Issuer's Financial Advisors: Fishkind & Associates, Inc., Orlando, Florida  
William R. Hough & Co., St. Petersburg, Florida  
Dealer/Manager: Salomon Smith Barney, Inc. West Palm Beach, Florida  
Dealer/Manager Counsel: Nabors, Giblin, and Nickerson, PA, Tampa, Florida  
Insurance: Financial Security Assurance, Inc. (FSA), New York, New York

**ENERGY SYSTEM REFUNDING REVENUE BONDS, SERIES 1999 C (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENT**

<b><u>Maturity</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
10/01/06		1,951,881.25	1,951,881.25
04/01/07		1,951,881.25	1,951,881.25
10/01/07	5,095,000.00	1,951,881.25	7,046,881.25
04/01/08		1,797,757.50	1,797,757.50
10/01/08	5,370,000.00	1,797,757.50	7,167,757.50
04/01/09		1,635,315.00	1,635,315.00
10/01/09	5,775,000.00	1,635,315.00	7,410,315.00
04/01/10		1,460,621.25	1,460,621.25
10/01/10	14,865,000.00	1,460,621.25	16,325,621.25
04/01/11		1,010,955.00	1,010,955.00
10/01/11	16,180,000.00	1,010,955.00	17,190,955.00
04/01/12		521,510.00	521,510.00
10/01/12	17,240,000.00	521,510.00	17,761,510.00
	<u>\$ 64,525,000.00</u>	<u>\$ 22,611,723.75</u>	<u>\$ 87,136,723.75</u>

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**ELECTRIC AND WATER ENERGY SYSTEM VARIABLE RATE REVENUE BONDS, SERIES 2001A**

**\$90,000,000**

**VARIABLE RATE BONDS  
DATED JANUARY 1, 2001  
CUSIP NUMBER**

**51166FAB5**

**PURPOSE**

The Series 2001A Bonds were issued for the principal purpose of (i) financing certain electric generation capital improvements for the City's electric power system, and (ii) paying certain costs and expenses related to the issuance of the Series 2001A Bonds.

**SWAP AGREEMENT**

As a means to partially hedge the variable rate risk exposure associated with the issuance of the \$90 million 2001A Energy System Variable Rate Revenue Bonds in April of 2001, the City entered into a basis swap in May of 2001. Under the swap, the city pays CitiGroup Financial Products Inc. (the counterparty) a payment equal to \$90 million (the notional amount) times an interest rate equal to the BMA Municipal Bond Index. In return, the counterparty pays the City an amount equal the notional amount times 74.125% of the monthly USD-LIBOR-BBA rate. To the extent the relationship between BMA and LIBOR approximates a marginal tax rate of more than 25.875 percent; the net borrowing cost on the underlying 2001 debt issue will be reduced as a result of this swap. The notional amount remains unchanged over the term of the swap, which ends May 1, 2021. Settlement payments are made quarterly. As of September 30, 2005, the swap had a negative fair value of \$2,861,477, developed using the Market Quotation method. The negative fair value may be countered by reductions in future net interest payments on the underlying debt resulting from the swap. As of September 30, 2005, the City was not exposed to credit risk because the swap had a negative fair value. The City is exposed to basis risk to the extent the relationship of BMA to LIBOR increases to greater than 74.125 percent. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay, bankruptcy, or a rating downgrade by Moody's or S&P issued to either the City or the counterparty.

In August of 2006, the City retired both of the Energy System Variable Rate Revenue Bonds, Series 2001A and the System Variable Rate Refunding Revenue Bonds Series 2003. These two bond issue were replaced by the Energy System Refunding Revenues Bonds Series 2006A. The annual maturity dates and maturity amounts for the refunding and refunded bonds are essentially identical. These transactions resulted in a loss on refunding of \$6,073,130, which is being amortized over the remaining life of the refunding bond issue. The replacement bonds take the form of Period Auction Rate Securities (PARS) versus the Variable Rate Demand Obligations (VRDO's) they replaced. The City elected to retain the financial benefits of the basis risk associated with the aforementioned swap transactions and integrate those swaps into the refunding bond issue. Accordingly, the pre-existing swaps related to the 2001A and 2003 Bonds now apply to the 2006A Refunding Bonds.

**ENERGY SYSTEM REVENUE BONDS, SERIES 2001B**

**\$30,000,000**

**SERIAL BONDS  
DATED MAY 1, 2001  
CUSIP NUMBER**

**51166FAC 51166FAF  
51166FAD 51166FAG  
51166FAE 51166FAH**

**PURPOSE**

The Series 2001B Bonds were issued for the principal purpose of (i) financing certain capital improvements for the City's electric power system and (ii) paying certain costs and expenses related to the issuance of the Series 2001B Bonds.

**SECURITY**

The Series 2001B Bonds and the interest thereon are payable from certain revenues derived by the City from the operation of its electric power system on parity in all aspects as to the lien thereon and pledge thereof granted with respect to the (i) Series 1999A, Series 1999B and Series 1999C Bonds and (ii) Series 2001A Bonds and (iii) its series 2003 Bonds.

Revenues of the Water system were eliminated from the source of repayment for such Bonds upon the defeasance of the 1992 bonds in August of 2002.

**INSURANCE**

A municipal bond insurance policy was purchased to unconditionally and irrevocably guarantee the full and complete payment required to be made by or on behalf of the City.

**RATINGS**

Moody's Investor Service: **Aaa**

Standard & Poor's Ratings Services: **AAA**

Fitch Ratings: **AAA**

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**ENERGY SYSTEM REVENUE BONDS, SERIES 2001B (CONTINUED)**

**OPTIONAL REDEMPTION**

The Series 2001B Bonds are subject to redemption prior to maturity on or after October 1, 2011, at the option of the City, in whole or in part at any time at a redemption price of par, together with accrued interest to the redemption date.

**AGENTS**

Registrar:	The Bank of New York, New York, New York
Paying Agent:	The Bank of New York, New York, New York
Trustee:	The Bank of New York, New York, New York
Issuer's Bond Counsel:	Holland & Knight LLP, Lakeland, Florida
Issuer's Financial Advisors:	Fishkind & Associates, Inc., Orlando, Florida & William R. Hough & Co., St. Petersburg, Florida
Managing Underwriter:	Salomon Smith Barney, Inc., West Palm Beach, Florida
Underwriters' Counsel:	Nabors, Giblin, & Nickerson, PA, Tampa, Florida
Insurance:	MBIA Insurance Corporation, Armonk, New York

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**ENERGY SYSTEM REVENUE BONDS, SERIES 2001B (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENT**

<b><u>Maturity</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
10/01/06		780,550.00	780,550.00
04/01/07		780,550.00	780,550.00
10/01/07		780,550.00	780,550.00
04/01/08		780,550.00	780,550.00
10/01/08		780,550.00	780,550.00
04/01/09		780,550.00	780,550.00
10/01/09		780,550.00	780,550.00
04/01/10		780,550.00	780,550.00
10/01/10		780,550.00	780,550.00
04/01/11		780,550.00	780,550.00
10/01/11		780,550.00	780,550.00
04/01/12		780,550.00	780,550.00
10/01/12		780,550.00	780,550.00
04/01/13		780,550.00	780,550.00
10/01/13	6,565,000.00	780,550.00	7,345,550.00
04/01/14		600,012.50	600,012.50
10/01/14	5,655,000.00	600,012.50	6,255,012.50
04/01/15		444,500.00	444,500.00
10/01/15	4,130,000.00	444,500.00	4,574,500.00
04/01/16		341,250.00	341,250.00
10/01/16	4,325,000.00	341,250.00	4,666,250.00
04/01/17		233,125.00	233,125.00
10/01/17	4,550,000.00	233,125.00	4,783,125.00
04/01/18		119,375.00	119,375.00
10/01/18	4,775,000.00	119,375.00	4,894,375.00
	<b><u>\$ 30,000,000.00</u></b>	<b><u>\$ 16,745,875.00</u></b>	<b><u>\$ 46,745,875.00</u></b>

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**ELECTRIC SYSTEM VARIABLE RATE REVENUE BONDS , SERIES 2003**

**\$47,860,000**

**VARIABLE RATE BONDS  
DATED JANUARY 22, 2003  
CUSIP NUMBER**

**51166FAJ8**

**PURPOSE**

The Series 2003 Bonds were issued for the principal purpose of (i) refunding all of the City's outstanding Energy System Revenue Bonds, Series 2000B, (ii) financing certain distribution-related capital improvements for the City's electric power system, (iii) paying certain costs and expenses related to the issuance of the Series 2003 Bonds.

**SWAP AGREEMENT**

As a means to reduce borrowing costs when compared to the market rates paid by issuers of fixed-rate bonds as of November 2002, the City entered into a forward swap in connection with the issuance of the Energy System Variable Rate Refunding Revenue Bonds Series 2003, which were sold in January 2003. Under the swap, the City pays CitiGroup Financial Products Inc. (the counterparty) a payment equal to \$47.86 million (the notional amount) times a fixed interest rate of 3.74 percent. In return, the counterparty pays the City an amount equal the notional amount times the actual interest rate paid on the underlying 2003 bonds. The agreement calls for an alternate rate to be paid by the counterparty to the City equal to 67 percent of the monthly USD-LIBOR-BBA. The alternate rate prevails whenever the relationship between the BMA Municipal Bond Index and the monthly USD-LIBOR-BBA exceeds 67 percent for a period of more than the preceding 180 days. The alternate rate also applies in the event of default on the bonds by the City, a downgrade in ratings issued by S&P or Moody's, conversion of the variable interest rate terms on the underlying bonds to other than a weekly mode, or whenever the City is required to draw on the liquidity facility established on the underlying bonds. To the extent the relationship between BMA and LIBOR approximates a marginal tax rate of more than 33 percent; the synthetically fixed rate paid on underlying bonds is equal to 3.74 percent plus approximately .35 percent for liquidity and remarketing fees on the underlying variable rate issue. The notional amount of the swap will always equal the amount of the outstanding principal on the underlying bonds, which mature serially from October 2034 thru October 2037. Settlement payments are made monthly. As of September 30, 2005, the swap had a negative fair value of \$3,092,911, developed using the Market Quotation method. The negative fair value may be countered by reductions in total net interest payments on the underlying debt resulting from the swap. As of September 30, 2005, the City was not exposed to credit risk because the swap had a negative fair value. The City is exposed to basis risk to the extent the relationship of BMA to LIBOR increases to greater than 33 percent. The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. An additional termination event also occurs in the event of a rating downgrade by Moody's or S&P issued to either the City or the counterparty. As of September 30, 2005, future debt service requirements on the variable-rate debt and net swap payments based on the alternate rate calculation formula included in the following table. These calculations are based on an average rate of interest paid on the underlying bonds of 2.42 percent as of September 30, 2005; and effective interest rate of 2.47 percent paid to the City by the counterparty, which represents 67 percent of the monthly USD-LIBOR-BBA as of September 30, 2005. As rates vary, variable rate bond interest payments and net swap payments will vary.

In August of 2006, the City retired both of the Energy System Variable Rate Revenue Bonds, Series 2001A and the System Variable Rate Refunding Revenue Bonds Series 2003. These two bond issue were replaced by the Energy System Refunding Revenues Bonds Series 2006A. The annual maturity dates and maturity amounts for the refunding and refunded bonds are essentially identical. These transactions resulted in a loss on refunding of \$6,073,130, which

is being amortized over the remaining life of the refunding bond issue. The replacement bonds take the form of Period Auction Rate Securities (PARS) versus the Variable Rate Demand Obligations (VRDO's) they replaced. The City elected to retain the financial benefits of the basis risk associated with the aforementioned swap transactions and integrate those swaps into the refunding bond issue. Accordingly, the pre-existing swaps related to the 2001A and 2003 Bonds now apply to the 2006A Refunding Bonds.

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**ENERGY SYSTEM REVENUE AND REFUNDING BONDS, SERIES 2006**

**\$44,870,000**

**REVENUE AND REFUNDING BONDS  
DATED AUGUST 1, 2006**

**CUSIP NUMBERS**

**51166FAK5 51166FAL3 51166FAM1 51166FAN9 51166FAP4  
51166FAQ2 51166FAR0 51166FAS8 51166FAT6 51166FAU3  
51166FAV1 51166FAW9 51166FAX7 51166FAY5 51166FAZ2  
51166FBA6 51166FBB4 51166FBC2 51166FBD0 51166FBE8  
51166FBF5**

**PURPOSE**

The Series 2006A Bonds were issued for the principal purposes of (i) financing certain capital improvements for the electric power system of the City of Lakeland, Florida, (ii) refunding, on a current basis, a portion of the City's outstanding Energy System Refunding Revenue Bonds, Series 1999B, and (iii) paying certain costs and expenses related to the issuance of the Bonds.

**SECURITY**

The Bonds and the interest thereon are payable from the Trust Estate which consists principally of certain Revenues derived by the City from the operation of its electric power system on parity in all respects as to the lien thereon and pledge thereof granted with respect to the City's hereinafter defined Parity Obligations.

**INSURANCE**

The scheduled payment of principal and interest on the Bonds, when due, will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by XL Capital Assurance, Inc.

**RATINGS**

**Moody's Investor Service: Aaa**

**Standard & Poor's Ratings Services: AAA**

**Fitch Ratings: AAA**

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**ENERGY SYSTEM VARIABLE RATE REFUNDING REVENUE BONDS, SERIES 2006 (CONTINUED)**

**MANDATORY REDEMPTION**

The Bonds maturing on October 1, 2031 are subject to mandatory sinking fund redemption in part, by lot, on October 1, 2026 and on each October 1 thereafter at a price of par, plus accrued interest to the date of redemption as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
October 1, 2026	\$1,705,000	October 1, 2027	\$1,790,000
October 1, 2028	1,885,000	October 1, 2029	1,975,000
October 1, 2030	2,070,000	October 1, 2031*	2,175,000

\*Final Maturity

The Bonds maturing on October 1, 2036 are subject to mandatory sinking fund redemption in part, by lot, on October 1, 2032 and on each October 1 thereafter at a price of par, plus accrued interest to the date of redemption as follows:

<u>Date</u>	<u>Principal Amount</u>	<u>Date</u>	<u>Principal Amount</u>
October 1, 2032	\$2,285,000	October 1, 2033	\$2,395,000
October 1, 2034	2,510,000	October 1, 2035	2,630,000
October 1, 2036*	2,755,000		

\*Final Maturity

**OPTIONAL REDEMPTION**

The Bonds maturing on or after October 1, 2017 are subject to redemption prior to maturity on or after October 1, 2016, at the option of the City, in whole or in part at any time at a redemption price of par, together with accrued interest to the redemption date, and without premium.

**AGENTS**

Registrar:	The Bank of New York, New York, New York
Paying Agent:	The Bank of New York, New York, New York
Trustee:	The Bank of New York, New York, New York
Issuer's Bond Counsel:	Holland & Knight LLP, Lakeland, Florida
Issuer's Financial Advisors:	RBC Capital Markets, Jacksonville,, Florida
Managing Underwriter:	Goldman, Sachs and Company
Underwriters' Counsel:	Nabors, Giblin, & Nickerson, PA, Tampa, Florida
Insurance:	XL Capital Assurance, Inc. New York

**ENERGY SYSTEM VARIABLE RATE REFUNDING REVENUE BONDS, SERIES 2006 (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENT**

<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>1-Apr-07</b>		1,334,974	1,334,974
<b>1-Oct-07</b>	475,000	1,072,746	1,547,746
<b>1-Apr-08</b>		1,063,247	1,063,247
<b>1-Oct-08</b>	760,000	1,063,247	1,823,247
<b>1-Apr-09</b>		1,048,047	1,048,047
<b>1-Oct-09</b>	785,000	1,048,047	1,833,047
<b>1-Apr-10</b>		1,032,347	1,032,347
<b>1-Oct-10</b>	820,000	1,032,347	1,852,347
<b>1-Apr-11</b>		1,015,947	1,015,947
<b>1-Oct-11</b>	855,000	1,015,947	1,870,947
<b>1-Apr-12</b>		998,847	998,847
<b>1-Oct-12</b>	885,000	998,847	1,883,847
<b>1-Apr-13</b>		976,722	976,722
<b>1-Oct-13</b>	930,000	976,722	1,906,722
<b>1-Apr-14</b>		953,472	953,472
<b>1-Oct-14</b>	975,000	953,472	1,928,472
<b>1-Apr-15</b>		933,972	933,972
<b>1-Oct-15</b>	1,020,000	933,972	1,953,972
<b>1-Apr-16</b>		913,572	913,572
<b>1-Oct-16</b>	1,055,000	913,572	1,968,572
<b>1-Apr-17</b>		887,197	887,197
<b>1-Oct-17</b>	1,105,000	887,197	1,992,197
<b>1-Apr-18</b>		864,406	864,406
<b>1-Oct-18</b>	1,155,000	864,406	2,019,406
<b>1-Apr-19</b>		835,531	835,531
<b>1-Oct-19</b>	1,215,000	835,531	2,050,531
<b>1-Apr-20</b>		805,156	805,156
<b>1-Oct-20</b>	1,275,000	805,156	2,080,156

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**ENERGY SYSTEM VARIABLE RATE REFUNDING REVENUE BONDS, SERIES 2006 (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENT (CONTINUED)**

<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>1-Apr-21</b>		773,281	773,281
<b>1-Oct-21</b>	1,335,000	773,281	2,108,281
<b>1-Apr-22</b>		739,906	739,906
<b>1-Oct-22</b>	1,405,000	739,906	2,144,906
<b>1-Apr-23</b>		704,781	704,781
<b>1-Oct-23</b>	1,475,000	704,781	2,179,781
<b>1-Apr-24</b>		667,906	667,906
<b>1-Oct-24</b>	1,545,000	667,906	2,212,906
<b>1-Apr-25</b>		629,281	629,281
<b>1-Oct-25</b>	1,625,000	629,281	2,254,281
<b>1-Apr-26</b>		588,656	588,656
<b>1-Oct-26</b>	1,705,000	588,656	2,293,656
<b>1-Apr-27</b>		546,031	546,031
<b>1-Oct-27</b>	1,790,000	546,031	2,336,031
<b>1-Apr-28</b>		501,281	501,281
<b>1-Oct-28</b>	1,885,000	501,281	2,386,281
<b>1-Apr-29</b>		454,156	454,156
<b>1-Oct-29</b>	1,975,000	454,156	2,429,156
<b>1-Apr-30</b>		404,781	404,781
<b>1-Oct-30</b>	2,070,000	404,781	2,474,781
<b>1-Apr-31</b>		353,031	353,031
<b>1-Oct-31</b>	2,175,000	353,031	2,528,031
<b>1-Apr-32</b>		298,656	298,656
<b>1-Oct-32</b>	2,285,000	298,656	2,583,656
<b>1-Apr-33</b>		244,388	244,388
<b>1-Oct-33</b>	2,395,000	244,388	2,639,388
<b>1-Apr-34</b>		187,506	187,506
<b>1-Oct-34</b>	2,510,000	187,506	2,697,506
<b>1-Apr-35</b>		127,894	127,894
<b>1-Oct-35</b>	2,630,000	127,894	2,757,894
<b>1-Apr-36</b>		65,431	65,431
<b>1-Oct-36</b>	2,755,000	65,431	2,820,431

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**ENERGY SYSTEM VARIABLE RATE REFUNDING REVENUE BONDS, SERIES 2006A**

**\$139,475,000**

**VARIABLE RATE REFUNDING REVENUE BONDS  
DATED AUGUST 1, 2006**

<b>SERIES 2006A-1</b>	<b>SERIES 2006A-2</b>
<b>\$69,750,000</b>	<b>\$69,725,000</b>
<b>CUSIP NUMBERS</b>	
<b>51166FBG3</b>	<b>51166FBH1</b>

**PURPOSE**

The Series 2006A Bonds were issued for the principal purpose of (i) refunding all of the City's outstanding Energy System Variable Rate Revenue Bonds, Series 2001A and all of the City's outstanding Energy System Variable Rate Revenue Bonds, Series 2003, and (ii) paying certain costs and expenses related to the issuance of the Series 2006A Bonds.

**SECURITY**

The Series 2006A Bonds and the interest thereon are payable from certain revenues derived by the City from the operations of its electric power system on parity in all respects as to the lien thereon and pledge thereof granted with respect to the City's hereinafter defined Parity Obligations.

**INSURANCE**

A municipal bond insurance policy was purchased to unconditionally and irrevocably guarantee the full and complete payment required to be made by or on behalf of the City.

**RATINGS**

**Moody's Investor Service: Aaa**      **Standard & Poor's Ratings Services: AAA**      **Fitch Ratings: AAA**

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**ENERGY SYSTEM VARIABLE RATE REFUNDING REVENUE BONDS, SERIES 2006 (CONTINUED)**

**MANDATORY REDEMPTION**

The Series 2006A Bonds will be subject to mandatory sinking fund redemption in par, by lot, on October 1, 2021 and on each October 1 thereafter at a price of par, plus accrued interest to the date of redemption as follows:

<u>Year</u>	<u>2006A-1 Amount</u>	<u>2006A-2 Amount</u>
2021	2,300,000	2,275,000
2022	2,350,000	2,375,000
2023	2,475,000	2,450,000
2024	2,550,000	2,575,000
2025	2,675,000	2,675,000
2026	2,800,000	2,775,000
2027	2,900,000	2,900,000
2028	3,025,000	3,025,000
2029	3,150,000	3,150,000
2030	3,275,000	3,300,000
2031	3,425,000	3,425,000
2032	3,575,000	3,575,000
2033	3,750,000	3,725,000
2034	8,225,000	8,250,000
2035	8,550,000	8,525,000
2036	4,850,000	4,875,000
2037	9,875,000*	9,850,000*

\*Final Maturity

**OPTIONAL REDEMPTION**

The series 2006A Bonds in the Auction Reset Series ‘ARS’ Mode shall be subject to redemption, in whole or in part, in denominations of \$25,000 and any integral multiple thereof, at a redemption price equal to the principal amount thereof, plus accrued interest, if any, to the redemption date, on the Interest Payment Date immediately following the end of an Auction Period; provided that after any optional redemption there shall be not less than \$10,000,000 in aggregate principal amount of a sub-series of Series 2006A Bonds outstanding in an ARS Mode unless otherwise consented to by the Broker-Dealer.

**AGENTS**

Registrar:	The Bank of New York, New York, New York
Paying Agent:	The Bank of New York, New York, New York
Trustee:	The Bank of New York, New York, New York
Auction Agent:	The Bank of New York, New York, New York
Issuer’s Bond Counsel:	Holland & Knight LLP, Lakeland, Florida
Issuer’s Financial Advisors:	RBC Capital Markets, Jacksonville,, Florida
Managing Underwriter:	Goldman, Sachs and Company
Underwriters’ Counsel:	Nabors, Giblin, & Nickerson, PA, Tampa, Florida
Insurance:	XL Capital Assurance, Inc. New York

**ENERGY SYSTEM VARIABLE RATE REFUNDING REVENUE BONDS, SERIES 2006A (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENT**

<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
1-Oct-06		603,302	603,302
1-Apr-07		2,545,419	2,545,419
1-Oct-07		2,545,419	2,545,419
1-Apr-08		2,545,419	2,545,419
1-Oct-08		2,545,419	2,545,419
1-Apr-09		2,545,419	2,545,419
1-Oct-09		2,545,419	2,545,419
1-Apr-10		2,545,419	2,545,419
1-Oct-10		2,545,419	2,545,419
1-Apr-11		2,545,419	2,545,419
1-Oct-11		2,545,419	2,545,419
1-Apr-12		2,545,419	2,545,419
1-Oct-12		2,545,419	2,545,419
1-Apr-13		2,545,419	2,545,419
1-Oct-13		2,545,419	2,545,419
1-Apr-14		2,545,419	2,545,419
1-Oct-14		2,545,419	2,545,419
1-Apr-15		2,545,419	2,545,419
1-Oct-15		2,545,419	2,545,419
1-Apr-16		2,545,419	2,545,419
1-Oct-16		2,545,419	2,545,419
1-Apr-17		2,545,419	2,545,419
1-Oct-17		2,545,419	2,545,419
1-Apr-18		2,545,419	2,545,419
1-Oct-18		2,545,419	2,545,419
1-Apr-19		2,545,419	2,545,419
1-Oct-19		2,545,419	2,545,419
1-Apr-20		2,545,419	2,545,419
1-Oct-20		2,545,419	2,545,419
1-Apr-21		2,545,419	2,545,419
1-Oct-21	4,575,000	2,545,419	7,120,419
1-Apr-22		2,461,925	2,461,925

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**ENERGY SYSTEM VARIABLE RATE REFUNDING REVENUE BONDS, SERIES 2006A (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENT (CONTINUED)**

<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
1-Oct-22	4,725,000	2,461,925	7,186,925
1-Apr-23		2,375,694	2,375,694
1-Oct-23	4,925,000	2,375,694	7,300,694
1-Apr-24		2,285,813	2,285,813
1-Oct-24	5,125,000	2,285,813	7,410,813
1-Apr-25		2,192,281	2,192,281
1-Oct-25	5,350,000	2,192,281	7,542,281
1-Apr-26		2,094,644	2,094,644
1-Oct-26	5,575,000	2,094,644	7,669,644
1-Apr-27		1,992,900	1,992,900
1-Oct-27	5,800,000	1,992,900	7,792,900
1-Apr-28		1,887,050	1,887,050
1-Oct-28	6,050,000	1,887,050	7,937,050
1-Apr-29		1,776,638	1,776,638
1-Oct-29	6,300,000	1,776,638	8,076,638
1-Apr-30		1,661,663	1,661,663
1-Oct-30	6,575,000	1,661,663	8,236,663
1-Apr-31		1,541,669	1,541,669
1-Oct-31	6,850,000	1,541,669	8,391,669
1-Apr-32		1,416,656	1,416,656
1-Oct-32	7,150,000	1,416,656	8,566,656
1-Apr-33		1,286,169	1,286,169
1-Oct-33	7,475,000	1,286,169	8,761,169
1-Apr-34		1,149,750	1,149,750
1-Oct-34	16,475,000	1,149,750	17,624,750
1-Apr-35		849,081	849,081
1-Oct-35	17,075,000	849,081	17,924,081
1-Apr-36		537,463	537,463
1-Oct-36	9,725,000	537,463	10,262,463
1-Apr-37		359,981	359,981
1-Oct-37	19,725,000	359,981	20,084,981

<sup>1</sup> Interest requirements for the 2006A Bonds are calculated based on an average rate of interest paid of 3.65 percent as of September 30, 2006. Schedule shows semi-annual interest rat requirements; actual payments are made on a weekly basis.

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# **WATER UTILITIES SYSTEM**

## **ADMINISTRATION AND ORGANIZATION**

Operation of the Water System is the immediate responsibility of the Water Utilities Department. The Water Utilities Department includes two divisions, the Water Operations Division and the Wastewater Operations Division.

The Water Operations Division of the Water Utilities Department currently has a staff of 120 employees. An assistant Director of Water Utilities heads the Water Operations Division. The Water Operations Division includes the following functional areas:

- Administration
- Water Production
- Engineering
- Water Distribution

## **SERVICE AREA**

The City of Lakeland's Water System serves the incorporated area of the City of Lakeland and as well as a substantial area outside the City Limits. On April 1, 1980, an Interlocal Agreement was signed, which provides for the Department of Water Utilities to service current and future customers in certain defined unincorporated areas of Polk County.

The service area currently encompasses approximately 90 square miles, serving an estimated 160,000 people. The distribution system has a total of 3,750 fire hydrants and 52,278 active service meters. During FY 2006, the Water Utilities System served an average of 52,121 active metered accounts.

The City of Lakeland's Water System has interconnections with the Auburndale and Plant City water systems that are designated to provide additional reliability for both systems.

The City also had a franchise agreement and a separate water system that served Polk City, Florida for many years. In April of 2002, the City sold that separate water system serving Polk City to the Town of Polk City for approximately \$1,100,000.

Certain water use restrictions imposed by the Southwest Florida Water Management District (SWFWMD) are currently in effect within the service area of the Water System. The City has adopted an ordinance that complies with these restrictions. The Department has taken into account the effect of such restrictions in its forecasts of future consumption.

The City had a 10 year consumptive use permit from SWFWMD that expired October 25, 2003. This permit allowed the average daily consumption by the City of 28.1 million gallons of water per day (MGD) and a peak usage of 33.7 million gallons per day. Following SWFWMD's procedures, a permit renewal application has been submitted which requests 32.7 million gallons of water per day (MGD) and a peak usage of 35 million gallons per day. The City projects that the usage requested under the new permit will be sufficient for the City's consumption needs through 2023. During the permit renewal period, beginning October 25, 2003 the City will be allowed to operate under the conditions of the previous permit.

## **WATER DISTRIBUTION**

Water Distribution is responsible for the operation and maintenance of approximately 955 miles of water distribution piping and a comprehensive meter servicing and backflow prevention program. The leak detention program includes evaluating all service valves and meters over a time period of 3 to 4 years. The distribution staff consists of 56 employees (41 operating and 15 supervisory or administrative). Approximately 77% of the employees hold certifications as Distribution System Operators, water meter repair, and/or backflow preventer testing and repair.

## **WATER ENGINEERING**

Water Engineering is responsible for the designing and permitting of water mains, the relocation of mains, inspection of new facilities/distribution components, responding to public inquiries on utility locations, coordination of work performed by consultants, and reviewing all commercial and multi-family developmental site plans. The staff includes a manager and 20 staff members.

## **FACILITIES - WATER**

The existing Water System facilities consist of eleven 24-inch diameter wells and two 20-inch wells, which provide the source supply for the water treatment plant. The thirteen wells have a combined capacity 55 MGD and provide the water supply for the Williams Facility. The Floridan Aquifer, from which the Water Department draws its water, is one of the most productive in the nation. The Floridan Aquifer has a total area of about 100,000 square miles in southern Alabama, southeastern Georgia, and southern South Carolina, and all of central Florida. Regulations currently control withdrawals. In the opinion of the Water Department, the Water System is in compliance with all Federal and State environmental permits required for the operation of the Water System.

The City has acquired 863 acres northeast of the City limits to serve as an additional water well field for supplying the future needs of the Water System. The City intends to utilize five 16" diameter wells in this well field in connection with the new water treatment plant. The wells have a combined capacity of 15.12 MGD and will supply water for the new treatment plant.

## **THOMAS B. WILLIAMS TREATMENT PLANT**

The Thomas B. Williams water treatment plant, which has been in operation since April 1983, has a capacity of 51 million gallons per day and supplies the total water needs of the City's primary system. The water treatment process at the Williams Facility consists of the following processes:

- Prechlorination
- Stabilization and corrosion control
- Filtration
- Split lime softening
- Clarification
- Fluoridation and Chlorination

Operation of the Williams Facility is facilitated by a telemetry/automated computer processing unit (CPU). The system components monitor and serve to control various parameters in the distribution system (i.e. pressures and water flow demand) with the treatment components (well pumpage/treatment flow rates and ground storage volumes) to optimize water supply. This includes controlling well pumps and high service pumps, as well as specific internal treatment processes, for example, automatic backwashing the filters.

In addition, the reliability of the Williams Facility is enhanced with standby auxiliary power provided by diesel generators in the event of power outages. The existing two 1250 KW generators provide auxiliary power to meet at least 50% of the maximum daily water pumpage, as required by the Florida Department of Environmental Protection.

A third generator is set to directly power a High Service Pump that moves water from the clearwell out to the distribution system.

After the treatment process, the treated water is pumped to either of two 5.0 million-gallon ground storage tanks or the 0.7 million-gallon clearwell to be pumped to the distribution system. In addition to storage facilities at the Williams Facility, the Highlands Pump Station includes a 3.0 million-gallon ground storage equalization reservoir.

**C.W. COMBEE WATER TREATMENT PLANT**

The C.W. Combee Water Treatment Plant became operational in November 2005. The treatment plant is located on twenty acres approximately five miles south of the well field. The treatment plant was constructed with the proceeds of the Series 2002 Bonds. The plant is designed for 8 MGD. Two additional phases, 8 MGD each, are also incorporated in the design and will be constructed at a later date. The plant will initially have a 5.0 million-gallon storage tank on site and a second ground storage tank is expected to be constructed at a later date.

**TRANSMISSION AND DISTRIBUTION**

The Water System has over 955 miles of transmission and distribution lines that serve customers and provide capacity for future expansion within the service area. Approximately 60 miles of 16-inch to 54-inch diameter transmission mains are in service, transporting finished water from the Thomas B. Williams water treatment plant throughout the distribution system. The Water System has two booster pumping stations, one of which has a 3.0 million-gallon storage tank for peaking. The following table indicates the current supply facilities.

<u>Supply Facility</u>	<u>Installed</u>	<u>Capacity</u>
<u>Treatment:</u>		
Thomas B. Williams Water Treatment Plant	1983	51 MGD
C. W Combee Water Treatment Plant	2005	8 MGD
<u>Storage:</u>		
Tanks	1983-88	13.7 MG
Tanks	2005	5.0 MG

**CAPITAL IMPROVEMENT PROGRAM**

The Water facilities portion of the City’s estimated capital improvement plan for the Fiscal Years 2007 through and including 2016 is anticipated to cost approximately \$46.5 million. 100% of these costs are expected to be financed from internally generated funds. The following is a general breakdown of the capital improvements and their approximate costs:

<u>Capital Improvement</u>	<u>Estimated Cost</u>
Production	\$10,603,000
Distribution	29,061,000
Engineering	<u>6,876,000</u>
Total	<u>\$46,540,000</u>

## LARGEST WATER CUSTOMERS

Customer	Gals (000) Fiscal Year Ending September 30 2006
Casto Oakbridge Venture LTD	1,720,724
City of Lakeland <sup>2</sup>	362,081
Lakeland Regional Medical Center	124,435
Polk County <sup>1</sup>	116,806
Polk County Schoolboard	77,829
Florida Southern College	59,397
Skyview Utilities	54,104
Aqua Sources Utilities, Inc.	47,556
Southeastern University	40,279
City of Plant City	36,145
Publix Super Markets, Inc.	35,855
Key Safety Systems	34,236
Tampa Maid Foods	32,703
Watson Clinic	32,167
Ruthven	23,966
Paddock Club	23,915
Fibertek Insulation LLC	22,649
	1,124,123

<sup>1</sup>Consists of 12 meters throughout the service territory.

<sup>2</sup>All City-owned facilities are metered and pay the Department for services.

## WATER RATES

The City Commission has exclusive authority to establish and revise the rates for water supplied by the Water Department. The base residential rate as of September 30, 2006 is \$1.43 per 1,000 gallons for inside the City Limits. The City also adopted an inverted rate structure as recommended by the Southwest Florida Water Management District. The inverted rate schedule encourages water conservation by increasing consumption charges based on higher volumes of usage.

Effective January 1, 1986, the Water Department began charging Water Impact Fees in addition to system connection fees. These were increased August 1, 1989, with annual increases of approximately 5% through Fiscal Year 1994. Water Impact Fees are not pledged as security for the Senior Bonds.

On April 1, 1980, the City entered into an Interlocal Agreement with Polk County whereby the Water Department had an identified Water Service Area beyond the City Limits described by a boundary line.

The City also provides water to the County through various master meters, primarily for resale to Polk County Utility water customers outside the City's water service area. The current rate for such water is \$1.93 per 1,000 gallons, which may not be increased more than the lowest step in the Water Department's water rate schedule.



The following tables provide water rates and charges information.

**Monthly Base Charge:**  
(effective September 30, 2006)  
*(Per Customer Per Month)*

<u>Meter Size (inches)</u>	<u>Inside City</u>	<u>Outside City</u>
3/4" or less	\$5.78	\$7.80
1"	\$15.58	\$21.03
1 1/2"	\$28.27	\$38.16
2"	\$48.63	\$65.65
3"	\$105.72	\$142.72
4"	\$204.76	\$276.43
6"	\$431.77	\$582.89
8"	\$731.11	\$987.00

**Residential and Irrigation Consumption Charges:**

*In addition to the Monthly Base Charge*  
**Price Per 1000 Gallons**

<u>Meter Size (inches)</u>	<u>Consumption</u>	<u>Inside City</u>	<u>Outside City</u>
5/8" to 3/4"	0 - 9.9	\$1.43	\$1.93
	10 - 14.9	\$1.75	\$2.36
	above 15	\$2.18	\$2.94
1"	0 - 15	\$1.43	\$1.93
	16 - 60	\$1.75	\$2.36
	above 60	\$2.18	\$2.94
1 1/2"	0 - 40	\$1.43	\$1.93
	41 - 160	\$1.75	\$2.36
	above 160	\$2.18	\$2.94
2"	0 - 100	\$1.43	\$1.93
	101 - 750	\$1.75	\$2.36
	above 750	\$2.18	\$2.94
3"	0 - 280	\$1.43	\$1.93
	281 - 1,120	\$1.75	\$2.36
	above 1,120	\$2.18	\$2.94
4"	0 - 750	\$1.43	\$1.93
	751 - 1,800	\$1.75	\$2.36

**Residential and Irrigation Consumption Charges (continued):**

*In addition to the Monthly Base Charge*

**Price Per 1000 Gallons**

<u>Meter Size (inches)</u>	<u>Consumption</u>	<u>Inside City</u>	<u>Outside City</u>
6"	0 - 1,300	\$1.43	\$1.93
	1,300 - 5,200	\$1.75	\$2.36
	above 5,200	\$2.18	\$2.94
8"	0 - 3,000	\$1.43	\$1.93
	3,000 - 9,000	\$1.75	\$2.36
	above 9,000	\$2.18	\$2.94

**Commercial Consumption Charges:**

*(In addition to the Monthly Base Charge)*

**Price per 1000 gallons**

<u>Inside City</u>	<u>Outside City</u>
\$1.43	\$1.93

The following table presents a monthly charge comparison of the City with other Florida cities and counties having water treatment and softening facilities similar to the Water Department's as of September 30, 2006. These charges are based on a typical residential customer residing inside the City or Polk County limits and consuming 10,000 gallons per month.

<b>Water Comparable Rates: 9/30/2006</b>	
<b>Residential</b>	
<b>5/8 to 3/4 meter / 10k</b>	
Clearwater	44.33
Bartow	26.00
Coral Springs	23.47
West Palm Beach	23.06
Tallahassee	20.35
<b>Lakeland</b>	<b>20.08</b>
Gainesville	16.65
Tampa	16.04
Orlando	15.90

<u>City/ City/County*</u>	<u>Monthly Charge<sup>1</sup></u>
Clearwater	\$ 38.71
Bartow	26.00
Coral Springs	23.47
West Palm Beach	21.69
<b>Lakeland</b>	<b>19.25</b>
Tallahassee	17.30
Tampa	15.55
Orlando	14.45
Gainesville <sup>2</sup>	13.29

<sup>1</sup>Not including utility tax.

<sup>2</sup>Treatment facilities similar to Lakeland

\*Source: Department of Water Utilities

## HISTORICAL WATER RATE INCREASES

<u>Fiscal Year</u>	<u>Percentage</u>
2006	4.00%
2005	7.00%
2004	9.00%
2003	2.33%
2002	12.50%
2001	5.00%
1998	17.00%

## WATER UTILITIES – OPERATING STATISTICS

The following table presents a five-year history of the operations of the Water System:

<u>Description</u>	<u>Fiscal Year Ended September 30</u>				
	2006	2005	2004	2003	2002*
<u>Water pumped or purchased:</u>					
Pumped <sup>1</sup>	9,486.6	8,845.6	8,604.0	8,270.5	9,000.3
Lost-unaccounted or used <sup>1</sup>	(672.4)	(821.7)	(476.1)	(707.8)	(726.3)
Water sold <sup>1</sup>	8,814.2	8,023.9	8,127.9	7,562.6	8,273.9
Approximate peak demand <sup>2</sup>	31.13	32.08	33.70	34.18	40.21
Customers (average for period)	52,121	50,928	49,824	49,145	48,841
Operating revenue	\$ 20,951,396	\$ 18,631,773	\$ 17,696,731	\$ 15,131,449	\$ 15,823,098
Other revenues <sup>3</sup>	1,382,412	1,353,663	1,223,512	1,088,593	1,089,696
Total water operating revenue	\$ 22,333,808	\$ 19,985,436	\$ 18,920,243	\$ 16,220,042	\$ 16,912,794

<sup>1</sup>Expressed in million gallons.

<sup>2</sup>Million gallons per day.

<sup>3</sup>Includes water system capacity fees.

\*Does not include Polk City.

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## WASTEWATER UTILITES SYSTEM

### ADMINISTRATION AND ORGANIZATION

The Wastewater System is managed, operated, and maintained by the Wastewater Operations Division of the Water Utilities Department. The Wastewater Operations Division currently has a staff of 82 (this includes full-time, regular part-time, and seasonal personnel) as well as 4 contract personnel and 2 college interns. The Division is headed by an Assistant Director of Water Utilities for Wastewater Operations and includes six functional areas:

- Administration
- Engineering
- Wastewater treatment
- Wastewater collection system
- Wastewater laboratory
- Wetlands management

The Wastewater Collection System category is divided into three sections: wastewater collection line maintenance, pretreatment program, and pumping stations. The Wastewater Treatment category is divided into three sections: the Glendale Facility, the Northside Facility, and an integrated maintenance section.

### SERVICE AREA

The City's Wastewater System service area includes the incorporated area of the City. Additionally, an Interlocal Agreement between the City and Polk County provides for the Wastewater Department to serve customers in unincorporated areas of the county. A recent report, dated October 2001 by Hartman and Associates, Inc., has forecast the service area to expand from approximately 15 square miles to 147 square miles by the year 2020. Currently the City has service agreements with customers outside the City, which total 40,635 connections to the collection and treatment systems as of September 30, 2006. This represents a 2% increase over last year.

### DEMOGRAPHICS

Population and wastewater flow rate projections for the City of Lakeland service area are presented in the following table<sup>1</sup>.

Year	Projected Population Served by Treatment Facilities	Annual ADF (MGD)	Maxium 3-month ADF (MGD)
2004	91,853	12.07	14.00
2006	99,896	13.25	15.37
2008	108,842	14.64	16.98
2010	118,815	16.09	18.64
2012	129,956	17.68	20.49

<sup>1</sup> Source: Capacity Analysis Report, November 2002

Projecting wastewater flows based on population projections has been complicated due to current wastewater flow data that reflects a decrease in flow, in spite of increased population growth. This is attributed to the City's aggressive sewer rehabilitation program reducing inflow and infiltration (I&I) to the sewer collection system.

## COLLECTION SYSTEMS

The wastewater collection system includes over 290 miles of 6-inch to 48-inch diameter gravity sewer, over 97 miles of 4-inch to 24-inch diameter force main, and approximately 141 pump stations. Telemetry data can be collected on 137 pump stations and 17 are equipped with standby power generators.

## TREATMENT FACILITIES

The City owns and operates two wastewater treatment facilities:

<u>Facility</u>	<u>Capacity</u>
Glendale Water Reclamation Facility	13.7 million gallons per day
Northside Wastewater Reclamation Facility	6.2 million gallons per day

The treatment facilities consistently treat at required levels, often functioning at a greater rate of removal than required. In 1989, the Glendale Facility was awarded the Phelps Award by the Florida Pollution Control Association (FPCA) as the best secondary facility in the State, with the Northside Facility ranked second. In 1990 and 1991, the Northside Wastewater Reclamation Facility won the same award and the Glendale Facility ranked second. In 1992, the Northside Facility ranked second for the Phelps Award. The City of Lakeland Artificial Wetlands Treatment System received an Outstanding Public Interest Project Award from the State of Florida Bureau of Mine Reclamation in 1999.

### GLENDALE WATER RECLAMATION FACILITY

The Glendale Water Reclamation Facility (WWRF) is an activated sludge biological treatment facility with a present permitted treatment capacity of 13.7 million gallons per day (MGD). Construction to upgrade the plant to 13.7 MGD capacity was completed in 1999. The treated effluent from the facility is discharged to a lined holding pond where it is held until discharged into the City's wetlands disposal system or used as makeup cooling water at the McIntosh power plant. At the present time, the Glendale Facility includes the following systems:

- A primary/secondary wastewater treatment system with provisions for partial phosphorous removal, nitrification, and denitrification;
- Sludge holding, sludge thickening, and digestion facilities;
- An effluent disposal system, including a holding pond, effluent reuse and discharge pumps.

The wastewater treatment system includes the following processes:

- Influent pump station
- Screening
- Grit removal
- Primary clarification
- Intermediate lift station
- Fine bubble activated sludge system
- Secondary clarification
- Chlorination
- Effluent pumping

Raw wastewater enters the facility at the pretreatment system. The pretreatment system includes the following equipment:

- Mechanical screens
- Screen bypass channel
- Screenings conveyor and dumpster
- Odor control system
- Influent pump station wetwell and pumps
- Vortex grit chambers
- Grit concentrator and dewatering screen
- Grit dumpster

The raw wastewater enters the facility at the influent structure and flows through the mechanical screens into the pump station's wetwell. Flow entering the wetwell is pumped to the influent splitter box at the grit chambers, flows through the grit chambers, and discharges to a splitter box for the primary clarifiers. The odor control system is used to mitigate odor problems at the influent structure.

Material collected on the screens is discharged to a screenings conveyor and routed to a dumpster. Grit captured in the grit chambers is discharged through the grit concentrator and the grit-dewatering screen to a second dumpster. The dumpsters are drained back into the influent pump station. The dumpsters are hauled to a landfill for disposal when full.

Screened and degritted raw influent leaving the pretreatment system flows by gravity through an influent splitter box to the primary clarifiers. The primary clarifiers are used to settle approximately 60% of suspended solids. These settled solids are discharged to the anaerobic digesters.

Effluent from the primary clarifiers discharges to the intermediate pump station and is pumped to the secondary influent splitter box, then through the activated sludge system.

The activated sludge system includes three parallel aeration basins followed by four parallel secondary clarifiers. Effluent from the primary clarifiers is mixed with recycled settled activated sludge from the secondary clarifiers and is split between the activated sludge basins. The basins are suspended growth biological reactors where residual biological oxygen demand (BOD) is removed and where nitrogen is removed by nitrification and denitrification. The configurations of the basins and the location of the aeration zones in each basin allow the system to remove BOD and set up aerobic zones where ammonia is converted to nitrate and anoxic zones where the nitrate is converted to nitrogen gas. The system is controlled by controlling the amount of air provided to the reactors to oxidize organic matter in the wastewater.

The mixed liquor suspended solids generated in the aeration basins discharge to the clarifier splitter box and flow by gravity to the clarifiers. Solids in the mixed liquor entering the clarifiers settle to the bottom where it is withdrawn to return sludge sumps. Sludge collected in the sumps is withdrawn by the sludge pumps and recycled to the activated sludge basins. Excess sludge is wasted to the waste activated sludge holding tanks directly from the return sludge sumps.

Scum and other floatables on the clarifier surface are collected by a skimming arm and discharged to a scum sump. Scum from these sumps is pumped to the sludge handling system.

Treated effluent leaving the clarifiers is combined and discharged to the effluent holding basins. The effluent may be pumped from these basins to the McIntosh power plant for reuse or to the wetlands treatment system. The effluent is chlorinated prior to discharge from the basins. Flow meters with recorders and totalizers monitor the various effluent flows.

The sludge handling system includes the following facilities:

- Aerated waste activated sludge holding tank;
- Gravity belt activated sludge thickeners;
- Anaerobic digesters.

Sludge collected from the primary clarifiers is wasted directly to the anaerobic digesters. Waste activated sludge is discharged to the aerated sludge holding tank, thickened in the gravity belt thickeners, and then discharged to the anaerobic digesters. Filtrate from the thickeners is returned to the influent of the facility. Efforts are currently underway to upgrade the sludge treatment to provide Class A sludge.

Class B sludge generated at the Glendale Facility is disposed by land spreading. Commercial haulers under contract with the City conduct the land spreading. The treatment plant staff is responsible for wasting, thickening, digesting, holding, and monitoring the quality of the sludge. The haulers are responsible for proper land application and disposal.

The Glendale Facility includes a certified wastewater analysis laboratory which is well equipped, staffed and maintained.

Several key projects have been completed or underway to enhance the performance of the facilities:

- Security Enhancement for the Facility
- Improvements in the Headworks Screening System
- Addition of 2 pumps and standby generator at the effluent station.
- A sludge thickening upgrade project.

#### **NORTHSIDE WASTEWATER RECLAMATION FACILITY**

The Northside WWRF has a permitted design capacity of 6.2 MGD limited by the solids treatment system. This system was designed to treat raw influent from the North Lakeland Service Area, diverting flow from the Glendale Facility and to provide the capacity for future growth in the northern sections of the City. Treated effluent from the facility is discharged to an effluent storage tank. Effluent held in the tank is reused as cooling make-up water by the McIntosh power plant that is located immediately south of the treatment facility. Excess effluent, exceeding the requirements at the power plant, is bypassed, for disposal, to the Lakeland wetlands system. Cooling make-up water requirements exceeding the flow from the Northside Facility are supplied from the Glendale Facility.

The Northside Facility includes the following systems:

- A secondary wastewater treatment facility with provisions for nitrification and partial denitrification.
- An effluent disposal system, including an effluent storage tank, effluent bypass, and effluent supplement system.
- Sludge holding, aeration, and thickening facilities.

Operators at the treatment facility are responsible for the treatment system, effluent storage tank, and sludge handling system. Power plant personnel are responsible for operation of the cooling tower reuse system. The wastewater treatment system includes the following processes:

- Screening
- Grit removal
- 2-stage anoxic/aerobic activated sludge
- Secondary clarification
- Sludge stabilization and thickening
- Effluent pumping
- Chlorination

Raw wastewater enters the facility from the influent force main at the pretreatment structure. The pretreatment structure houses the following equipment:

- Two mechanical bar screens
- Manual bar screen (bypass)
- Two vortex grit chambers
- Screenings conveyor and dumpster
- Grit classifier and dewatering unit
- Grit dumpster
- Odor control system

Force mains from the wastewater collection system discharge directly into the plant's pretreatment structure. The raw influent entering the structure flows through the mechanical screens and grit chambers. Gates in the pretreatment structure allow the operator to bypass the mechanical screens and/or grit chambers. When the mechanical screens are bypassed, the raw influent is discharged through the manual bar screen.

Material collected on the screens is discharged to the screenings conveyor and routed to a dumpster located below the structure. Captured grit is discharged to the grit-dewatering unit and discharged to a second dumpster. The dumpsters are drained at the plant lift station. The grit and screenings are transported to the Glendale Facility drying beds and the consolidated material is disposed in a sanitary landfill.

Screened and degritted raw influent is mixed with return activated sludge leaving the pretreatment structure and flows by gravity through the influent splitter box, the 2-stage activated sludge system, and the secondary clarifiers to the effluent



pump station. The effluent pump station discharges the treated wastewater to the effluent storage tank for reuse at the power plant or disposal at the wetlands. Valves and gates in the piping system allow the operator to place the following units in service:

- Any of the four anoxic tanks
- Any of the oxidation ditches
- Any of the clarifiers

The activated sludge system includes four parallel 2-stage anoxic/aerobic treatment systems followed by four parallel secondary clarifiers. Each train of the system has a design capacity of 2.0 MGD.

Each train of the 2-stage system includes an anoxic first stage and aerobic second stage. The first stage is a completely mixed tank operated at a very low dissolved oxygen concentration that discharges directly to the second stage. The second stage is a fine bubble activated sludge system with an internal mixed liquor, which recycles back to the anoxic tank. The 2-stage configuration, with the internal recycle, allows the plant to nitrify in the fine bubble aerator where oxygen is present and also to denitrify in the anoxic tank where oxygen is absent.

The mixed liquor from the activated sludge tanks enters the effluent chambers and flows by gravity to the final clarifiers. Solids in the mixed liquor entering the clarifiers settle to the bottom where they are withdrawn to the return activated sludge (RAS) sumps. Telescoping valves in the sumps control the withdrawal rate. Sludge collected in the sumps is withdrawn by the sludge pumps and recycled to the pretreatment structure. Sludge is wasted to the sludge holding tanks directly from the RAS line. Flow meters, recorders, and totalizers are provided on both the RAS and waste activated sludge (WAS) lines to monitor and record the respective flow rates.

Scum and other floatables on the clarifier surface are collected by a skimming arm and discharged to scum hoppers. The scum hoppers are discharged to a scum pit, the contents of which are pumped to the sludge holding tanks.

Treated effluent leaving the clarifiers is combined and discharged to the effluent pump station wetwell. The effluent is chlorinated in the wetwell. The effluent pipeline is used to pump the effluent to the effluent storage tank. A flow meter with a recorder and totalizer monitors the effluent flow.

The effluent reuse and disposal system includes the following facilities:

- Effluent storage tank
- Reuse pump station
- Bypass pump station
- Emergency generator
- Non-potable water pump station

The effluent storage tank receives all of the chlorinated effluent from the Northside Facility along with chlorinated effluent pumped from the Glendale Facility. The effluent in the storage tank is reused as cooling make-up water at cooling towers at the McIntosh Power Plant. The system is designed to provide a constant supply for reuse. This is accomplished by maintaining a fixed volume of 600,000 gallons in the 1.5 million-gallon storage tank. If the flow from the Northside Facility is too low to maintain the level, flow from the Glendale Facility is pumped into the tank. If the flow from the Northside Facility exceeds the amount required to maintain the storage volume, the excess flow is bypassed to the Glendale Facility effluent holding basins.

Operation of the Northside Facility reuse pump station and the Glendale Facility pump is automatic, responding to the cooling water requirements and the level in the storage tank. Operation of the bypass pump station is manual, requiring the Northside Facility operator to manually divert the flow and start the pumps.

The non-potable water pumps supply the treatment facility with non-potable water at the Northside WWRP. The effluent stored in the tanks serves as the system supply.

The sludge handling system includes two aerated sludge holding tanks, a polymer feed system, two gravity belt thickeners, three autoheated thermophilic aerobic digestion reactors (ATAD), and one holding tank for digested sludge.

The holding tanks are designed to provide normal and wet weather storage of both thickened and unthickened WAS. Thickening is accomplished by decanting the tanks or using the polymer feed and gravity belt thickeners. Decant from the tanks and the underflow from the thickeners are discharged to the plant sewer and returned to the pretreatment structure.

Class A stabilized solids generated and wasted at the Northside Facility are disposed by land spreading. Commercial haulers under contract with the City conduct the land spreading. The treatment facility staff is responsible for wasting, thickening, stabilizing, holding, and monitoring the quality of the sludge. The haulers are responsible for proper disposal of the sludge.

An Operations Building on the facility site contains administrative offices along with the following:

- Laboratory facilities
- Operators' and meter rooms
- Maintenance storage space
- Men's and women's lockers/rest rooms
- A lunch/training room

The building serves as the center of facility operations and for the storage of operating records. The meter room, located next to the operators' room, contains the annunciator/monitoring panel along with plant flow meters. The panel displays the status of equipment throughout the system. Alarms on the panel require the operator to go to the equipment to diagnose and troubleshoot operating problems.

Currently, a chlorine contact chamber is in the design phase, as well as replacement for an air cleaner for the plants inlet structures.

## **EFFLUENT DISPOSAL SYSTEMS**

Effluent disposal for the City's two treatment facilities is provided through two methods:

- Reuse as cooling make-up water for the McIntosh Power Plant; and
- Disposal/reuse to an artificial wetlands system located six miles south of the Glendale Facility.

The power plant make-up reuse water pumping system is designed to transfer approximately 8 MGD of secondary treated wastewater effluent from the Glendale Facility and the Northside Facility to Lakeland Electric and McIntosh Power Plant Unit Numbers 2,3, and 5. The wastewater effluent is used as make-up water for the unit's cooling tower.

Effluent from the two treatment facilities is pumped to a 1.5 million-gallon reuse storage tank located at the Northside Facility. Effluent is pumped on demand from this storage tank to the power plant. Excess effluent from the Northside Facility and blowdown from the power plant (McIntosh return) are discharged to the holding basins at the Glendale Facility for pumping to the wetlands system.

The artificial wetland system pump station consists of five vertical turbine pumps, pumping from the Glendale Facility holding basin through 4.3 miles of 36-inch force main and 2.1 miles of 42-inch force main to the artificial wetlands system. The wetlands system covers approximately 1,600 acres (1,400 wet acres) of former phosphate clay settling areas. It is divided into seven distinct cells through a series of earthen berms. The wetlands system uses a combination of biological and physical methods to remove pollutants from the treated effluent prior to discharge to the Alafia River.

The flow enters the wetland system via a cascade inlet structure, which adds dissolved oxygen to the water through the turbulent fall down the structure's 13 steps. The aerated water passes out of the inlet structure by overflowing weirs on either side of the inlet distribution box. From this structure, the water enters two long ditches that have overflow structures at 100-foot centers. The distribution ditches provide an even distribution of water to the first wetland cell. Water meanders through the first cell and is treated by the wetland grasses and plants. The water then collects in a ditch on the western side of the cell. This ditch delivers the water to control structures. The control structures allow the water

to pass through the berm to a second distribution ditch, similar to the ditch adjacent to the inlet structure. Water passes through cell 2, is collected in a ditch connected to control structures, and passed into cell 3. This general collection and pass through scheme is repeated through the remaining cells up to cell 4. Operation of the remaining cells varies to meet operational demands.

At the south end of the final cell, an outlet structure measures the total flow via an “H” flume. The outlet structure also includes a meteorological station for monitoring weather data. The water then travels through an outfall ditch to the Alafia River. The artificial wetlands system currently has a permitted capacity of 20 MGD. The system is providing treatment beyond secondary levels and the effluent from this system often meets tertiary treatment levels.

The system’s effluent monitoring station has been upgraded with automated digital data recording and funds are forecast to upgrade the outlet structures at several points in the ditch water distribution channel. A tracer study has been completed to evaluate the duration of hydraulic residence in the seven cells, which can be used to optimize their performance. In FY 2003, the aeration manifold in the effluent discharge was replaced, as well as diffusers; and the mechanical flow control gates on the effluent of each basin are being replaced with a stop-flow control system.

### **STATUS OF PERMITS**

The City of Lakeland Wastewater System is regulated by the Florida Department of Environmental Protection (FDEP) through a combined state and Federal permit, listed in the table below. The Northside Facility permit was issued in August 2003, whereas the Glendale / Wetlands permits were issued May 2004. The Capacity Analysis report required for the new permits was completed by CSI in November 2002, and subsequent permit applications submitted before the permit expiration dates in year 2003.

<u>Facility</u>	<u>Agency</u>	<u>Type</u>	<u>Permit</u>	<u>Expiration</u>
Glendale	FDEP	Operation	FL0039772 DWIP	05/11/2009
Northside WWRF	FDEP	Operation	FLA 12985-002 DWIP	08/04/2008
Wetlands system	FDEP	Operation	FL0039772 DWIP	05/11/2009

### **STATUS OF OPERATIONS AND MAINTENANCE – TREATMENT**

#### **GENERAL**

Chastain-Skillman, Inc. performed a thorough site inspection of the Glendale and Northside wastewater reclamation facilities, as well as the wetlands facility in January 2005. The inspection also encompassed 12 of the smaller wastewater pump stations and 6 of the larger ones.

#### **LENDALE FACILITY**

The performance of the facility through the last two years of operation has been well within permit limitations but somewhat variable due to the heavy loads. Plant construction activities completed in 1999, lesser than normal rain fall in 1999-2000, and a highly aggressive and successful sewer maintenance program by the Wastewater Operation Division have all contributed to the dynamics in wastewater treatment operations, which resulted in a 6% reduction in the average daily flow rate, between 1999 and 2001. On the other hand, average daily flow rates increased from about 7 MDG in year 2000 to 8.7 in 2004 and 8.35 in 2005. The average flow rate for 2006 was 6.93. Considering that these fluctuations occurred concurrent with maintaining a high quality effluent is, indeed, a compliment to wastewater operations division staff. The skills and efforts of the operating staff are the primary reasons the facility continues to operate well, despite system variations.

In 1996, a Capacity analysis Report by CSI identified the need to expand the capacity of the Glendale Facility to its current capacity of 13.7 MDG. This expansion was completed in 1998. In addition, the Capacity Analysis Report dated November 2002 by CSI provided the basis for the City to plan for the following improvements:

- It is forecast that within the time frame of year 2010, the high organic and nitrogen content of the influent to the Glendale Facility could adversely impact the treatment system. The city has initiated design of a pretreatment facility for a portion of the influent which will mitigate this problem and is expected to operational in the 2007.
- In the same context, plans have been implemented to re-rate the hydraulic capacity, add additional sludge treatment and effluent storage to the Northside Facility so that wastewater can be diverted from treatment to Glendale.
- New influent screens which automated controls were installed in 2005, along with a grinder / compactor for consolidating the screenings in the plant headworks. This has resulted in decreasing the rate that which screenings must be handled for disposal from two to three times per week, to once per month.
- The wastewater laboratory was approved for its annual recertification in 2005. In addition, the pretreatment program was provided with a laboratory for sample preparation in 2005.
- The new digester to supplement the existing anaerobic digester is under construction with operations projected in 6 months. The new digester will provide a higher quality sludge for disposal and provisions for the potential recover combustible gas from the process were considered in the design.
- There are currently no specific plans to acquire any of the surrounding area's wastewater treatment or collection systems.

## **NORTHSIDE WWRF**

The performance of the Northside Facility through the last two years of operation has also been excellent. The operating staff has achieved a high level of proficiency in the operation of the Northside Wastewater Reclamation Facility. The water quality of the effluent discharge was excellent. The City completed a Capacity Analysis Report for the Northside Facility in February 1993, which indicated that the capacity of the original system would be exceeded by the end of 1995 or early 1996. The City completed construction of the facility expansion in the fall of 1996. Plans are underway to have this facility be re-rated to expand the permit capacity from 6.2 to 8 MGD. This expansion is facilitated by adding an additional sludge treatment system (ATAD), and increase the effluent storage capacity. The new permit requires the addition of a chlorine contact chamber, which is currently under construction.

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## **WETLANDS**

The new operating permit provides an increase in capacity for the wetland treatment system to 20-MGD from the previous existing 14-MGD. Various maintenance activities to upgrade control structures in the network of distribution ditches in the wetlands are planned.

Operating and performance problems reported for the wetlands system in the 1992 Bondholders Report were corrected by the modification of flow control gates, replanting of submergent and emergent macrophytic plant species and the use of aquatic dyes to control algae which contributed to the problem with effluent total suspended solids (TSS). In addition, a mechanical aeration system and blowers were added and are currently being upgraded to ensure compliance with effluent standards for dissolved oxygen. Investigation of the hydraulic retention times in the various cell through tracer studies have been completed. This data will assist in evaluating opportunities to enhance the wetland's performance. Various maintenance activities to upgrade control structures on the network of distribution ditches in the wetland are underway by replacing mechanical control gates with stop-log gates. The operating data presented below, as well as past annual data, indicates that the concerns with effluent TSS were mitigated, but evaluation of the alternative measures are on-going should this problem reoccur. The toxicity attributes of the effluent are assessed using a bioassay at a contract laboratory using the static renewal 96-hour method.

There has been significant procurement of landscape capital equipment and a structure to store and maintain the equipment for the facility. This equipment provides the means to maintain and control vegetation covering the berms between the wetland ponds. Excessive vegetation can contribute to weaken the berms and mask potential leakage requiring remediation. The storage facilities will also provide for the ultimate installation of a standby generator to support the blowers providing diffused air to the effluent during power outages. The acquisition of this equipment has proven to be very beneficial to the facility.

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## **STATUS OF OPERATION AND MAINTENANCE - COLLECTION SYSTEM**

The Wastewater collection system provides comprehensive maintenance for the City's wastewater pump stations and collection piping network. Most of the pump stations are equipped with telemetry which can access data from each pump station on pump run time, number of pumps starts and flow of wastewater through the station. This data is accessible at any time from a central location at the Glendale Facility. All pump stations are equipped with high and low level alarms and equipped to operate on standby generators, if needed. The smaller lift stations are inspected monthly and the master lift station weekly, by collection system personnel. Manufacturers of the pumps used in the system are standardized as much as practical to facilitate repair and maintenance. A standardized schedule for inspecting the collection piping network provides for cleaning and television inspection of internal piping, such that the entire system is completed in 10 to 11 year cycles. As deficiencies are noted, they are corrected. Odor control in the system has been accomplished with a commercial in-pipe treatment system at 50 injection points in the system. Further, the master lift stations are equipped with odor control scrubbers.

### **CAPITAL IMPROVEMENT PLAN**

The City has developed a comprehensive 10-year capital improvement plan, which included \$9,837,685 for projects in the 2006 budget that have been completed or are ongoing. The Engineering Division assists the Wastewater Division in formulating the capital improvement plan. Revenues and expenditures of the capital improvement plan are subdivided into five major categories:

- Sewer collection system
- Pump stations
- Wastewater treatment facilities
- Wetlands maintenance
- Miscellaneous (ie. Buildings, administration, maintenance and support)

Current Capital Improvement Projects include the force main expansion into the Northeast area of the Water Utilities service area. This expansion will allow the Department to service new developments planned for the area. Capital Improvement Projects (CIP) scheduled for FY 2007 total \$20,432,904. A total of \$112,805,487 of Capital Improvements are scheduled to be completed over the next 10 years. 44% of these costs are expected to be financed from internally generated funds. The remaining 56% is expected to be financed with proceeds from the Wastewater Revolving Loan Program.

The systematic approach to the management of capital projects results in lower operational costs. The goals of the Engineering Division are to complete all projects on time and on budget and to proactively maintain or upgrade the collection and treatment systems.

## **WASTEWATER CHARGES & RATES**

### **GENERAL**

The City of Lakeland's primary means of financing expenditures for improvements to, and operation and maintenance of, its wastewater utility system is through user charges and impact fees supplemented by revenue bonds.

Revised rates and charges as described more fully within Ordinances 2944, 3003, 3383, and 3612 were adopted by the Lakeland City Commission in 1987, 1988, 1990, and 1993, Resolution No. 3735 in 1995, Resolution No. 4011 in 1999 and Resolution No. 4299 in 2004. FY 05 revised rates and charges were adopted by Resolution No. 4573.

### **USER CHARGES**

The wastewater user charge rate is composed of a service charge component and a volumetric component, based on actual usage. The following sections detail the current rates and charges in effect. It should be noted that as of

September 30, 2006 residential wastewater user charges have a maximum billing amount of \$36.87, based on the assumption that water consumption in excess of 12,000 gallons per month is used for irrigation or other outdoor uses and is not returned to the sewer system.

### IMPACT FEES

Water pollution control charges (impact fees) are one-time charges for wastewater capacity, which includes costs for engineering, surveying, legal services, financial & administrative, and construction costs for new system capacity. Charges for upgrading the System, without adding additional capacity, are funded by user charges, not through impact fees. The current impact fee is established at \$1,100 per equivalent residential connection. Impact fees are also collected from customers who discharge wastes in excess of accepted norms. Those fees are identified in the Rates and Charges Table:

### HIGH STRENGTH SURCHARGES

The City also charges user rates on the basis of wastewater strength. Those customers who generate wastewater stronger than established design parameters are charged monthly surcharges based on the actual strength of waste discharged. As of September 30, 2006, those surcharge amounts are identified in the Rates and Charges Table.

### RATES AND CHARGES

Customer Classification	Inside City Fixed Charge Componet(\$)	Outside City Fixed Charge Componet(\$)	Volume In Componets per 1,000 gallons	
			Inside City	Outside City
Single Family Dwelling Unit	\$10.35	\$12.94	\$2.21	\$2.76
Multiple Family Dwelling Unit	\$7.70	\$9.63	\$2.21	\$2.76
Commercial /Industrial Meter Size (inches)			\$2.21	\$2.76
5/8 to 3/4	\$10.35	\$12.94	\$2.21	\$2.76
1	\$26.11	\$32.64	\$2.21	\$2.76
1-1/2	\$51.75	\$64.69	\$2.21	\$2.76
2	\$124.33	\$155.41	\$2.21	\$2.76
3	\$311.45	\$389.31	\$2.21	\$2.76
4	\$463.95	\$579.94	\$2.21	\$2.76
6	\$618.98	\$773.73	\$2.21	\$2.76
8	\$1,035.89	\$1,294.86	\$2.21	\$2.76

Maxium monthly residential single-family customer sewer charge is 36.87 per month (in City) based on 12,000 gallons of usage

### Notes

1. Sewer customers outside the City's corporate limits pay a 25 % surcharge.
2. Biochemical Oxygen Demand (BOD) charge is \$0.257/lb BOD.
3. Suspended Solids (TSS) charge is \$0.161 /lb TSS.
4. Total Nitrogen (TN) charge is \$0.357 /lb TN.
5. Residential impact fee (in City) is \$1,100 per unit.
6. Multi-family impact fee is \$825 per unit.
7. High strength BOD impact fee (above 300 mg/l) is \$300/lb BOD.
8. High strength TSS impact fee (above 300 mg/l) is \$70/lb TSS.
9. High strength TN impact fee (above 300 mg/l) is \$456/lb TN.

The following table presents a monthly charge comparison of the City with other Florida cities and counties having wastewater treatment facilities similar to the Wastewater Department's as of September 30, 2006. These charges are based on 5/8" to 3/4" meter and usage of 12,000 gallons per month.

<u>City/ City/County</u>	<u>Monthly Charge</u>
Clearwater	\$ 66.12
Tampa	53.89
Gainsville	50.80
Orlando	45.40
Tallahassee	43.55
<b>Lakeland</b>	<b>39.69</b>
West Palm Beach	38.80
Bartow	36.08
Coral Springs	34.62

#### HISTORICAL WASTEWATER RATE INCREASES

<u>Fiscal Year</u>	<u>Percentage</u>
2006	8.50%
2005	6.00%
2004	8.00%
2003	2.33%
2002	2.50%

#### CUSTOMER BASE

9/30/2000	32,310
9/30/2001	32,846
9/30/2002	32,928
9/30/2003	33,403
9/30/2004	39,251
9/30/2005	39,866
9/30/2006	40,635

#### HISTORIC WASTEWATER TREATMENT FLOWS

2000	10.17
2001	10.43
2002	10.9
2003	13.25
2004	12.18
2005	11.5
2006	10.3



**WATER AND WASTEWATER UTILITIES – RESULTS OF OPERATION**

Revenues and Expenses:	2002	2003	2004	2005	2006
<b>Gross Revenues</b>					
Wastewater Service Revenues	\$ 12,461,825	\$ 13,141,807	\$ 13,643,328	\$ 15,196,582	\$ 17,023,799
Investment Income - Wastewater (1)	242,705	144,255	169,680	157,013	241,320
Miscellaneous - Wastewater	3,015	24,486	39,493	6,633	60,014
<b>Total Operating Revenues - Wastewater</b>	<b>\$ 12,707,545</b>	<b>\$ 13,310,548</b>	<b>\$ 13,852,501</b>	<b>\$ 15,360,228</b>	<b>\$ 17,325,133</b>
Water Service Revenues	\$ 16,912,794	\$ 16,220,042	\$ 18,990,153	\$ 19,985,436	\$ 21,208,867
Investment Income - Water (1)	263,485	148,867	95,960	86,892	269,774
Miscellaneous - Water	18,204	353,288	30,010	32,984	52,971
<b>Total Operating Revenues - Water</b>	<b>\$ 17,194,483</b>	<b>\$ 16,722,197</b>	<b>\$ 19,116,123</b>	<b>\$ 20,105,312</b>	<b>\$ 21,531,612</b>
<b>Total Operating Revenues</b>	<b>\$ 29,902,028</b>	<b>\$ 30,032,745</b>	<b>\$ 32,968,624</b>	<b>\$ 35,465,540</b>	<b>\$ 38,856,745</b>
<b>Operating Expenses:</b>					
Wastewater Operations	\$ 6,902,006	\$ 7,567,382	\$ 8,504,671	\$ 9,360,698	\$ 10,309,615
Administration - Wastewater	935,804	930,179	1,003,096	1,197,901	1,482,815
Customer Service & Accounting - Wastewater	461,991	489,334	394,510	391,519	377,043
<b>Total Operating Expenses - Wastewater</b>	<b>\$ 8,299,801</b>	<b>\$ 8,986,895</b>	<b>\$ 9,902,277</b>	<b>\$ 10,950,118</b>	<b>\$ 12,169,473</b>
Water Operations	\$ 5,159,928	\$ 5,397,769	\$ 5,589,313	\$ 5,847,322	\$ 7,729,969
Administration - Water	1,165,910	1,455,220	1,965,773	1,935,832	1,904,249
Customer Service & Accounting - Water	757,194	849,260	771,275	789,209	722,229
<b>Total Operating Expenses - Water</b>	<b>\$ 7,083,032</b>	<b>\$ 7,702,249</b>	<b>\$ 8,326,361</b>	<b>\$ 8,572,363</b>	<b>\$ 10,356,447</b>
<b>Total Operating Expenses</b>	<b>\$ 15,382,833</b>	<b>\$ 16,689,144</b>	<b>\$ 18,228,638</b>	<b>\$ 19,522,481</b>	<b>\$ 22,525,920</b>

A comparison of FY 2006 revenues and expenses was made to determine the adequacy of rates and charges to meet bond covenants and coverages. This table provides a financial summary for the fiscal year ending September 30, 2006. It should be noted that the debt service coverage ratio is quite favorable compared to required ratio of 1.0.

**WATER AND WASTEWATER UTILITIES – RESULTS OF OPERATION (CONTINUED)**

Revenues and Expenses:	2002	2003	2004	2005	2006
Net Operating Revenues (NOR) Available For Debt Service	\$ 14,519,195	\$ 13,343,601	\$ 14,739,985	\$ 15,943,059	\$ 16,330,825
Available Connection Charges - Wastewater (2)	\$ 1,064,635	\$ 1,052,735	\$ 886,499	\$ 1,049,321	\$ 1,049,589
Available Connection Charges - Water (2)	808,959	900,194	929,282	1,311,867	3,061,294
Total Connection Charges	\$ 1,873,594	\$ 1,952,929	\$ 1,815,781	\$ 2,361,188	\$ 4,110,883
Total Revenues Available for Debt Service	\$ 16,392,789	\$ 15,296,530	\$ 16,555,766	\$ 18,304,247	\$ 20,441,708
Debt Service Requirement (3)	\$ 5,776,644	\$ 5,712,075	\$ 5,704,126	\$ 5,693,551	\$ 5,695,000
Amount Available for Renewal and Replacement Deposit and all of lawful purposes	\$ 10,616,145	\$ 9,584,455	\$ 10,851,640	\$ 12,610,696	\$ 14,746,708
Coverage by NOR Available For Debt Service (3)	2.51	2.34	2.58	2.80	2.87
Coverage by Total Revenues Available For Debt Service (2) (3)	2.84	2.68	2.90	3.21	3.59

(1) Includes all investment earnings available to pay debt service as prescribed in the Bond Ordinance.

(2) Pursuant to Florida law, only 58.50% of the debt service on the Series 2002 Bonds currently can be paid from Water Connection Charges and only 18.43% of the debt service on the Series 2002 Bonds currently can be paid from Wastewater Connection Charges. Because 58.50% of the Maximum Bond Service Requirement for the Series 2002 Bonds is currently greater than the Water Connection Charges shown in each fiscal year, 100% of all Water Connection Charges received by the City are being used in calculating coverage. Because 18.43% of the Maximum Bond Service Requirement (\$1,064,635) for the Series 2002 Bonds is less than the actual Wastewater Connection Charges for fiscal years 1999 through and including 2001, only the amount of all Wastewater Connection Charges that would be available to pay the Maximum Bond Service Requirement is shown for such fiscal years.

(3) Represents Maximum Bond Service Requirement for the Series 2002 Bonds for fiscal years 1999 through and including 2002.

(4) Derived from audited financial statements.

Source: City of Lakeland, Florida

**WATER AND WASTEWATER REVENUE REFUNDING AND IMPROVEMENT BONDS**

**SERIES 2002**

**\$72,755,000**

**TERM BONDS  
DATED AUGUST 29, 2002  
CUSIP NUMBERS**

<b>511773AA1</b>	<b>511773AE3</b>	<b>511773AJ2</b>	<b>511773AN3</b>	<b>511773AS2</b>	<b>511773AW3</b>
<b>511773AB9</b>	<b>511773AF0</b>	<b>511773AK9</b>	<b>511773AP8</b>	<b>511773AT0</b>	<b>511773AX1</b>
<b>511773AC7</b>	<b>511773AG8</b>	<b>511773AL7</b>	<b>511773AQ6</b>	<b>511773AU7</b>	<b>511773AY9</b>
<b>511773AD5</b>	<b>511773AH6</b>	<b>511773AM5</b>	<b>511773AR4</b>	<b>511773AV5</b>	

**PURPOSE**

The Series 2002 Bonds were issued to (i) finance the cost of acquisition, construction, and installation of improvements to the City's water and sewer utility system, (ii) refund, on a current basis, all of the City outstanding Wastewater System Revenue Bonds, Refunding Series 1993, and (iii) and pay certain costs and expenses relating to the issuance of the Series 2002 Bonds.

**SECURITY**

The Series 2002 Bonds will be secured by an irrevocable, valid, and binding lien on and security interest in the Gross Revenues derived from the operation of the Water and Wastewater Systems, certain Connection charges, moneys deposited into certain funds and accounts created by the Bond Ordinance and the earnings thereon, all in the manner and to the extent provided in the Bond Ordinance.

**BOND INSURANCE**

N/A

**RATINGS**

Fitch Ratings: **AA**

Moody's Investors Service: **Aa3**

Standard & Poors Rating Services: **AA-**

**OPTIONAL REDEMPTION**

The Series 2002 Bonds maturing on or after October 1, 2013 are subject to a redemption at the option of the City on or after October 1, 2012, in whole or in part at any time, in such manner as may be determined by the City and by lot within a maturity if less than all of a maturity is to be redeemed, at a redemption price equal to 100% of the principal amount to be redeemed, plus accrued interest to the redemption date.

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**WATER AND WASTEWATER REVENUE REFUNDING AND IMPROVEMENT BONDS**  
**SERIES 2002 (CONTINUED)**

**MANDATORY REDEMPTION**

The Series 2002 Bonds Term Bonds maturing on October 27, 2027 are subject to mandatory sinking fund redemption, in part by lot, prior to maturity, on October 1, 2023, and on October 1 of each year thereafter, at a price of par plus accrued interest on the date of redemption, in the years and in the amounts as follows:

<u>Year</u>	<u>Principal Amount</u>
2023	\$1,890,000
2024	1,990,000
2025	2,090,000
2026	2,390,000
2027*	2,890,000

\*Final Maturity

The Series 2002 Term Bonds maturing on October 1, 2032 and bearing interest at an annual rate of 5%, are subject to mandatory sinking fund redemption, in part by lot, prior to maturity, on October 1, 2028, and on October 1 of each year thereafter, at a price of par plus accrued interest to the date of redemption, in the years and in the amounts as follows:

<u>Year</u>	<u>Principal Amount</u>
2028	\$1,245,000
2029	1,310,000
2030	1,375,000
2031	1,445,000
2032*	1,515,000

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**WATER AND WASTEWATER REVENUE REFUNDING AND IMPROVEMENT BONDS**  
**SERIES 2002 (CONTINUED)**

\*Final Maturity

The Series 2002 Term Bonds maturing on October 1, 2032 and bearing interest at an annual rate of 5.25%, are subject to mandatory sinking fund redemption, in part by lot, prior to maturity, on October 1, 2028, and on October 1 or each year thereafter, at a price of par plus accrued interest to the date of redemption, in the years and in the amounts as follows:

<u>Year</u>	<u>Principal Amount</u>
2028	\$1,810,000
2029	1,900,000
2030	1,995,000
2031	2,095,000
2032*	2,200,000

\*Final Maturity

**AGENTS**

Registrar:	Bank of New York, New York, New York
Paying Agent:	Bank of New York, New York, New York
Trustee:	Bank of New York, New York, New York
Issuer's Bond Counsel:	Holland & Knight, LLP, Lakeland, Florida
Issuer's Financial Advisors:	Fishkind & Associates, Inc., Orlando, Florida William R. Hough & Co., St. Petersburg, Florida
Managing Underwriter:	Salomon Smith Barney, Inc., West Palm Beach, Florida
Underwriters' Counsel:	Nabors, Giblin & Nickerson, P.A., Tampa, Florida

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**WATER AND WASTEWATER REVENUE REFUNDING AND IMPROVEMENT BONDS**  
**SERIES 2002 (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENT**

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/01/06	2,575,000.00	3,087,812.00	5,662,812.00
10/01/07	2,645,000.00	3,019,257.00	5,664,257.00
10/01/08	2,705,000.00	2,940,622.00	5,645,622.00
10/01/09	2,875,000.00	2,826,481.00	5,701,481.00
10/01/10	3,010,000.00	2,679,356.00	5,689,356.00
10/01/11	3,165,000.00	2,524,981.00	5,689,981.00
10/01/12	3,325,000.00	2,362,731.00	5,687,731.00
10/01/13	3,485,000.00	2,188,125.00	5,673,125.00
10/01/14	3,680,000.00	2,000,044.00	5,680,044.00
10/01/15	2,665,000.00	1,833,488.00	4,498,488.00
10/01/16	465,000.00	1,753,650.00	2,218,650.00
10/01/17	480,000.00	1,733,269.00	2,213,269.00
10/01/18	500,000.00	1,711,519.00	2,211,519.00
10/01/19	525,000.00	1,688,128.00	2,213,128.00
10/01/20	1,650,000.00	1,637,831.00	3,287,831.00
10/01/21	1,725,000.00	1,558,706.00	3,283,706.00
10/01/22	1,805,000.00	1,474,869.00	3,279,869.00
10/01/23	1,890,000.00	1,384,750.00	3,274,750.00
10/01/24	1,990,000.00	1,287,750.00	3,277,750.00
10/01/25	2,090,000.00	1,185,750.00	3,275,750.00
10/01/26	2,390,000.00	1,073,750.00	3,463,750.00
10/02/27	2,890,000.00	941,750.00	3,831,750.00
10/01/28	3,055,000.00	790,862.00	3,845,862.00
10/01/29	3,210,000.00	629,600.00	3,839,600.00
10/01/30	3,370,000.00	460,231.00	3,830,231.00
10/01/31	3,540,000.00	282,369.00	3,822,369.00
10/01/32	3,715,000.00	95,626.00	3,810,626.00
	<u>\$ 67,940,000.00</u>	<u>\$ 48,300,082.00</u>	<u>\$ 116,240,082.00</u>

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## UTILITIES TAX

### UTILITIES TAX ORDINANCE SUMMARY

#### GENERAL

The Supplemental Utilities Tax Bond Ordinance amends the Utilities Tax Bond Ordinance and provides that “Utilities Tax” means “the utilities service tax imposed by the City on each and every purchase in the City of electricity, water, and metered and bottled gas (natural liquefied petroleum gas or manufactured) and the local communications tax imposed by the City on communications services pursuant to Section 202.19, Florida Statutes. Said term shall also apply to all taxes imposed by the City on the purchase of utility services, whether levied in the amounts prescribed by the Utilities Tax Ordinance or in any other amounts and whether imposed on the purchase of the same utilities services or any other or additional utilities services, by amendment to the Utilities Tax Ordinances.” The two components of Utilities Tax are discussed in greater detail below. The utilities service tax is referred to herein as the “Public Services Tax” and the local communications tax imposed pursuant to Section 202.19, Florida Statutes is referred to herein as the “Communications Tax.”

#### PUBLIC SERVICE TAX

The Public Services Tax is levied and collected under Section 166.231, Florida Statutes and Ordinances Nos. 2381, 2427, 2744, 2819, and 2955 of the City, enacted on September 20, 1982, January 3, 1983, November 4, 1985, July 21, 1986, and September 21, 1987, as amended and supplemented (collectively, the “Utilities Service Tax Ordinance”).

The Public Services Tax includes the tax as levied and collected by the City pursuant to the Utilities Service Tax Ordinance which, pursuant to the applicable statutes includes taxes on every purchase of electricity, water, metered or bottled gas (natural gas, liquefied petroleum gas or manufactured gas) in the amount of 10% of the payments received by the seller of utility service from the purchaser of such utility service, which tax, in every case, is required to be collected from the purchaser of such utility service and paid by such purchaser at the time of the purchaser’s paying the charge therefore to the seller, but not less often than monthly. The Utilities Service Tax Ordinance provides that it is unlawful for any seller of utility services to collect the price of any such sale without, at the same time, collecting the tax thereby imposed and levied in respect to such purchaser. Any seller failing to collect such tax at the time of collecting the price of any purchase shall be liable to the City for the amount of such tax in like manner as if the same had actually been paid to the seller.

The Utilities Service Tax Ordinance exempts from taxation:

- (i) Any increase in the cost of utility services to the ultimate consumer resulting from an increase in the cost of fuel to the utility subsequent to October 1, 1973 (with fuel adjustment charges required to be separately stated on bills for utility services)
- (ii) Any service provided to the United States of America, the State of Florida, Polk County, Florida, the City, and any other political subdivision or agency thereof;
- (iii) Any services provided by any recognized church for use exclusively for church purposes;
- (iv) The purchase of local telephone service or other telecommunication service for use in the conduct of a telecommunication service for hire or otherwise for resale.

Section 166.231, Florida Statutes, also permits municipalities to exempt any amount, up to, and including, the first 500-kilowatt hours of electricity purchased per month for residential use but to date the City has implemented such exemption.

## COMMUNICATIONS TAX

The Communications Services Tax Simplification Act, enacted by Chapter 2000-260, Laws of Florida, as amended by Chapter 2001-140, Laws of Florida, and now codified in part as Chapter 202, Florida Statutes (the "CSTA") established, effective October 1, 2001, a communications services tax on the sale of communications services defined in Section 202.11, Florida Statutes, and as of the same date repealed Section 166.231(9), Florida Statutes, which previously granted municipalities the authority to levy utility services tax on the purchase of telecommunication services. Section 202.19, Florida Statutes, authorizes counties and municipalities to levy a discretionary communications services tax (the "Communications Tax") on communications services, the revenues from which may be pledged for the repayment of current or future bonded indebtedness. Section 202.41, Florida Statutes provides that revenues received under the CSTA shall be deemed as a matter of law to replace any taxes and fees previously imposed but repealed by the CSTA (which includes the tax on telecommunication services previously authorized by Section 163.231(9), Florida Statutes) as security for the bonded indebtedness. The tax rate adopted by the City of Lakeland is 6.43%.

Prior to the effective date of the CSTA, the City exercised the option to levy a utility service tax at the rate of seven percent (7%) on the purchase of telecommunications services which originated or terminated within the City, excluding the variable usage charges for cellular mobile telephone or telecommunications services, specialized mobile radio and pagers and paging services. Telecommunications service was defined to be local telephone service, toll telephone service, telegram or telegraph service, teletypewriter, facsimile or computer exchange service, private communication service, cellular mobile telephone or telecommunication service and specialized mobile radio, pagers and paging service but excluding Internet access service, electronic mail service, electronic bulletin board service, or similar on-line computer service.

One effect of the CSTA was to replace the former utility services tax on telecommunications services, including pre-paid calling arrangements, as well as any revenues from franchise fees on cable and telecommunications service providers and permit fees relating to placing or maintaining facilities in rights-of-way collected from providers of certain telecommunications services, with the local communications services tax. This change in law was intended to be revenue neutral to the counties and municipalities. The Communications Tax is applied to a broader base of communications services than the former utility services tax on telecommunications.

Communication services are defined as the transmission, conveyance, or routing of voice, data, audio, video, or any other information or signals, including cable services, to a point, or between or among points, by or through any electronic, radio, satellite, cable, optical, microwave, or other medium or method now in existence or hereafter devised, regardless of the protocol used for such transmission or conveyance. The term does not include:

- (a) Information services.
- (b) Installation or maintenance of wiring or equipment on a customer's premises.
- (c) The sale or rental of tangible personal property.
- (d) The sale of advertising, including, but not limited to, directory advertising.
- (e) Bad check charges.
- (f) Late payment charges.
- (g) Billing and collection services.
- (h) Internet access service, electronic mail service, electronic bulletin board service, or similar on-line services.



## UTILITIES TAX COLLECTIONS

The following table is a record of Utilities Tax collected by the City for the past five Fiscal Years ending September 30.

Utilities Tax and Tourist Development Tax Collections					
Fiscal Years Ending September 30					
	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Electricity	\$ 6,598,518	\$ 6,341,371	\$ 6,286,860	\$ 6,196,787	\$ 5,634,616
Telecommunications	6,135,035	6,322,848	5,977,483	5,995,251	4,715,389
Water	1,155,269	1,052,041	994,654	843,732	863,362
Gas	37,534	4,677	4,227	2,794	148,383
Propane	235,498	235,983	230,050	213,624	51,992
Fuel Oil	20	563	1,004	1,278	3,934
	<u>14,161,873</u>	<u>13,957,484</u>	<u>13,494,278</u>	<u>13,253,466</u>	<u>11,417,676</u>
 Tourist Development Tax	 <u>440,000</u>	 <u>440,000</u>	 <u>440,000</u>	 <u>440,000</u>	 <u>440,000</u>
 Total	 <u><u>14,601,873</u></u>	 <u><u>14,397,484</u></u>	 <u><u>13,934,278</u></u>	 <u><u>13,693,466</u></u>	 <u><u>11,857,676</u></u>
 Annual Debt Service Requirement <sup>1</sup>	 <u><u>\$ 1,892,804</u></u>	 <u><u>\$ 1,941,049</u></u>	 <u><u>\$ 2,114,292</u></u>	 <u><u>\$ 2,410,920</u></u>	 <u><u>\$ 2,269,196</u></u>
 Coverage	 7.71	 7.42	 6.59	 5.68	 5.23

<sup>1</sup> For fiscal years 1999 through and including fiscal year 2002, the Annual Debt Service Requirement equals the amount payable in conjunction with series 1994 Utilities Tax Revenue Bonds, which were refunded by the series 2002 Utility Tax Revenue Refunding and Improvement Bonds.

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**UTILITIES TAX REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2002 A**

**\$15,020,000**

**SERIAL BONDS  
DATED FEBRUARY 6, 2003  
CUSIP NUMBERS**

<b>511768DC4</b>	<b>511768DF7</b>	<b>511768DJ9</b>	<b>511768DM2</b>	<b>511768DQ3</b>
<b>511768DD2</b>	<b>511768DG5</b>	<b>511768DK6</b>	<b>511768DNO</b>	<b>511768DRI</b>
<b>511768DEO</b>	<b>511768DH3</b>	<b>511768DL4</b>	<b>511768DP5</b>	<b>511768DS9</b>

**PURPOSE**

The Series 2002A Bonds were issued in order to provide funds to (i) refund all of the City's outstanding Utilities Tax Revenue Bonds, Series 1994A, (ii) fund a deposit to the 2002 Debt Service Reserve Account and (iii) pay cost associated with the issuance of the Series 2002A bonds, including the municipal bond insurance premium.

**SECURITY**

The Utilities Tax Revenue Refunding, Series 2002A Bonds and the interest thereon are payable solely from the Utilities Tax.

**INSURANCE**

A municipal bond insurance policy was purchased to unconditionally and irrevocably guarantee the full and complete payment required to be made.

**RATINGS**

Moody's Investors Service:    **Aaa**    Standard & Poor's Ratings Services:    **AAA**    Fitch:    **AAA**

**OPTIONAL REDEMPTION**

The Series 2002A Bonds maturing on or after October 1, 2013, may be redeemed prior to their respective maturities, on or after October 1, 2012, at the option of the City, in whole or part at any time at the redemption prices of par, together with accrued interest to the redemption date.

**AGENTS**

Registrar:	Bank of New York, New York, New York
Paying Agent:	Bank of New York, New York, New York
Issuer's Bond Counsel:	Holland a& Knight LLP, Lakeland, Florida
Issuer's Financial Advisors:	Fishkind & Associates, Inc., Orlando, Florida William R. Hough & Co., St. Petersburg, Florida
Managing Underwriter:	Salomon Smith Barney, Inc., West Palm Beach, Florida
Underwriters' Counsel:	Bryant, Miller and Olive, P.A., Orlando Florida
Insurance:	Ambac Assurance Corporation, New York, New York

**UTILITIES TAX REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2002A (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENTS**

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/01/06	905,000.00	192,202.50	1,097,202.50
04/01/07		183,152.50	183,152.50
10/01/07	930,000.00	183,152.50	1,113,152.50
04/01/08		173,387.50	173,387.50
10/01/08	945,000.00	173,387.50	1,118,387.50
04/01/09		161,575.00	161,575.00
10/01/09	965,000.00	161,575.00	1,126,575.00
04/01/10		147,100.00	147,100.00
10/01/10	995,000.00	147,100.00	1,142,100.00
04/01/11		130,931.25	130,931.25
10/01/11	1,035,000.00	130,931.25	1,165,931.25
04/01/12		112,818.75	112,818.75
10/01/12	1,065,000.00	112,818.75	1,177,818.75
04/01/13		92,850.00	92,850.00
10/01/13	1,110,000.00	92,850.00	1,202,850.00
04/01/14		71,760.00	71,760.00
10/01/14	1,150,000.00	71,760.00	1,221,760.00
04/01/15		49,335.00	49,335.00
10/01/15	770,000.00	49,335.00	819,335.00
04/01/16		33,935.00	33,935.00
10/01/16	800,000.00	33,935.00	833,935.00
04/01/17		17,535.00	17,535.00
10/01/17	835,000.00	17,535.00	852,535.00
	<u>\$ 12,395,000.00</u>	<u>\$ 2,934,267.50</u>	<u>\$ 15,329,267.50</u>

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**UTILITIES TAX REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2002 B**

**\$15,355,000**

**SERIAL BONDS  
DATED FEBRUARY 6, 2003  
CUSIP NUMBERS**

<b>511768DT7</b>	<b>511768DWO</b>	<b>511768DZ3</b>	<b>511768EC3</b>	<b>511768EF6</b>	<b>511768EJ8</b>
<b>511768DU4</b>	<b>511768DX8</b>	<b>511768EA7</b>	<b>511768ED1</b>	<b>511768EG4</b>	<b>511768EK5</b>
<b>511768DV2</b>	<b>511768DY6</b>	<b>511768EB5</b>	<b>511768EE9</b>	<b>511768EH2</b>	<b>511768EL3</b>

**PURPOSE**

The Series 2002B Bonds are being issued to provide funds to (i) finance (a) the acquisition, construction and installation of public park facilities at Lake Mirror, (b) construction and installation of a radio tower to be used with the City's public safety 800 mbz radio system, (c) certain road improvements (d) construction of a new fire station in the northeast quadrant of the City, including acquisition of motorized equipment, and related improvements, fixtures, furnishings and equipment (collectively, the "Project"), (ii) fund the deposit to the 2002 Debt Service Reserve Account, and (iii) pay costs associated with the issuance of the Series 2002B Bonds, including the municipal bond insurance premium.

**SECURITY**

The Utilities Tax Revenue Refunding, Series 2002B Bonds and the interest thereon are payable solely from the Utilities Tax.

**INSURANCE**

A municipal bond insurance policy was purchased to unconditionally and irrevocably guarantee the full and complete payment required to be made.

**RATINGS**

**Moody's Investors Service:    **Aaa**    Standard & Poor's Ratings Services:    **AAA**    Fitch:    **AAA****

**OPTIONAL REDEMPTION**

The Series 2002B Bonds maturing on or after October 1, 2013, may be redeemed prior to their respective maturities, on or after October 1, 2012, at the option of the City, in whole or part at any time at the redemption prices of par, together with accrued interest to the redemption date.

**AGENTS**

Registrar:	Bank of New York, New York, New York
Paying Agent:	Bank of New York, New York, New York
Issuer's Bond Counsel:	Holland a& Knight LLP, Lakeland, Florida
Issuer's Financial Advisors:	Fishkind & Associates, Inc., Orlando, Florida William R. Hough & Co., St. Petersburg, Florida
Managing Underwriter:	Salomon Smith Barney, Inc., West Palm Beach, Florida
Underwriters' Counsel:	Bryant, Miller and Olive, P.A., Orlando Florida
Insurance:	Ambac Assurance Corporation, New York, New York

**UTILITIES TAX REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2002B (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENTS**

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/01/06	170,000.00	342,727.50	512,727.50
04/01/07		341,027.50	341,027.50
10/01/07	165,000.00	341,027.50	506,027.50
04/01/08		339,295.00	339,295.00
10/01/08	175,000.00	339,295.00	514,295.00
04/01/09		337,107.50	337,107.50
10/01/09	185,000.00	337,107.50	522,107.50
04/01/10		334,332.50	334,332.50
10/01/10	190,000.00	334,332.50	524,332.50
04/01/11		331,245.00	331,245.00
10/01/11	185,000.00	331,245.00	516,245.00
04/01/12		328,007.50	328,007.50
10/01/12	200,000.00	328,007.50	528,007.50
04/01/13		324,257.50	324,257.50
10/01/13	200,000.00	324,257.50	524,257.50
04/01/14		320,457.50	320,457.50
10/01/14	210,000.00	320,457.50	530,457.50
04/01/15		316,362.50	316,362.50
10/01/15	645,000.00	316,362.50	961,362.50
04/01/16		303,462.50	303,462.50
10/01/16	675,000.00	303,462.50	978,462.50
04/01/17		289,625.00	289,625.00
10/01/17	700,000.00	289,625.00	989,625.00
04/01/18		274,925.00	274,925.00
10/01/18	2,080,000.00	274,925.00	2,354,925.00
04/01/19		222,925.00	222,925.00
10/01/19	2,185,000.00	222,925.00	2,407,925.00
04/01/20		168,300.00	168,300.00
10/01/20	2,295,000.00	168,300.00	2,463,300.00
04/01/21		110,925.00	110,925.00
10/01/21	2,410,000.00	110,925.00	2,520,925.00
04/01/22		56,700.00	56,700.00
10/01/22	2,520,000.00	56,700.00	2,576,700.00
	<u>\$ 15,355,000.00</u>	<u>\$ 9,827,742.50</u>	<u>\$ 25,182,742.50</u>



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## **TOURIST DEVELOPMENT TAX**

Pursuant to Section 125.0104, Florida Statutes (Tourist Development Tax Act), the County levies a tourist development tax on the total rental charged to every lessee, tenant, or customer who rents, leases, or lets for consideration any living quarters or accommodation in any hotel, apartment, apartment hotel, motel, resort motel, apartment motel, rooming house, mobile home park, recreational vehicle park, or condominium located in the County for a term of six months or less.

### **POLK COUNTY ORDINANCE**

Polk County Ordinance 93-45 along with subsequent amendments (Ordinance), established the Lakeland Subdistrict, which includes the greater urban area surrounding the City of Lakeland. The County Subdistrict comprises the remainder of Polk County (County). The County currently levies the tourist development tax at a rate of four percent in all areas of the County. The City is designated to receive the fourth cent of the tourist development tax collected in the Lakeland Subdistrict and one-half of the fourth cent of the tourist development tax collected within the County Subdistrict (collectively referred to as the Fourth Cent Tourist Development Tax). Pursuant to the Ordinance, this allocation became effective the first day of the month following completion of the validation of the Series 2002 Bonds.

### **INTERLOCAL AGREEMENT**

Pursuant to the Interlocal Agreement between the City and the County, the Fourth Cent Tourist Development Tax (as described above) has been pledged by the County for payment of debt service on the Series 2002C Bonds in an aggregate amount to be not less than the lesser of the following:

- (i) The amount of annual debt service on that portion of the Series 2002C Bonds, the proceeds of which were used for the construction, renovation and expansion of a professional sports franchise facility; or
- (ii) Four hundred and forty thousand dollars (the “Minimum Annual Pledge”).

In addition, to the extent that the Fourth Cent Tourist Development Tax collected by the County is insufficient for the payment to the City of the Minimum Annual Pledge, the County has agreed to pay from the first and second cents of the tourist development tax imposed pursuant to the County Ordinance, an amount equivalent to that necessary to fund the difference between the amount of the Fourth Cent Tourist Development Tax collected and the Minimum Annual Pledge; provided, however, that the amount payable by the County to the City from the first and second cents of the Tourist Development Tax shall in no event exceed one hundred thousand dollars (\$100,000.00) per year.

In the event that the Fourth Cent Tourist Development Tax exceeds the Minimum Annual Pledge, the County, in its discretion, may pay such excess over to the City or be applied by the City for the payment of the debt service on the Series 2002C Bonds or apply the same to other indebtedness issued by the County or other entities for professional sports franchise facilities; provided, however, that the County has agreed that, in the event that the Fourth Cent Tourist Development Tax collected in any of the first through fifth years immediately succeeding the effective date of the Interlocal Agreement is less than the Minimum Annual Pledge, any excess of tax proceeds collected in any year after the fifth year up to an aggregate of the amounts of such deficiencies in each of the first through fifth years shall be deposited in the Tourist Development Tax Sinking Fund and used for payment of debt service on the Series 2002C Bonds.

No portion of the tourist development tax levied by the County other than that portion described above has been pledged by the County to the payment of the debt service on the Series 2002C Bonds.

## LIMITATION ON USE OF FOURTH CENT OF TOURIST DEVELOPMENT TAX

The Fourth Cent Tourist Development Tax is levied pursuant to the Tourist Development Tax Act and the County Ordinance and may be used for the purpose of paying debt service on the Series 2002C Bonds issued for the expansion, renovation, and construction of the improvements to the Lakeland Civic Center-George Jenkins Arena.

### REVENUES GENERATED

The following table indicates the total tourist development tax revenues generated from the one-cent and one-half cent of Tourist Development Tax collected within the City and County Subdistricts for the previous seven fiscal years ended September 30.

<u>Fiscal Year</u>	<u>Incorporated Area 1¢</u>	<u>Unincorporated Area ½¢</u>	<u>Total<sup>1</sup> "Fourth Cent"</u>
2006	\$ 347,189	\$ 496,764	\$ 843,953
2005	352,310	518,895	871,205
2004	287,519	383,091	670,610
2003	272,661	309,397	582,058
2002	277,459	314,096	591,555
Totals	<u>\$ 1,537,138</u>	<u>\$ 2,022,243</u>	<u>\$ 3,559,381</u>

<sup>1</sup>Minimum guarantee from Polk County is \$440,000 annually. To the extent that actual collections are below this amount, the County is obligated to make up the difference, up to \$100,000, from the first cent and the second cent of the Tourist Development Taxes levied.

Source: Polk County.

The total amount of tourist development tax collected within the County is subject to increase or decrease by the following:

- (i) Legislative changes resulting in an increase or decrease in the rate at which the tourist development tax is imposed;
- (ii) Changes in the rental rates, volume and usage of the living quarters and accommodations subject to the Tourist Development Tax Act, which is affected by changes in tourist and convention destinations as well as economic conditions.

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**UTILITIES TAX REVENUE REFUNDING AND IMPROVEMENT BONDS, SERIES 2002C**

**\$5,660,000**

**SERIAL BONDS  
DATED FEBRUARY 6, 2003  
CUSIP NUMBERS**

<b>511759AT9</b>	<b>511759AW2</b>	<b>511759AZ5</b>	<b>511759BC5</b>	<b>511759BF8</b>
<b>511759AU6</b>	<b>511759AXO</b>	<b>511759BA9</b>	<b>511759BD3</b>	<b>511759BG6</b>
<b>511759AV4</b>	<b>511759AY8</b>	<b>511759BB7</b>	<b>511759BE1</b>	<b>511759BH4</b>

**PURPOSE**

The Series 2002C Bonds are being issued to provide funds to (i) refund all of the City's outstanding Tourist Development Tax and Utilities Tax Revenue Bonds, Series 1994B (the "Refunded 1994B Bonds" and together with the Refunded 1994A Bonds, the "Refunded Bonds"), (ii) fund the deposit to the 2002 Debt Service Reserve Account, and (iii) pay costs associated with the issuance of the Series 2002C Bonds, including the municipal bond insurance premium.

**SECURITY**

The Utilities Tax Revenue Refunding, Series 2002C Bonds and the interest thereon are payable solely from the Utilities Tax.

**INSURANCE**

A municipal bond insurance policy was purchased to unconditionally and irrevocably guarantee the full and complete payment required to be made.

**RATINGS**

Moody's Investors Service:    **Aaa**    Standard & Poor's Ratings Services:    **AAA**    Fitch:    **AAA**

**OPTIONAL REDEMPTION**

The Series 2002B Bonds maturing on or after October 1, 2013, may be redeemed prior to their respective maturities, on or after October 1, 2012, at the option of the City, in whole or part at any time at the redemption prices of par, together with accrued interest to the redemption date.

**AGENTS**

Registrar:	Bank of New York, New York, New York
Paying Agent:	Bank of New York, New York, New York
Issuer's Bond Counsel:	Holland a& Knight LLP, Lakeland, Florida
Issuer's Financial Advisors:	Fishkind & Associates, Inc., Orlando, Florida William R. Hough & Co., St. Petersburg, Florida
Managing Underwriter:	Salomon Smith Barney, Inc., West Palm Beach, Florida
Underwriters' Counsel:	Bryant, Miller and Olive, P.A., Orlando Florida
Insurance:	Ambac Assurance Corporation, New York, New York

**TOURIST DEVELOPMENT TAX AND UTILITIES TAX REVENUE REFUNDING BONDS,  
SERIES 2002C (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENTS**

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/01/06	330,000.00	79,128.75	409,128.75
04/01/07		75,828.75	75,828.75
10/01/07	335,000.00	75,828.75	410,828.75
04/01/08		72,311.25	72,311.25
10/01/08	340,000.00	72,311.25	412,311.25
04/01/09		68,061.25	68,061.25
10/01/09	350,000.00	68,061.25	418,061.25
04/01/10		62,811.25	62,811.25
10/01/10	360,000.00	62,811.25	422,811.25
04/01/11		56,961.25	56,961.25
10/01/11	375,000.00	56,961.25	431,961.25
04/01/12		50,398.75	50,398.75
10/01/12	385,000.00	50,398.75	435,398.75
04/01/13		43,180.00	43,180.00
10/01/13	400,000.00	43,180.00	443,180.00
04/01/14		35,580.00	35,580.00
10/01/14	415,000.00	35,580.00	450,580.00
04/01/15		27,487.50	27,487.50
10/01/15	430,000.00	27,487.50	457,487.50
04/01/16		18,887.50	18,887.50
10/01/16	445,000.00	18,887.50	463,887.50
04/01/17		9,765.00	9,765.00
10/01/17	465,000.00	9,765.00	474,765.00
	<u>\$ 4,630,000.00</u>	<u>\$ 1,121,673.75</u>	<u>\$ 5,751,673.75</u>

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## **CAPITAL IMPROVEMENT REVENUE BONDS**

### **PLEGGED REVENUES**

The pledged revenues consist of “Covenant Revenues” (Non-Ad Valorem Revenues budgeted and appropriated by the City, and deposited into the Sinking Fund Account to pay the principal of, premium, if any, and interest on the Series 1997 Bonds) and income received from the investment of moneys deposited in the funds and accounts established under the Ordinance (ordinance 3770 enacted December 2, 1996 and subsequent amendments).

Pursuant to the Ordinance, “Non-Ad Valorem Revenues” means legally available revenues of the City derived from any source whatever, other than ad valorem taxation on real and personal property, which are legally available for payment by the City of debt service on the Series 1997 Bonds and Non-Ad Valorem Revenue Obligations. “Non-Ad Valorem Revenue Obligations” means obligations evidencing indebtedness for borrowed money, including the Series 1997 Bonds, the primary security for which is,

- (i) Provided by a covenant of the City to budget and appropriate Non-Ad Valorem Revenues of the City for the payment of debt service on such obligations, or
- (ii) Primarily secured or payable from another source of funds, but with respect to which the City has also covenanted to budget and appropriate Non-Ad Valorem Revenues of the City for the payment of debt service on such obligations, provided that obligations described in this clause (ii) shall only be considered Non-Ad Valorem Revenue Obligations to the extent the City has included in its budget (by amendment or otherwise) the payment of such Non-Ad Valorem Revenues pursuant to such covenant to pay debt service on such obligations.

### **COVENANT TO BUDGET AND APPROPRIATE**

Until the Series 1997 Bonds are paid or deemed paid pursuant to the provisions of the Ordinance, the City has covenanted to appropriate in its annual budget, by amendment if necessary, to the extent permitted by and in accordance with applicable law and budgetary processes, to prepare, approve and appropriate in its annual budget for each Fiscal Year, by amendment if necessary, and to deposit to the credit of the Sinking Fund Account created under the Ordinance, Non-Ad Valorem Revenues of the City in an amount which is equal to the Bond Service Requirements (as is more fully described in the Ordinance) with respect to the Bonds for the applicable Fiscal Year, plus an amount sufficient to satisfy all other payment obligations of the City under the Ordinance for the applicable Fiscal Year, including without limitation, to the extent applicable, the funding or the replenishment of the subaccounts in the Reserve Account in the manner described in the Ordinance.

Such covenant and agreement on the part of the City to budget and appropriate sufficient amounts of Non-Ad Valorem Revenues shall be cumulative, and shall continue until such Non-Ad Valorem Revenues in amounts sufficient to make all required payments under the Ordinance as when due, including any delinquent payments, shall have been budgeted, appropriated and actually paid into the appropriate funds and accounts under the Ordinance; provided, however that such covenant shall not constitute a lien, either legal or equitable, or any of the City’s Non-Ad Valorem Revenues or any other revenues, nor shall it preclude the City from pledging in the future any of its Non-Ad Valorem Revenues or other revenues to other obligations, nor shall it give the Bondholders a prior claim on the Non-Ad Valorem Revenues.

All obligations of the City under the Ordinance shall be secured only by the Non-Ad Valorem Revenues actually budgeted and appropriated and deposited into the funds and accounts created under the Ordinance as provided therein. Law prohibits the City from expending moneys not appropriated or in excess of its current budgeted revenues and surpluses. The obligation of the City to budget, appropriate, and make payments under the Ordinance from its Non-Ad Valorem Revenues is subject to the availability of the Non-Ad Valorem Revenues after satisfying funding requirements for obligations having an express lien on or pledge of such revenues and after satisfying funding

requirements for essential government services of the City. The City has not covenanted to maintain any service or program now provided or maintained by the City, which generates Non-Ad Valorem Revenues.

### NON-AD VALOREM REVENUES

The following table summarizes the available Non-Ad Valorem Revenues for the fiscal year ending September 30, 2006.

**For the Fiscal Year Ended September 30,**

	<u>FY 2002</u>	<u>FY 2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>
<b>GENERAL FUND REVENUES</b>					
Utility Taxes	\$ 11,417,676	\$ 13,253,466	\$ 13,494,278	\$ 13,957,483	\$ 14,161,883
Franchise Fees	367,971	222,025	235,506	283,085	320,781
Licenses & Permits	2,413,095	2,223,201	2,467,512	2,954,750	4,464,447
State Shared Revenues					
Half-Cent Sales Tax	4,498,493	4,783,809	5,148,418	5,696,157	6,004,380
Cigarette Taxes	1,393,771	1,381,652	1,683,783	2,210,905	2,330,366
Mobile Home License Fees	160,674	177,699	206,255	194,245	197,190
Alcoholic Beverage Licenses	51,780	47,090	52,481	55,968	60,222
Charges for Services	2,405,521	2,344,922	2,707,179	3,206,424	3,856,070
Fines & Forfeits	1,017,180	1,049,606	1,020,071	1,016,958	1,356,977
Miscellaneous					
Interest & change in market value	345,903	201,939	250,536	314,135	575,303
Rents	87,918	88,420	46,900	62,026	165,919
Sales of Fixed Assets	9,059	3,783	6,173	3,009	63,056
Other	439,184	443,155	526,870	366,726	523,137
Transfers from Enterprise and Other Funds	25,179,660	27,434,853	28,401,795	29,832,516	30,459,809
Sub-Total	<u>\$ 49,787,885</u>	<u>\$ 53,655,620</u>	<u>\$ 56,247,757</u>	<u>\$ 60,154,387</u>	<u>\$ 64,539,540</u>
<b>PUBLIC IMPROVEMENT FUND</b>					
Charges for Services	\$ 361,555	\$ 293,776	\$ 285,000	\$ 310,172	\$ 307,698
Sale of Fixed Assets	847,971	192,767	111,571	1,602,251	1,116,553
Interest & change in market value	350,797	193,351	234,258	155,855	434,490
Hospital Lease Payments	6,320,839	6,483,302	7,369,835	9,218,753	9,158,643
Other	119,133	121,103	1,751	6	-
Sub-Total	<u>\$ 8,000,295</u>	<u>\$ 7,284,299</u>	<u>\$ 8,002,415</u>	<u>\$ 11,287,037</u>	<u>\$ 11,017,384</u>
<b>TRANSPORTATION FUND</b>					
Interest & change in market value	\$ 85,397	(\$ 11,824)	\$ 67,592	\$ 61,283	\$ 214,314
Other	61,888	88,655	154,159	854,448	2,717,715
Sub-Total	<u>\$ 147,285</u>	<u>\$ 76,831</u>	<u>\$ 221,751</u>	<u>\$ 915,731</u>	<u>\$ 2,932,029</u>
Grand Total	<u>\$ 57,935,465</u>	<u>\$ 61,016,750</u>	<u>\$ 64,471,923</u>	<u>\$ 72,357,155</u>	<u>\$ 78,488,953</u>

Source: City of Lakeland Comprehensive Annual Financial Report (CAFR) for year ending

The following table summarizes the annual debt service requirements secured by Non-Ad Valorem debt as of September 30, 2006:

**City of Lakeland, Florida**  
**Sunshine State Governmental Financing Loans**  
**Dilution Test**  
**September 30, 2006**

<u>Estimated Maximum Annual Debt Service</u>	<u>Original Amount Issued</u>	<u>Amount Outstanding at 9/30/2006</u>	<u>Maturity Date</u>	<u>Max Debt Service Fiscal 2006</u>
Lakeland (1995) - Lakeland Airside Center	\$ 6,955,000	\$ 2,555,000	7/15/2015	\$ 479,520
Lakeland (1999) - Golf Course/ Radio System	4,120,000	3,245,000	9/1/2014	653,228
Lakeland (2000) - Airport Terminal	4,750,000	1,494,000	10/31/2020	225,402
Lakeland (2001) - Marchant Stadium Improvements (Taxable)	9,760,000	8,142,000	10/31/2016	1,678,096
Lakeland (2003) - Regency Hotel	5,000,000	5,000,000	11/30/2013	1,095,589
Sub-Total	<u>30,585,000</u>	<u>20,436,000</u>		<u>\$ 4,131,835</u>
		Percent of total covenant-backed debt	24.4%	
 <b><u>Other Debt Service payable from non ad valorem revenues</u></b>				
Utilities Tax and Tourst Development Tax Revenue Refunding Bonds, Series 2002A, B, C	31,325,000	31,325,000		\$ 2,633,850
Capital Improvement Revenue Bonds, Series 1997	45,700,000	32,020,000		3,601,500
Sub-Total	<u>77,025,000</u>	<u>63,345,000</u>		<u>\$ 6,235,350</u>
 Total Projected Debt Service	 <u>\$ 107,610,000</u>	 <u>\$ 83,781,000</u>		 <u>\$ 10,367,185</u>
 <b>200% Projected Debt</b>				 <b><u>\$ 20,734,370</u></b>

**CAPITAL IMPROVEMENT REVENUE BONDS, REFUNDING SERIES 1997**

**\$45,700,000**

**SERIAL BONDS AND TERM BONDS  
DATED JULY 15, 1997  
CUSIP NUMBERS**

<b>511662AA</b>	<b>511662AE</b>	<b>511662AJ</b>	<b>511662AN</b>
<b>511662AB</b>	<b>511662AF</b>	<b>511662AK</b>	<b>511662AP</b>
<b>511662AC</b>	<b>511662AG</b>	<b>511662AL</b>	<b>511662AQ</b>
<b>511662AD</b>	<b>511662AH</b>	<b>511662AM</b>	<b>511662AR</b>

**PURPOSE**

The Series 1997 Bonds were issued for the purpose of providing funds: (i) to currently refund certain loans (“the Sunshine State Loans”) entered into by the City with the Sunshine State Government Financing Commission, which Sunshine State Loans financed various capital improvements within the City; (ii) to make deposit to the Reserve Account and (iii) to pay costs related to the issuance of the Series 1997 Bonds.

**SECURITY**

The Series 1997 Bonds and the interest thereon are payable from and secured by a pledge of Pledged Revenues, consisting of Non-Ad Valorem Revenues Budgeted and appropriated by the City on an annual basis and deposited into the Sinking Fund Account, as well as income received from the investment of moneys deposited in the funds and accounts established pursuant to the Ordinance.

**INSURANCE**

A municipal bond insurance policy was purchased to unconditionally and irrevocably guarantee the full and complete payment required to be made by or on behalf of the City.

**RATINGS**

Moody’s Investors Service:      **Aaa**                      Standard & Poor’s Ratings Services:      **AAA**

**MANDATORY REDEMPTION**

The Series 1997 Bonds that mature on October 1, 2017 will be subject to mandatory redemption in part prior to maturity, by lot, at redemption prices equal to 100% of the principal amount thereof plus interest accrued to the redemption date, beginning October 1, 2013, and on each October 1 thereafter in the following principal amounts in the years specified:

<b><u>YEAR</u></b>	<b><u>AMOUNT</u></b>	<b><u>YEAR</u></b>	<b><u>AMOUNT</u></b>
2013	\$ 2,820,000	2016	\$ 3,265,000
2014	2,960,000	2017	3,430,000
2015	3,110,000		

**CAPITAL IMPROVEMENT REVENUE BONDS, REFUNDING SERIES 1997 (CONTINUED)**

**OPTIONAL REDEMPTION**

The Series 1997 Bonds maturing on or prior to October 1, 2007, will not be subject to redemption prior to maturity. The Series 1997 Bonds maturing after October 1, 2008 are subject to redemption prior to their respective dates of maturity, on or after October 1, 2007, at the option of the City, in whole or in part at any time at the redemption prices (expressed as percentages of par value) together with accrued interest to the redemption date as follows:

<b><u>Redemption Date</u></b>	<b><u>Price</u></b>
10/1/2007 — 9/30/2008	102 %
10/1/2008 — 9/30/2009	101 %
10/1/2010 — thereafter	100 %

**AGENTS**

Registrar: Bank of New York, New York, New York  
Paying Agent: Bank of New York, New York, New York  
Issuer's Bond Counsel: Holland & Knight LLP, Lakeland Florida  
Issuer's Financial Advisor's: Fishkind & Associates, Inc., Orlando, Florida  
William R. Hough & Co., St Petersburg, Florida  
Underwriter: Salomon Smith Barney, Inc., West Palm Beach, Florida  
Underwriter's Counsel: Edwards & Angell, Palm Beach, Florida  
Insurance: MBIA Insurance Corporation, Armonk, New York

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**CAPITAL IMPROVEMENT REVENUE BONDS, REFUNDING SERIES 1997 (CONTINUED)**

**SUMMARY OF FUTURE DEBT SERVICE REQUIREMENT**

<u>Maturity</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
10/01/06	2,045,000.00	777,340.00	2,822,340.00
04/01/07		732,350.00	732,350.00
10/01/07	2,135,000.00	732,350.00	2,867,350.00
04/01/08		684,312.50	684,312.50
10/01/08	2,230,000.00	684,312.50	2,914,312.50
04/01/09		633,022.50	633,022.50
10/01/09	2,335,000.00	633,022.50	2,968,022.50
04/01/10		578,150.00	578,150.00
10/01/10	2,445,000.00	578,150.00	3,023,150.00
04/01/11		519,470.00	519,470.00
10/01/11	2,560,000.00	519,470.00	3,079,470.00
04/01/12		456,750.00	456,750.00
10/01/12	2,685,000.00	456,750.00	3,141,750.00
04/01/13		389,625.00	389,625.00
10/01/13	2,820,000.00	389,625.00	3,209,625.00
04/01/14		319,125.00	319,125.00
10/01/14	2,960,000.00	319,125.00	3,279,125.00
04/01/15		245,125.00	245,125.00
10/01/15	3,110,000.00	245,125.00	3,355,125.00
04/01/16		167,375.00	167,375.00
10/01/16	3,265,000.00	167,375.00	3,432,375.00
04/01/17		85,750.00	85,750.00
10/01/17	3,430,000.00	85,750.00	3,515,750.00
	<u>\$ 33,980,000.00</u>	<u>\$ 11,996,270.00</u>	<u>\$ 45,976,270.00</u>

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## **GLOSSARY OF TERMINOLOGY**

### **ACCRUED INTEREST**

The interest that has accumulated since the last interest payment up to, but not including, the settlement date and that is added to the contract price of a bond transaction. There are two methods for calculating accrued interest: the 30-day-month (360-day-year) method for corporate and municipal bonds, and the actual-calendar-days (365-day-year) method for government bonds. Income bonds, bonds in default and zero-coupon bonds trade without accrued interest.

### **ADVANCE REFUNDING**

The refinancing of an existing municipal bond issue prior to its maturity or call date by using funds from the sale of a new bond issue. The proceeds of the new bond issue are used to purchase government securities, and the municipality puts the principal and interest received from these securities into an escrow account; it then uses these funds to pay off the original bond issue at the first call date.

### **AMBAC INDEMNITY CORPORATION (AMBAC)**

A corporation that offers insurance on the timely payment of principal and interest obligations of municipal securities. Bonds insured by AMBAC usually receive an AAA rating from rating services.

### **BOND**

A legal obligation (debt) of an issuing company or government to repay the principal of a loan to bond investors at a specified future date.

### **BOND COUNSEL**

A lawyer or law firm experienced in the matters relating to the validity of, and the exclusion from gross income for federal income tax purposes of interest on, obligations of states and their political subdivisions.

### **BOND PURCHASE AGREEMENT**

The agreement between the issuer of bonds and the underwriter or underwriters, who have agreed to purchase the bonds, setting forth the terms of the sale, including the price of the bonds, any premium or discount, the interest rate or rates, the conditions of closing, any restrictions on the liability of the issuer, and, occasionally, indemnity provisions if there is not a separate indemnity letter or agreement. (Also called “contract of purchase” or “underwriting agreement”)

### **BOND RATINGS**

Evaluations by independent rating services of a bond’s investment quality and credit worthiness.

### **BONDHOLDER**

The registered owners, or their authorized representatives, of Bonds.

**BROKER-DEALER (BD)**

A person or firm in the business of buying and selling securities. A firm may act as both broker (agent) and dealer (principal) but not in the same transaction. Broker-dealers normally must register with the SEC, the appropriate SRO's and with any state in which they do business.

**CALL FEATURES**

Provisions for the redemption by the issuer of a bond or bonds prior to the stated maturity of the securities. Provisions may be either mandatory or exercisable at the option of the issuer.

**CALL PREMIUM**

A dollar amount, usually stated as a percentage of the principal amount called, paid as a "penalty" or a "premium" for the exercise of a call provision.

**CALLABLE BOND**

A bond which may be redeemed by the issuer on specified date(s) prior to maturity.

**CLOSING DATE**

The date on which a new bond issue is delivered to the purchaser upon payment of the purchase price and the satisfaction of all conditions specified in the bond purchase agreement.

**COMMITTEE ON UNIFORM SECURITIES IDENTIFICATION PROCEDURES (CUSIP)**

A committee that assigns identification numbers and codes to all securities, to be used when recording all buy or sell orders.

**COST OF ISSUANCE**

The costs associate with the sale of a security, including printing, legal fees, cost of ratings, and other items.

**COVENANTS**

Pledges made by an issuer in regards to the operation of a project, system, or enterprise of the issuer. Such pledges are of interest to the bondholder as they assure that certain practices will be followed or avoided by the issuer.

**COVERAGE**

The margin of safety for payment of debt service, reflecting the number of times by which the annual revenues, either gross or net, exceed the annual debt service.

## **DIGITAL ASSURANCE CERTIFICATION (DAC)**

An Ernst & Young LLP Company, that specializes exclusively in investor relations programs and compliance reporting for the municipal securities industry. DAC has a compliance reporting platform which assists issuers and other market participants in the required disclosures in accordance with SEC Rule 15c2-12, as amended.

## **DEALER**

An individual or firm that is engaged in the business of buying and selling securities for its own account, either directly or through a broker or a firm or an individual who acts as a principal and charges the customer a markup or markdown.

## **DEBT FINANCING**

Raising money for working capital or for capital expenditures by selling bonds, bills, or notes to individual or institutional investors.

## **DEBT SERVICE**

Required payments for interest on and retirement of the principal amount of a debt obligation.

## **DEBT SERVICE ACCOUNT**

The account used to pay a municipal revenue bond's semiannual interest and principal maturing in the current year; it also serves as a sinking fund for term issues.

## **DEBT SERVICE RESERVE FUND**

The account into which funds are deposited to pay one year's debt service on a municipal revenue bond.

## **DEBT SERVICE SCHEDULE**

A table outlining the retirement of bonded debt over a specified period of time, providing for annual or semi-annual payments of principal and interest to extinguish the debt.

## **DEFAULT**

Failure by the issuer to pay principal or interest promptly when due or failure to fulfill other covenants previously agreed to.

## **DEFEASANCE**

The termination of a debt obligation by issuing a new debt issue or creating a trust that generates enough cash flow to provide for the payment of principal and interest.

**DENOMINATION**

The face or dollar amount for bonds which are issued.

**DISCOUNT**

The difference between the lower price paid for a security and the security's face amount at issue.

**DISCOUNT BOND**

A bond that sells for a lower price than its face value.

**EFFECTIVE DATE**

The date the registration of an issue of securities becomes effective, allowing the underwriters to sell the newly issued securities to the public and confirm sales to investors who have given indications of interest.

**END OF UNDERWRITING PERIOD**

The latter of (i) the time the issuer of the municipal securities delivers the securities to the Participating Underwriters or (ii) the Participating Underwriter does not retain, directly or as a member of an underwriting syndicate, an unsold balance of the securities for sale to the public.

**EXEMPT SECURITY**

A security exempt from the registration requirements (although not from the antifraud requirements) of the Securities Act of 1933.

**FACE VALUE**

The dollar amount the issuer promises to pay the bondholder at maturity. Also called the par value.

**FINAL OFFICIAL STATEMENT**

A document or set of documents prepared by an issuer of municipal securities or its representatives that is complete as of the date delivered to the Participating Underwriter(s) and that sets forth information concerning the terms of the proposed issue of securities; information, including financial information or operating data, concerning such issuers of municipal securities and those other entities, enterprises, funds, accounts, and other persons material to an evaluation of the offering.

**FINANCIAL ADVISOR**

A consultant to an issuer of municipal securities who provides the issuer with advice with respect to the structure, timing, terms, or other similar matters concerning a new issue of securities.

### **FINANCIAL GUARANTY INSURANCE CORPORATION (FGIC)**

An insurance company that offers insurance on the timely payment of interest and principal on municipal issues and unit investment trusts.

### **FINANCIAL SECURITY ASSURANCE, INC (FSA)**

An insurance company that offers insurance on the timely payment of interest and principal on municipal issues and unit investment trusts.

### **FITCH INVESTORS SERVICE, INC**

A rating service for corporate bonds, municipal bonds, commercial paper, and other debt obligations.

### **GENERAL OBLIGATION BOND (GO)**

A bond secured by the pledge of the issuer's full faith, credit, and, usually, taxing power, which may be an unlimited ad valorem tax or a limited tax on real estate and personal property.

### **INDUSTRIAL DEVELOPMENT REVENUE BOND (IDB)**

A debt security issued by a municipal authority, which uses the proceeds to finance the construction or purchase of facilities to be leased or purchased by a private company. The bonds are backed by the credit of the private company, which is ultimately responsible for principal and interest payments.

### **INSTITUTIONAL INVESTOR**

A person or organization that trades securities in large enough share quantities or dollar amounts that it qualifies for preferential treatment and lower commissions. An institutional order can be of any size. Institutional investors are covered by fewer protective regulations because it is assumed that they are more knowledgeable and better able to protect themselves.

### **INSURANCE COVENANT**

A provision of a municipal revenue bond's trust indenture that helps ensure the safety of the issue by promising to insure the facilities built.

### **INSURED BOND**

A bond insured as to timely payment of principal, interest, and premium by private insurers.

### **INVESTMENT BANKER**

A broker/dealer firm that underwrites new issues and provides financial counseling to issuers of securities. (underwriter)

**ISSUER**

A legal entity that borrows money through the issuance of debt obligations specified in section 3(a)(29) and rule 3b-5(a) of the Act.

**MATERIAL INFORMATION**

Any information or fact that could affect an investor's decision to trade a security.

**MATURITY**

The date upon which the principal of a municipal bond becomes due and payable to the bondholders.

**MOODY'S INVESTORS SERVICES**

A rating service for corporate bonds, municipal bonds, commercial paper, and other debt obligations.

**MUNICIPAL BOND INVESTORS ASSURANCE CORPORATION (MBIA)**

A corporation that offers insurance on the timely payment of principal and interest obligations of municipal securities. Bonds insured by MBIA usually receive an AAA rating from rating services.

**MUNICIPAL BONDS**

Debt obligations issued by states, counties, cities, political subdivisions, and territories of the United States.

**MUNICIPAL SECURITIES RULEMAKING BOARD (MSRB)**

A self-regulatory organization that regulates the issuance and trading of municipal securities. The Board functions under the supervision of the Securities and Exchange Commission; it has no enforcement powers.

**NET DIRECT DEBT**

The amount of debt obligations of a municipality, including general obligation bonds, notes, and short term notes. Self-supported debt from revenue bond issues is not included.

**NON-CALLABLE BOND**

A bond that cannot be called for redemption at the option of the issuer before its specified maturity date.

**PAR**

The dollar amount assigned to a security by the issuer. For a municipal security, the amount repaid to the investor when the bond matures.

**PARITY BONDS**

Municipal bonds which enjoy the same lien position as previously outstanding bonds.

**PAYMENT DATE**

The date at which the interest of a municipal bond is due to the bondholder.

**PLEGGED REVENUES**

Those revenues of an entity which are designated for the repayment of debt obligations.

**PREMIUM**

The amount by which the cost price (market value) exceeds the principal amount of a municipal bond.

**PRINCIPAL**

The face amount or par value of a municipal bond, exclusive of accrued interest.

**PRIMARY OFFERING**

An offering of municipal securities directly or indirectly by or on behalf of an issuer of such securities, including any remarketing of municipal securities (i) that is accompanied by a change in the authorized denomination of such securities from \$100,000 or more to less than \$100,000, or (ii) that is accompanied by a change in the period during which such securities may be tendered to an issuer of such securities or its designated agent for redemption or purchase from a period of nine months or less to a period of more than nine months.

**RATE COVENANT**

A covenant requiring the charging of rates or fees for the use of specific facilities or operations sufficient to achieve a stated minimum coverage.

**RATING AGENCY**

A nationally recognized agency that rates securities for safety of payment of principal, interest, or dividends at the request of the issuer.

**RATING CATEGORY**

One of the generic rating categories of any nationally recognized securities rating agency without regard to any refinement or graduation of such rating by a numerical modifier or otherwise.

**REFUNDING**

The retiring of a bond issue at the earliest call date or at maturity with funds from a new issue.



**REGISTERED BOND**

A bond which has a name printed on the certificate identifying the owner. The owner is “registered” with the issuer or its agent, either as to both principal and interest, or as to principal only.

**REGISTRAR**

The issuer or agent designated by the issuer, by ordinance or resolution, to maintain the registration books for the Bond issued or to perform other duties with respect to registering the transfer of Bonds.

**RESERVE FUND**

A fund that may be used to pay debt service if the pledged revenue sources do not generate sufficient funds to cover debt service.

**REVENUE BOND**

A bond secured by a pledged source of revenue.

**SENIOR LIEN DEBT**

A bond issue that shares the same collateral as other issues, but has a prior claim to the collateral in the event of default.

**SERIAL BOND**

A bond that has a series of maturities at intervals during the term of the bond.

**STANDARD & POORS CORPORATION (S&P)**

An independent company that rates stock and corporate and municipal bonds according to risk profiles and produces and tracks the S&P indexes.

**SUBORDINATED DEBT FINANCING**

A form of long-term capitalization used by broker/dealers, in which claims of lenders are subordinated to the claims of other creditors.

**TAXABLE BOND**

Bonds on which the interest at the time of issuance is not intended to be excluded from the gross income of the holders for federal tax purposes.

**TAX-EXEMPT BOND**

A municipal bond, the interest on which is exempt from Federal Income Tax.

**TERM BOND**

A municipal bond issue that has a single maturity.

**TRUSTEE**

A person or organization legally appointed to act on behalf of a beneficiary.

**TRUST AGREEMENT**

An agreement between an issuer and a trustee acting on behalf of bondholders, (i) authorizing and securing the bonds; (ii) containing the issuer's covenants and obligations with respect to the project and payment of debt service; (iii) specifying the events of default; and (iv) outlining the trustee's fiduciary responsibilities and bondholders' rights.

**UNDERWRITER**

Any person or firm that purchases from an issuer of municipal securities, or offers or sells for an issuer of municipal securities in connection with, the offering of any municipal security, or participates or has a direct or indirect participation in any such undertaking; except, that such term shall not include a person whose interest is limited to a commission, concession, or allowance from an underwriter, broker, dealer, or municipal securities dealer not in excess of the usual and customary distributors' or sellers' commission, concession, or allowance.

**UNDERWRITERS' COUNSEL**

A law firm engaged to represent the interests of the underwriters of a security issue.

**VARIABLE RATE BOND**

Bonds issued with a variable, adjustable, convertible, or other similar interest rate which is not fixed in percentage at the date of issue for the entire term thereof.

**YIELD**

The net rate of return on an investment based on an annual interest rate over the term of the security. Also called yield to maturity.

**ZERO COUPON BOND/CAPITAL APPRECIATION BOND**

A bond which pays no interest that is purchased or traded at a deep discount, with the full face value redeemed at maturity.



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