

**PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 11, 2013**

**NEW ISSUE - BOOK-ENTRY ONLY**

**RATINGS: See "RATINGS" herein.**

*In the opinion of Bond Counsel to the City, based on existing law and assuming compliance with certain tax covenants of the City, interest on the Series 2013 Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining the adjusted current earnings of certain corporations for purposes of the alternative minimum tax on such corporations. For an explanation of certain tax consequences under federal law which may result from the ownership of the Series 2013 Bonds, see the discussion under the heading "TAX MATTERS - Federal" herein. Under existing law, the Series 2013 Bonds and the income therefrom will be exempt from all state, county and municipal taxation in the State of Tennessee, except inheritance, transfer and estate taxes, and Tennessee franchise and excise taxes. (See "TAX MATTERS - State Taxes" herein).*

**\$33,365,000\***

**CITY OF MEMPHIS, TENNESSEE  
SANITARY SEWERAGE SYSTEM REVENUE REFUNDING BONDS,  
SERIES 2013**

**Dated: Date of Delivery**

**Due: October 1, as shown on the inside front cover**

The \$33,365,000\* City of Memphis, Tennessee Sanitary Sewerage System Revenue Refunding Bonds, Series 2013 (the "Series 2013 Bonds") are being issued by the City of Memphis, Tennessee (the "City") pursuant to, among other things, a resolution adopted by the City Council on February 24, 1981, as amended by resolutions adopted by the City Council on December 17, 1985, April 11, 2000, and June 1, 2004 (collectively, the "Resolution"), and as supplemented with respect to the Series 2013 Bonds by that certain series resolution adopted by the City Council on May 7, 2013 (the "Series Resolution" and, together with the Resolution, hereinafter collectively referred to as the "Bond Resolution"). All capitalized terms used herein and not otherwise defined herein are used with the meanings assigned thereto in the Bond Resolution. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION" attached hereto.

The Series 2013 Bonds are being issued by the City for the purpose of providing funds to: (a) refund all or a portion of the City's outstanding (i) Sanitary Sewerage System Revenue Refunding Bonds, Series 2002, (ii) Sanitary Sewerage System Revenue Bonds, Series 2004, and (iii) Sanitary Sewerage System Revenue Bonds, Series 2005, and (b) pay certain costs of issuance related to the Series 2013 Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The Series 2013 Bonds will be issued in book-entry form registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2013 Bonds. Individual purchases may be made only in book-entry form through DTC participants in the principal amounts of \$5,000 or any integral multiple thereof. No physical delivery of the Series 2013 Bonds will be made to beneficial owners of the Series 2013 Bonds. So long as Cede & Co. is the registered owner of the Series 2013 Bonds, payment of the principal of the Series 2013 Bonds, interest thereon and any premium applicable thereto will be made to Cede & Co., as nominee for DTC, which in turn will remit such principal and interest to the DTC participants for subsequent disbursement to the beneficial owners of the Series 2013 Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

Interest on the Series 2013 Bonds is payable semiannually on April 1 and October 1 of each year, commencing on April 1, 2014 (each such date, an "Interest Payment Date") by Regions Bank, Nashville, Tennessee, as the paying agent and bond registrar. The Series 2013 Bonds bear interest at the rates set forth on the inside front cover of this Official Statement from the Interest Payment Date next preceding their date of authentication, except as provided herein. See "THE SERIES 2013 BONDS" herein.

The Series 2013 Bonds are secured by and payable solely from Revenues (as defined herein) derived from the City's sanitary sewerage System (as defined herein), subject to prior payment of Operating Expenses (as defined herein), on a parity basis with the City's Outstanding Bonds (as defined herein) and any other bonds issued hereafter on a parity therewith. The Series 2013 Bonds are not general obligations of the City, do not pledge the credit or taxing power of the City, create any debt or charge against the taxes or general revenues of the City, or create any lien against any City property other than against the Revenues and the amounts on deposit in the funds held under the Bond Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS" herein.

The Series 2013 Bonds are subject to optional redemption prior to maturity as more fully described under "THE SERIES 2013 BONDS – Redemption Provisions" herein.

THE SERIES 2013 BONDS SHALL NOT BE DEEMED TO CONSTITUTE GENERAL OBLIGATIONS OF THE CITY AND NO HOLDER OR HOLDERS OF ANY OF THE SERIES 2013 BONDS SHALL EVER HAVE THE RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWERS OF THE CITY TO PAY THE SERIES 2013 BONDS OR THE INTEREST THEREON AND THE SERIES 2013 BONDS SHALL NOT CONSTITUTE A DEBT OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL, STATUTORY OR CHARTER LIMITATION AND SHALL BE PAYABLE SOLELY FROM THE SOURCES PROVIDED IN THE BOND RESOLUTION.

This cover page contains limited information for quick reference only. It is not a summary of the matters relating to the Series 2013 Bonds. Potential investors must read the entire Official Statement (including the cover page and all appendices attached hereto) to obtain information essential to the making of an informed investment decision.

*The Series 2013 Bonds are being offered when, as, and if issued by the City and received by the Underwriters subject to prior sale and to withdrawal or modification of the offer without notice, and subject to the approving opinion of Glankler Brown, PLLC, Memphis, Tennessee, Bond Counsel to the City. Certain legal matters will be passed upon for the City by Herman Morris, Jr., Esquire, City Attorney. Certain legal matters will be passed upon for the City by Hagler Bruce & Turner, PLLC, Memphis, Tennessee and Greenberg Traurig, LLP, Orlando, Florida Co-Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Butler, Snow, O'Mara, Stevens & Cannada, PLLC, Memphis, Tennessee. ComCap Advisors, a division of Community Capital, Memphis, Tennessee, is serving as Financial Advisor to the City. The Series 2013 Bonds will be delivered through the book-entry system of DTC in New York, New York on or about \_\_\_\_\_, 2013.*

**Duncan-Williams, Inc.**

**Harvestons Securities, Inc.**

**Loop Capital**

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,  
PRICES OR YIELDS AND CUSIPS<sup>†</sup>**

**\$33,365,000<sup>\*</sup>**

**Sanitary Sewerage System Revenue Refunding Bonds, Series 2013**

<b>Maturity (October 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Price</b>	<b>Yield</b>	<b>Initial CUSIP No.<sup>†</sup></b>
2014					
2015					
2016					
2017					
2018					
2019					
2020					
2021					
2022					
2023					
2024					
2025					

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<sup>\*</sup> Preliminary; subject to change.

<sup>†</sup> CUSIP numbers have been assigned to the Series 2013 Bonds by an organization not affiliated with the City. The City is not responsible for the selection or use of CUSIP numbers in this Official Statement nor is any representation being made as to their accuracy on the Series 2013 Bonds, or as indicated above. The CUSIP numbers are included herein solely for the convenience of the readers of this Official Statement.

# **CITY OF MEMPHIS, TENNESSEE**

## **ELECTED OFFICIALS**

### **Mayor**

A C Wharton, Jr.

### **City Council**

Edmund Ford, Jr., Chairman

William C. Boyd

Wanda Halbert

Joe W. Brown

Lee Harris

Harold B. Collins

Reid Hedgepeth

Kemp Conrad

Myron Lowery

Shea Flinn, III

Bill Morrison

Janis Fullilove

Jim Strickland

## **ADMINISTRATIVE**

George Little ..... Chief Administrative Officer  
Robert Lipscomb ..... Director of Housing and Community Development  
Brian Collins ..... Director of Finance and Administration  
Alvin Benson ..... Director of Fire Services  
Martha Lott ..... Director of General Services  
Janet Hooks ..... Director of Parks & Neighborhoods  
Quinton Robinson ..... Director of Human Resources  
Toney Armstrong ..... Director of Police Services  
Dwan Gilliom ..... Director of Public Works  
Richard Copeland ..... Director of Office of Planning and Development  
Herman Morris, Jr. .... City Attorney  
John Cameron.. .... City Engineer  
Brenton Nair..... Director of Information Services

## **CONSULTANTS TO THE CITY**

### **Bond Counsel**

Glankler Brown, PLLC  
Memphis, Tennessee

### **Co-Disclosure Counsel**

Hagler Bruce & Turner, PLLC  
Memphis, Tennessee

Greenberg Traurig, LLP  
Orlando, Florida

### **Financial Advisor**

ComCap Advisors, a division of Community Capital  
Memphis, Tennessee

### **External Auditors**

Banks, Finley, White & Co.  
Memphis, Tennessee



This Official Statement does not constitute a contract between the City or the Underwriters and any one or more owners of the Series 2013 Bonds, nor does it constitute an offer to sell or the solicitation of an offer to buy the Series 2013 Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

No dealer, salesman or any other person has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the Series 2013 Bonds, and if given or made, such information or representations must not be relied upon as having been authorized by the City or any other person. The information and expressions of opinion in this Official Statement are subject to change without notice, and this Official Statement speaks only as of its date. Neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create the implication that there has been no change in the matters described herein since the date hereof. The information contained in this Official Statement, including in the appendices, has been obtained from representatives of the City, the Underwriters and from public documents, records and other sources considered to be reliable.

THIS PRELIMINARY OFFICIAL STATEMENT IS IN A FORM DEEMED FINAL BY THE CITY FOR PURPOSES OF RULE 15c2-12 ISSUED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED, EXCEPT FOR CERTAIN INFORMATION PERMITTED TO BE OMITTED PURSUANT TO RULE 15c2-12(b)(1).

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2013 BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2013 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2013 BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE RESOLUTION BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2013 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF THE STATES, IF ANY, IN WHICH THE SERIES 2013 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE SERIES 2013 BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

In making an investment decision, investors must rely on their own examination of the City, and the terms of the offering, including the merits and risks involved. The Series 2013 Bonds have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, other than as expressly provided in certificates to be delivered to the Underwriters in connection with the issuance of the Series 2013 Bonds, the City has not confirmed the accuracy or determined the adequacy of this Official Statement. Any representation to the contrary may be a criminal offense.

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## **OFFICIAL STATEMENT**

*relating to*

**\$33,365,000\***

**CITY OF MEMPHIS, TENNESSEE**

**SANITARY SEWERAGE SYSTEM REVENUE REFUNDING BONDS,  
SERIES 2013**

### **INTRODUCTION**

#### **General**

The purpose of this Official Statement, which includes the cover page and the appendices attached hereto, is to provide certain information concerning the issuance and sale by the City of Memphis, Tennessee (the "City") of its \$33,365,000\* Sanitary Sewerage System Revenue Refunding Bonds, Series 2013 (the "Series 2013 Bonds").

*This introduction is not a summary of this Official Statement and is intended only for quick reference. It is only a brief description of and guide to, and is qualified in its entirety by reference to, more complete and detailed information contained in the entire Official Statement, including the cover page and the Appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement and of the documents summarized or described herein, if necessary. The offering of the Series 2013 Bonds to potential investors is made only by means of the entire Official Statement, including the Appendices hereto. No person is authorized to detach this Introduction from the Official Statement or to otherwise use it without the entire Official Statement including the Appendices hereto.*

The Series 2013 Bonds are being issued by the City pursuant to, among other things, a resolution adopted by the City Council on February 24, 1981, as amended by resolutions adopted by the City Council on December 17, 1985, April 11, 2000, and June 1, 2004 (collectively, the "Resolution"), and as supplemented with respect to the Series 2013 Bonds by that certain series resolution adopted by the City Council on May 7, 2013 (the "Series Resolution" and, together with the Resolution, hereinafter collectively referred to as the "Bond Resolution"). All capitalized terms used herein and not otherwise defined herein are used with the meanings assigned thereto by the Bond Resolution. See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION" attached hereto.

The Series 2013 Bonds are payable from and secured by a pledge of the Net Revenues (as defined below) of the System (as defined herein) on a parity basis with the Outstanding Bonds (as defined herein) and with any additional revenue bonds of the City hereafter issued on a parity basis with the Outstanding Bonds and the Series 2013 Bonds (collectively, the "Bonds"). Net Revenues are defined as all income, revenues, rents, receipts, profits, grants and other moneys derived from the ownership and operation of the System after deducting the current costs and

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\* Preliminary; subject to change.

expenses of the City of operation, maintenance and repair of the System as well as the System's share of common administrative costs of the City ("Operating Expenses"). Operating Expenses do not include any provision for depreciation, amortization, or similar charges or any costs or expenses for new construction or reconstruction of the System or payments of taxes, assessments or other governmental charges of the City or payments in lieu thereof to the City or for payments to the general fund of the City.

THE SERIES 2013 BONDS ARE NOT DEEMED TO CONSTITUTE GENERAL OBLIGATIONS OF THE CITY AND NO HOLDER OR HOLDERS OF ANY OF THE SERIES 2013 BONDS SHALL EVER HAVE THE RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWERS OF THE CITY TO PAY THE SERIES 2013 BONDS OR THE INTEREST THEREON. THE SERIES 2013 BONDS DO NOT CONSTITUTE A DEBT OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL, STATUTORY OR CHARTER LIMITATION AND ARE PAYABLE SOLELY FROM THE SOURCES PROVIDED IN THE BOND RESOLUTION.

### **The City**

The City is a municipal corporation organized under the laws of the State of Tennessee (the "State"). The City is located on the east bank of the Mississippi River in the southwest corner of Tennessee. The City is the State's largest city and the county seat of Shelby County, Tennessee (the "County"). See "THE CITY" herein and "APPENDIX E – CERTAIN DEMOGRAPHIC INFORMATION CONCERNING THE CITY OF MEMPHIS" attached hereto.

### **Purpose of the Series 2013 Bonds**

The Series 2013 Bonds are being issued by the City for the purpose of providing funds to: (a) refund and/or retire all or a portion of the City's outstanding (i) Sanitary Sewerage System Revenue Refunding Bonds, Series 2002 (the "Series 2002 Bonds"), (ii) Sanitary Sewerage System Revenue Bonds, Series 2004 (the "Series 2004 Bonds"), and (iii) Sanitary Sewerage System Revenue Bonds, Series 2005 (the "Series 2005 Bonds"), and (b) pay the costs of issuance related to the Series 2013 Bonds. See "PLAN OF REFUNDING" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

### **Security and Sources of Payment for the Series 2013 Bonds**

In the Bond Resolution, the City has pledged to the payment of principal of, interest on and any premium upon the redemption of the Series 2013 Bonds, all Revenues, and all funds and accounts established by the Bond Resolution. The Bond Resolution creates a prior and paramount lien on all of said moneys over and ahead of any claims and obligations against said moneys, subject only to the provisions of the Bond Resolution permitting application of such moneys for the purposes and on the terms and conditions set forth in the Bond Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS" herein.

The Series 2013 Bonds will also be secured by a Bond Reserve Account to be held in trust for the owners of all of the Bonds, equally and ratably, under the terms of the Bond Resolution. The Bond Reserve Account will be fully funded to the Debt Service Requirement

upon the issuance of the Series 2013 Bonds with moneys on deposit in the Bond Reserve Account. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS" herein and "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION" hereto.

### **The Series 2013 Bonds**

Interest on the Series 2013 Bonds is payable beginning April 1, 2014, and semiannually thereafter on April 1 and October 1 of each year. See "THE SERIES 2013 BONDS - Description of the Series 2013 Bonds" herein.

The Series 2013 Bonds are subject to optional redemption prior to maturity as described herein. See "THE SERIES 2013 BONDS - Redemption Provisions" herein.

The Series 2013 Bonds are being issued in book-entry only form as fully registered bonds in denominations equal to the principal amount of each maturity set forth on the inside cover page, and when issued, shall, as described herein, be registered in the name of Cede & Co., as Bondholder and securities depository nominee of The Depository Trust Company, New York, New York ("DTC"). Individual purchases of beneficial interests in the Series 2013 Bonds will be made in book-entry form only through Direct Participants (as herein described). See "BOOK-ENTRY ONLY SYSTEM" herein.

See "THE SERIES 2013 BONDS" herein for a more complete description of the Series 2013 Bonds.

### **Paying Agent and Bond Registrar**

Regions Bank, Nashville, Tennessee, will act as initial Paying Agent (the "Paying Agent") and Bond Registrar (the "Bond Registrar") for the Series 2013 Bonds.

### **Continuing Disclosure**

In order to provide continuing disclosure with respect to the Series 2013 Bonds in accordance with Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "SEC") and as in effect on the date hereof (the "Rule"), the City will covenant for the benefit of the owners of the Series 2013 Bonds in a Continuing Disclosure Certificate (the "Disclosure Certificate") to provide (i) certain financial information and operating data relating to the System by not later than 230 days following the end of the City's Fiscal Year (as defined herein), commencing with the Fiscal Year ending June 30, 2013, and (ii) notices of certain enumerated events with respect to the Series 2013 Bonds upon the occurrence of such events, to the Municipal Securities Rulemaking Board ("MSRB") in an electronic format as prescribed by the MSRB. Pursuant to SEC Release No. 34-59062, as of July 1, 2009, the sole Nationally Recognized Municipal Securities Information Repository is the Municipal Securities Rulemaking Board through the operation of the Electronic Municipal Market Access System ("EMMA"). See "CONTINUING DISCLOSURE" herein and "APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. These covenants have been made in order to assist the Underwriters in complying with the Rule. The fiscal year of the City is currently the twelve month period beginning July 1 and ending on June 30 of the following

year or any such other twelve month period designated by the City, from time to time, to be its fiscal year (the "Fiscal Year").

### **Other Information**

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

This Official Statement and the appendices attached hereto contain brief descriptions of, among other matters, the City, the Series 2013 Bonds, the security and sources of payment for the Series 2013 Bonds, the Bond Resolution, the Refunding Trust Agreement, and the Disclosure Certificate. Such descriptions and information do not purport to be comprehensive or definitive. The summaries of various constitutional provisions, statutes, the Bond Resolution, the Refunding Trust Agreement, the Disclosure Certificate and other documents are intended as summaries only and are qualified in their entirety by reference to such documents, and references herein to the Series 2013 Bonds are qualified in their entirety to the form thereof included in the Bond Resolution. During the period of the offering of the Series 2013 Bonds, copies of the Bond Resolution, the Refunding Trust Agreement, the Disclosure Certificate and other relevant documents and information are available, upon written request and payment of a charge for copying, mailing and handling, from Wayne Breunig, Managing Director, Duncan-Williams, 6750 Poplar Avenue, Suite 300, Memphis, Tennessee 38138, (901) 260-6926.

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## PLAN OF REFUNDING

A portion of the proceeds of the Series 2013 Bonds will be used to refund and redeem all or a portion of the outstanding Series 2002 Bonds, Series 2004 Bonds and Series 2005 Bonds (collectively, the "Refunded Bonds"). See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

The City will select the specific Refunded Bonds (which may include all or a portion of the bonds of each series listed in the tables below) to be refunded at or about the time of sale of the Series 2013 Bonds. Such selection will be based, in part, upon market conditions existing at that time. Accordingly, no assurance can be given as to the Refunded Bonds to be selected until after the sale of the Series 2013 Bonds.

### Refunded Series 2002 Bonds\*

<b>Maturity Date (October 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Call Price</b>
2014	1,260,000	4.100%	October 15, 2013	100%
2015	2,135,000	4.200	October 15, 2013	100
2016	685,000	4.300	October 15, 2013	100

### Refunded Series 2004 Bonds\*

<b>Maturity Date (October 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Call Price</b>
2015	\$ 100,000	4.125%	October 1, 2014	100%
2015	1,335,000	5.250	October 1, 2014	100
2016	1,515,000	5.250	October 1, 2014	100
2017	1,595,000	5.250	October 1, 2014	100
2018	1,680,000	5.250	October 1, 2014	100
2019	275,000	4.500	October 1, 2014	100
2019	1,495,000	5.000	October 1, 2014	100
2020	405,000	4.500	October 1, 2014	100
2020	1,455,000	5.000	October 1, 2014	100
2021	1,955,000	5.000	October 1, 2014	100
2022	2,055,000	5.000	October 1, 2014	100
2023	500,000	4.750	October 1, 2014	100
2023	1,655,000	5.000	October 1, 2014	100
2024	2,265,000	5.000	October 1, 2014	100

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\* Preliminary; subject to change.

**Refunded Series 2005 Bonds\***

<b>Maturity Date (July 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Redemption Date</b>	<b>Call Price</b>
2016	\$1,505,000	5.000%	July 1, 2015	100%
2017	1,575,000	4.000	July 1, 2015	100
2018	1,640,000	4.125	July 1, 2015	100
2019	1,715,000	4.625	July 1, 2015	100
2020	1,795,000	4.625	July 1, 2015	100
2021	1,885,000	4.750	July 1, 2015	100
2022	1,975,000	4.750	July 1, 2015	100

Upon delivery of the Series 2013 Bonds, the City will enter into a Refunding Trust Agreement (the "Refunding Trust Agreement") with Regions Bank, Nashville, Tennessee (the "Refunding Trustee"). Proceeds of the Series 2013 Bonds and other available monies, if required, will be deposited into a refunding trust fund (the "2013 Refunding Trust Fund") created under the Refunding Trust Agreement and a portion thereof used to acquire direct general obligations of, or obligations the payment of principal of and interest on which is unconditionally guaranteed by, the United States of America (the "Government Obligations"). The Government Obligations and the interest earned thereon will be sufficient, and will be used, together with cash retained in the 2013 Refunding Trust Fund, to pay (i) the respective redemption prices of the Refunded Bonds on their respective redemption dates and (ii) the interest on the Refunded Bonds due on and prior to such redemption dates. The Government Obligations will be purchased from the Treasury Department of the United States of America or in the open market through a competitive bidding process. The City is required to deposit in the 2013 Refunding Trust Fund any additional amounts that may be necessary for any reason to enable the Refunding Trustee to pay the redemption prices of and interest on the Refunded Bonds on their respective redemption and interest payment dates.

The City will obtain verification of sufficiency of the amounts and Government Obligations deposited in the 2013 Refunding Trust Fund for the Refunded Bonds, and of certain yields, from Robert Thomas CPA, LLC (the "Verification Agent"). See "VERIFICATION OF MATHEMATICAL COMPUTATIONS" herein.

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\* Preliminary; subject to change.

## ESTIMATED SOURCES AND USES OF FUNDS

The sources and uses of funds in connection with the issuance of the Series 2013 Bonds are estimated below:

### Sources of Funds:

Par Amount .....	\$ _____
Transfer from Bond Reserve Account for Refunded Bonds .....	_____
Net Original Issue Premium/Original Issue Discount .....	_____
Total Sources of Funds .....	<u>\$ _____</u>

### Uses of Funds:

Deposit to 2013 Refunding Trust Fund .....	\$ _____
Costs of Issuance <sup>(1)</sup> .....	_____
Total Uses of Funds .....	<u>\$ _____</u>

<sup>(1)</sup> Includes Underwriters' discount, legal, accounting and other consultants' fees, Financial Advisor's fees, rating agency fees, initial Bond Registrar and Paying Agent fees, printing costs, and other miscellaneous fees and costs.

## THE SERIES 2013 BONDS

### Description of the Series 2013 Bonds

The Series 2013 Bonds will be dated as of their date of delivery and will bear interest at the rates set forth on the inside cover of this Official Statement, payable semiannually on each April 1 and October 1, commencing April 1, 2014. Subject to redemption as set forth below, the Series 2013 Bonds will mature on the dates and in the amounts set forth on the inside cover of this Official Statement.

The Series 2013 Bonds are issuable only as fully registered bonds, without coupons, in denominations of \$5,000 or any integral multiple thereof. Purchases of beneficial ownership interests in the Series 2013 Bonds will be made in book-entry form, and purchasers will not receive certificates representing interests in the Series 2013 Bonds so purchased. If the book-entry system is discontinued, Series 2013 Bonds will be delivered as described in the Bond Resolution, and beneficial owners of the Series 2013 Bonds will become the registered owners of the Series 2013 Bonds. See "BOOK-ENTRY ONLY SYSTEM" herein.

### Redemption Provisions

Optional Redemption. The Series 2013 Bonds maturing on or after October 1, 202\_\_\_\_ (or portions thereof in authorized denominations of \$5,000 and integral multiples thereof) are subject to optional redemption by the City on and after October 1, 202\_\_\_\_, in whole or in part, at any time in such order as determined by the City, at a redemption price equal to the principal

amount of the Series 2013 Bonds or portion thereof to be redeemed, together with interest accrued thereon to the date fixed for redemption.

If less than all the Series 2013 Bonds shall be called for redemption, the maturities to be redeemed shall be selected by the Governing Body in its discretion. If less than all of the Series 2013 Bonds within a single maturity shall be called for redemption, the Series 2013 Bonds within the maturity to be redeemed shall be selected as follows:

(a) if the Series 2013 Bonds are being held under a Book-Entry System by DTC, or a successor Depository, the Series 2013 Bonds to be redeemed shall be determined by DTC, or such successor Depository, by lot or such other manner as DTC, or such successor Depository, shall determine; or

(b) if the Series 2013 Bonds are not being held under a Book-Entry System by DTC, or a successor Depository, the Series 2013 Bonds within the maturity to be redeemed shall be selected by the Bond Registrar by lot or such other random manner as the Bond Registrar in its discretion shall determine.

### **Notice of Redemption**

Notice of any redemption of Series 2013 Bonds shall either (i) explicitly state that the proposed redemption is conditioned on there being on deposit in the applicable fund or account on the redemption date sufficient money to pay the full redemption price of the Series 2013 Bond to be redeemed, or (ii) be sent only if sufficient money to pay the full redemption price of the Series 2013 Bonds to be redeemed is on deposit in the applicable fund or accounts.

Notice of call for redemption shall be given by the Bond Registrar on behalf of the City not less than twenty (20) nor more than sixty (60) days prior to the date fixed for redemption by sending an appropriate notice to the registered owners of the Series 2013 Bonds to be redeemed by first-class mail, postage prepaid, at the addresses shown on the Series 2013 Bond registration records of the Bond Registrar as of the date of the notice; but neither failure to mail such notice nor any defect in any such notice so mailed shall affect the sufficiency of the proceedings for redemption of any of the Series 2013 Bonds for which proper notice was given. As long as DTC, or a successor Depository, is the registered owner of the Series 2013 Bonds, all redemption notices shall be mailed by the Bond Registrar to DTC, or such successor Depository, as the registered owner of the Series 2013 Bonds, as and when above provided, and neither the City nor the Bond Registrar shall be responsible for mailing notices of redemption to DTC Participants or Beneficial Owners. Failure of DTC, or any successor Depository, to provide notice to any DTC Participant or Beneficial Owner will not affect the validity of such redemption. The Bond Registrar shall mail said notices as and when directed by the City pursuant to written instructions from an authorized representative of the City given at least forty-five (45) days prior to the redemption date (unless a shorter notice period shall be satisfactory to the Bond Registrar). From and after the redemption date, all Series 2013 Bonds called for redemption shall cease to bear interest if funds are available at the office of the Bond Registrar for the payment thereof and if notice has been duly provided as set forth in the Bond Resolution.

## **Registration Provisions; Transfer and Exchange**

The Series 2013 Bonds shall be payable, both principal and interest, in lawful money of the United States of America at designated corporate trust office of the Bond Registrar. The Bond Registrar shall make all interest payments with respect to the Series 2013 Bonds on each interest payment date directly to the registered owners as shown on the Series 2013 Bond registration records maintained by the Bond Registrar as of the close of business on the fifteenth day of the month next preceding the interest payment date (the "Regular Record Date") by depositing such payment in the United States mail, postage prepaid, addressed to such owners at such owners' addresses shown on said Series 2013 Bond registration records, without, except for final payment, the presentation or surrender of such registered Bonds, and all such payments shall discharge the obligations of the City in respect of such Series 2013 Bonds to the extent of the payments so made. Payment of principal of and premium, if any, on the Series 2013 Bonds shall be made upon presentation and surrender of such Series 2013 Bonds to the Bond Registrar as the same shall become due and payable. In the event the Series 2013 Bonds are no longer registered in the name of DTC, or a successor Depository, if requested by the Owner of at least \$1,000,000.00 in aggregate principal amount of the Series 2013 Bonds, payment of interest on such Series 2013 Bonds shall be paid by wire transfer to a bank within the continental United States or deposited to a designated account if such account is maintained with the Bond Registrar and written notice of any such election and designated account is given to the Bond Registrar prior to the Regular Record Date.

The Series 2013 Bonds are transferable only by presentation to the Bond Registrar by the registered owner, or his legal representative duly authorized in writing, of the registered Series 2013 Bond(s) to be transferred with the form of assignment on the reverse side thereof (or attached thereto) completed in full and signed with the name of the registered owner as it appears upon the face of the Series 2013 Bond(s) accompanied by appropriate documentation necessary to prove the legal capacity of any legal representative of the registered owner. Upon receipt of the Series 2013 Bond(s) in such form and with such documentation, if any, the Bond Registrar shall issue a new Series 2013 Bond or Series 2013 Bonds to the assignee(s) in such authorized denominations, as requested by the registered owner requesting transfer. No charge shall be made to any registered owner for the privilege of transferring any Series 2013 Bond, provided that any transfer tax relating to such transaction shall be paid by the owner requesting transfer. The person in whose name any Series 2013 Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes and neither the City nor the Bond Registrar shall be affected by any notice to the contrary, including, but not limited to, any previous transfer request not accompanied by acceptable documentation.

The Bond Registrar is authorized to authenticate and deliver the Series 2013 Bonds from time to time to the original purchasers thereof or as it or they may designate upon receipt by the City of the proceeds of the sale thereof, together with any necessary documentation, and to authenticate and deliver Series 2013 Bonds in exchange for Series 2013 Bonds of the same principal amount delivered for transfer upon receipt of the Series 2013 Bond(s) to be transferred in proper form with proper documentation as hereinabove described. The Series 2013 Bonds shall not be valid for any purpose unless authenticated by the Bond Registrar by the manual signature of an officer thereof on the certificate set forth on the Series 2013 Bond form.

In case any Series 2013 Bond shall become mutilated, or be lost, stolen, or destroyed, the City, in its discretion, shall issue, and the Bond Registrar shall authenticate and deliver a new Series 2013 Bond of like tenor, amount, maturity and date, in exchange and substitution for, and upon the cancellation of, the mutilated Series 2013 Bond, or in lieu of and substitution for such lost, stolen or destroyed Series 2013 Bond, or if any such Series 2013 Bond shall have matured or shall be about to mature, instead of issuing a substituted Series 2013 Bond the City may pay or authorize payment of such Series 2013 Bond without surrender thereof. In every case, the applicant shall furnish evidence satisfactory to the City and the Bond Registrar of the destruction, theft or loss of such Series 2013 Bond, and indemnity satisfactory to the City and the Bond Registrar, and the City may charge the applicant for the issue of such new Series 2013 Bond an amount sufficient to reimburse the City for the expense incurred by it in the issue thereof.

Any interest on any Series 2013 Bond that is payable but is not punctually paid or duly provided for on any interest payment date (hereinafter "Defaulted Interest") shall forthwith cease to be payable to the registered owner on the relevant Regular Record Date; and, in lieu thereof, such Defaulted Interest shall be paid by the City to the persons in whose names the Series 2013 Bonds are registered at the close of business on a date (the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner: the City shall notify the Bond Registrar in writing of the amount of Defaulted Interest proposed to be paid on each Series 2013 Bond and the date of the proposed payment, and at the same time the City shall deposit with the Bond Registrar an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Bond Registrar for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest. Thereupon, not less than ten (10) days after the receipt by the Bond Registrar of the notice of the proposed payment, the Bond Registrar shall fix a Special Record Date for the payment of such Defaulted Interest which date shall be not more than fifteen (15) nor less than ten (10) days prior to the date of the proposed payment to the registered owners. The Bond Registrar shall promptly notify the City of such Special Record Date and, in the name and at the expense of the City, not less than ten (10) days prior to such Special Record Date, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each registered owner at the address thereof as it appears in the Bond registration records maintained by the Bond Registrar as of the date of such notice. Nothing contained in the Bond Resolution or in the Series 2013 Bonds shall impair any statutory or other rights in law or in equity of any registered owner arising as a result of the failure of the City to punctually pay or duly provide for the payment of principal of, premium, if any, and interest on the Series 2013 Bonds when due.

The Bond Registrar shall not be required to transfer or exchange any Series 2013 Bond during the period commencing on a Regular or Special Record Date and ending on the corresponding interest payment date of such Series 2013 Bond, nor to transfer or exchange any Series 2013 Bond after the publication of notice calling such Series 2013 Bond for redemption has been made, nor to transfer or exchange any Series 2013 Bond during the period following the receipt of instructions from the City to call such Series 2013 Bond for redemption; provided, the Bond Registrar, at its option, may make transfers after any of said dates. No charge shall be made to any registered owner for the privilege of transferring any Series 2013 Bond, provided

that any transfer tax relating to such transaction shall be paid by the registered owner requesting transfer. The person in whose name any Series 2013 Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes and neither the City nor the Bond Registrar shall be affected by any notice to the contrary whether or not any payments due on the Series 2013 Bonds shall be overdue. The Series 2013 Bonds, upon surrender to the Bond Registrar, may, at the option of the registered owner, be exchanged for an equal aggregate principal amount of the Series 2013 Bonds of the same maturity in any authorized denomination or denominations.

### **BOOK-ENTRY ONLY SYSTEM**

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC and neither the City nor the Underwriters make any representation or warranty or take any responsibility for the accuracy or completeness of such information.

DTC will act as securities depository for the Series 2013 Bonds. The Series 2013 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2013 Bond certificate will be issued for each maturity of the Series 2013 Bonds as set forth on the inside cover of this Official Statement, each in the aggregate principal amount of such maturity and will be deposited with DTC.

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

Purchases of Series 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2013 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2013 Bonds, except in the event that use of the book-entry system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Series 2013 Bonds may wish to ascertain that the nominee holding the Series 2013 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2013 Bonds within a series or maturity of a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series or maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, premium, if any, and interest payments on the Series 2013 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest on the Series 2013 Bonds, as applicable, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City and/or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2013 Bonds at any time by giving reasonable notice to City or Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Series 2013 Bonds certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Series 2013 Bonds certificates will be printed and delivered to DTC.

THE ABOVE INFORMATION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CITY, AND THE UNDERWRITERS BELIEVE TO BE RELIABLE, BUT THE CITY AND THE UNDERWRITERS TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NEITHER THE CITY NOR THE PAYING AGENT WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (I) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT; (II) THE PAYMENT BY DTC OR BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OR REDEMPTION OR PURCHASE PRICE OF, PREMIUM, IF ANY, OR INTEREST ON, ANY SERIES 2013 BONDS; (III) THE DELIVERY OF ANY NOTICE BY DTC OR ANY PARTICIPANT; (IV) THE SELECTION OF THE PARTICIPANTS OR THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 2013 BONDS; OR (V) ANY CONSENT GIVEN OR ANY OTHER ACTION TAKEN BY DTC OR ANY PARTICIPANT.

So long as Cede & Co. is the registered owner of the Series 2013 Bonds, as nominee for DTC, reference herein to the registered owners of the Series 2013 Bonds shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2013 Bonds.

## SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS

### Pledge of Revenues and Funds

In the Bond Resolution, the City has pledged to the payment of principal of, interest on and any premium upon the redemption of the Series 2013 Bonds, the proceeds of the sale of the Series 2013 Bonds, all Revenues, and all funds and accounts established by the Bond Resolution. The Bond Resolution creates a prior and paramount lien on all of said moneys over and ahead of any claims and obligations against said moneys, subject only to the provisions of the Bond Resolution permitting application of such moneys for the purposes and on the terms and conditions set forth in the Bond Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS - Flow of Funds" herein for a description of the various funds and accounts created under the Bond Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS" herein for a description of the Bond Reserve Account.

The Series 2013 Bonds are not deemed to constitute general obligations of the City and no holder or holders of any of the Series 2013 Bonds shall ever have the right to compel any exercise of the taxing powers of the City to pay the Series 2013 Bonds or the interest thereon. The Series 2013 Bonds do not constitute a debt of the City within the meaning of any constitutional, statutory or charter limitation and are payable solely from the sources provided in the Bond Resolution.

### Flow of Funds

All Funds and Accounts are held and administered by the City. All Revenues held or collected by the City and derived from the ownership or operation of the System are required to be deposited as promptly as practicable after receipt in the Revenue Fund. Moneys and securities from time to time in the Revenue Fund are trust funds of the City for the uses and purposes provided in the Bond Resolution and must be paid out and applied for the uses and purposes for which such moneys are pledged, as follows:

**FIRST:** From the moneys in the Revenue Fund, the City shall set aside therein, from time to time, such amounts as are necessary to pay the Operating Expenses of the System as the same become due and payable.

**SECOND:** The Bond Account is required to be used solely for the purpose of paying the principal of and premium, if any, and interest on the Bonds and of retiring Bonds prior to maturity. The City is required to pay into the Bond Account in trust in each month, out of the moneys remaining in the Revenue Fund after payment of the Operating Expenses of the System, amounts sufficient to pay the interest of all the Bonds outstanding as the same become due and to retire all Bonds at or prior to maturity. Such amounts shall be paid in the following order:

*Interest Sub-Account.* On or after the first day of the month next succeeding the date of issuance of any Series of Bonds and each month thereafter, there is required to be credited to the Interest Sub-Account an amount such that, if the same amount were so credited to the Interest Sub-Account each succeeding month thereafter prior to the next date upon which an installment

of interest falls due on the Bonds, the aggregate of the amounts so credited to the Interest Sub-Account will on such date be equal to the installment of such interest then falling due.

*Principal Sub-Account.* On or after the first day of the twelfth month next preceding the date upon which an installment of principal of serial Bonds falls due, but not later than the last day of such month, and each month thereafter, there is required to be credited to the Principal Sub-Account, an amount such that, if the same amount were so credited to the Principal Sub-Account each month thereafter prior to the next date upon which an installment of principal falls due, the aggregate of the amounts so credited to the Principal Sub-Account will on such date be equal to the installment of principal then falling due.

*Bond Retirement Sub-Account.* On or before the first day of the twelfth month prior to the date upon which the first sinking fund installment established for a Series of Bonds which includes term Bonds is payable, but not later than the last day of such month, and each month thereafter, there is required to be credited to the Bond Retirement Sub-Account, an amount such that, if the same amount were so credited to the Bond Retirement Sub-Account each month thereafter and prior to the next date upon which a sinking fund installment falls due, the aggregate of the amounts so credited to the Bond Retirement Sub-Account for such Series of Bonds will be sufficient to redeem term Bonds of each series in the principal amounts and at the time specified in the Series Resolution authorizing the issuance of such Series of Bonds.

In the event there is at any time a deficiency in the Interest, Principal or Bond Retirement Sub-Accounts, such deficiency is required to be made up first from the Bond Reserve Account, and second from the Renewal and Replacement Account, and after payment of the amounts required to be made pursuant to the Bond Resolution into the Interest, Principal and Bond Retirement Sub-Accounts, from the first moneys thereafter paid into the Revenue Fund, there must be paid into the Bond Reserve Account the amounts withdrawn therefrom for the purpose of making up any such deficiency.

Whenever the assets of the Bond Account and the Bond Reserve Account are sufficient in the aggregate to provide moneys to pay all Bonds then outstanding, including such interest thereon as may thereafter become due and payable and any premiums upon redemption thereof, no further payments need be made into the Bond Account or Bond Reserve Account.

**THIRD:** Each Series Resolution is required to provide for the payment from the Revenue Fund for deposit in the Bond Reserve Account in each month after the date of the Bonds authorized by such Series Resolution of such amounts and at such times so that by no later than five years from the date of such Bonds, there shall be on deposit in the Bond Reserve Account an amount equal to the Debt Service Requirement for all Bonds then outstanding and the series of Bonds then being issued, provided that the Series Resolution authorizing the issuance of a series of Bonds may provide for payments into the Bond Reserve Account from proceeds of such Bonds or other moneys available therefor, in which event, in providing for such monthly deposits, allowance shall be made for any such amounts so paid into the Bond Reserve Account.

Subject to the provisions of the Bond Resolution, the moneys and value of Investment Securities credited to the Bond Reserve Account shall always be maintained at an amount at least

equal to the Debt Service Requirement for the Bonds then outstanding. If on any January 1 and July 1, moneys or assets at any time in the Bond Reserve Account are in excess of the Debt Service Requirement; such excess shall be transferred to the Revenue Fund. If at any time the moneys and value of Investment Securities credited to the Bond Reserve Account are less than the Debt Service Requirement for the Bonds then outstanding, the City shall pay or cause to be paid from the Revenue Fund or the Renewal and Replacement Account for deposit in the Bond Reserve Account such amounts so that there will be on deposit in the Bond Reserve Account an amount equal to the Debt Service Requirement for the Bonds then outstanding.

**FOURTH:** In order to provide for the payment of the principal, premium, if any, and interest on the Outstanding Sewer Debt, the City is obligated to set aside and to pay out of the moneys remaining in the Revenue Fund, after paying or making provision for the payment of Operating Expenses, and after making the requisite payment into the Bond Account and Bond Reserve Account, amounts sufficient to make the payments due on the Outstanding Sewer Debt to the State of Tennessee and the amounts due with respect to Outstanding Sewer Debt represented by general obligations bonds of the City. To the extent of any deficiency in the amounts available to pay Outstanding Sewer Debt, the City shall pay or cause to be paid from the Renewal and Replacement Account such amounts.

**FIFTH:** After providing for Operation Expenses and payments into the Bond Account and Bond Reserve Account, and making the requisite payments on the Outstanding Sewer Debt, the City is required to set aside and credit monthly certain amounts out of moneys remaining in the Revenue Fund to the Renewal and Replacement Account for renewal and replacement of the properties of the System, such amounts to be based upon a consideration of a report of a Consulting Engineer retained for such purpose, but in no event to be less in any Fiscal Year than 1% of the un-depreciated book value of the fixed assets of the System. Amounts thus accumulated must be expended for renewals, replacements, additions, extensions, improvements and betterments to the System to the extent not used to make up deficiencies in the Bond Account, Bond Reserve Account or the amount to be set aside for the payment of Outstanding Sewer Debt. Any balance remaining in the Renewal and Replacement Account at the end of any Fiscal Year may be retained therein or transferred to the Revenue Fund and treated as surplus funds.

At the time of the issuance of the Series 1981 Bonds, the City originally funded the Renewal and Replacement Account with a deposit of \$5,000,000. Pursuant to the Bond Resolution, the City then retained Black & Veatch, Consulting Engineers, to prepare a report in 1982 which allowed the City to reduce the Renewal and Replacement Account to the minimum level provided in the Bond Resolution of 1% of the un-depreciated book value of the System. The City subsequently retained Black & Veatch, Consulting Engineers, to prepare reports in Fiscal Years 1987, 1992, 1997, 2002, 2007 and 2012. The most recent report, dated June 26, 2012, recommended a minimum balance therein of \$7,244,000 in each of Fiscal Years 2012 through 2014, a minimum balance therein of \$7,522,000 in Fiscal Year ending June 30, 2015, and a minimum balance of \$7,872,000 for Fiscal Year 2016. The City has faithfully set aside the recommended amounts as required and has used those funds to renew and replace the existing System. It is anticipated that the City will continue to follow these recommendations and that there will be on deposit in the Renewal and Replacement Account at the beginning of each Fiscal Year the amount recommended for such year.

**SIXTH:** After the payment of the required amount from the Revenue Fund for Operating Expenses and to the Bond Account, Bond Reserve Account, payments for Outstanding Sewer Debt and credits to the Renewal and Replacement Account, moneys in the Revenue Fund shall be applied to the payment of taxes, assessments or other governmental charges of the City or payments in lieu thereof to the City or for payments to the General Fund of the City, and the balance shall constitute surplus funds to be used for any lawful purpose in connection with the System, including improvements, enlargements, extensions, additions, renewals, reconstructions or betterments to the System; for calling and redeeming or purchasing Bonds; for the purpose of acquiring and constructing plants and properties for the treatment and disposal of sewage or wastewater including associated transmission facilities, which the City has elected to acquire, construct and operate as a separate utility system; for the carrying out of any other provisions of the Bond Resolution; or for the payment of principal, premium, if any, and interest on bonds, notes, certificates of indebtedness or other evidences of indebtedness secured by a lien on and pledge of the Revenues junior and inferior to the lien on, and pledge of, the Revenues created for the payment and security of the Bonds.

### **Investment of Money**

Moneys held for the credit of the Bond Account, the Bond Reserve Account and the Revenue Fund not required for immediate disbursement shall, to the fullest extent practical and reasonable, be invested and reinvested by the City in Investment Securities of the type described in the Bond Resolution. All income resulting from the investment or reinvestment of the moneys shall accrue to and be deposited in the Revenue Fund.

### **Rate Covenant**

The Bond Resolution requires that the City shall prescribe, establish, maintain, revise and collect rates and charges for the services, facilities and commodities sold, furnished or supplied through the facilities of the System sufficient to provide (1) Revenues to pay all Operating Expenses and other governmental charges imposed on the System, to make all payments to the Bond Account, to the Bond Reserve Account, to the Renewal and Replacement Account, and for the payment of the principal of and interest on Outstanding Sewer Debt, and to pay any amounts which the City may become obligated to pay from the Revenues of the System by law or contract; and (2) Net Revenues in each year at least equal to the Annual Debt Service Requirement during such year on all Bonds at the time outstanding.

### **Additional Parity Bonds**

The City may issue additional Series of Bonds pursuant to a series resolution on a parity with the Bonds theretofore issued and secured by an equal charge and lien on the Revenues for the purpose of financing the costs of acquisition, construction, reconstruction, improvement, extension, enlargement and betterment of the System and/or to refund any outstanding Bond or Bonds.

An additional Series of Bonds may be issued only if:

- (a) there is at the time of the issuance of such additional Bonds no deficiency in the amount required by the Bond Resolution or any Series Resolution to be paid into the Bond Account and into the Bond Reserve Account; and
- (b) either:
  - (i) the average of the Net Revenues (i.e., the total revenues of the System, which may include surplus money in the Revenue Fund, less Operating Expenses), adjusted as summarized hereinafter, of the last two Fiscal Years, or the Net Revenues of the last Fiscal Year next preceding the issuance of the additional Series of Bonds, whichever is lower, shall have been at least equal to 1.25 times the maximum Debt Service Requirement for any succeeding Fiscal Year on all Bonds which will be outstanding immediately subsequent to the issuance of the additional Series of Bonds, or
  - (ii) the average of the Net Revenues projected by a Consulting Engineer for the first three full Fiscal Years after completion of the improvements to the System being financed from the Series of Bonds then being issued shall be at least equal to 1.50 times the maximum Debt Service Requirement for any succeeding Fiscal Year on all Bonds which will be outstanding immediately subsequent to the issuance of the additional Series of Bonds.

In determining the amount of Net Revenues for the purpose of clause (b)(i) of the immediately preceding paragraph, and in the event a change has been made and is in effect at the time of the issuance of a proposed Series of Bonds in the rate schedule for service from the System which was not in effect during all or any part of the period for which the computation was made, the Net Revenues for such period may be adjusted by the Consulting Engineer to reflect the results which would have occurred in the Net Revenues if such changes had been in effect during all of such period. No such certificate by the Consulting Engineer shall be required if the Net Revenues of the System as shown by the certified financial statements demonstrate compliance with the requirements described in (b)(i) above. In determining the amount of Net Revenues for the purposes of clause (b)(ii) of the immediately preceding paragraph, the Consulting Engineer shall also certify as to the need and feasibility of the improvements then being financed and may include projected changes in the rate schedule for service from the System, provided that said projected changes have been approved by the City Council and are to become effective within six months immediately subsequent to the issuance of the proposed additional Series of Bonds.

In addition, the City may issue Bonds for the refunding of any Bonds then outstanding without meeting the requirements of paragraphs (a) and (b) above, provided that the Annual Debt Service Requirement on the refunding Bonds and Bonds which are not refunded shall not be greater in any year in which Bonds not refunded are to be outstanding than the Annual Debt Service Requirement in such year would have been if the Bonds to be refunded were not so refunded.

The Bond Resolution also permits the City to issue Bonds on a parity with Bonds previously issued for the purpose of refunding at any time within one year prior to maturity of any of the then outstanding Bonds for the payment of which the City does not have sufficient funds, but any Bonds issued for such purpose must mature in a year not earlier than the latest stated maturity of any Bonds of any Series then outstanding. The City may issue revenue bonds, notes, warrants or other obligations which are a charge upon the Revenues of the System junior or inferior to the payments to be made into the Bond Account for the payment of Bonds issued under the Bond Resolution.

### **Limited Obligations**

THE SERIES 2013 BONDS SHALL NOT BE DEEMED TO CONSTITUTE GENERAL OBLIGATIONS OF THE CITY AND NO HOLDER OR HOLDERS OF ANY OF THE SERIES 2013 BONDS SHALL EVER HAVE THE RIGHT TO COMPEL ANY EXERCISE OF THE TAXING POWERS OF THE CITY TO PAY THE SERIES 2013 BONDS OR THE INTEREST THEREON AND THE SERIES 2013 BONDS SHALL NOT CONSTITUTE A DEBT OF THE CITY WITHIN THE MEANING OF ANY CONSTITUTIONAL, STATUTORY OR CHARTER LIMITATION AND SHALL BE PAYABLE SOLELY FROM THE SOURCES PROVIDED IN THE BOND RESOLUTION.

### **Enforceability of Remedies**

The realization of the value from the pledge of the Net Revenues upon any default in the payment of the principal of or interest on the Series 2013 Bonds will depend upon the exercise of various remedies specified under the laws of the State. The various legal opinions to be delivered concurrently with the delivery of the Series 2013 Bonds will be qualified as to the enforceability of rights or remedies with respect to the Series 2013 Bonds by bankruptcy, insolvency, laws affecting creditors' rights generally and the application of equitable principles. See, "APPENDIX A - SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION" attached hereto.

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## OUTSTANDING SYSTEM OBLIGATIONS

### Outstanding Bonds

As of June 30, 2013, the City had the following Sanitary Sewerage System Revenue Bonds outstanding:

<u>Bond Name</u>	<u>Outstanding Par Amount</u>	<u>Final Maturity Date</u>
Sanitary Sewerage System Revenue Refunding Bonds, Series 2011	\$15,050,000	October 1, 2021
Sanitary Sewerage System Revenue Bonds, Series 2010B (RZEDB)	15,240,000	October 1, 2030
Sanitary Sewerage System Revenue Bonds, Series 2009B (BABs)	12,360,000	October 1, 2029
Sanitary Sewerage System Revenue Bonds, Series 2009A	6,135,000	October 1, 2019
Sanitary Sewerage System Revenue Bonds, Series 2007	16,595,000	October 1, 2027
Sanitary Sewerage System Revenue Refunding Bonds, Series 2006	15,820,000	May 1, 2020
Sanitary Sewerage System Revenue Bonds, Series 2005	23,810,000	July 1, 2025
Sanitary Sewerage System Revenue Bonds, Series 2004	20,980,000	October 1, 2024
Sanitary Sewerage System Revenue Refunding Bonds, Series 2002	5,290,000	October 1, 2016
Sanitary Sewerage System Revenue Bonds, Series 2001	3,815,000	October 1, 2014

All of the above bonds are referred to herein as the "Outstanding Bonds."

Capital Leases. As of the date of this Official Statement, the City does not have any capital lease obligations with respect to the System outstanding.

### Subordinate Debt

Outstanding Loans. In November 2007, the City entered into a loan agreement with the State of Tennessee Department of Environment and Conservation ("TDEC") for two projects in the amounts of \$7.0 million and \$2.55 million with a term of twenty (20) years and at an interest rate of 2.59%. The TDEC loan proceeds were intended to be used to fund a portion of the construction costs related to the Loosahatchie Interceptor and phases one and two of the Mary's Creek Interceptor. The Loosahatchie Interceptor was completed in Fiscal Year 2010 at a cost of \$3.989 million. Approximately \$3.0 million remains outstanding of the \$7 million loan, the proceeds of which are intended for phase one of the Mary's Creek Interceptor. In April 2012, the City returned the \$2.55 million loan which would have funded phase two of the Mary's Creek Interceptor. The City of Memphis is currently evaluating whether the extension of Mary's Creek is consistent with the City's future annexation needs. This debt is subordinate to all outstanding and future revenue bonds issued under the Bond Resolution.

Future Loans. The City intends to enter into additional loan agreements with TDEC in Fiscal Year 2013. The City will enter into a \$22 million loan agreement to fund projects at each of its two existing sewer treatment plants which include: (1) improvements to Lagoon #5 at its Maxson plant in the amount of \$19 million; and (2) necessary modifications to the Stiles plant outfall in the amount of \$3 million. The City will also enter into a \$100 million loan agreement with TDEC to fund improvements to the sewer system pursuant to the Consent Decree. See "CAPITAL IMPROVEMENT PROGRAM - Consent Decree" below. The terms and interest rates for each loan will be determined at the closing of each loan agreement.

**Interest Rate Exchange Agreements**

As of the date of this Official Statement, there are no Outstanding Interest Rate Exchange Agreements under the Bond Resolution.

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## ANNUAL DEBT SERVICE REQUIREMENTS

The following table presents for each Fiscal Year ended June 30 the total principal and interest payment requirements with respect to the Outstanding Bonds, prior to the issuance and delivery of the Series 2013 Bonds, and will present the total principal and interest payment requirements on all Outstanding Bonds, including the Series 2013 Bonds, upon the issuance and delivery of the Series 2013 Bonds.

Fiscal Year Ending June 30	Outstanding Bonds <sup>(1)</sup>			Series 2013 Bonds			Total Aggregate Debt Service
	Principal	Interest	Total Debt Service	Principal	Interest	Total Debt Service	
2014	\$ 10,895,000	\$ 6,142,819	\$ 17,037,819				
2015	11,155,000	5,706,488	16,861,488				
2016	10,940,000	5,253,737	16,193,737				
2017	11,435,000	4,834,086	16,269,086				
2018	11,305,000	4,329,954	15,634,954				
2019	9,030,000	3,821,208	12,851,208				
2020	10,010,000	3,403,405	13,413,405				
2021	8,890,000	2,926,264	11,816,264				
2022	9,305,000	2,475,460	11,780,460				
2023	7,245,000	2,056,441	9,301,441				
2024	7,575,000	1,680,429	9,255,429				
2025	7,910,000	1,287,369	9,197,369				
2026	5,900,000	937,539	6,837,539				
2027	3,655,000	687,188	4,342,188				
2028	3,805,000	479,913	4,284,913				
2029	2,430,000	298,690	2,728,690				
2030	2,525,000	144,673	2,669,673				
2031	1,085,000	33,093	1,118,093				
<b>Total</b>	<b>\$135,095,000</b>	<b>\$46,498,756</b>	<b>\$181,593,756</b>				

<sup>(1)</sup> Amounts are rounded to the nearest dollar.

## THE CITY

### General

The City is located on the east bank of the Mississippi River in the southwest corner of Tennessee. The City is the State's largest city and the county seat of the County. The corporate limits contain 348.9 square miles, representing 47% of the total land area of the County. The City ranks as the 20th largest city in the nation. According to the U.S. Bureau of the Census, the 2010 population was 652,050.

The City was incorporated as a city in 1826. Memphis operated under a commission form of government from 1909 until January 1, 1968. At that time, a Mayor-Council form of government was established. The City Council is composed of thirteen representative citizens who are elected for four-year terms. Six council members are elected at large in multi-member districts, which territorial boundaries are determined by dividing the City in half with each multi-member district consisting of three council member numbered positions. Single member districts, numbered 1–7, elect the remaining seven council members. The City Council elects its own chairperson, exercises legislative powers, approves budgets and establishes the tax rate. The Mayor is elected to a four-year term. The Mayor carries out the policies of the City and appoints City board members, officers and division directors, with City Council approval. The City's operating and service departments are organized under the Chief Administrative Officer who is appointed by and serves at the pleasure of the Mayor. The Mayor may veto action of the City Council, but a simple majority can override any veto.

The Chief Administrative Officer, under the direction of the Mayor, coordinates the activities of all administrative divisions of City Government. The Chief Administrative Officer acts as liaison officer between the Mayor and all divisions, bureaus, boards, commissions and authorities. The directors of all divisions, excluding the City Attorney, report to the Chief Administrative Officer on administrative procedures.

The major administrative divisions of the City include: Engineering, Executive, Finance, Fire Services, General Services, Housing and Community Development, Human Resources, Information Systems, Legal, Park Services, Office of Planning and Development, Police Services, Public Works/Sanitation, Community Enhancement and Public Services and Neighborhoods.

The Mayor is responsible for all City appointments to boards which serve the City. These include the boards of the Memphis Light, Gas and Water Division; Memphis Area Transit Authority; Memphis Housing Authority; the DMC; Memphis & Shelby County Convention Center Complex; Memphis Brooks Museum of Art; Mid-South Coliseum; Memphis & Shelby County Building Code Advisory Board; and Memphis & Shelby County Public Library Board. The Mayor appoints five of the seven members of the Board of the Memphis-Shelby County Airport Authority. Many of these boards also have members appointed by the Mayor of the County. Most of the members of these boards are private citizens giving their time to the City without compensation.

See "APPENDIX E – CERTAIN DEMOGRAPHIC INFORMATION CONCERNING THE CITY OF MEMPHIS" attached hereto.

### **Regulation by the Office of State and Local Finance**

Pursuant to Title 9, Chapter 21 of the Tennessee Code Annotated (the "Local Government Public Obligations Act") the City's authority to issue certain debt is subject to approval or other action by the Comptroller of the Treasury or the Comptroller's designee, the Comptroller's Office of State and Local Finance (the "Office of State and Local Finance"). On April 19, 2013, the City received a Notice of Noncompliance (the "Notice") from the Office of State and Local Finance, indicating that the City had failed to comply with the filing requirements of the Local Government Public Obligations Act with respect to certain interfund transactions previously undertaken by the City and disclosed in the City's prior comprehensive annual financial reports (the "Interfund Transactions"). As a result of the City's failure to meet the filing requirements with respect to the Interfund Transactions, the City was prohibited from issuing any debt until all reporting requirements for the Interfund Transactions were met.

In response, on May 6, 2013, the Mayor and City staff met with the Comptroller and the Office of State and Local Finance and presented a proposed plan of action to bring the Interfund Transactions into compliance with the Local Government Public Obligations Act. On May 20, 2013, the State's Comptroller of the Treasury (the "Comptroller") delivered a letter to the City declaring that, based on the City's submissions and the completion of all of the corrective actions outlined in the Comptroller's Letter (the "Corrective Actions"), the City will be considered to have fully responded to the Notice and the City could proceed with issuing debt. The City has implemented the Corrective Actions and in a June 24, 2013 letter, the Comptroller confirmed that the City is not prohibited from issuing debt.

## **THE SYSTEM**

### **Background**

The City of Memphis owns and operates sanitary sewerage properties for the collection, treatment and disposal of sewage and sewage sludge, including the plants, buildings, works, instrumentalities or parts thereof and appurtenances thereto, lands, easements, rights of land, rights-of-way, contract rights, franchises, machinery, pipes, fixtures and equipment and any other property, real, personal or mixed, incidental to and included in such properties, or parts thereof, and any improvements, extensions and betterments, now or hereafter constructed, acquired, made or used by the City in connection with the sanitary sewerage system (the "System"). Pursuant to Chapter 33 of the City Code, the City created and maintains a special fund known as the "Sewer Collection and Treatment Fund" (defined in the Bond Resolution and hereinabove as the "Revenue Fund") into which are deposited all funds received from sewer service charges on users of the System. The Division of Public Works is responsible for operation, maintenance, construction and design of the System, as well as the billing of and collections from industrial customers. The billing of residential and commercial customers is performed by the Memphis Light, Gas and Water Division ("MLG&W") and outlying local utility districts. Administrative

functions such as finance, personnel and purchasing are performed by the respective City departments generally responsible therefore.

Ground was broken for the original Memphis Sanitary Sewer System in 1878. Construction and placement of sewer pipelines has continued since that time, with large area annexations to the original City of Memphis occurring in 1899 and 1920, and continuing through the more recent past. In the process of annexing adjoining areas, the City has absorbed a number of local utility districts, and some collection sewers were taken over by the City.

In 1969, a sewer agreement was entered into between Memphis and Shelby County. Under this agreement as amended in 1970, Memphis agreed to take over construction of all extensions to the System within the County, to maintain all collector sewers within the System, and to provide treatment for all wastewater coming into the System. To pay for these responsibilities, a sewer rate ordinance was passed, and a monthly service fee was instituted in September 1969. Rates and the rate structure have been changed periodically. See "SYSTEM REVENUES - Rates, Fees and Charges" herein.

The present System includes the City, Shelby County, and a hybrid of incorporated areas which control collection sewers within their jurisdictions and with which the City maintains operating agreements. The City provides outfall or interceptor service to these various systems. The terminus of the City's interceptor sewers is one of two wastewater treatment facilities. These two plants are the T.E. Maxson (South) Wastewater Treatment Plant (hereinafter the "Maxson Plant") with a capacity of 90 million gallons a day (MGD), constructed in 1975, expanded in 1985, 1997 and again in 2004, and the M.C. Stiles (North) Wastewater Treatment Plant (hereinafter "Stiles Plant") with a capacity of 135 MGD, which became operational in 1977.

Under the terms of the 1969 Sewer Agreement, new extensions or outfalls of existing lines within the County are at the discretion of the City. The costs of such work are currently shared equally by the City and the developer; the remainder of the City's costs are recovered from development charges and sewer service fees. See "SYSTEM REVENUES - Rates, Fees and Charges" herein.

## **Management and Organization**

The City's Division of Public Works is responsible for operation, construction, design and maintenance of the System. The Division of Public Works is managed by the Director of Public Works, who is appointed by the Mayor. The Director has overall policy responsibility for the Division of Public Works and coordinates the activities and expenditures of the bureaus under his direction.

The Administrator of Environmental Engineering is responsible for sewer billing, safety and contract negotiations, coordination of construction, treatment plant operation and the collection system. He reports directly to the Director of Public Works.

Following are brief resumes of those individuals directly responsible for management of the System.

**Dwan Gilliom, Director of Public Works.** Mr. Gilliom served as Deputy Director of Solid Waste Management for the Division of Public Works from 2004 until appointed Director of Public Works in 2008. He had served as the Administrator for City of Memphis Mayor's Citizen Service Center from 2002–2004. Mr. Gilliom was previously employed with the Federal Government in Atlanta Georgia. Mr. Gilliom holds a Bachelor's Degree in Business Management and a Master's Degree in Operations Management (HR Specialist) from the University of Arkansas.

**Paul Patterson, Administrator of Environmental Engineering.** Mr. Patterson was selected as Administrator of Environmental Engineering in 2004. He had previously served as Administrator of Solid Waste Management from 1991 to 2004. Mr. Patterson was employed by the Tennessee Department of Environment and Conservation from 1973 to 1991. He holds a Bachelor of Science Degree from Middle Tennessee State University and a Master of Science Degree in Environmental Health from East Tennessee State University.

**Scott Morgan, Administrator of Environmental Construction.** Mr. Morgan has served in his present position since 2011. Prior to his current position, he held the position of Environmental Engineer for four years and has been employed by the City since 2006, specializing in stormwater and sewer construction. Mr. Morgan holds a Bachelor of Science Degree in Geological Engineering from the University of Mississippi and is a Registered Professional Engineer and Registered Professional Geologist in the State of Tennessee.

**Don Hudgins, Administrator of Waste Treatment Facilities.** Mr. Hudgins has served in this position since 2007. Prior to his current position, he held the position of Environmental Engineer with the City of Memphis for 7 years. Mr. Hudgins was previously employed by a private consulting firm for 10 years as an environmental project engineer. Mr. Hudgins holds a Bachelor of Science Degree in Civil Engineering and a Master of Science Degree in Civil Engineering from the University of Memphis. He is a Certified Grade IV Wastewater Operator, Grade II Collection System Operator, and Registered Professional Engineer in the State of Tennessee.

**Ronald Powell, Administrator of Wastewater Collection Facilities.** Mr. Powell was hired by the City to fill this position in January 2013. Prior to that date, he was an Environmental Engineer for the Division of Public Works since December 2010. Mr. Powell holds a Master of Science in Operations Management from the University of Arkansas and Bachelor of Science Degree in Civil Engineering from the University of Memphis. Mr. Powell has over 30 years of experience in civil engineering including design and construction of Water and Wastewater distribution and collection systems.

### **Laboratory Facilities**

All laboratory facilities have been consolidated into the Stiles Plant laboratory. In addition to the normal waste treatment laboratory work, a highly trained staff under the direction of a chief chemist and a quality control chemist conducts pre-treatment testing as required and as specified by the EPA.

## **Service Area**

The System serves a total of 442 square miles, of which 349 square miles are in the City and 93 square miles are in suburban areas. Service to suburban areas is provided under agreements with adjacent communities which require delivery of wastewater of the System. The adjacent areas with which the City has contracted to provide service are Bartlett, Tennessee; Horn Lake, Mississippi; Shelby County, Tennessee; and Germantown, Tennessee. The population served is approximately 865,000 persons as of 2012 of which about 652,000 are in the City and 213,000 are in the suburbs.

The System is divided into six basins (Loosahatchie River, Wolf River, Front Street, President's Island, Nonconnah Creek, and Horn Lake Creek), each of which includes lateral and trunk sewers, interceptors, and pumping stations. The collection system consists of approximately 2,400 miles of sewers. The System has 25 miles of interceptors and 101 pumping stations. An interceptor is the main sewer line serving an entire basin, which is fed by a number of smaller outfall lines. The basins are served by two wastewater treatment plants. The Maxson Plant serves the Nonconnah Creek, Horn Lake Creek and President's Island Basins. The Stiles Plant serves the Wolf River, Front Street and Loosahatchie River Basins.

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The following table summarizes the wastewater treatment plant flows and design capacities for the System's wastewater treatment plants.

**CITY OF MEMPHIS SANITARY SEWERAGE SYSTEM  
T.E. MAXSON AND M.C. STILES WASTEWATER TREATMENT PLANTS  
WASTEWATER FLOW<sup>(1)</sup>  
(MGD)**

	<b>Design Capacity</b>	<b>Average Daily Flow (FY)</b>					<b>Projected Average Daily Flow</b>
		<b>2008<sup>(2)</sup></b>	<b>2009</b>	<b>2010<sup>(2)</sup></b>	<b>2011<sup>(3)</sup></b>	<b>2012</b>	<b>2017</b>
Maxson Plant	90	76	70	74	77	70	73
Stiles Plant	135	94	84	95	96	85	91
<b>TOTAL FLOW</b>	<b>225</b>	<b>170</b>	<b>154</b>	<b>169</b>	<b>173</b>	<b>155</b>	<b>164</b>

<sup>(1)</sup> Flows vary slightly due to rainfall and Mississippi River levels which cause extraneous water to enter sewer system.

<sup>(2)</sup> High flow values are anomalous and are due to large pipe failures in 2008 and 2010 which occurred in submerged flood plain areas and could not be immediately repaired due to inaccessibility.

<sup>(3)</sup> High flow values are anomalous and are due to the historic flood in 2011.

Source: Division of Public Works.

The following table summarizes the System's customers and wastewater treatment volumes.

**CITY OF MEMPHIS SANITARY SEWERAGE SYSTEM  
CUSTOMERS AND TREATMENT VOLUMES**

<b>Fiscal Year</b>	<b>Number of Customers</b>	<b>Annual Wastewater Treated (MG)</b>
2008	263,884	62,050
2009	261,758	56,210
2010	259,481	61,843
2011	259,416	63,255
2012	261,133	56,575

Source: Division of Public Works.

### **Existing Facilities**

The System is composed of approximately 2,400 miles of sewer pipelines and interceptors, 101 sewerage lift (pumping) stations, and two major wastewater treatment plants: the Maxson Plant, and the Stiles Plant. Each plant is currently a secondary activated sludge facility, with a combined design capacity of 225 MGD. Excess sludge is discharged to holding lagoons for storage before disposal. Disposal occurs daily.

The Maxson Plant, completed in 1975 at a cost of \$19 million, treats wastewater from the Nonconnah, President's Island and Horn Lake Sewer Basins. The plant has a design capacity of

90 MGD, with an average daily flow for Fiscal Year 2012 of 70 MGD. The Maxson Plant's present capacity is sufficient to process the anticipated wastewater flow projected in 2014. The Maxson Plant generates secondary wastewater sludge which is discharged from the Maxson Plant into long term anaerobic storage lagoons. The stabilized sludge is then dewatered and land applied on a 650 acre site. In 2010, the City replaced the Raw Sewage Header in the Influent Pump Building (at a cost of \$2.6 million). In 2011, the City finalized the replacement of the 15 acre floating cover of Lagoon Number 1 (at a cost of \$3.6 million).

The Stiles Plant, completed in 1977 at a cost of \$40 million, treats wastewater from the Wolf River, Loosahatchie River and Front Street Basins. The plant has a design capacity of 135 MGD, with an average daily flow for Fiscal Year 2012 of 85 MGD. The Stiles Plant's present capacity is sufficient to process the anticipated wastewater flow projected in 2014. The Stiles Plant does not have primary clarifiers and as such only generates secondary sludge. Secondary sludge is transferred to anaerobic storage lagoons similar to those utilized by the Maxson Plant. The sludge is then pumped out of the storage lagoons through belt filter presses and is dewatered to an 18% dry solid cake. This dewatered sludge is then dried to approximately 50% solids utilizing an innovative drying bed approach and then placed in an on-site sludge only landfill. The City entered into a contract with American Yeast whereby the City began selling biogas in FY 2009. American Yeast is currently considering increasing its utilization of biogas which may result in the consumption of up to 100% of the biogas generated by the Stiles Plant.

### **Security of Existing Facilities**

The City's two major wastewater treatment plants, the Maxson Plant and the Stiles Plant, are isolated facilities operated by City employees. The Maxson Plant and the Stiles Plant are protected by camera surveillance, burglar alarms, motion detectors, fencing and security gates. Both plants are manned 24 hours per day.

### **Management Discussion of Financial and Operating Performance**

The System and the City operate on a Fiscal Year basis beginning July 1. See the table entitled "SEWER COLLECTION AND TREATMENT FUND - Summary of Revenues, Expenses, and Changes in Fund Net Assets" below for a presentation of the City's Sewer Collection and Treatment Fund revenues and expenses for Fiscal Years 2008 to 2012.

The City maintains all of its funds and accounts relating to the System separate from other City funds (the "Sewer Fund"). The City Council, by resolution, assessed the Sewer Fund a payment in-lieu-of ad valorem tax beginning in Fiscal Year 1989. The authority for this assessment is contained in Tennessee Code Annotated Section 7-34-11 5(a)(9) which provides that such payment shall not exceed the amount of tax payable on privately-owned property of similar nature.

Beginning Fiscal Year 1990, the Sewer Fund has been assessed an annual payment per Tennessee Code Annotated Section 7-34-11 5(a)(8), not to exceed 6% per annum of the City's equity or investment from the City's General Fund. The payment assessed in Fiscal Year 2012 was \$4,644,942. Pursuant to the Bond Resolution, surplus revenues of the System may be used

for the payment of taxes, assessments and other governmental charges or payments in-lieu-of taxes.

The City enacted a sewer use rate increase of 9.5% in Fiscal Year 2009 and a 9.5% rate increase in Fiscal Year 2010. The City also enacted a sewer use rate increase of 115% in Fiscal Year 2011. Except for the seasonal adjustment described in the following sentence, there were no changes to sewer rates in Fiscal Years 2012 and 2013. The City Council passed an ordinance that reduced the monthly maximum sewer charge for residential sewer services from \$50 to \$35 during the months of June, July, August, and September. This ongoing seasonal adjustment became effective June 24, 2013.

### **Operating Budget**

The System's operating budget is developed and incorporated as part of the City's operating budget (the "Operating Budget"). The annual Operating Budget is submitted to the Council approximately 90 days prior to the end of the Fiscal Year. At least 15 days prior to the end of the Fiscal Year, the City Council is expected to approve the Operating Budget. See "SYSTEM FINANCIAL INFORMATION" for a more complete description of the System's budget process.

### **Funding of Sewer Extensions**

The City Sewer Use Ordinance was modified by the City Council in February 1993 to provide a system whereby the cost of sewer extensions is recovered in the most equitable fashion. The previous ordinance required developers to fund only one-third of the initial cost of a sewer extension. The current ordinance requires developers to fund 50% of the initial cost of a sewer extension.

The balance of the cost of sewer extensions is recovered by development fees from subsequent developments. The development fees were also increased when the City Sewer Use Ordinance was modified in February 1993. See "SYSTEM REVENUES - Billing and Collection" herein.

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Set forth below is a historical, comparative summary of the revenues, expenses and changes in fund net assets for the last five Fiscal Years.

**SEWER COLLECTION AND TREATMENT FUND**  
**Summary of Revenues, Expenses, and Changes in Fund Net Assets**  
**(Amounts rounded to 000's)**

	Audited				Unaudited	
	Year Ended June 30					
	2008 <sup>(1)</sup>	2009 <sup>(1)</sup>	2010 <sup>(1)</sup>	2011 <sup>(1)</sup>	2012	2013
Operating Revenues - Sewer Service Fees	\$52,510	\$53,778	\$58,071	\$98,559	\$104,031	\$105,304
Operating Expenses Other than Depreciation:						
Personnel Services	15,450	16,691	17,804	19,327	18,080	18,342 <sup>(2)</sup>
Materials, Supplies, Services, and Other	17,331	21,639	19,477	20,592	24,164	30,431
Total operating expenses other than depreciation and amortization	32,781	38,330	37,281	39,919	42,244	48,773
Depreciation and Amortization	12,692	12,716	12,928	13,078	13,756	13,929 <sup>(3)</sup>
Total Depreciation	12,692	12,716	12,928	13,078	13,756	13,929 <sup>(3)</sup>
Operating Income (Loss)	7,037	2,732	7,862	45,562	48,031	42,602
Non-operating Revenues:						
Investment Income	1,517	660	176	446	241	187
State/Federal Grants				248	2,509	619
Other	103	5	548	1,518	129	248
Total Non-operating Revenues	1,620	665	724	2,212	2,879	1,054
Non-operating Expenses:						
Interest on State Loan	-	-	74	109	101	103
Interest on Bonded Indebtedness	6,441	6,614	6,658	8,160	6,814	6,223
Other	-	-	-	135	-	35
Total Non-operating Expenses	6,441	6,614	6,732	8,404	6,915	6,361
Income (Loss) before Transfers	2,216	(3,217)	1,854	39,370	43,995	37,295
Transfers Out - General Fund	(5,376)	(5,887)	(5,839)	(5,969)	(5,945)	(6,046)
Capital Contributions	1,765	524	594	1,193	452	634
Change in Net Assets	(1,395)	(8,580)	(3,391)	34,594	38,502	31,883
Total Net Assets Beginning of year as restated from prior year	213,320	211,925	203,345	199,954	234,548	273,050
Total Net Assets End of the year	\$211,925	\$203,345	\$199,954	\$234,548	\$273,050	304,933

<sup>(1)</sup> See the respective Notes of the applicable CAFRs for explanations of the reclassification of funds and restatements of net assets.

<sup>(2)</sup> Fiscal Year 2013 personnel expense includes an estimate for OPEB expense based on Fiscal Year 2012.

<sup>(3)</sup> Fiscal Year 2013 depreciation expense is annualized based on the May year to date expense.

Source: CAFR for the Fiscal Years Ended June 30, 2008 through and including 2012 of the City of Memphis, Tennessee.

## SYSTEM REVENUES

### Rates, Fees and Charges

System rates and charges are established by the City Council under Chapter 33 of the City Code. Users are charged a sewer development charge and a sewer service fee.

The sewer development charge is established to defray part of the costs of sewer outfalls and extensions. It is paid by the developer of the site for which the extension or sewer service is being provided. This charge is as set forth below. The entire cost of lift station construction, if required, is paid by the developer. At the start of pump station operations, a deposit of five years' estimated operating expenses is also contributed by the developer. The sewer development charge is reflected in the Annual Report as contributed capital.

Set forth below is information concerning the sewer development charges pertaining to the System in effect as of June 30, 2012.

**CITY OF MEMPHIS SANITARY SEWERAGE SYSTEM  
SEWER DEVELOPMENT CHARGES  
(as of June 30, 2013)**

Residential subdivision costs including churches and schools .....	\$240 per lot
Multi-dwelling buildings and publicly owned facilities .....	\$840 per acre or \$100 per unit, whichever is greater
Commercial and industrial multiple unit buildings .....	\$12 per front foot on the longer abutting street or \$840 per acre, whichever is greater

Source: City of Memphis, Tennessee, Division of Public Works, pursuant to City Code.

The sewer service fee is the charge imposed upon users of the System for the payment of expenses of the System. There are two types of charges: (1) a volumetric charge, and (2) an additional treatment charge for treating wastewater which has excess strength.

The volumetric charge is based upon the proportionate flow from each customer, the strength of sewage, and a three year average of debt service, operating and maintenance costs. The volumetric charge currently imposed is 226.7 cents per 1,000 gallons of flow or 169.57 cents per hundred cubic feet of water. The maximum residential volumetric charge is \$50.00 per month per individual dwelling unit. There is no maximum fee for industrial or commercial users.

Any user who discharges wastewater with a biochemical oxygen demand (BOD) exceeding 250 parts per million, or a concentration of suspended solids exceeding 300 parts per million, is assessed an additional treatment charge based upon the additional costs for treating such wastewater. Users affected by this limitation who generate more than 25,000 gallons per day are required to enter into an agreement with the City for measuring and monitoring the discharge. Currently, 194 discharge agreements are in effect.

Set forth below is information concerning the number of customers, residential and commercial revenues, private revenues and total revenues of the System.

**CITY OF MEMPHIS SANITARY SEWERAGE SYSTEM  
REVENUES  
(Amounts rounded to 000's)**

<b>Fiscal Year</b>	<b>Number of Customers<sup>(1)</sup></b>	<b>Residential &amp; Commercial Revenues</b>	<b>Private Billing Revenues<sup>(2)</sup></b>	<b>Total Revenues</b>
2008	263,884	\$31,705	\$20,805	\$ 52,510
2009	261,758	32,559	21,219	53,778
2010	259,481	35,573	22,498	58,071
2011	259,416	68,006	30,553	98,559
2012	261,133	71,781	32,250	104,031

<sup>(1)</sup> Does not include Germantown, Bartlett, or Horn Lake municipal contract customers.

<sup>(2)</sup> Private billing charges include municipal revenue from Bartlett, Germantown, and Horn Lake municipal contracts, all industrial volumetric and surcharge revenues, and liquid waste revenue.

Source: City of Memphis, Tennessee, Division of Public Works.

Set forth below are the historic rates and charges of the System.

**CITY OF MEMPHIS SANITARY SEWERAGE SYSTEM  
RATES AND CHARGES  
(as of June 30, 2013)**

<b>Fiscal Years</b>	<b>Base Rate Charge (Monthly)</b>	<b>Volumetric Charge Per 100 Cubic Feet (Monthly)</b>		<b>Additional Treatment Cost (Sewer Surcharge)</b>	
		<b>Dollars per 100 Cu. Ft.</b>	<b>Maximum Residential Charge</b>	<b>Dollars per pound of BOD<sup>(1)</sup></b>	<b>Dollars per pound of suspended solids</b>
1981	\$1.50	\$0.21334	\$ 6.00	\$0.0170	\$0.0090
Beginning July 1, 1982	1.50	0.43890	12.00	0.0270	0.0460
Beginning July 1, 2004	2.25	0.65450	18.00	0.0365	0.0596
Beginning July 1, 2008	2.50	0.71660	18.00	0.0386	0.0621
Beginning July 1, 2009	2.50	0.78760	18.00	0.0388	0.0661
Beginning July 1, 2010 <sup>(2)</sup>	2.50	1.69570	50.00	0.0428	0.0716

<sup>(1)</sup> "BOD" means biochemical oxygen demand.

<sup>(2)</sup> The volumetric rate increase for industrial customers was phased in over a two year period.

Source: City of Memphis, Tennessee, Division of Public Works, pursuant to City Code.

Set forth below is information concerning the 15 largest industrial customers of the System for the Fiscal Year ended June 30, 2012.

**CITY OF MEMPHIS SANITARY SEWERAGE SYSTEM  
FIFTEEN LARGEST INDUSTRIAL CUSTOMERS  
FOR FISCAL YEAR 2012**

<b>Name</b>	<b>Total Sewer Fee <sup>(1)</sup> (Amounts rounded to 000's)</b>	<b>Flow (Millions of Gallons)</b>
Solae (Protein Technologies)	\$6,442	1,517
Cargill Corn & Fructose	4,871	1,837
DuPont	2,985	1,591
Buckeye	2,860	1,209
KTG USA	2,011	1,094
American Yeast	1,501	337
PMC Biogenix (Chemtura Corp.)	1,330	447
Kellogg Company	1,139	465
Valero (Premcor) Refining	1,123	916
Fleischmann's Yeast Inc.	813	210
Riviana Foods	745	123
Con Agra/Wesson	604	253
Cascade Tissue	546	235
Penn A Kem	285	134
Runyon	151	11
Total of 15 Largest Industrial Customers	<u>\$27,406</u>	<u>\$10,379</u>
Percent of Overall System Total	26.3%	18.5%
System Total	\$104,031	\$56,179

<sup>(1)</sup> Total Sewer Fee includes charges for biochemical oxygen demand and suspended solids and flow.  
Source: City of Memphis, Tennessee, Division of Public Works.

### **Billing and Collection**

***Billing.*** The City uses the services of MLG&W, the Bartlett Utility District, the Collierville Utility District, the Germantown Utility District and the Horn Lake Creek Basin Interceptor Sewer District ("Horn Lake Sewer District") for billing sewer fees to residential and commercial customers. Industrial customers are billed directly by the City of Memphis Division of Public Works.

MLG&W includes a sewer fee on utility bills for residential and commercial customers which are connected to the System. A charge of \$693,002 was paid to MLG&W for this service in Fiscal Year 2012.

Certain customers of the City of Germantown, Tennessee, the City of Bartlett, Tennessee, and the City of Horn Lake, Mississippi, are connected to the System, and these cities collect sanitary sewerage system fees from those customers and remit portions of the collection to the City under contracts between the City and each of such cities. The City of Bartlett currently remits to the City 76.29 cents per one thousand gallons of metered water usage; this charge is

adjusted biannually to reflect actual wastewater treatment and collection costs. The City of Germantown currently remits to the City 34.28% of the City's previous monthly volumetric charge per one thousand gallons of metered water usage; this charge is adjusted biannually to reflect actual wastewater treatment and collection costs. The City of Horn Lake currently remits to the City 28.6 cents per one hundred cubic feet of metered flow; this charge is adjusted annually to reflect actual wastewater treatment costs. In addition, the City serves certain commercial accounts in the City of Collierville, Tennessee, at current City rates, which are collected by the City of Collierville and remitted to the City. There is no current contract between the City and the City of Collierville.

Industrial customers send monthly meter readings, which are subject to audit, to the City Division of Public Works. These readings are used to determine the amount of water that they discharged into the System during that period. These readings include well water meters, effluent sewerage meters and deduct meters (for water used in process). Water purchased from MLG&W may be used in arriving at the proper sewer fee to charge the industry.

Industrial rates for biochemical oxygen demand are 4.28 cents per pound; charges for suspended solids are 7.16 cents per pound.

Sewer revenues were paid by users in the following proportion in Fiscal Year 2012:

Residential and Commercial Customers .....	70.37%
Industrial Customers .....	26.59%
Bartlett .....	0.91%
Collierville .....	0.01%
Germantown.....	1.15%
Horn Lake .....	0.97%

See the table entitled "CITY OF MEMPHIS SANITARY SEWERAGE SYSTEM REVENUES" for a presentation of System Revenues for the past five Fiscal Years, and the table entitled "CITY OF MEMPHIS SANITARY SEWERAGE SYSTEM RATES AND CHARGES" for a presentation of System rates and charges for the period from 1981 to present.

Collection. The sewer service charge is included each month on the bills rendered by MLG&W, or other serving utility, in accordance with its standard billing practices. Billings separate from those made by MLG&W, as determined by the Director of Public Works, are made to large commercial and industrial users. Failure to pay the sewer service charge within 30 days after due date of the utility statement shall be grounds for terminating meter service by the serving utility. Collections for Fiscal Year 2012 averaged 98.5% of charges billed.

Each industry operates under an individual discharge agreement with the City whereby the industry agrees on maximum amounts of discharge, suspended solids and acidic and alkaline levels. The City began an industrial monitoring program in 1984 pursuant to which it collects charges for 100% of the cost of pipe damage in the sewerage system caused by industrial discharge.

## **SYSTEM FINANCIAL INFORMATION**

### **Accounting System and Policies**

The Sewer Fund operates as an enterprise fund. Enterprise funds are classified as proprietary funds by the Governmental Accounting Standards Board ("GASB") and are accounted for using a total economic resources measurement focus. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprise. The financial statements are prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized as earned and expenses are recognized as incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer Fund are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Sewer Fund's policy to use restricted revenues first, then unrestricted revenues as they are needed.

The Sewer Fund adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting," and elected not to apply Financial Accounting Standards Board Statements and interpretations issued after November 30, 1989.

### **Five-Year Operating History**

The following table sets forth historical operating results and debt service coverage data for the System for Fiscal Years 2008 through and including 2012, including the contribution to total operating revenues by type of revenue (base rate, volumetric charge, industrial surcharge, or sewer development charge).

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**CITY OF MEMPHIS SANITARY SEWERAGE SYSTEM  
OPERATING REVENUE HISTORY  
(Amounts rounded to 000's)**

	<b>ACTUAL</b>				
	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>	<b>FY 2011</b>	<b>FY 2012</b>
Number of Customers (Average)	263,884	261,758	259,481	259,416	261,133
Residential and Commercial Volume (MG)	36,507	34,314	32,729	33,579	32,149
Industrial Volume (MG)	13,748	13,211	13,562	13,177	13,154
Total Volume (MG) <sup>(1)</sup>	<u>50,255</u>	<u>47,525</u>	<u>46,291</u>	<u>46,756</u>	<u>45,303</u>
Residential and Commercial Volumetric Revenue	\$ 31,705	\$ 32,559	\$ 33,654	\$68,006	71,781
Industrial Volumetric Revenue <sup>(3)</sup>	10,165	10,296	11,561	16,512	17,502
Total Volumetric Revenue	<u>\$ 41,870</u>	<u>\$ 42,855</u>	<u>\$ 45,215</u>	<u>\$84,518</u>	<u>\$89,283</u>
Total Industrial Surcharge Revenue	7,308	7,367	7,160	9,855	10,159
Liquid Waste Revenue	673	885	917	1,121	1,430
Municipal Revenue <sup>(2)</sup>	<u>2,659</u>	<u>2,671</u>	<u>2,860</u>	<u>3,065</u>	<u>3,159</u>
Total Operating Revenues	<u>\$ 52,510</u>	<u>\$ 53,778</u>	<u>\$ 56,152</u>	<u>\$98,559</u>	<u>\$104,031</u>

<sup>(1)</sup> Total Volume varies from wastewater treated due to rainfall and Mississippi River levels, which cause extraneous water to enter the System.

<sup>(2)</sup> Includes municipal revenue from Germantown, Bartlett, Horn Lake, Collierville municipalities.

Source: City of Memphis, Tennessee, Division of Public Works.

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## Historical Debt Service Coverage Ratios

The following table sets forth historical debt service coverage data for the System for Fiscal Years 2008 through and including 2012.

### SANITARY SEWERAGE SYSTEM HISTORICAL DEBT SERVICE COVERAGE (Amounts rounded to 000's)

	ACTUAL				
	2008	2009	2010	2011	2012
Operating Revenues	\$52,510	\$53,778	\$58,071	\$ 98,559	\$104,031
Unreserved proceeds from sale of Assets	361	-	-	-	-
Other Revenue <sup>(1)</sup>	1,620	665	724	2,212	2,879
Undesignated, Unreserved Surplus	6,462	3,193	959	25,083	55,307
<b>Total Revenue</b>	<b>\$60,953</b>	<b>\$57,636</b>	<b>\$59,754</b>	<b>\$125,854</b>	<b>\$162,217</b>
Operating Expenses <sup>(2)</sup>	(32,781)	(38,330)	(37,281)	(39,919)	(42,244)
<b>Net Revenues</b>	<b>\$28,172</b>	<b>\$19,306</b>	<b>\$22,473</b>	<b>\$85,935</b>	<b>\$119,973</b>
Existing Bond Debt Service	14,216	14,927	15,197	15,748	16,802
Debt Service on other Sewer Debt <sup>(3)</sup>	-	-	74	109	101
<b>Total Debt Service</b>	<b>14,216</b>	<b>14,927</b>	<b>15,271</b>	<b>15,857</b>	<b>16,903</b>
Total Bond Debt Service to Net Revenues	1.98	1.29	1.48	5.46	7.14
Total All Sewer Debt Service to Net Revenues	1.98	1.29	1.47	5.42	7.10

<sup>(1)</sup> Excludes Capital Contributions.

<sup>(2)</sup> Excludes In Lieu of Tax Payment and Depreciation.

<sup>(3)</sup> Principal and interest on current SRF Loans.

Source: Prepared by City of Memphis, Tennessee, Division of Public Works.

## Management Comments Concerning Trends in Revenues and Expenditures

System revenues have continued to demonstrate a positive trend since the implementation of the Fiscal Year 2010 sewer rate increase. Audited System revenues have shown an increase of 212% from Fiscal Year 2010 to Fiscal Year 2012. This increase in revenues has resulted in a substantial increase in cash reserves, a portion of which will be used to implement the remediation requirements under the Consent Decree. See "CAPITAL IMPROVEMENT PROGRAM - Consent Decree" below. While revenues continue to grow on a very positive trend, growth in the residential and commercial customer base remains flat due to suppressed economic conditions in the consumer and housing markets. See "APPENDIX E - CERTAIN DEMOGRAPHIC INFORMATION CONCERNING THE CITY OF MEMPHIS" attached hereto.

Total operating expenses continue to rise reflecting certain increased costs in personnel, energy and chemicals. Both of the System's existing treatment plants have been under review and the City will implement disinfection processes over the next three years which will result in increased operating costs.

The City is currently utilizing the State of Tennessee Revolving Loan Fund as a primary funding source for the Consent Decree and selected capital improvement projects. In addition, it is anticipated that some capital improvement project expenditures will be funded from available cash from the System and the sale of revenue bonds. Trend analysis of current and forecasted sewer revenues and expenses suggests the current sewer rate structure should be sufficient for the next three to five years before a sewer rate increase will be necessary.

### **Accounting Policies**

For a detailed description of significant accounting policies, see Note 1 to the System's financial statements included as Appendix B hereto.

### **Operating Budget**

The System's operating budget is developed and incorporated as part of the City's operating budget (the "Operating Budget"). The annual Operating Budget is submitted to the Council approximately 90 days prior to the end of the Fiscal Year. At least 15 days prior to the end of the Fiscal Year, the City Council is expected to approve the Operating Budget. See also, "CAPITAL IMPROVEMENT PROGRAM" herein.

### **City-wide Pension and OPEB Matters**

The Sewer Fund participates in the City's retirement system which provides retirement as well as death and disability benefits (the "Plan"). As of the Fiscal Year ended June 30, 2012, the City's retirement system had net assets of \$1,902,812,000, an unfunded actuarial liability of \$641,996,000, a funded ratio of 74.4%, and a net pension obligation of \$142,125,000. For additional information on the City's retirement system and its funding status, see Note V.F. to the Audited Financial Statements of the City of Memphis, Tennessee for the Fiscal Year ended June 30, 2012 which are incorporated herein by reference. Plan benefits have not been specifically allocated to employees of the Sewer Fund. The Sewer Fund's payroll for employees covered by the Plan was approximately \$10 million for Fiscal Years 2011 and 2012. Plan participants are required to contribute 5% of their annual covered salary. The Sewer Fund is required to contribute at an actuarially determined rate, which was 5% of annual covered payroll at June 30, 2012. The Sewer Fund's contributions to the Plan for the years ended June 30, 2011 and 2012 totaled \$590,000 each year, equal to the required contributions for each year. See "APPENDIX B - SEWER COLLECTION AND TREATMENT FUND AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012; Note 7" attached hereto.

The Sewer Fund also participates in the City's other postemployment benefits plan (the "OPEB Plan") which provides medical and life insurance benefits to eligible retired City employees and their dependents. The City has adopted and established an OPEB Trust for the exclusive purpose of pre-funding and providing for payment of OPEB benefits under the OPEB Plan. As of the Fiscal Year ended June 30, 2012, the City's OPEB Plan had net assets of \$23,140,000, an unfunded actuarial liability of \$1,254,991,000, and a funded ratio of 1%. The City's budget for the Fiscal Year ending June 30, 2013, includes a planned deposit of \$5,966,888 to the OPEB Trust and planned use of \$20,000,000 of the trust fund's \$23,140,000 assets for

OPEB Plan expenditures. For additional information on the City's OPEB Plan and its funding status, see Note V.E. to the Audited Financial Statements of the City of Memphis, Tennessee for the Fiscal Year ended June 30, 2012 which are incorporated herein by reference. The net OPEB obligation of the City at June 30, 2012 and 2011 was \$207,589,000 and \$154,418,000, respectively, of which \$1,938,000 and \$5,297,000 was allocated to the Sewer Fund, respectively. See "APPENDIX B - SEWER COLLECTION AND TREATMENT FUND AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012; Note 8" attached hereto.

## **Insurance**

The Bond Resolution requires the City to insure or self-insure the works, plants, facilities and properties comprising the System against such risks, accidents or casualties, in at least the amounts that are usually carried upon similar sewer plants and systems, including fire, extended coverage and general liability, and all additional insurance covering such risks as shall be deemed necessary or desirable by the City. The proceeds of any policies for general liability shall be paid into the Revenue Fund and shall be used in paying the claims on account of which they were received. All moneys received from other losses shall be paid into the Revenue Fund and used only for making good the loss or damage in respect to which they were paid. Surplus insurance proceeds remaining after the loss or damage have been satisfied or restored shall be applied as are other moneys deposited in the Revenue Fund. The payment of premiums for all insurance policies required shall be considered an Operating Expense.

## **CAPITAL IMPROVEMENT PROGRAM**

The System's Capital Budget and Capital Improvement Program are developed and incorporated as part of the City's Capital Improvement Program. The Capital Budget is the portion of the Capital Improvement Program applicable to the current fiscal year. The Capital Budget and Capital Improvement Program are prepared annually to show the capital expenditures planned for each of the ten ensuing fiscal years, including the estimated total costs of each project and the sources of funding (local, state, federal and private) required to finance each project. The Capital Improvement Program is recommended by the Mayor and approved by the Council.

The Capital Improvement Program authorizes capital expenditures be made or incurred in ten fiscal years and is adopted by resolution. Additional authorizations for each capital project must precede the expenditure of funds. The Capital Budget must be in full conformity with that part of the Capital Improvement Program applicable to the fiscal year which it covers, or as amended.

The timetable for approval of the Capital Budget and Capital Improvement Program closely parallels that of the Operating Budget.

The City negotiated an agreement with the United States Environmental Protection Authority (the "EPA") and the TDEC to implement an investigation and rehabilitation program with the objective to eliminate sanitary sewer overflows. This agreement was finalized in a Consent Decree which was signed by Judge Samuel H. Mays, Jr. on September 20, 2012. The

City of Memphis is legally obligated to implement this program and over the next 10 years is expected to spend approximately \$250,000,000. See "CAPITAL IMPROVEMENT PROGRAM - Consent Decree" below.

The budgeted capital projects included in the Capital Improvement Program for the System are summarized in the table below. The capital projects budget provided below is current as of December 31, 2012, and reflects updates made by the Division of Public Works to the last capital projects budget approved by the City Council. This updated budget has not yet been adopted by the City Council and reflects the incorporation of projects the City is required to undertake as result of the Consent Decree, dated September 20, 2012 (the "Consent Decree"), among the City, the EPA, the TDEC and the Tennessee Clean Water Network ("TCWN").

**CITY OF MEMPHIS SANITARY SEWERAGE SYSTEM  
CAPITAL PROJECTS BUDGET  
(Amounts rounded to 000's)**

<b>Description</b>	<b>Fiscal Year 2013</b>	<b>Fiscal Year 2014</b>	<b>Fiscal Year 2015</b>	<b>Fiscal Year 2016</b>	<b>Fiscal Year 2017</b>
Rehabilitation of Existing Sewers <sup>(1)</sup>	\$14,000	\$8,000	\$10,000	\$10,500	\$10,500
Sewer Assessment and Rehab <sup>(2)</sup>	15,000	25,000	30,000	30,000	30,000
Service to Unsewered Areas <sup>(1)</sup>	1,000	200	200	500	605
Misc. Subdivision Outfall Construction <sup>(3)</sup>	2,500	1,000	1,000	1,000	1,075
Sludge Disposal Earth Complex <sup>(1)</sup>	500	300	300	500	500
Wolf River/Grays Creek Interceptors <sup>(1)</sup>	4,000	1,050	1,050	1,050	1,050
South Plant Expansion <sup>(1)</sup>	6,000	3,400	6,000	5,000	5,000
Stiles Plant Modification <sup>(1)</sup>	6,000	4,000	7,000	7,000	7,000
Covered Anaerobic Lagoon <sup>(1)</sup>	3,000	2,200	2,200	2,200	3,200
<b>Total <sup>(4)</sup></b>	<b>\$52,000</b>	<b>\$45,150</b>	<b>\$57,750</b>	<b>\$57,750</b>	<b>\$58,930</b>

<sup>(1)</sup> The City anticipates funding these projects from available funds of the System, future revenue bond proceeds and proceeds from State of Tennessee Revolving Loans ("SRF Loans").

<sup>(2)</sup> Includes projects the City is required to undertake as result of the Consent Decree, which the City expects to finance from available funds of the System and proceeds from future SRF Loans.

<sup>(3)</sup> 50% of the cost of these projects are financed by sewer extension fees charged to developers. Available funds of the System, primarily sewer development charges, are used to pay the other 50% of the project costs.

<sup>(4)</sup> The amounts shown will be capitalized in the Sewer Fund.

Source: City of Memphis, Tennessee, Division of Public Works.

*Rehabilitation of Existing Sewers.* This entails routine repair and capital replacement of existing sewer pipelines, manholes, and other sewer installations. This also includes emergency sewer repair.

*Service to Areas Without Sewers.* Any existing occupied building or dwelling within the city limits is provided access to the public sewer through this program.

*Miscellaneous Subdivision Outfall Construction.* This entails construction of sewer outfall pipelines into areas earmarked for future housing development. Developers are responsible for laying sewer lines from individual areas to the main pipeline. The overall cost of the outfall is to be divided between the developers and the City. The developer pays for 50% of the construction cost while the City pays for the other 50% of the construction cost. The developer pays 100% of the cost of internal sewers. The City recovers the developer's

contribution by imposition of a sewer development charge, which is collected before application for development is approved.

Sludge Disposal/EARTH Complex. The purpose of this program is to purchase sludge land- application and disposal equipment and support facilities.

Wolf River/Grays Creek Improvements. Portions of the existing Wolf River Interceptor Sewer will be augmented by a parallel sewer to provide capacity for future growth. One of the major growth areas will be the Grays Creek basin for which a number of sewer extension projects are planned. In 1996, the City of Memphis Sewer Use Ordinance was amended to create areas designated as Special Sewer Use Areas which would be subject to higher sewer development fees and higher sewer use rates. The Grays Creek basin is divided into two Special Sewer Use Areas. Sewer fees within the Grays Creek district one are six (6) dollars higher per month than the normal rate and development fees are \$1,000 higher per lot. Sewer fees within the Grays Creek district two are twelve (12) dollars higher per month than the normal rate and development fees are \$2,500 higher per lot. A special sewer district referred to as Mary's Creek, a sub-part of Grays Creek, was also established to cover additional sewer costs in that basin. Sewer fees in the Mary's Creek basin are twelve (12) dollars higher per month than the normal rate and development fees are \$2,200 higher per lot. These additional fees are designed to offset both the cost of the Grays Creek Outfall Sewer and improvements to the Wolf River Interceptor.

Maxson Plant Expansion. Processes such as disinfection will be added to the Maxson Plant as a result of current National Pollutant Discharge Elimination System ("NPDES") permit.

Stiles Plant Modifications. Processes such as disinfection will be added to the Stiles Plant as a result of current NPDES permit.

## **Environmental Considerations**

The TDEC issued NPDES permits for the Maxson and Stiles Plants effective January 1, 2012. The permit regulations and discharge limits were promulgated by the EPA under the Clean Water Act. The Capital Improvement Program and the future operating costs were developed based on the assumption that current National Discharge Standards will be applicable.

## **Consent Decree**

On September 20, 2012, U.S. District Judge Samuel H. Mays, Jr., entered an Order Granting Joint Motion of Consent Decree requested by the United States of America Department of Justice ("DOJ"), the EPA, the TDEC, the TCWN and the City (collectively, the "Parties"). The Parties negotiated and agreed to a Consent Decree as a result of the EPA and the TCWN alleging that the City violated certain sections of the Clean Water Act ("CWA") and the Tennessee Water Quality Control Act ("TWQCA") due to sanitary sewer overflows and excessive effluent limitations for foam, as governed by the CWA and the TWQCA.

Pursuant to the terms of the Consent Decree, in addition to establishing priority geographical areas for rehabilitation and assessment of sewer infrastructure and stipulating penalties for any future violations, the Parties negotiated the following obligations of the City:

- Pay a civil penalty of \$1,290,000 (which is based, among other things, upon the City's size, the duration of the violations, and the economic benefit and impact of the violations on human health/environment). Payment of the civil penalty is to be made by the City as follows: \$645,000 to the DOJ and \$645,000 to the State of Tennessee in the form of a State Project to be undertaken by City.
- Develop and implement several Management Operations and Maintenance Programs regarding: Sewer Overflow Response; Fats, Oils and Grease Management; Lift Station and Force Main Operations and Maintenance; Gravity Sewer System Operations and Maintenance; Inter-Jurisdictional Agreement; Continuing Sewer Assessment; Infrastructure Rehabilitation; Dyed Water Flooding; Corrosion Defect Identification; Closed Circuit Television inspection; and Gravity Sewer Line and Force Main Development.
- Provide certain quarterly, semi-annual and annual reports to the EPA and the TDEC.
- Make certain operational and capital improvements within specified timeframes to the City's wastewater collection and treatment systems in order to resolve all outstanding Consent Decree requirements, at a cost currently estimated to be approximately \$250 million over a ten year period, which costs the City currently expects to fund from proceeds of State Revolving Fund loans and available funds of the system.

The Consent Decree Program officially started on September 20, 2012 and the City continues to diligently pursue satisfaction of its obligations under the Consent Decree.

## **REGULATORY MATTERS**

### **Environmental Regulatory Matters**

Operation of the System is subject to several federal and State environmental laws and regulations. Some of the key areas covered by these regulations include: the quality and safety of drinking water; standards and limitations on water and air pollutants to the environment; availability of water as a resource; handling and disposal of solid waste; and health and safety standards for personnel. Compliance with these laws and regulations in the ordinary course of operations requires significant operating and capital expenditures. Failure to comply with these regulations also could have material adverse effects, including, among others, the imposition of civil liability or fines by regulatory agencies or liability to private parties.

### **Sewerage System**

The City must operate its System in compliance with the federal CWA and the TWQCA. These acts prohibit discharges of pollutants to waters of the United States or the State unless such discharges are in compliance with the terms and conditions of a NPDES permit.

## LITIGATION

The City is involved in various lawsuits. The Office of the City Attorney and other City officials believe that such proceedings in the aggregate will not have a materially adverse effect on the financial condition of the System.

## TAX MATTERS

### Federal

General. Glankler Brown, PLLC, is Bond Counsel to the City for the Series 2013 Bonds. Their opinion under existing law, relying on certain statements by the City and assuming compliance by the City with certain covenants, is that interest on the Series 2013 Bonds:

- is excluded from a bondholder's federal gross income under the Internal Revenue Code of 1986, as amended (the "Code"),
- is not a preference item for a bondholder under the federal alternative minimum tax, and
- is included in the adjusted current earnings of a corporation under the federal corporate alternative minimum tax.

The Code imposes requirements on the Series 2013 Bonds that the City must continue to meet after the Series 2013 Bonds are issued. These requirements generally involve the way that Bond proceeds must be invested and ultimately used. If the City does not meet these requirements, it is possible that a bondholder may have to include interest on the Series 2013 Bonds in its federal gross income on a retroactive basis to the date of issue. The City has covenanted to do everything necessary to meet these requirements of the Code. A bondholder who is a particular kind of taxpayer may also have additional tax consequences from owning the Series 2013 Bonds. This is possible if a bondholder is:

- an S corporation,
- a United States branch of a foreign corporation,
- a financial institution,
- a property and casualty or a life insurance company,
- an individual receiving Social Security or railroad retirement benefits,
- an individual claiming the earned income credit, or
- a borrower of money to purchase or carry the Series 2013 Bonds.

If a bondholder is in any of these categories, it should consult its tax advisor. Bond Counsel is not responsible for updating its opinion in the future. It is possible that future events

or changes in applicable law could change the tax treatment of the interest on the Series 2013 Bonds or affect the market price of the Series 2013 Bonds. See also "Changes in Federal and State Tax Law" below in this heading.

Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel on the federal income tax treatment of interest on the Series 2013 Bonds, or under State, local or foreign tax law.

*Bond Premium.* If a bondholder purchases a Series 2013 Bond for a price that is more than the principal amount, generally the excess is "bond premium" on that Series 2013 Bond. The tax accounting treatment of bond premium is complex. It is amortized over time and as it is amortized a bondholder's tax basis in that Series 2013 Bond will be reduced. The holder of a Series 2013 Bond that is callable before its stated maturity date may be required to amortize the premium over a shorter period, resulting in a lower yield on such Series 2013 Bonds. A bondholder in certain circumstances may realize a taxable gain upon the sale of a Series 2013 Bond with bond premium, even though the Series 2013 Bond is sold for an amount less than or equal to the owner's original cost. If a bondholder owns any Series 2013 Bonds with bond premium, it should consult its tax advisor regarding the tax accounting treatment of bond premium.

*Original Issue Discount.* A Series 2013 Bond will have "original issue discount" if the price paid by the original purchaser of such Series 2013 Bond is less than the principal amount of such Series 2013 Bond. Bond Counsel's opinion is that any original issue discount on these Series 2013 Bonds as it accrues is excluded from a bondholder's federal gross income under the Code. The tax accounting treatment of original issue discount is complex. It accrues on an actuarial basis and as it accrues a bondholder's tax basis in these Series 2013 Bonds will be increased. If a bondholder owns one of these Series 2013 Bonds, it should consult its tax advisor regarding the tax treatment of original issue discount.

*Information Reporting and Backup Withholding.* Information reporting requirements apply to interest on tax-exempt obligations, including the Series 2013 Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient. If an owner purchasing a Series 2013 Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the Series 2013 Bonds from gross income for Federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's Federal income tax once the required information is furnished to the Internal Revenue Service.

## **State Taxes**

Under existing law, the Series 2013 Bonds and the income therefrom are exempt from all present state, City and municipal taxes in Tennessee except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on interest on the Series 2013 Bonds during the period the Series 2013 Bonds are held or beneficially owned by any organization or entity, or other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of the inclusion of the book value of the Series 2013 Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

## **Changes In Federal And State Tax Law**

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Series 2013 Bonds or otherwise prevent holders of the Series 2013 Bonds from realizing the full benefit of the tax exemption of interest on the Series 2013 Bonds. Further, such proposals may impact the marketability or market value of the Series 2013 Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to Series 2013 Bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Series 2013 Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Series 2013 Bonds would be impacted thereby. Purchasers of the Series 2013 Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The opinions expressed by Bond Counsel are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Series 2013 Bonds, and Bond Counsel has expressed no opinion as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation. Prospective purchasers of the Series 2013 Bonds should consult their own tax advisors regarding the foregoing matters.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Robert Thomas CPA, LLC, a firm of independent public accountants (the "Verification Agent") will deliver to the City, on or before the settlement date of the Series 2013 Bonds, its attestation report indicating that it has examined, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the City and its representatives. Included in the scope of its examination will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on, the securities in the Escrow Fund to pay, when due, the maturing principal of, interest on, redemption price and related call premium requirements of the Refunded Bonds; and (b) the mathematical computations supporting the conclusion of Bond

Counsel that the Bonds are not "arbitrage bonds" under the Code and the regulations promulgated thereunder.

The examination performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by the City and its representatives. The Verification Agent's report of its examination will state that the Verification Agent has no obligation to update such report because of events occurring, or data or information coming to their attention, subsequent to the date of the report.

## **CONTINUING DISCLOSURE**

In order to provide continuing disclosure with respect to the Series 2013 Bonds in accordance with the Rule and as in effect on the date hereof, the City has executed the Disclosure Certificate for the benefit of the beneficial owners of the Series 2013 Bonds, the form of which is attached hereto as "APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE," for the benefit of the Bondholders (as defined in the Disclosure Certificate) of the Series 2013 Bonds. Under the Disclosure Certificate, the City, as an "obligated person" under the Rule and, initially, the sole obligated person under the Disclosure Certificate, will provide certain operating and financial data (the "Annual Financial Information") relating to the System and notices of the occurrence of certain enumerated events with respect to the Series 2013 Bonds.

The Annual Financial Information, and notices of the occurrence of certain enumerated events, will be filed by or on behalf of the City to the centralized information repository developed and operated by the MSRB through the Electronic Municipal Market Access system, in an electronic format prescribed by the MSRB. The nature of the information to be provided in the Annual Financial Information and the notices of such enumerated events is set forth in "APPENDIX D - FORM OF CONTINUING DISCLOSURE CERTIFICATE." Such undertaking shall only apply so long as the Series 2013 Bonds remain outstanding; provided, however, that the undertaking shall terminate upon the termination of the continuing disclosure requirements of the Rule by legislative, judicial or administrative action and may be amended as provided in the Disclosure Certificate. The Disclosure Certificate further provides that a default under the Disclosure Certificate shall not constitute an Event of Default under the Bond Resolution.

During the last five years, due to administrative oversight and the unavailability, on a timely basis, of certain audited financial data, the City failed to timely file certain of its annual continuing disclosure filings with respect to certain of the City's bonds. The City has begun a process of implementing procedures which it believes will minimize any further instances of late filings, including establishing a dedicated committee of City personnel focused on disclosure issues and the hiring of nationally recognized disclosure counsel.

## **LEGAL MATTERS**

Certain legal matters incident to the authorization, issuance, validity, sale and delivery of the Series 2013 Bonds are subject to the unqualified approving opinion of Glankler Brown, PLLC,

Memphis, Tennessee, Bond Counsel to the City ("Bond Counsel"), whose approving opinion (in substantially the form attached hereto as Appendix C) will be delivered concurrently with the issuance of the Series 2013 Bonds. Bond Counsel has not undertaken to verify and therefore expresses no opinion as to the accuracy, completeness or sufficiency of any of the information or statements contained in this Official Statement or any exhibits, schedules or appendices hereto, except that Bond Counsel will state to the City and the Underwriters at closing that they have reviewed the statements in the sections herein entitled "PLAN OF REFUNDING," "THE SERIES 2013 BONDS," "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS," and "TAX MATTERS" herein and believe that such statements or information fairly and accurately summarize the portions of the documents or the matters of law purported to be summarized therein.

The legal opinion will speak only as of its date and subsequent distribution of it by recirculation of this Official Statement or otherwise shall not create any implication that subsequent to the date of the legal opinion Bond Counsel has affirmed their opinion.

The proposed text of the legal opinion of Bond Counsel is attached hereto as "APPENDIX C – FORM OF OPINION OF BOND COUNSEL." The actual legal opinion to be delivered may vary from the text of Appendix C, if necessary, to reflect facts and law on the date of delivery of the Series 2013 Bonds.

From time to time, Bond Counsel has represented Regions Bank and Duncan-Williams, Inc. on legal matters unrelated to the City and may do so again in the future.

Certain legal matters will be passed upon for the City by Herman Morris, Jr., Esquire, City Attorney. Certain legal matters will be passed upon for the City by Hagler Bruce & Turner, PLLC, Memphis, Tennessee, and Greenberg Traurig, LLP, Orlando, Florida, as Co-Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Butler, Snow, O'Mara, Stevens & Cannada, PLLC, Memphis, Tennessee.

The legal opinions to be delivered concurrently with the delivery of the Series 2013 Bonds express the professional judgment of the attorneys rendering the opinions regarding the legal issues expressly addressed therein. By rendering a legal opinion, the attorneys providing such opinion do not become insurers or guarantors of the result indicated by that expression of professional judgment, of the transaction on which the opinion is rendered, or of the future performance of parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

## **FINANCIAL STATEMENTS**

The basic financial statements of the Sewer Collection and Treatment Fund as of June 30, 2012 and for the year then ended have been audited by Banks, Finley, White & Co., certified public accountants (the "Auditor"). The auditor's report dated December 26, 2012, together with the basic financial statements, management discussion and analysis and the required supplemental information for year ended June 30, 2012 are attached hereto as "APPENDIX B - SEWER COLLECTION AND TREATMENT FUND AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012." The

Auditor has not been engaged to perform and has not performed any procedures relating to this Official Statement.

## **FINANCIAL ADVISOR**

ComCap Advisors, a division of Community Capital, Memphis, Tennessee, is serving as Financial Advisor to the City. The Financial Advisor assisted in matters related to the planning, structuring and issuance of the Series 2013 Bonds and provided other advice. The Financial Advisor did not engage in any underwriting activities with regard to the issuance and sale of the Series 2013 Bonds.

## **RATINGS**

The Series 2013 Bonds have been assigned ratings of "Aa3" from Moody's Investors Service, Inc. ("Moody's"), and "AA" from Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies ("S&P, and Moody's are collectively hereinafter referred to as the "Rating Agencies"). Such ratings express only the views of the Rating Agencies and an explanation of the significance of each rating may be obtained from the Rating Agency furnishing such rating. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies, and assumptions of its own. There is no assurance that any such rating will remain unchanged for any given period of time or that they will not be revised downward or withdrawn entirely by the Rating Agency furnishing the same, if, in their judgment, circumstances so warrant. The City undertakes no responsibility to oppose any such revision or withdrawal. Any such downward revision or withdrawal of the ratings or other actions by a rating agency may have an adverse effect on the market price of the Series 2013 Bonds.

## **UNDERWRITING**

Duncan-Williams, Inc. (the "Representative"), on behalf of itself and the other underwriters listed in the front cover page of this Official Statement (collectively, the "Underwriters"), have agreed jointly and severally, pursuant to a Bond Purchase Agreement between the Representative and the City (the "Bond Purchase Agreement") to purchase the Series 2013 Bonds at a price equal to \$\_\_\_\_\_ (representing the principal amount of the Series 2013 Bonds of \$\_\_\_\_\_ minus an underwriting discount of \$\_\_\_\_\_ and plus an original issue premium of \$\_\_\_\_\_) plus accrued interest to the date of delivery. The Bond Purchase Agreement provides that the obligations of the Underwriters to accept delivery of the Series 2013 Bonds are subject to various conditions of the Bond Purchase Agreement, but the Underwriters will be obligated to purchase all of the Series 2013 Bonds, if any are purchased. The Underwriters reserve the right to join with dealers and other underwriters in offering the Series 2013 Bonds to the public.

The prices and other terms with respect to the offering and sale of the Series 2013 Bonds may be changed from time to time by the Underwriters after such Series 2013 Bonds are released for sale, and the Series 2013 Bonds may be offered and sold at prices other than the initial

offering prices, including sales to dealers whom may sell the Series 2013 Bonds into investment accounts.

Loop Capital has entered into distribution agreements (each a "Distribution Agreement") with each of UBS Financial Services Inc. ("UBSFS") and Deutsche Bank Securities Inc. ("DBS") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Distribution Agreement (if applicable to this transaction), each of UBSFS and DBS will purchase Series 2013 Bonds from Loop Capital at the original issue prices less a negotiated portion of the selling concession applicable to any Series 2013 Bonds that such firm sells.

## **FORWARD LOOKING STATEMENTS**

Any statements made in this Official Statement, including in the appendices, involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized.

The statements contained in this Official Statement, including in the appendices, that are not purely historical, are forward-looking statements. Readers should not place undue reliance on forward-looking statements. All forward looking statements included in this Official Statement are based on information available on the date hereof and the City assumes no obligation to update any such forward-looking statements. It is important to note that the actual results could differ materially from those in such forward-looking statements.

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

## **MISCELLANEOUS**

The references, excerpts and summaries of all documents referred to herein do not purport to be complete statements of the provisions of such documents and reference is directed to all such documents for full and complete statements of all matters of fact relating to the Series 2013 Bonds, the security for and the source for repayment for the Series 2013 Bonds and the rights and obligations of the Bondholders. Copies of such documents may be obtained as specified under the caption "INTRODUCTION - Other Information" herein.

The information in this Official Statement has been compiled from official and other sources deemed by the City to be reliable, and, while not guaranteed as to completeness or accuracy, are believed by the City to be correct as of the date of this Official Statement.

Use of the words "shall" or "will" in this Official Statement or in summaries of documents to describe future events or continuing obligations is not intended as a representation that such event or obligation will occur but only that the document contemplates or requires such event to occur or obligation to be fulfilled.

Any statements made in this Official Statement involving estimates or matters of opinion, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or matters of opinion will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Series 2013 Bonds.

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**AUTHORIZATION OF AND CERTIFICATION  
CONCERNING OFFICIAL STATEMENT**

The execution and delivery of this Official Statement, and its distribution and use by the Underwriters, have been duly authorized and approved by the City.

**CITY OF MEMPHIS, TENNESSEE**

By: \_\_\_\_\_  
A C Wharton, Jr., Mayor

## **APPENDIX A**

### **SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION**

## **APPENDIX A**

### **SUMMARY OF CERTAIN PROVISIONS OF THE BOND RESOLUTION**

The following is a summary of certain provisions of the Resolution. This summary does not purport to be comprehensive or definitive and is qualified by reference to all of the terms and provisions of the Resolution, reference to which is hereby made. This summary does not include a summary of the Series Resolution adopted by the Council of the City on May 7, 2013, which authorized the issuance of the Series 2013 Bonds pursuant to the Resolution. Capitalized words or phrases which are not defined herein or conventionally capitalized have the meanings given to such words or phrases in the Official Statement or the Resolution, as the case may be.

#### **Authorization of Issuance of Bonds**

The Resolution establishes and creates an issue of bonds of the City to be known and designated as "Sanitary Sewerage System Revenue Bonds" which may be issued for the purpose of financing the costs of the acquisition, construction, reconstruction, improvement, extension, enlargement or betterment of the Sanitary Sewerage System without limitation as to amount except as provided in the Resolution, any debt management policy of the City, or as may be limited by law. The Resolution authorizes the City to issue one or more series of Bond by means of a Series Resolution adopted by the City. The Resolution provides that the Bonds, including the Series 2013 Bonds, are all secured by a prior and paramount lien on the Revenues of the Sanitary Sewerage System over and ahead of all bonds, notes and obligations of any issue payable from such Revenues which may be thereafter created and established, and over and ahead of any claims or obligations of any nature against the Revenues thereafter arising or thereafter incurred, subject to the provisions of the Resolution permitting the application of such moneys for the purposes and on the terms and conditions set forth in the Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS - Pledge of Revenues and Funds; Flow of Funds" in the Official Statement to which this summary is appended.

The details of the Series 2013 Bonds are summarized under "THE SERIES 2013 BONDS" in the Official Statement. The provisions of the Resolution regarding the conditions under which additional Series of Bonds may be issued are discussed under the "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2013 BONDS - Additional Parity Obligations" in the Official Statement.

#### **Establishment and Purposes of Special Funds and Accounts**

The Resolution establishes or maintains the following Fund and Accounts:

- Sewer Collection and Treatment Fund (the "Revenue Fund")
  - Sanitary Sewerage Bond Account (the "Bond Account"):
    - Interest Sub-Account

- Principal Sub-Account
- Bond Retirement Sub-Account
- Bond Reserve Account
- Renewal and Replacement Account

All Funds and Accounts are held in trust and administered by the City. All Revenues held or collected by the City are required to be deposited as promptly as practicable after receipt thereof into the Revenue Fund. Moneys and securities from time to time in the Revenue Fund are trust funds of the City for the uses and purposes provided in the Resolution and must be paid out and applied for the uses and purposes for which such moneys are pledged, as follows:

**I. The Revenue Fund.** From the moneys in the Revenue Fund, the City shall set aside therein, from time to time, such amounts as are necessary to pay the Operating Expenses of the Sanitary Sewerage System as the same become due and payable.

**A. The Bond Account.** The Bond Account has been created within the Revenue Fund and is required to be used solely for the purpose of (a) paying the principal of and premium, if any, and interest on the Bonds; and (b) retiring Bonds prior to maturity. The City is required to pay into the Bond Account in trust in each month, out of the moneys remaining in the Revenue Fund after payment of the Operating Expenses of the Sanitary Sewerage System, amounts sufficient to pay the interest of all the Bonds outstanding as the same become due and to retire all Bonds at or prior to maturity. Such amounts shall be paid in the following order:

**1. Interest Sub-Account.** On or after the first day of the month next succeeding the date of issuance of any Series of Bonds, but not later than the last day of such month, and each month thereafter, there is required to be paid into and credited to the Interest Sub-Account an amount such that, if the same amount were so paid into and credited to the Interest Sub-Account each succeeding month thereafter prior to the next date upon which an installment of interest falls due on the Bonds, the aggregate of the amounts so paid into credited to the Interest Sub-Account will on such date be equal to the installment of such interest then falling due.

**2. Principal Sub-Account.** On or after the first day of the twelfth month next preceding the date upon which an installment of principal of Serial Bonds falls due, but not later than the last day of such month, and each month thereafter, there is required to be paid into and credited to the Principal Sub-Account, an amount such that, if the same amount were so paid into and credited to the Principal Sub-Account each month thereafter prior to the next date upon which an installment of principal falls due, the aggregate of the amounts so paid into credited to the Principal Sub-Account will on such date be equal to the installment of principal then falling due.

**3. Bond Retirement Sub-Account.** On or before the first day of the twelfth month prior to the date upon which the first sinking fund installment established for a Series of Bonds which includes term Bonds is payable, but not later than the last day of such month, and each month thereafter, there is required to be paid into and credited to the Bond Retirement Sub-Account, for the purpose of retiring any term Bonds, an amount such that, if the same amount

were so paid into and credited to the Bond Retirement Sub-Account each month thereafter and prior to the next date upon which a sinking fund installment falls due, the aggregate of the amounts so paid into and credited to the Bond Retirement Sub-Account for such Series of Bonds will be sufficient to redeem term Bonds of each series in the principal amounts and at the time specified in the Series Resolution authorizing the issuance of such Series of Bonds.

In the event there is at any time a deficiency in the Interest, Principal or Bond Retirement Sub-Accounts, such deficiency is required to be made up first from the Bond Reserve Account, and second from the Renewal and Replacement Account, as described below, and after payment of the amounts required to be made pursuant to the Resolution into the Interest, Principal and Bond Retirement Sub-Accounts, from the first moneys thereafter paid into the Revenue Fund, there must be paid into the Bond Reserve Account the amounts withdrawn therefrom for the purpose of making up any such deficiency.

Whenever the assets of the Bond Account and the Bond Reserve Account are sufficient in the aggregate to provide moneys to pay all Bonds then outstanding, including such interest thereon as may thereafter become due and payable and any premiums upon redemption thereof, no further payments need be made into the Bond Account or Bond Reserve Account.

**B. Bond Reserve Account.** Each Series Resolution is required to provide for the payment from the Revenue Fund for deposit in the Bond Reserve Account in each month after the date of the Bonds authorized by such Series Resolution of such amounts and at such times so that by no later than five years from the date of such Bonds, there shall be on deposit in the Bond Reserve Account an amount equal to the Debt Service Requirement for all Bonds then outstanding and the series of Bonds then being issued, provided that the Series Resolution authorizing the issuance of a series of Bonds may provide for payments into the Bond Reserve Account from proceeds of such Bonds or other moneys available therefor, in which event, in providing for such monthly deposits, allowance shall be made for any such amounts so paid into the Bond Reserve Account.

Subject to the provisions of the Resolution, the moneys and value of Investment Securities paid into and credited to the Bond Reserve Account shall always be maintained at an amount at least equal to the Debt Service Requirement for the Bonds then outstanding. If on any January 1 and July 1, moneys or assets at any time in the Bond Reserve Account are in excess of the Debt Service Requirement, such excess shall be transferred to the Revenue Fund as of any such January 1 or July 1. If at any time the moneys and value of Investment Securities credited to the Bond Reserve Account are less than the Debt Service Requirement for the Bonds then outstanding, the City shall pay or cause to be paid from the Revenue Fund or the Renewal and Replacement Account for deposit in the Bond Reserve Account such amounts so that there will be on deposit in the Bond Reserve Account an amount equal to the Debt Service Requirement for the Bonds then outstanding.

Whenever the assets of the Bond Account and the Bond Reserve Account are sufficient in the aggregate to provide moneys to pay all Bonds then outstanding, including such interest thereon as may thereafter become due and payable and any premiums upon redemption thereof, no further payments need be made into the Bond Account or Bond Reserve Account.

In order to provide for the payment of the principal, premium, if any, and interest on the Outstanding Sewer Debt, the City is obligated to set aside and to pay out of the moneys remaining in the Revenue Fund, after paying or making provision for the payment of Operating Expenses, and after making the requisite payment into the Bond Account and Bond Reserve Account, amounts sufficient to make the payments due on the Outstanding Sewer Debt to the State of Tennessee and the amounts due with respect to Outstanding Sewer Debt represented by general obligations bonds of the City. To the extent of any deficiency in the amounts available to pay Outstanding Sewer Debt, the City shall pay or cause to be paid from the Renewal and Replacement Account such amounts.

**C. Renewal and Replacement Account.** After providing for Operating Expenses and payments into the Bond Account and Bond Reserve Account, and making the requisite payments on the Outstanding Sewer Debt, the City is required to set aside and credit monthly certain amounts out of moneys remaining in the Revenue Fund to the Renewal and Replacement Account for renewal and replacement of the properties of the Sanitary Sewerage System, such amounts to be based upon a consideration of a report of a Consulting Engineer retained for such purpose, but in no event to be less in any Fiscal Year than 1% of the un-depreciated book value of the fixed assets of the Sanitary Sewerage System. Amounts thus accumulated must be expended for renewals, replacements, additions, extensions, improvements and betterments to the Sanitary Sewerage System to the extent not used to make up deficiencies in the Bond Account, Bond Reserve Account or the amount to be set aside for the payment of Outstanding Sewer Debt. Any balance remaining in the Renewal and Replacement Account at the end of any Fiscal Year may be retained therein or transferred to the Revenue Fund and treated as surplus funds.

**II. Payment of Taxes, Assessments, and Other Charges.** After the payment of the required amounts from the Revenue Fund for Operating Expenses and to the Bond Account, Bond Reserve Account, payments for Outstanding Sewer Debt and credits to the Renewal and Replacement Account, moneys in the Revenue Fund shall be applied to the payment of taxes, assessments or other governmental charges of the City or payments in lieu thereof to the City or for payments to the general fund of the City, and the balance shall constitute surplus funds to be used for any lawful purpose in connection with the Sanitary Sewerage System, including improvements, enlargements, extensions, additions, renewals, reconstructions or betterments to the Sanitary Sewerage System; for calling and redeeming or purchasing Bonds; for the purpose of acquiring and constructing plants and properties for the treatment and disposal of sewage or wastewater including associated transmission facilities, which the City has elected to acquire, construct and operate as separate utility system; for the carrying out of any other provisions of the Resolution; or for the payment of principal, premium, if any, and interest on bonds, notes, certificates of indebtedness or other evidences of indebtedness secured by a lien on and pledge of the Revenues junior and inferior to the lien on, and pledge of, the Revenues created for the payment and security of the Bonds.

### **Investment of Money**

Investment Securities are defined to mean any of the following, if, and to the extent that the same are, legal for the investment of funds of the City:

- Direct obligations of, or obligations, the principal of and interest on which are unconditionally guaranteed by the United States of America;
- Direct obligations of, or obligations, the principal of and interest on which are unconditionally guaranteed by the State of Tennessee;
- General obligation bonds of any State of the United States of America which at the time of their purchase under the Resolution are rated by a nationally recognized bond rating agency in one of the two highest Investment Grade Rating Categories assigned by such rating agency for long-term securities or the highest Investment Grade Rating Category for short-term securities;
- Bonds, debentures, notes or other evidences of indebtedness issued by the Banks for Cooperatives, the Federal Intermediate Credit Bank, the Federal Home Loan Bank System, the Export-Import Bank of the United States, Federal Land Bank, the Government National Mortgage Association, the United States Postal Service, or of any other agency or instrumentality of the United States of America or of any corporation wholly owned by the United States;
- Public Housing Bonds issued by public agencies and municipalities and fully secured as to the payment of both principal and interest by a pledge or annual contributions under an Annual Contributions Contract or contracts to be paid by the United States of America, or any agency thereof, and Project Notes issued by public agencies or municipalities in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;
- Bank time deposits evidenced by certificates of deposit issued by any bank, trust company or national banking association authorized to do business in the State of Tennessee which is a member of the Federal Reserve System, or any savings and loan association governed by the Federal Home Loan Bank Board provided, either (i) that such bank time deposits in any bank, trust company, or banking association or savings and loan association do not exceed at any one time in the aggregate ten per centum (10%) of the capital stock and surplus of such bank, trust company or banking association or savings and loan association, or (ii) that such bank time deposits not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation are secured by obligations and securities described in items 1 through 5 above which are eligible under the laws of the State of Tennessee to be used as collateral for funds of the City, and at all times having a market value (exclusive of accrued interest) at least equal to such bank time deposits so secured, including interest; and
- Direct obligations, or obligations fully guaranteed as to principal and interest (including commercial paper, notes, debentures and bonds) of a corporation organized and existing under the laws of the United States of America or one of the States of the United States or the District of Columbia provided, that such obligations shall be short-term obligations rated in the highest Investment Grade Rating Category by at least one nationally recognized debt rating service.

Moneys held for the credit of the Interest Sub-Account, Principal Sub-Account and Bond Retirement Sub-Account in the Bond Account shall to the fullest extent practicable and reasonable be invested by the City in Investment Securities of the types described in items 1 through 6 above which shall mature not later than two business days prior to the respective dates when the moneys held for the credit of such Sub-Accounts will be required for the purposes intended.

Moneys in the Bond Reserve Account and Renewal and Replacement Account not required for immediate disbursement for the purposes for which said Accounts are created, shall, to the fullest extent practicable and reasonable, be invested and reinvested by the City solely in, and obligations deposited in said Accounts shall be, Investment Securities of the types described in items 1 through 4 above, with respect to the Bond Reserve Account and items 1 through 7 above with respect to the Renewal and Replacement Account, maturing or subject to redemption at the option of the holder thereof within ten years from the date of such investment.

Moneys in the Revenue Fund not required for immediate disbursement for the purposes for which said Fund is created shall, to the fullest extent practicable and reasonable, be invested and reinvested by the City solely in, and obligations deposited in said Fund shall be, Investment Securities of the types described in items 1 through 7 above, maturing or subject to redemption at the option of the holder thereof, at or prior to the estimated time for the disbursement of such moneys.

Investments may be made in accordance with the comprehensive investment program of the City except that moneys in the Bond Account and Bond Reserve Account shall be segregated and not commingled with other moneys of the City for purposes of investment.

All income resulting from the investment or reinvestment of the moneys in the Interest Sub-Account, Principal Sub-Account and Bond Retirement Sub-Account in the Bond Fund and all income resulting from the investment or reinvestment of the moneys in the Bond Reserve Account and Renewal and Replacement Account shall accrue to and be deposited in the Revenue Fund; provided, however, that income resulting from the investment or reinvestment of moneys in the Bond Reserve Account which were derived from the proceeds of a Series of Bonds shall be applied as provided in the Series Resolution authorizing the issuance of said Series of Bonds.

All moneys held or set aside by the City in the Revenue Fund shall, until otherwise invested or applied as provided in the Resolution, be deposited by the City in its name, for the account of the Revenue Fund in such banks, trust companies, national banking associations or savings and loan associations as the City shall at any time or from time to time appoint for the purpose, and which are eligible under the laws of the State of Tennessee to receive deposits of state and municipal funds. Such deposits shall at all times be secured in accordance with the laws of the State of Tennessee and the Charter of the City.

#### **Variable Rate Bonds, Support Facilities, and Interest Rate Exchange Agreements**

The Resolution permits the City to issue Variable Rate Bonds, and permits any Series Resolution under the Resolution to provide for such additional agreements and conditions as shall be necessary to sell the Variable Rate Bonds.

The City is permitted to obtain Support Facilities providing for payment of all or a portion of the purchase price or principal, premium, if any, or interest due or to become due on specified Bonds of such Series or providing for the purchase of such Bonds or a portion thereof by such Support Facility Providers, or providing, in whole or in part, for the funding of the Bond Reserve Account. In connection with the issuance of any Series of Bonds or to better manage its assets and liabilities and, to the extent permitted by law, the City may enter into with one or more Counterparties one or more Interest Rate Exchange Agreements; provided that no such Interest Rate Exchange Agreement shall adversely affect the exclusion from gross income for purposes of federal income taxation of interest on the Tax-exempt Bonds of any Series.

The City may enter into agreements with one or more Support Facility Providers or Counterparties to, among other things, reimburse directly any Support Facility Provider or Counterparty for amounts paid under the terms of the Support Agreement or Interest Rate Exchange Agreement, which reimbursement may be secured by a lien on and pledge of Net Revenues on a parity with the lien on and pledge Net Revenues with respect to the Bonds, and to deposit Support Facilities into the Bond Reserve Account, in lieu of the deposit therein of cash and Investment Securities, if the Support Facility or long-term debt of the Support Facility Provider shall be in the highest rating category by each Rating Agency and, if rated by A.M. Best & Company or its successors, also in the highest rating category thereby.

### **Covenants to Secure Bonds**

**I. Covenant as to Rates and Charges.** The City shall prescribe, establish, maintain, revise and collect rates and charges for the services, facilities, and commodities sold, furnished, or supplied through the facilities of the Sanitary Sewerage System sufficient to provide (A) Revenues to pay all costs of and charges and expenses in connection with the proper operation and maintenance of the Sanitary Sewerage System; to pay all taxes, assessments or other governmental charges lawfully imposed on the Sanitary Sewerage System or on the Revenues therefrom or payments in lieu thereof; to make all payments to the Interest Sub-Account, Principal Sub-Account and Bond Retirement Sub-Account in the Bond Account and all payments to the Bond Reserve Account and Renewal and Replacement Account required by the Resolution and for the payment of principal of, premium, if any, and interest on Outstanding Sewer Debt; and to pay any and all amounts which the City is now or may hereafter become obligated to pay from the Revenues of the Sanitary Sewerage System by law or contract; and (B) Net Revenues in each year at least equal to the Annual Debt Service Requirement during such year on all Bonds then outstanding. Reserves may include surplus moneys in the Reserve Fund.

**II. Maintenance and Operation of Sanitary Sewerage System.** So long as any Bonds are outstanding and unpaid, the City (1) will maintain, preserve and keep the properties of the Sanitary Sewerage System in good repair, working order and condition, 2) will operate or cause the same to be operated in an efficient manner and at reasonable cost, and (3) will, from time to time, make all necessary and proper repairs, renewals, replacements, additions, extensions and betterments thereof so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

**III. Insurance.** The City will carry insurance on the walks, plants, facilities and properties comprising the Sanitary Sewerage System for the kinds, against such risks, accidents or casualties, and in at least the amounts, which are usually and customarily carried upon similar sewer plants, properties and systems including without limiting the generality of the foregoing, fire, extended coverage and general liability, and also all additional insurance covering such risks as shall be deemed necessary or desirable by the City; provided, however, that in lieu of carrying such insurance the City may self-insure to the extent customary with utilities operating like properties.

**IV. Books and Accounts; Independent Audit.** The City shall keep or cause to be kept, separate and apart from all other records and accounts, proper books and accounts showing correct and complete entries of all financial transactions pertaining to the Sanitary Sewerage System, and also such other books and accounts which may otherwise be required by law. Within one hundred and twenty days following the close of each Fiscal Year the City shall cause an audit of such books and accounts to be made by an independent firm of certified public accountants, showing the receipts and disbursements for and on account of the Sanitary Sewerage System. All expenses incurred in the making of said audits with respect to the Sanitary Sewerage System are regarded and paid as Operating Expenses.

**V. Payment of Taxes, Assessments and other Governmental Charges or Payments in Lieu Thereof.** The City will from time to time pay and discharge all taxes, assessments and other governmental charges of the City, or payments in lieu thereof to the City, or for payment to the General Fund of the City, lawfully imposed upon the properties constituting the Sanitary Sewerage System or the Revenues when due as well as all lawful claims for labor, material and supplies which if not paid might become a lien or charge upon such property or the Revenues or might in any way impair the security of the Bonds, except assessments, charges or claims which the City shall in good faith contest by proper legal proceedings.

**VI. Additional Covenants of the City.** The City (i) shall proceed with all reasonable dispatch with any acquisition, construction, reconstruction, improvement, extension or enlargement to be financed from the proceeds of the bonds or otherwise financed from the Revenues of the Sanitary Sewerage System; (ii) shall maintain all franchises, licenses and permits necessary to the operation of the Sanitary Sewerage System as are or may be required by applicable law; (iii) shall continuously operate or cause to be operated the Sanitary Sewerage System as a revenue-producing facility; (iv) shall maintain the Sanitary Sewerage System in good repair and working order and condition; (v) shall retain management of, and control over, the Sanitary Sewerage System and all functions associated with, inherent in or incidental to such management and control, provided that the City may permit the operation of certain of the facilities pursuant to an agreement approved by the City Council and in compliance with the provisions of the Resolution; (vi) shall not acquire and construct and operate plants and properties used for or pertaining to the treatment and disposal of sewerage, including associated transmission facilities, as separate utility systems, unless in the opinion of a Consulting Engineer such acquisition, construction and operation will not result in a reduction of the Revenues or Net Revenues below the amounts covenanted by the City to be produced; (vii) shall comply with the requirements of Sections 103 and 141 through 150 of the United States Internal Revenue Code of 1986, and the applicable regulations of the United States Treasury adopted thereunder,

throughout the term of the Bonds so as not to jeopardize exemption of the interest on the Bonds from federal income taxation; (viii) shall not furnish or supply the facilities or services of the Sanitary Sewerage System free of charge to any person, firm or corporation, public or private except to the City of Memphis and its divisions and shall promptly enforce the payment of any and all accounts owing to the City by discontinuing service or by filing suits, actions or procedures, or by both discontinuance of service and filing suit; and (ix) shall not abandon, sell or otherwise dispose of, lease or transfer possession of, mortgage or otherwise encumber, the Sanitary Sewerage System or any plant or property thereof or interest therein; provided, however, that such provision shall not prevent or prohibit the City from leasing, selling or otherwise disposing of any property which in the judgment of the City is no longer useful or profitable in the operation of the Sanitary System or necessary to produce or maintain the Revenues thereof, or which is to be or has been replaced by other property or equipment so as not to impair the operations of the Sanitary Sewerage System.

### **Amendments and Modifications of Resolution**

The Resolution may be amended subject to approval by the City and by the affirmative vote of the holders of at least 66-2/3% in principal amount of the Bonds outstanding and by the holders of at least 66- 2/3% of the Bonds outstanding which are adversely affected by an such amendment which does not equally affect all other Bonds then outstanding, provided that no such amendment shall permit a change in the date of payment of principal of any Bonds or of any installment of interest thereon or in the rate of interest or redemption price of any outstanding Bond without the consent of the holder of each such Bond.

Notwithstanding the foregoing, the rights and obligations of the City and of the holders of the Bonds and coupons appertaining thereto and the terms and provision of the Bonds and the Resolution and of any Series Resolution authorizing any Bonds may be amended in any respect with the consent of the City by the affirmative vote of the holders of all Bonds then outstanding, effective immediately upon the unanimous vote or written consent of all Bondholders.

The City may adopt Series Resolutions or resolutions supplemental to the Resolution effective in accordance with its term: (i) to provide for the issuance of a Series of Bonds and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed; (ii) to add additional covenants and agreements of the City for the purpose of further securing the payment of the Bonds; (iii) to prescribe further limitations and restrictions upon the issuance of Bonds and the incurring of indebtedness by the City payable from the Revenues of the Sanitary Sewerage System; (iv) to surrender any right, power or privilege reserved to or conferred upon the City by the terms of the Resolution; (v) to confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the Resolution of the Revenues or of any other moneys, securities or funds; (vi) to modify any provisions of the Resolution or any previously adopted Series Resolution in any other respects, provided that such modifications shall not be effective until after all Bonds of any Series of Bonds outstanding as of the date of adoption of such Series Resolution or supplemental resolution shall cease to be outstanding, and all Bonds issued under which resolutions shall contain a specific reference to the modifications contained in such subsequent resolutions; or (vii) to cure any ambiguity or defect or inconsistent provision in the Resolution or to insert such provisions clarifying matters or questions arising under the Resolution as are necessary or

desirable in the event any such modifications are not contrary to or inconsistent with the Resolution as theretofore in effect.

### **Events of Default; Remedies**

Under the Resolution, the following are defined as events of default: (i) default in the due and punctual payment of the principal and premium, if any, of any Bonds when due and payable, either at maturity or by proceedings for redemption or otherwise; (ii) default in the due and punctual payment of interest on any Bonds or any sinking fund installment therefor when due and payable and continuance of such default for a period of 30 days; (iii) default in the performance of any obligation with respect to payments into any of the special funds or accounts established by the Resolution, and continuance of such default for a period of 120 days; (iv) default in the observance and performance of any other covenants, conditions and agreements of the City contained in the Resolution which materially and adversely affects the interests of the Bondholders, and continuance of such default for a period of 90 days after written notice to the City by the holders of not less than 20% in principal amount of the Bonds outstanding or a Bondholders' Committee; (v) the sale, transfer, assignment or conveyance (except as permitted in the Resolution) of any properties constituting the Sanitary Sewerage System or the making of any agreement for any such sale or transfer or the voluntary forfeiture or limitation of any licenses, franchises, permits, privileges, easements or rights-of-way necessary in the operation of the Sanitary Sewerage System; and (vi) if an order, judgment or decree shall be entered by any court of competent jurisdiction (a) appointing a receiver, trustee or liquidator for the whole or any substantial part of the part of the Sanitary Sewerage System, (b) approving a petition filed against the City under the federal bankruptcy laws, (c) granting relief substantially similar to that afforded under such laws, or (d) assuming the custody or control of the Sanitary Sewerage System under the provisions of any other law for the relief or aid of debtors, and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof, or if the City shall admit in writing its inability to pay its debts generally as they become due or file a petition in bankruptcy or make an assignment for the benefit of its creditors or consent to the appointment of a receiver of the whole or any substantial part of the Sanitary Sewerage System, or shall file a petition or answer seeking relief under the federal bankruptcy laws.

So long as an Event of Default shall not be remedied, unless the principal of Bonds shall have already become due and payable, the holders of not less than 20% in principal amount of the Bonds outstanding or a Bondholders' Committee may declare the principal of all the Bonds then outstanding and the interest accrued thereon to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable; subject, however, to the right given to a Bondholders' Committee or the holders of a majority in principal amount of the Bonds outstanding to annul such declaration at any time before any judgment or decree for the payment of moneys due shall have been obtained or interest has been discharged, before possession of the properties of the Sanitary Sewerage System or any part thereof is taken, or before the Bonds shall have matured by their terms, if all covenants with respect to which default shall have been made shall be fully performed and all arrears of interest upon the Bonds then outstanding and the reasonable expenses and charges of the Bondholders' Committee and Bondholders and their respective agents and attorneys and all other indebtedness payable pursuant to the Bonds and the Resolution and any Series Resolution (except the principal or

redemption price of any such Bonds not then due by their terms and interest accrued on the Bonds since the last interest payment date) shall be paid, or provision made for such payment. During the continuance of an Event of Default, the holders of 20% in principal amount of the Bonds then outstanding may call a Bondholders' meeting for the purpose of electing a Bondholders' Committee.

Upon an Event of Default, the Bondholders' Committee may institute appropriate proceedings in the Chancery Court of Shelby County for the appointment of a receiver for the Sanitary Sewerage System, which receiver shall have the right to take possession and control of the business and property of the Sanitary Sewerage System or any part thereof and proceed to operate the same, to prescribe rates and charges and to collect and receive the Revenues, and to apply the Revenues thereafter derived from the Sanitary Sewerage System, all in the same manner as the City might do.

A Bondholders' Committee may upon an Event of Default and during the continuance thereof, institute such suits, actions or other proceedings at law or in equity for the collection of all sums due in connection with the Bonds and the rights of the holders of the Bonds under the Resolution for the specific performance of any covenant therein contained, or in aid of the execution of any power therein granted, or for an accounting against the City as trustee of an express trust or in the enforcement of any other legal or equitable right as the Bondholders' Committee, being advised by counsel, shall deem most effectual to enforce any of its rights, or to perform any of its duties under the Resolution.

Nothing in the Resolution or in any Bond shall affect or impair the obligation of the City, which is absolute and unconditional, to pay from the Revenues of the Sanitary Sewerage System the principal of and interest on the Bonds to the respective holders thereof and the coupons pertaining thereto at the respective due dates therein specified, or affect or impair the right of action, which is also absolute and unconditional, of such holders to enforce such payment.

The remedies conferred upon or reserved to the holders of Bonds and to the Bondholders' Committee by the Resolution are not exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy under the Resolution or now or hereafter existing at law or in equity or by statute. No waiver of any default under the Resolution, whether by the Bondholders' Committee or by the holders of the Bonds, shall extend to or affect any subsequent default or impair any rights or remedies consequent thereon. No delay or omission of the Bondholders or of the Bondholders' Committee to exercise any right or power accruing upon any default shall impair any such right or power or be construed to be a waiver of any such default or any acquiescence therein.

### **Defeasance**

The obligations of the City under the Resolution, and the liens, pledges, charges, trusts, covenants and agreements of the City therein made or provided for, will be fully discharged and satisfied as to any Bond and such Bond will no longer be deemed to be outstanding thereunder, when such Bonds shall have been canceled, or shall have been surrendered for cancellation; or when payment of the principal of and premium, if any on such Bond plus interest on such principal to the due date thereof (whether such due date be by reason of maturity or upon

redemption or prepayment, or otherwise) either (a) shall have been made or caused to be made in accordance with the terms thereof, or (b) shall have been provided for by irrevocably depositing with a Paying Agent for such Bond, in trust, and irrevocably appropriated and set aside exclusively for such payment, either (1) moneys sufficient to make such payment or (2) Investment Securities referred to in clause (1) of the definition of Investment Securities as it appears under "Investment of Money" above, maturing as to principal and interest in such amount and at such times as will insure the availability of sufficient moneys to make such payments, whichever the City deems to be in its best interest, and all necessary and proper fees, compensation and expenses of the Paying Agents pertaining to the Bond with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of any Paying Agents.

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## **APPENDIX B**

### **SEWER COLLECTION AND TREATMENT FUND AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**CITY OF MEMPHIS, TENNESSEE SEWER COLLECTION  
AND TREATMENT FUND FINANCIAL STATEMENTS**  
Memphis, Tennessee

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**Report on Audit of Financial Statements**

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For the Year Ended June 30, 2012

**CITY OF MEMPHIS, TENNESSEE SEWER COLLECTION  
AND TREATMENT FUND FINANCIAL STATEMENTS**

Memphis, Tennessee

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## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Memphis, Tennessee

We have audited the accompanying statement of net assets of the City of Memphis, Tennessee Sewer Collection and Treatment Fund (the "Sewer Fund") as of June 30, 2012, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended. These financial statements are the responsibility of the Sewer Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the City of Memphis, Tennessee Sewer Collection and Treatment Fund and do not purport to, and do not present fairly the financial position of the City of Memphis, Tennessee, and the results of its operations and cash flows of its proprietary fund types in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sewer Fund as of June 30, 2012, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2012 on our consideration of the City of Memphis, Tennessee Sewer Collection and Treatment Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Sewer Fund has not presented the management's discussion and analysis as required by GASB 34, *Basic Financial Statement and Management's Discussion and Analysis-For State and Local Government*, that U.S. generally accepted accounting principles has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Banks, Finley, White & Co.*

Memphis, Tennessee  
December 26, 2012

**CITY OF MEMPHIS, TENNESSEE SEWER COLLECTION  
AND TREATMENT FUND FINANCIAL STATEMENTS**

Statement of Net Assets  
(Thousands of Dollars)  
June 30, 2012

**ASSETS**

	<u>2012</u>
Assets:	
Cash and cash equivalents	\$ 1
Equity in cash and investment pool	55,306
Investments	23,028
Receivables:	
Interest on investments, net	46
Notes and accounts	11,579
Due from other funds	<u>4,000</u>
Total Current Assets	93,960
Capital assets, net of accumulated depreciation	<u>338,941</u>
Total Assets	<u><u>\$ 432,901</u></u>

**LIABILITIES AND NET ASSETS**

Current Liabilities:	
Accounts payable	\$ 2,312
Accrued liabilities	2,006
Other post employment benefits	1,938
Contract retainage	156
Due to other funds	-
Current installment of revenue bonds payable	10,480
Vacation, sick and other leave benefits	<u>3,210</u>
Total Current Liabilities	20,102
Revenue bonds payable, less current maturities	135,095
State loans payable	3,881
Other liabilities, net (premium discount)	<u>773</u>
Total Liabilities	<u><u>159,851</u></u>
Net Assets:	
Investment in capital assets, net of related debt, as restated	189,485
Restricted for debt service and construction	36,355
Unrestricted	<u>47,210</u>
Total Net Assets, as restated	<u><u>273,050</u></u>
Total Liabilities and Net Assets	<u><u>\$ 432,901</u></u>

*See accompanying independent auditors' report and notes to the financial statements*

**CITY OF MEMPHIS, TENNESSEE SEWER COLLECTION  
AND TREATMENT FUND FINANCIAL STATEMENTS**

Statement of Revenues, Expenditures, and Changes in Fund Net Assets  
*(Thousands of Dollars)*  
For the Year Ended June 30, 2012

	<u>2012</u>
OPERATING REVENUES-CHARGES FOR SERVICES	\$ 104,031
OPERATING EXPENSES OTHER THAN DEPRECIATION AND AMORTIZATION:	
Personal services	18,080
Materials, supplies, and services	24,164
Capital outlay	<u>-</u>
Total Operating Expenses Other Than Depreciation and Amortization	<u>42,244</u>
OPERATING INCOME BEFORE DEPRECIATION AND AMORTIZATION	61,787
DEPRECIATION AND AMORTIZATION	<u>13,756</u>
OPERATING INCOME	48,031
NON-OPERATING REVENUES:	
Investment income	241
Federal grant	2,509
Other	<u>129</u>
Total Non-Operating Revenues	<u>2,879</u>
NON-OPERATING EXPENSES:	
Interest on state loan	101
Interest on bonded indebtedness	6,814
Other	<u>-</u>
Total Non-Operating Expenses	<u>6,915</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	43,995
Transfer out to general fund	(5,945)
Transfer out (in lieu of taxes) to general fund	-
Capital Contributions	<u>452</u>
Change in Net Assets	38,502
Net Assets - Beginning of year, as restated	<u>234,548</u>
Net Assets - End of year	\$ <u><u>273,050</u></u>

*See accompanying independent auditors' report and notes to the financial statements*

**CITY OF MEMPHIS, TENNESSEE SEWER COLLECTION  
AND TREATMENT FUND FINANCIAL STATEMENTS**

Statement of Cash Flows

For the Year Ended June 30, 2012

	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers and users	\$ 102,694
Payments to suppliers	(24,810)
Payments to employees	(22,233)
Payment to other division funds	<u>4,915</u>
Net Cash Provided (Used) by Operating Activities	<u>60,566</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>	
Transfer to other funds	(5,945)
Receipts of miscellaneous revenues	129
Repayment of advances from other funds	(4,612)
Debt issuance expense	<u>-</u>
Net Cash Provided (Used) By Non-Capital Financing Activities	<u>(10,428)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Proceeds from sale of revenue bonds	-
Proceeds from state loans payable	-
Bond issue cost	19
Acquisition and construction of capital assets	(25,799)
Receipt of federal grant	2,509
Principal payments on capital debt	(9,965)
Interest payments on capital debt	(6,958)
Capital Contributions	<u>452</u>
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>(39,742)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of investments	(1,399)
Sales and maturities of investments	20,981
Investment income earned on investments	<u>246</u>
Net Cash Provided By Investing Activities	<u>19,828</u>
Net increase (decrease) in cash and cash equivalents	30,224
Cash and cash equivalents, beginning of year	<u>25,083</u>
Cash and cash equivalents, end of year	<u>\$ 55,307</u>
Cash and cash equivalents	\$ 1
Equity in cash and investment pool	<u>55,306</u>
Total Cash and cash equivalents, end of year	<u>\$ 55,307</u>

*See accompanying independent auditors' report and notes to the financial statements*

**CITY OF MEMPHIS, TENNESSEE SEWER COLLECTION  
AND TREATMENT FUND FINANCIAL STATEMENTS**

Statement of Cash Flows  
(Continued)

For the Year Ended June 30, 2012

	<u>2012</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 48,031
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization expense	13,756
(Increase) Decrease in Assets:	
Notes and accounts receivable	3,521
Increase (Decrease) in Liabilities	
Accounts payable	(1,097)
Other accounts payable and accrued expenses	(3,645)
Other post employment benefits	-
Contract retainage	-
Accrued vacation/sick leave	-
Total Adjustments	<u>12,535</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 60,566</u>

*See accompanying independent auditors' report and notes to the financial statements*

**CITY OF MEMPHIS, TENNESSEE SEWER COLLECTION  
AND TREATMENT FUND FINANCIAL STATEMENTS**

**NOTES TO THE FINANCIAL STATEMENTS**

*(In Thousands of Dollars)*

June 30, 2012

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Organization and Structure

The accompanying financial statements include the activities of the City of Memphis, Tennessee Sewer Collection and Treatment Fund (the "Sewer Fund"), which was established for the purpose of financing the operations, maintenance, and construction of the City of Memphis (the "City") sewer system. The system operates two sewer treatment plants and services most of Shelby County, Tennessee.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Sewer Fund operates as an enterprise fund. Enterprise funds are classified as proprietary funds by the Governmental Accounting Standards Board ("GASB") and are accounted for using a total economic resources measurement focus. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprise. The financial statements are prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized as earned and expenses are recognized as incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Sewer Fund are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation and amortization on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Sewer Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

The Sewer Fund adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Accounting," and elected not to apply Financial Accounting Standards Board Statements and interpretations issued after November 30, 1989.

### Cash and Cash Equivalents and Investments

The Sewer Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Sewer Fund's equity in cash and investment pool (the "Pool") is also considered to be cash equivalents based on its liquidity. Investments of the Sewer Fund are stated at fair value. Fair value is based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

### Due From Other Funds

Activities between funds of the City that are representative of lending/borrowing arrangements are referred to as "due from/to other funds." At June 30, 2012, the Sewer Fund has an amount due from the Housing and Community Development Fund totaling \$4,000.

### Capital Assets

Capital assets, which include property, plant, and equipment, are defined by the City as assets with an initial, individual cost of more than \$5,000 (amount not in thousands) and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Contributed capital assets are recorded at estimated fair market value at the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The total interest incurred by the Sewer Fund during the fiscal year ended June 30, 2012 was \$6,915, of which, no amounts were included as part of the cost of capital assets constructed with bond proceeds.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Building	24-40
Improvements	10-50
Machinery and Equipment	3-15

### Compensated Absences

City employees are granted vacation, sick, and other leave benefits in varying amounts in accordance with administrative policy and union contracts. Vacation days earned are required to be utilized annually, but may be carried forward upon written request. In the event of termination, an employee is reimbursed for accumulated vacation days. Employees are required to take their vacation in their last year of employment prior to retirement. Employees are generally reimbursed for accumulated unused sick leave, not to exceed 75 days, only upon retirement, and only for those employees with 25 years or more service with the City.

### Other Assets/Liabilities, net

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## **NOTE 2 - DEPOSITS AND INVESTMENTS:**

Statutes authorize the City to invest in bonds, notes or treasury bills of the United States or its agencies, certificates of deposit, repurchase agreements utilizing obligations of the United States or its agencies as the underlying securities, local government investment pool, money market funds and prime commercial paper. Statutes require that (1) deposits have securities as collateral whose market value is equal to 105 percent of the value of the deposits, less so much of such amount as is insured by federal deposit insurance and (2) securities underlying repurchase agreements must have a market value at least 102% of the amount of funds invested in the repurchase agreements. Tennessee Code Annotated Section 9-4-105 and 9-4-404 state that collateralization coverage for cash deposits may be computed based on average daily balances of the preceding month.

### Cash and Investment Pool

The Sewer Fund participates in the City's cash and investment pool (the "Pool"). The Sewer Fund's pool balances are based upon actual cash receipts and disbursements with investment income, including any unrealized gains from changes in the fair value of investments, allocated monthly to the Sewer Fund on a pro-rata basis. The fair value of the Pool is the same as the value of the Pool shares. The City's investment policy with respect to the Pool is to maximize investment earnings while maintaining an acceptable level of risk. Since investments in the Pool must provide for the future cash needs of the City, flexibility and liquidity of investments are generally maintained at all times. The City does not provide guarantees to the Pool participants to support the values of their equity positions.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to fair value losses arising from increasing interest rates by limiting the duration of the portfolio, excluding bond proceeds, to less than one (1) year. Furthermore, no investment is allowed to have a maturity of greater than two (2) years from date of purchase unless such maturity is approved by the State Director of Local Finance.

## Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. It is the City's policy to limit its investments to prime commercial paper which shall be rated at least A1 or equivalent by at least two (2) nationally recognized rating services. Proceeds of bonds, notes and other obligations issued by the City, reserves held in connection therewith and the investment income there from, may be invested in obligations which (a) are rated in either of the two highest rated categories by a nationally recognized rating agency; (b) are explicitly guaranteed general obligations of a state of the United States, or a political subdivision or instrument thereof, having general taxing powers; and (c) have a final maturity on the date of investment not to exceed twenty-four (24) months or which may be tendered by the holder to the issuer thereof, or an agent of the issuer, at not less than twenty-four (24) month intervals unless approved by the State Director of Local Finance. As of June 30, 2012, the government's investments in general obligation bonds were rated Aa2 by Moody's Investor Service, AA by S & P, and AA- by Fitch Ratings.

## Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of the government's investment in a single issuer. The City's investment policy requires portfolio diversification by security type and institution. The maximum percentage of the portfolio permitted in each eligible security is as follows:

U.S. Treasury	100% maximum
Federal Agency (Fixed Rate)	100% maximum
Federal Agency (Variable Rate)	10% maximum
Repurchase Agreement	50% maximum
Commercial Paper	15% maximum
Banker's Acceptances	15% maximum
Insured/Collateralized Certificates of Deposit	20% maximum
Municipal Obligations	20% maximum
Tennessee LGIP	25% maximum

The City's investment policy is further diversified and limits the exposure to any other issuer. No more than 5% of the City's Portfolio is allowed to be invested in the securities of any single issuer with the following exceptions:

Each Federal Agency	35% maximum
Each Repurchase Agreement Counterparty	20% maximum

## Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure the government's deposits may not be returned. At June 30, 2012, all deposits were insured or collateralized as required by policy. The City's investment policy provides that all securities purchased by the City or held as collateral on either deposits or investments shall be held in third-party safekeeping at a financial institution.

The Sewer Fund's equity in the Pool at June 30, 2012 was \$55,306. Deposits held by the Pool at June 30, 2012 consisted of cash deposits with a carrying amount of \$4,386 and a bank balance of \$17,689.

The investments held by the pool consist of the following at June 30, 2012:

<b>Description</b>	<b>Maturity Dates</b>	<b>Interest Rates</b>	<b>Fair Value</b>	<b>Duration</b>
U.S. government agency securities	Jun 2012 - Aug 2016	.0% - 5.25%	\$ 121,808	.12 - 1.2
Commercial paper	Jul 2012 - Dec 2012		18,639	.06 - .09
Certificate of deposit	Jun 2012 - Jan 2013	.15% - 1.00%	11,500	.03 - .12
U.S. Treasury obligations	May 2013 - Nov 2016	.25% - 2.5%	23,622	.24 - .60
Corporate and foreign bonds	Jun 2012 - Dec 2012	.50% - 1.75%	<u>1,624</u>	.24 - .48
Total			177,193	
Investment not subject to				
Categorization - Money market funds			<u>94</u>	
Total Investments			<u>\$ 177,287</u>	

The Pool does not issue separate financial statements. Condensed financial information as of June 30, 2012 is as follows (dollar amounts and share amounts are the same):

### Condensed Statement of Net Assets

Investments	\$ 177,287
Bank overdraft	<u>4,386</u>
Net Assets	<u>\$ 181,673</u>

### Net assets held in trust for pool participants:

Internal participants	\$ <u>181,673</u>
Total net assets held in trust for pool participants	<u>\$ 181,673</u>

### Condensed Statement of Changes in Net Assets

#### Additions:

Investment income	\$ 560
Purchase of units	<u>1,187,047</u>
Total additions	1,187,607

#### Deductions:

Redemption of units	<u>1,143,484</u>
Net decrease	44,123

### Net assets held in trust for pool participants:

Beginning of year	<u>137,550</u>
End of year	<u>\$ 181,673</u>

### Investment Outside of the Pool

In addition to the cash and investment pool, the Sewer Fund owns investments outside of the Pool which were purchased to set aside funds to satisfy certain revenue bond covenants. Investments in these funds are generally of the same type as in the Pool with the addition of collateralized certificates of deposit. The Sewer Fund is also required to hold funds relating to certain construction projects in the State of Tennessee Treasurer's Local Government Investment Pool ("LGIP"). Deposits with the LGIP may be withdrawn with a maximum of one day's notice, are classified as cash equivalents and are valued at cost. The LGIP is not registered with the SEC as an investment company; however, the LGIP has a policy that it will-and-does-operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Rule 2a7 allows SEC-registered mutual funds to use amortized cost rather than fair value to report net assets to compute share prices if certain conditions are met. State statutes require the State Treasurer to administer the LGIP under the same terms and conditions, including collateral requirements, as required for other funds invested by the Treasurer. The reported value of the Pool is the same as the value of the pool shares. Although the LGIP itself is unrated, its types of investments and maturities provide a level of credit risk similar to that detailed in the aforementioned credit risk section.

Deposits held by the Sewer Fund outside of the Pool at June 30, 2012, were as follows:

<b>Description</b>	<b>Carrying Amount</b>	<b>Bank Balance</b>
Cash	\$ <u>1</u>	\$ <u>1</u>

The investments held by the Sewer Fund outside the Pool consist of the following at June 30, 2012:

<b>Description</b>	<b>Maturity Dates</b>	<b>Interest Rate</b>	<b>Fair Value</b>
U.S. Government securities	9/2012 - 6/2014	.33 - .45	\$ 10,814
Certificate of deposit	10/2012 - 6/2013	.23 - .75	<u>5,225</u>
Total			16,039
Investments not subject to categorization:			
State of Tennessee LGIP			67
Money market funds			<u>6,922</u>
Total			<u>6,989</u>
Total investments			\$ <u>23,028</u>

**NOTE 3 - CAPITAL ASSETS:**

Capital assets activity for the fiscal year ended June 30, 2012 was as follows:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
Capital assets, not being depreciated:				
Land	\$ 13,617	\$ 76	\$ -	\$ 13,693
Construction in progress	<u>29,356</u>	<u>-</u>	<u>1,292</u>	<u>28,064</u>
Total capital assets, not being depreciated	42,973	76	1,292	41,757
Capital assets, being depreciated:				
Building	106,090	12	-	106,102
Improvements other than buildings	505,225	24,910	151	529,984
Machinery and equipment	<u>27,221</u>	<u>2,171</u>	<u>1,981</u>	<u>27,411</u>
Total capital assets being depreciated	638,536	27,093	2,132	663,497
Less accumulated depreciation:				
Building	(79,799)	(2,271)	-	(82,070)
Improvements other than buildings	(253,759)	(10,187)	28	(263,918)
Machinery and equipment	<u>(20,893)</u>	<u>(1,331)</u>	<u>1,900</u>	<u>(20,324)</u>
Total accumulated depreciation	<u>(354,451)</u>	<u>(13,789)</u>	<u>1,928</u>	<u>(370,168)</u>
Net depreciable assets	<u>284,085</u>	<u>-</u>	<u>-</u>	<u>284,085</u>
Net capital assets	<u>\$ 327,058</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 327,058</u>

**NOTE 4 - RISK MANAGEMENT:**

The Sewer Fund is self-insured for on-the-job-injury claims. The changes in the insurance claims payable, including the accrual for "incurred but not reported" (IBNR) claims and administrative cost for the years ended June 30, 2012 and 2011 are as follows:

**On-the-job-injury**

Balance - June 30, 2010	\$ 41
Current year provision	499
Payments	<u>(351)</u>
Balance - June 30, 2011	\$ 189
Current year provision	(113)
Payments	<u>(31)</u>
Balance - June 30, 2012	<u>\$ 45</u>

Additionally, the Sewer Fund is a member of the City's self-insured fund for health and medical benefits. The City's Health Insurance-Internal Service Fund charges premiums which are used to pay claims and to fund the accrual for "IBNR" claims and administrative costs of its health and medical benefits program.

**NOTE 5 - LONG-TERM DEBT:**

Long-term debt consists of the following at June 30:

Sanitary Sewerage System Revenue Bonds:

Final Maturity Dates		Interest Rates%	Original Issue	Redemptions	Balance 2012
January	2001 to 2014	4.00-5.25	\$ 20,795	\$ 14,835	\$ 5,960
March	2002 to 2021	4.00-5.00	25,000	23,840	1,160
August	2002 to 2016	3.00-4.30	22,805	16,215	6,590
June	2004 to 2024	3.00-5.25	30,000	7,750	22,250
December	2005 to 2025	3.25-5.00	32,000	6,870	25,130
September	2006 to 2020	4.00-5.00	20,220	3,315	16,905
December	2007 to 2028	4.00-4.50	20,000	2,620	17,380
November	2009 to 2029	3.00-6.30	20,000	740	19,260
October	2011 to 2030	1.15-6.10	16,450	675	15,775
June	2011 to 2021	2.00-5.00	15,165	-	15,165
Total Long-term debt			\$ 222,435	\$ 76,860	\$ 145,575
Less current maturities					(10,480)
Long-term debt					\$ 135,095

Long-term activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Revenue Bonds	\$ 155,540	\$ -	\$ 9,965	\$ 145,575

The bonds were issued primarily to finance capital improvements to the sewer system. The bonds are payable solely from revenues derived from the sewer system, subject to prior payments of operating expenses.

The aggregated maturities and interest payments of long-term debt at June 30, 2012 are as follows:

	Revenue Bonds	Interest Payments
2013	\$ 10,480	\$ 6,569
2014	10,895	6,143
2015	11,155	5,707
2016	10,940	5,254
2017	11,435	4,834
Thereafter	90,670	24,665
	\$ 145,575	\$ 53,172

Under the provision of the City Council resolutions, certain funds are reserved for debt service and renewal and replacement of the sewer system. These funds are recorded as a reserve of net assets.

#### **NOTE 6 - OPERATING TRANSFER:S**

Operating transfers out to the General Fund for in-lieu-of-taxes of \$4,615 and \$4,669 and dividends of \$1,300 were made to subsidize operating functions in fiscal 2012 and 2011, respectively.

#### **NOTE 7 - PENSION AND RETIREMENT PLANS:**

*General.* The Sewer Fund participates in the City of Memphis Retirement System. Plan benefits have not been specifically allocated to employees of the Sewer Fund. Consequently, disclosures will follow guidelines for cost sharing, multiple employer public employee retirement system. The Retirement System is established under Chapter 25, Code of Ordinances, City of Memphis, Tennessee and is administered by the Board of Administration under the direction of the Mayor. The Retirement System is included in the City's general-purpose financial statements as a pension trust fund. That report may be obtained by writing to the City of Memphis, Comptroller's Office, 125 N. Main Street, Memphis, TN 38103.

Plan Description. Substantially all permanent full-time salaried employees of the City (excluding component units) are required to participate in either of two contributory defined benefit pension plans (the Plans) which are as follows: 1948 Plan - for salaried employees hired prior to July 1, 1978, and 1978 Plan - for salaried employees hired after June 30, 1978. Under City Ordinances, trust assets are reported in one trust fund and not segregated between the two benefit plans. Permanent, full-time employees in job classifications covered by contract with the Social Security Administration are not participants of the Retirement System as they are covered under the Federal Insurance Contribution Act (Social Security). The Sewer Fund's payroll for employees covered by the plan was \$10,004 and \$10,000 for the fiscal years ended June 30, 2012 and 2011, respectively. Total payroll was \$13,962 and \$14,167 for the same two periods, respectively.

The Plans provide retirement benefits as well as death and disability benefits. Retirement benefits vest after ten years of service. General employees, under the 1948 Plan, may retire after completion of twenty-five (25) years of service or, if earlier, after age 60 and completion of ten (10) years of service. Under the 1978 Plan, general employees may retire after completion of twenty-five (25) years of service or, if earlier, after meeting any of the following:

1. After age sixty-five (65) and completion of five (5) years of service.
2. After age sixty (60) and the completion often (10) years of service.

**Funding Policy.** Plan participants are required to contribute 5% of their annual covered salary. The Sewer Fund is required to contribute at an actuarially determined rate, which was 5% of annual covered payroll at June 30, 2012. The contribution requirements of plan participants and the Sewer Fund are established and may be amended by the Board of Administration. Effective July 1, 2001, 1978 Plan members' contributions increased to 8%. The Sewer Fund's contributions to the Plan for the year ended June 30, 2012 and 2011 totaled \$590 and \$590, respectively, equal to the required contributions for each year.

#### **NOTE 8 - CITY OF MEMPHIS OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN:**

*Plan Description.* The Sewer Fund participates in the City's OPEB plan which provides medical and life insurance benefits to eligible retired City of Memphis employees and their dependents based on firmly established past practices. The primary benefit for eligible retirees is postretirement medical coverage through either a Preferred Provider Organization (PPO/Basic) or a Point of Service Plan (POS/Premier). Of premiums paid for retiree health and medical benefits and life insurance, 70% is paid by the City's General Fund (with the remaining 30% paid by the retirees). The City also provides two life insurance benefits: the first is a self-insured death benefit and the second is a continuation of active life insurance. The authority to conduct the general operation and administration of the single employer plan is vested with the City. Separate financial statements for the plan are not issued. Additional required disclosures are included in the audited financial statements of the City of Memphis as of and for the fiscal year ended June 30, 2012.

*Funding Policy.* The contribution requirements of the plan members and the City are established and may be amended by the City. OPEB eligible members receiving benefits contribute \$66.30 or \$157.33 per month for retiree only coverage and \$132.60 or \$312.02 per month for retiree and family coverage depending on medical plan coverage selected. The City pays for medical costs in excess of required retiree premiums and may elect through adoption of the City's annual budget ordinance to contribute an amount in excess of the total annual benefit payments to a qualified trust for the purpose of funding future OPEB benefits. The City has adopted and established an OPEB Trust for the exclusive purpose of pre-funding and providing for payment of OPEB benefits under the plan.

The Net OPEB Obligation of the City at June 30, 2012 and 2011 was \$207,589 and \$154,418 respectively, of which \$1,938 and \$5,297 was allocated to the Sewer Fund, respectively.

**NOTE 9 - COMMITMENTS AND CONTINGENCIES:**

In the normal course of operation, the Sewer Fund is subject to claims and litigation. Management is of the opinion that, based on information presently available, such matters will not have a material adverse effect on the financial position or results of operations of the Sewer Fund.

**NOTE 10 - PRIOR PERIOD ADJUSTMENT:**

The beginning net assets have been restated to recognize 2011 sewer fees of \$160 that were improperly included in revenue for the fiscal year ended June 30, 2011.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and  
Members of the City Council  
City of Memphis, Tennessee

We have audited the accompanying financial statements of the City of Memphis, Tennessee Sewer Collection and Treatment Fund (the "Sewer Fund") as of and for the year ended June 30, 2012, and have issued our report thereon dated December 26, 2012. We conducted our audit in accordance with U.S generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of the City of Memphis, Tennessee Sewer Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of Memphis, Tennessee Sewer Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Memphis, Tennessee Sewer Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Memphis, Tennessee Sewer Fund's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Sewer Fund's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Sewer Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties

*Banks, Finley, White & Co.*

Memphis, Tennessee  
December 26, 2012

**CITY OF MEMPHIS, TENNESSEE SEWER COLLECTION  
AND TREATMENT FUND FINANCIAL STATEMENTS  
SCHEDULE OF FINDINGS AND RESPONSES**

For the Fiscal Year Ended June 30, 2012

None

**CITY OF MEMPHIS, TENNESSEE SEWER COLLECTION  
AND TREATMENT FUND FINANCIAL STATEMENTS  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES**

For the Year Ended June 30, 2012

**2011**

Condition:

We noted certain significant reconciling items on the concentration and general funding account reconciliations, resulting from a failure to match transactions recorded in the general ledger to transactions clearing the bank statement. We noted management has made significant improvements in the bank reconciliation process, but we believe the remaining unreconciled items represent a significant deficiency.

Status:

This has been corrected in accordance with the action plan.

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## **APPENDIX C**

### **FORM OF OPINION OF BOND COUNSEL**

## APPENDIX C

### FORM OF OPINION OF BOND COUNSEL

[PROPOSED OPINION OF GLANKLER BROWN, PLLC, BOND COUNSEL]

(Date of Closing)

City Council  
City of Memphis  
125 North Main Street  
Memphis, Tennessee 38103

**Re:    \$[33,365,000] Sanitary Sewerage System Revenue Refunding Bonds, Series  
      2013 of the City of Memphis, Tennessee**

Ladies and Gentlemen:

We have acted as bond counsel to the City of Memphis, Tennessee (the "City") in connection with the issuance by the City of \$[33,365,000] aggregate principal amount of its Sanitary Sewerage System Revenue Refunding Bonds, Series 2013, dated of even date herewith (the "Series 2013 Bonds"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

The Series 2013 Bonds recite that they are issued pursuant to a resolution duly adopted by the Council of the City on February 24, 1981, as amended by resolutions adopted December 17, 1985, April 11, 2000 and June 1, 2004 and as supplemented by a series resolution adopted April 12, 2013 (collectively, the "Resolution"), Sections 9-21-1001 *et seq.* of the Tennessee Code Annotated, as amended, and the Charter of the City, as amended, for the purpose of refunding all or a portion of the City's outstanding Sanitary Sewerage System Revenue Refunding Bonds, Series 2002, its Sanitary Sewerage System Revenue Bonds, Series 2004, and its Sanitary Sewerage System Revenue Bonds, Series 2005, and refinancing the costs of improvements, additions and extensions to the City's Sanitary Sewerage System (the "System"). The Series 2013 Bonds further recite that they are payable solely from and equally and ratably secured solely by the net revenues derived by the City through the ownership and operation of the System on a parity and equality of lien with other bonds issued and from time to time outstanding under the Resolution.

As to questions of fact material to our opinion, we have relied upon the representations of the City contained in the Resolution and in the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

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

1. The Series 2013 Bonds have been authorized and issued in accordance with the Constitution and statutes of the State of Tennessee and the Charter of the City and constitute the valid and binding limited obligations of the City, payable as to both principal and interest exclusively from the net revenues of the System, after payment of the reasonable and necessary costs of operating and maintaining the System, on a parity with other bonds of the City heretofore issued under the Resolution and which may hereafter be issued under the Resolution. We express no opinion as to the sufficiency of such net revenues for the payment of principal of, premium, if any, and interest on the Series 2013 Bonds and other bonds outstanding under the Resolution.

2. Interest on the Series 2013 Bonds (including any original issue discount properly allocable to an owner thereof) (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2013 Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause the interest on the Series 2013 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2013 Bonds. The City has covenanted to comply with all such requirements. Except as set forth in this Paragraph 2, we express no opinion regarding other federal tax consequences arising with respect to the Series 2013 Bonds.

3. The Series 2013 Bonds and the income therefrom are exempt from all present state, county and municipal taxation in the State of Tennessee, except (a) inheritance, transfer and estate taxes, (b) Tennessee excise taxes on all or a portion of the interest on any Series 2013 Bonds during the period such Series 2013 Bonds are held or beneficially owned by any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee, and (c) Tennessee franchise taxes by reason of inclusion of the book value of the Series 2013 Bonds in the Tennessee franchise tax base of any organization or entity, other than a sole proprietorship or general partnership, doing business in the State of Tennessee.

To the extent constitutionally applicable, the rights of the holders of the Series 2013 Bonds and the enforceability thereof are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereinafter enacted and by equitable principles, whether considered at law or in equity. Also, the enforcement of bondholder rights may be subject to the exercise of judicial discretion in appropriate cases.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material published and distributed in connection with the sale of the Series 2013 Bonds or any other information concerning the financial condition of the City or the System which may have been provided to the purchasers of the Series 2013 Bonds, and we express no opinion relating thereto.

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

Very truly yours,

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## **APPENDIX D**

### **FORM OF CONTINUING DISCLOSURE CERTIFICATE**

## CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (this "Disclosure Certificate"), dated as of [\_\_\_\_\_, 2013], is executed and delivered by the CITY OF MEMPHIS, TENNESSEE (the "City"), in connection with the issuance by the City of up to \$33,365,000 in aggregate principal amount of its Sanitary Sewerage System Revenue Refunding Bonds, Series 2013 (the "Series 2013 Bonds"), pursuant to a resolution adopted by the City Council of the City on February 24, 1981, as amended by resolutions adopted by the City Council on December 17, 1985, April 11, 2000, and June 1, 2004, as supplemented with respect to the Series 2013 Bonds by that certain series resolution adopted by the City Council on May 7, 2013 (collectively, the "Bond Resolution"). In consideration of the purchase of the Series 2013 Bonds by the Participating Underwriter (herein defined), the City undertakes, covenants and agrees as follows.

### RECITALS

A. Unless otherwise specified herein, capitalized terms used in this Disclosure Certificate shall have the respective meanings set forth in Section 3 hereof.

B. Contemporaneously with the execution and delivery of this Disclosure Certificate, the City is issuing the Series 2013 Bonds pursuant to the Bond Resolution for the purpose of providing funds to: (a) refund all or a portion of the City's outstanding (i) Sanitary Sewerage System Revenue Refunding Bonds, Series 2002, (ii) Sanitary Sewerage System Revenue Bonds, Series 2004, and (iii) Sanitary Sewerage System Revenue Bonds, Series 2005, and (b) pay certain costs of issuance related to the Series 2013 Bonds.

C. The City has authorized the preparation and distribution of the Preliminary Official Statement dated [\_\_\_\_\_, 2013] with respect to the Series 2013 Bonds (the "Preliminary Official Statement") and, on or before the date of the Preliminary Official Statement, the City deemed the Preliminary Official Statement final within the meaning of the Rule.

D. Upon the initial sale of the Series 2013 Bonds to the Participating Underwriter, the City authorized the preparation and distribution of the Official Statement dated [\_\_\_\_\_, 2013] with respect to the Series 2013 Bonds (the "Official Statement").

E. As a condition precedent to the initial purchase of the Series 2013 Bonds by the Participating Underwriter in accordance with the Bond Purchase Agreement dated [\_\_\_\_\_, 2013] by and between the Participating Underwriter and the City (the "Bond Purchase Agreement"), the City has agreed to provide for the public disclosure of certain operating data and financial information and notices of certain events on an ongoing basis for so long as the Series 2013 Bonds remain outstanding as set forth herein.

**Section 1. Incorporation of Recitals.** The above recitals are true and correct and are incorporated into and made a part hereof.

**Section 2. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the City for the benefit of the Beneficial Owners of the Series 2013 Bonds and in order to assist the Participating Underwriter in complying with the Rule.

**Section 3. Definitions.** In addition to the definitions set forth in the Bond Resolution which apply to any capitalized term used in this Disclosure Certificate not otherwise defined herein, the following capitalized terms used in this Disclosure Certificate have the following meanings.

"Annual Filing" shall mean the information with respect to the City described in Section 5 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series 2013 Bonds (including persons holding Series 2013 Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series 2013 Bonds for federal income tax purposes.

"Business Day" means any day (a) on which the City is not closed for business and (b) on which the New York Stock Exchange is not closed.

"Dissemination Agent" shall mean the City or any successor dissemination agent designated by the City pursuant to Section 8 hereof.

"EMMA" shall mean the MSRB's Electronic Municipal Market Access system or any successor thereto.

"Event of Bankruptcy" shall mean an event considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

"Fiscal Year" shall mean the fiscal year of the City, which currently is the twelve month period beginning July 1 and ending on June 30 of the next succeeding calendar year, or any such other twelve month period designated by the City from time to time to be its fiscal year.

"Listed Event" shall mean any of the events listed in Section 6(a) hereof.

"MSRB" shall mean the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

"Obligated Person" shall mean the City and any person who is either generally or through an enterprise, fund or account of such person committed by contract or other arrangement to support the payment of all, or part, of the obligations on the Series 2013 Bonds (other than providers of municipal bond insurance, letters of credit or other liquidity facilities).

"Participating Underwriter" shall collectively mean the original purchasers of the Series 2013 Bonds pursuant to the Bond Purchase Agreement required to comply with the Rule in connection with the offering of the Series 2013 Bonds.

"Repository" shall mean each entity authorized and approved by the SEC from time to time to act as a repository for purposes of complying with the Rule. The Repositories currently approved by the SEC may be found by visiting the SEC's website at <http://www.sec.gov/info/municipal/nrmsir.htm>. As of the date hereof, the only Repository recognized by the SEC for such purpose is the Municipal Securities Rulemaking Board, which currently accepts continuing disclosure submissions through its EMMA web portal at <http://emma.msrb.org>.

"Rule" shall mean Rule 15c2-12(b)(5) promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as such rule may be amended from time to time and any successor provisions thereto.

"SEC" shall mean the Securities and Exchange Commission.

"State" shall mean the State of Tennessee.

"System Financial Statements" means the financial statements of the Sewer Collection and Treatment Fund of the City for a particular Fiscal Year.

#### **Section 4. Provision of Annual Filing.**

(a) The City shall, or shall cause the Dissemination Agent to, not later than each January 31st, commencing January 31, 2014, with respect to the Fiscal Year ending June 30, 2013, submit to the Repository in electronic format as prescribed by such Repository, an Annual Filing which is consistent with the requirements of Section 5 hereof. The Annual Filing may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in Section 5 hereof. If its Fiscal Year changes, the City shall give notice of such change in the same manner required of notice of a Listed Event under Section 6(b) hereof.

(b) Not later than two Business Days prior to the date set forth in subsection (a) above, the City shall provide the Annual Filing to the Dissemination Agent (if other than the City). If the City is unable to submit to any Repository an Annual Filing as required in subsection (a), the City shall send, in a timely manner, a notice to any Repository, in electronic format as prescribed by such Repository, in substantially the form attached hereto as Exhibit A.

(c) The Dissemination Agent shall:

(1) Determine each year prior to the date for providing the Annual Filing the name and address of any Repository; and

(2) If the Dissemination Agent is any person other than the City, file a report with the City certifying that the Annual Filing has been submitted pursuant to this Disclosure Certificate, stating the date it was provided and listing any Repository to which it was provided.

**Section 5. Content of Annual Filing.** The Annual Filing shall consist of the following:

(a) To the extent not included in the System Financial Statements or the City's Comprehensive Annual Financial Report, operating data and financial information with respect to the City or the System, consisting of:

(1) Updates of information contained in the Official Statement relating to:

(A) The table under the heading "ANNUAL DEBT SERVICE REQUIREMENTS;"

(B) The table entitled "Sewer Collection and Treatment Fund" under the heading "THE SYSTEM—Funding of Sewer Extensions;"

(C) The table entitled "City of Memphis Sanitary Sewerage System Sewer System – Sewer Development Charges" under the heading "SYSTEM REVENUES—Rates, Fees and Charges;"

(D) The table entitled "City of Memphis Sanitary Sewerage System Revenues" under the heading "SYSTEM REVENUES—Rates, Fees and Charges;"

(E) The table entitled "City of Memphis Sanitary Sewerage System Rates and Charges" under the heading "SYSTEM REVENUES—Rates, Fees and Charges;"

(F) The table entitled "City of Memphis Sanitary Sewerage System Fifteen Largest Industrial Customers" under the heading "SYSTEM REVENUES—Rates, Fees and Charges;"

(G) The table entitled "City of Memphis Sanitary Sewerage System Operating Revenue History" under the heading "SYSTEM FINANCIAL INFORMATION—Five Year Operating History;"

(H) The table entitled "Sanitary Sewerage System Historical Debt Service Coverage" under the heading "SYSTEM FINANCIAL INFORMATION—Historical Debt Service Coverage Ratios;" and

(1) The table entitled "City of Memphis Sanitary Sewerage System Capital Projects Budget" under the heading "CAPITAL IMPROVEMENT PROGRAM;" and

(2) A description of any material litigation which would have been disclosed in the Official Statement if such litigation were pending at the time the Official Statement was prepared;

(b) If available at the time of submission of the Annual Filing to the Repository pursuant to Section 4 hereof, the annual audited System Financial Statements and financial statements of the City for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as in effect from time to time, accompanied by an audit report, resulting from an audit conducted by an independent certified public accountant or firm of independent certified public accountants in conformity with generally accepted auditing standards; and, if generally accepted accounting principles have changed since the last Annual Filing was submitted pursuant to Section 4 hereof and if such changes are material to the City, a narrative explanation describing the impact of such changes on the City.

Notwithstanding the foregoing, if the annual audited System Financial Statements and financial statements of the City are not available by the time the Annual Filing is required to be filed pursuant to Section 4 hereof, the Annual Filing shall contain unaudited System Financial Statements and financial statements of the City prepared in accordance with generally accepted accounting principles, as in effect from time to time, and the annual audited financial statements of the City shall be filed in the same manner as the Annual Filing when they become available; and

(c) The City's Comprehensive Annual Financial Report for the immediately preceding Fiscal Year, to the extent available.

Any or all of the items listed above may be provided by specific reference to other documents, including official statements of debt issues with respect to which the City is an Obligated Person, which will have been previously filed with the Repository or the SEC. The City will clearly identify each such document so incorporated by reference.

**Section 6. Reporting of Listed Events.** The City shall give, or cause to be given, to the Repository, in an electronic format as prescribed by the Repository, notice of the occurrence of any of the following events with respect to the Series 2013 Bonds (each such event a "Listed Event"), which notice shall be given in a timely manner but not more than ten Business Days after the occurrence of the Listed Event, with the exception of the event described in (15) below, which notice shall be given in a timely manner:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;

- (4)     Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5)     Substitution of credit or liquidity providers, or their failure to perform;
- (6)     Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material determinations with respect to the tax status of the Series 2013 Bonds or other material events affecting the tax status of the Series 2013 Bonds;
- (7)     Modifications of rights of holders of the Series 2013 Bonds, if material;
- (8)     Bond calls (excluding calls for mandatory sinking fund redemptions), if material, and tender offers on the Series 2013 Bonds;
- (9)     Defeasances of the Series 2013 Bonds;
- (10)    Release, substitution or sale of property securing repayment of the Series 2013 Bonds, if material;
- (11)    Rating changes affecting the Series 2013 Bonds;
- (12)    Bankruptcy, insolvency, receivership or similar event of an Obligated Person. For purposes of this clause (12), any such event shall be considered to have occurred when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person;
- (13)    Consummation of a merger, consolidation or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions other than pursuant to its terms, if material;
- (14)    Appointment of a successor or additional trustee or the change of name of a trustee; and
- (15)    Failure of the City to provide the Annual Filing as required by Section 4 hereof.

The notice required to be given in this Section 6 shall be provided to the Repository in an electronic format prescribed by such Repository.

**Section 7. Termination of Reporting Obligation.** The obligations under this Disclosure Certificate will be in effect from and after the issuance and delivery of the Series 2013 Bonds and shall terminate on the earlier of (a) the date all principal, premium, if any, and interest on the Series 2013 Bonds have been paid or legally defeased pursuant to the terms of the Bond Resolution, (b) the date on which those portions of the Rule under which this written undertaking is required are held to be invalid by a court of competent jurisdiction in a non-appealable action or have been repealed retroactively, or (c) receipt by the City of an opinion of counsel expert in federal securities laws retained by the City to the effect that, under the Rule, continuing disclosure is no longer required or continuing disclosure requirements otherwise do not apply to the Series 2013 Bonds. If such termination occurs prior to the final maturity of the Series 2013 Bonds, the City shall give notice of such termination in the same manner as required for disclosure of a Listed Event under Section 6 hereof.

**Section 8. Dissemination Agent.** The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent with or without appointing a successor Dissemination Agent.

**Section 9. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate or waive any provision of this Disclosure Certificate if:

(a) Such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the City or type of business conducted by the City;

(b) Such amendment or waiver does not materially impair the interests of the Beneficial Owners of the Series 2013 Bonds, as determined either by an unqualified opinion of nationally recognized bond counsel filed with the City or by the approving vote of the Beneficial Owners of the Series 2013 Bonds owning more than two-thirds in aggregate principal amount of the Series 2013 Bonds outstanding at the time of such amendment or waiver; and

(c) Such amendment or waiver is supported by an opinion of counsel expert in federal securities laws to the effect that such amendment or waiver would not, in and of itself, have caused the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof, taking into account any subsequent change in or official interpretation of the Rule as well as any change in circumstances.

If any provision of Section 5 hereof is amended or waived, the first Annual Filing containing any amended, or omitting any waived, operating data or financial information shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of operating data or financial information being provided.

If the provisions of Section 5 hereof specifying the accounting principles to be followed in preparing the System Financial Statements or the City's financial statements are amended or

waived, the City shall submit a notice of the amendment or waiver to the Repository on or before the effective date of the amendment or waiver. The Annual Filing for the year in which the amendment or waiver is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. In order to provide sufficient information to the Beneficial Owners of the Series 2013 Bonds to enable them to evaluate the ability of the City to meet its obligations, the comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. To the extent reasonably feasible, the comparison shall also be quantitative.

**Section 10. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth herein or any other means of communication, or including any other information in any Annual Filing or notice of occurrence of a Listed Event in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Filing or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation hereunder to update such information or include it in any future Annual Filing or notice of occurrence of a Listed Event.

**Section 11. Default.** In the event of a failure of the City to comply with any provision of this Disclosure Certificate, the sole remedy available to any holder, owner or Beneficial Owner of Series 2013 Bonds shall be to seek specific performance by court order to cause the City to comply with its obligations under this Disclosure Certificate, it being the City's position that money damages would be inadequate recompense and/or difficult to ascertain. A default under this Disclosure Certificate shall not be deemed an event of default under the Bond Resolution and any rights and remedies provided in the Bond Resolution in the event of a default thereunder shall not be available for any breach of the undertakings herein. The cost to the City of performing its obligations under the provisions of this Disclosure Certificate shall be paid solely from funds lawfully available for such purpose.

**Section 12. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, and all holders, owners and Beneficial Owners from time to time of the Series 2013 Bonds and shall create no rights in any other person or entity.

**Section 13. Obligated Persons.** Any change in Obligated Persons shall be reported by the City in an Annual Filing or a notice of occurrence of a Listed Event. If any person, other than the City, becomes an Obligated Person relating to the Series 2013 Bonds, the City shall use its reasonable best efforts to require such Obligated Person to comply with all provisions of the Rule applicable to such Obligated Person. Notwithstanding, the City takes no responsibility for the accuracy or completeness of any financial information or operating data or other filings by any future Obligated Person.

**Section 14. Governing Law.** This Disclosure Certificate shall be governed by and construed in accordance with the internal laws of the State (without regard to conflict of law principles thereof), provided that, to the extent this Disclosure Certificate addresses matters of

federal securities laws, including the Rule, this Disclosure Certificate shall be construed in accordance with such federal securities laws and official interpretations thereof.

**Section 15. Identifying Information.** In accordance with the Rule, all disclosure filings submitted to the Repository pursuant to this Disclosure Certificate must be accompanied by identifying information as prescribed by the Repository.

**Section 16. Severability.** In case any part of this Disclosure Certificate is held to be illegal or invalid, such illegality or invalidity shall not affect the remainder or any other section of this Disclosure Certificate. This Disclosure Certificate shall be construed or enforced as if such illegal or invalid portion were not contained herein and the illegality or invalidity of any application of this Disclosure Certificate shall not affect any legal and valid application hereof.

**SIGNATURE PAGE FOR  
CONTINUING DISCLOSURE CERTIFICATE**

**IN WITNESS WHEREOF**, the City has caused this Disclosure Certificate to be executed on its behalf by its authorized representative on the date first above written.

**CITY OF MEMPHIS, TENNESSEE**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**EXHIBIT A**

**NOTICE OF FAILURE TO FILE ANNUAL FILING**

**Name of Issuer:** City of Memphis, Tennessee

**Name of Bond Issue:** Sanitary Sewerage System Revenue Refunding Bonds, Series 2013

**Date of Issuance:** \_\_\_\_\_, 2013

NOTICE IS HEREBY GIVEN that the City of Memphis, Tennessee (the "City"), has not provided an Annual Filing with respect to the above-named bonds as required by Sections 4 and 5 of the Continuing Disclosure Certificate of the City dated as of [\_\_\_\_\_, **2013**]. The City anticipates that the Annual Filing will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

**[CITY/DISSEMINATION AGENT]**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

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## **APPENDIX E**

### **CERTAIN DEMOGRAPHIC INFORMATION CONCERNING THE CITY OF MEMPHIS**

## APPENDIX E

### CERTAIN DEMOGRAPHIC INFORMATION CONCERNING THE CITY OF MEMPHIS

#### General

The City is located on the east bank of the Mississippi River in the southwest corner of Tennessee. The City is the State's largest city and the county seat of the County. The corporate limits contain 348.9 square miles, representing 47 percent of the total land area of the County. The City ranks as the 20<sup>th</sup> largest city in the nation. According to the U.S. Bureau of the Census, the 2010 population was 652,050. The present System includes the City, Shelby County, and a hybrid of incorporated areas which control collection sewers within their jurisdictions and with which the City maintains operating agreements.

#### Population

<b>POPULATION</b>					
<b>CITY, COUNTY, STATE AND UNITED STATES</b>					
<b>(In Thousands)</b>					
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Memphis	670	670	647	647	652
Shelby County	919	920	928	934	941
Tennessee	6,240	6,296	6,346	6,400	6,456
United States	304,375	307,007	308,746	311,588	313,914

Source: U.S. Census Bureau, information available as of April 2013, with the exception of Memphis population for 2012 which was obtained from the Comprehensive Annual Financial Report of the City of Memphis for the Year Ended June 30, 2012.

#### Per Capita Personal Income

<b>PER CAPITA PERSONAL INCOME</b>					
<b>SHELBY COUNTY, TENNESSEE, SOUTHEAST REGION AND UNITED STATES</b>					
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Shelby County	\$41,598	\$40,547	N/A	\$40,763	n/a
Tennessee	35,126	33,802	\$34,955	36,657	\$37,678
Southeast Region <sup>(1)</sup>	36,196	35,458	36,851	37,473	38,382
United States	40,947	38,846	39,945	41,560	42,693

<sup>(1)</sup> Southeast Region includes Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia.

Source: U.S. Bureau of Economic Analysis, information available as of April 2013.

**NUMBER OF FAMILIES BY INCOME RANGE IN MEMPHIS<sup>(1)</sup>**

	Number of Families			Percentage of Families		
	1980	1990	2000	1980	1990	2000
Under \$10,000	47,446	26,982	18,278	28.86%	17.42%	11.42%
\$10,000 - \$14,999	24,919	14,745	10,808	15.16	9.52	6.75
\$15,000 - \$24,999	44,843	29,417	22,440	27.28	18.99	14.02
\$25,000 - \$49,999	39,570	52,407	49,943	24.07	33.84	31.20
\$50,000 and over	7,623	31,330	58,580	4.64	20.23	36.60
Total	164,401	154,881	160,049	100.00%	100.00%	100.00%

<sup>(1)</sup> Due to rounding, numbers may not add precisely.

Source: U.S. Census Bureau, January 2010.

## Housing

Number of Housing Units. The following table gives housing unit totals for both the County and the City.

	Total Housing Units				Ten-Year Change		
	1980	1990	2000	2010	1980-1990	1990-2000	2000-2010
Shelby County	286,381	327,796	362,954	397,976	14.5	10.7	9.73
Memphis	271,184	307,018	271,723	293,845	13.2	-11.5	8.14

Source: U.S. Department of Commerce, Bureau of the Census.

Housing Units by Structure Type. The following table sets forth the number of housing units in the County and the City by structure type.

	Total Units		Single Family		Multifamily		Mobile Home	
	2000	2010	2000	2010	2000	2010	2000	2010
Shelby County	291,883	397,976	255,584	284,329	58,479	65,568	4,458	4,509
Memphis	271,723	293,845	176,259	194,953	93,045	96,132	2,419	2,760

Source: U.S. Department of Commerce, Bureau of the Census.

Building Permits. The table below provides annual data on the number of building permits granted and the value of related construction between 2008-2012 for both the County and the City.

## BUILDING PERMITS

Fiscal Year	Shelby County <sup>(1)</sup>		Memphis		City, % of County
	Total Number Issued	Valuation <sup>(2)</sup>	Total Number Issued	Valuation <sup>(2)</sup>	
2008	7,092	1,298,270	4,785	899,475	69.3%
2009	5,684	1,164,911	4,181	850,743	73.0%
2010	6,781	791,839	5,112	624,762	78.9%
2011	6,218	731,893	4,585	508,249	69.4%
2012	6,634	1,011,363	4,768	764,623	75.6%

<sup>(1)</sup> Includes all incorporated and unincorporated areas of the County.

<sup>(2)</sup> In Thousands.

Source: Shelby County Building Department, April 2013.