

City of Pensacola, Florida

FISCAL YEAR 2009 REPORT TO BONDHOLDERS



For the year ended September 30, 2009

Introduction

Presented herewith is the City of Pensacola, Florida's sixteenth annual "Report to Bondholders". The purpose of this document is to provide useful information to current and potential investors, rating agencies, bond insurers, municipal analysts and other interested parties. It is also the mechanism used to fulfill the obligation the City has undertaken to annually make available to the secondary market updated information consistent with that provided in official statements.

Included in the report is background information about the City and its services, key staff, demographics and finances; particularly as such finances relate to revenues that have been pledged to support debt service requirements on outstanding bonds. In addition, the Report includes details about each outstanding bond issue for which the City has a legal obligation to report, including information regarding economically, but not legally, defeased bond issues. All of the information presented is as of the close of our most recent fiscal year, September 30, 2009, unless the information is specifically noted as of a different date.

The Fiscal Year 2009 Report to Bondholders and a Comprehensive Annual Financial Report (CAFR) will be submitted to the Electronic Municipal Market Access (EMMA) System as required by the Municipal Securities Rulemaking Board (MSRB) and approved by the Securities and Exchange Commission (SEC). This provides a central location where investors can obtain free municipal bond information. The CAFR is the City's official financial document and should be read in conjunction with this document. The City's internet home page also provides an electronic copy of the 2009 Report and CAFR under "City Financial Reports" (<http://www.ci.pensacola.fl.us>). Any request for financial information must be submitted in writing. If it is determined that the requested information should be available to the "market" and is not included in one of these documents the response will be provided through a filing with EMMA and the requestor will be so notified.

The City has not undertaken an independent review or investigation to determine the accuracy of the information that has been obtained from other sources. Certain information presented herein has been obtained from sources that are believed by the City to be reliable, but neither the City nor the elected or appointed officials make any representations or warranties with respect to the accuracy or completeness of that information.

To the extent that certain portions of the Report constitute summaries of documents, reports, resolutions or other agreements relating to the operations or outstanding debt of the City, including the CAFR, this Report is qualified by reference to each such document, report, resolution or agreement, copies of which may be obtained from the Office of the Director of Finance at the address below. The Report contains certain capitalized undefined terms. Such terms are defined in the resolutions of the City authorizing the issuance of the respective bonds of the City.

MAJOR HIGHLIGHTS

Property Tax Reform

After the 2004, 2005, and 2006 hurricanes, property values of existing homes and businesses in the State of Florida increased. As the value of the destroyed improvements taken off the tax rolls, the property tax burden shifted to the remaining tax base causing an increase in property taxes for the average property owner. During this same period of time, property and casualty insurers imposed unprecedented increases in property insurance rates due to hurricane losses. Though property insurance rates have declined, they are still greater than pre-hurricane rates.

In order to relieve some of the burden of property ownership, the State of Florida mandated a property tax rollback, effective in the Fiscal Year 2008 Budget, reducing municipal property tax rates to the fiscal year 2007 level. Though the anticipated impact was a \$1.1 million decrease in revenues, the City's ad valorem tax revenues collections declined only \$365,150 (2.4%) in fiscal year 2008. The Portability of Save Our Homes Amendment (Amendment One) to the Florida Constitution, effective in the Fiscal Year 2009 Budget, provides further relief to the taxpayer, allowing for increased homestead exemptions, portability of Save Our Homes benefits, and caps on the annual increase of non-homestead property values. The Portability of Save Our Homes Amendment required a further reduction in the City's millage rate from 4.598 to 4.5395 mills and a reduction in taxable values by \$178 million. Coupled with declining property valuations from a slowing economy, fiscal year 2009 property tax revenues declined \$972,370 (6.5%).

Additional reductions to the City of Pensacola's property tax revenue may be impacted by new property tax reduction initiatives that are expected to be on the November 2010 ballot. There is also likely to be more discussion in the upcoming legislative sessions regarding cutting or restricting other revenue sources generated by governments. Any revenue reduction measures will have an impact on the City of Pensacola's ability to meet the current service levels to citizens. The City does not expect reduced revenues to have an impact on its ability to pay debt service on outstanding debt obligations.

The tax reform legislation also limits the aggregate amount by which ad valorem tax revenues may increase in future fiscal years. A local government may override certain portions of these requirements by a supermajority, and for certain requirements, a unanimous vote of its elected body. The City has not elected to implement any such overrides; however, several local governments have done so in order to fund their budgets. The City's ad valorem property taxes collected represent approximately 28.6 percent of total General Fund revenues collected in fiscal year 2009.

In response to the revenue shortfalls and the voter approval of the Portability of Save Our Homes Amendment, the City took action on a Thirty-Month Balanced Budget Plan during fiscal year 2008. Such plan resulted in reductions in budgeted positions, consolidation within departments as well as interdepartmental functional consolidation. The Thirty-Month Balanced Budget Plan will be continually reviewed and adjusted to maintain a balanced budget through September 2010.

New Debt

On December 30, 2008 the City issued a \$4,549,709 Gas Utility Subordinate Revenue Note, Series 2009, to fund energy conservation projects through a Basic Operating Agreement (BOA) for the United States Navy. The City entered into a contract with a subcontractor to perform the services to be rendered and is thereby acting only as a conduit for financing. The balance as of September 30, 2009 was \$4,122,778 with principal maturing in 2018. On October 7, 2009 the Navy accepted the project, the note receivable was sold to Banc of America on October 29, 2009 and the debt was subsequently removed from the City's proprietary type Utility Fund.

On December 21, 2009 the City issued \$45.6 million of Redevelopment Revenue Bonds, Series 2009 A and B to fund a \$40 million construction fund for public structures related to the Community Maritime Park. Tax Increment Financing (TIF) revenues were pledged along with Federal Direct Payments relating to the Series B Bonds. In addition the City has a covenant to budget and appropriate from non-ad valorem revenues of the City to pay debt service to the extent required, after application of pledged revenues. The issue was structured with \$6,715,000 of tax-exempt serial bonds and \$38,925,000 of Build America Bonds (BABs) which are issued as taxable bonds and subsidized by Federal Direct Payments from the United States Treasury to the City, equaling 35% of the interest on the BABs. The final maturity of the bonds is in 2040. The covenant to budget and appropriate is subject to use of the prior use of non-ad valorem revenues to pay for the costs of essential governmental services of the City. So long as the City is not in default on the Redevelopment Bonds, the covenant to budget and appropriate does not limit or prohibit the City from issuing bonds payable from and secured by a prior lien upon specific non-ad valorem revenue sources.

Bond Insurers Disclosure

Since 2007, ratings on the major bond insurance firms in the municipal bond market have been downgraded by the leading municipal credit rating services (Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Investor Services ("S&P") and Fitch Ratings ("Fitch")). These changes have stemmed largely from the insurers' exposure to investment vehicles tied to subprime mortgage loans and recent loss of demand for bond insurance. Ratings on insured bond issues have, in most cases, declined as the ratings of bond insurers were lowered. In general, the rating on insured debt will be the higher of (i) the insured rating determined on the basis of the financial strength rating of the insurer and (ii) the underlying rating, if any, assigned to the issuer.

All of the insurers have now experienced a rating downgrade by one or more of the rating agencies. As of February 26, 2010, Fitch Ratings no longer rates any of the bond insurers. Current information about such ratings should be obtained on the respective websites.

The majority of outstanding bonds issued by the City were insured by MBIA Insurance Corporation. On February 18, 2009, MBIA Insurance Corporation split, with all of its public finance business now under its subsidiary National Public Financial Guarantee Corp. (“NPFGC”). Current ratings of NPFGC are “Baa1/Developing” by Moody’s and “A/Developing” by S&P.

One series of bonds issued by the City was insured by Financial Security Assurance Incorporated (FSA). On July 1, 2009, Assured Guaranty Corporation completed acquisition of FSA. Current ratings of Assured Guaranty Corporation are “Aa3/Negative” by Moody’s and AAA/Negative by S&P.

The City also has multiple borrowings from the Gulf Breeze Loan Pool Program (GBLP Program) aggregating \$26 million; however the bonds issued to fund the GBLP Program were issued by the City of Gulf Breeze as the sponsor for the GBLP Program and were not issued by the City of Pensacola. The City’s obligation is evidenced by a loan agreement and a variable-rate promissory note based on the SIFMA index. The City’s highest and lowest monthly interest rate paid on GBLP Program obligations for fiscal year 2009 was 4.4223 percent and 0.65968 percent, respectively. On March 25, 2010, the City Council approved to refund the loans to a fixed rate structure.

The impact of the fluctuations in the financial market and rating changes of financial guaranty insurers’ has not impacted the City’s ability to make required debt service payments on any of its outstanding indebtedness. The City continues to remit payment timely and in full.

Additional Information

If you have any comments or questions regarding this report or the City, please address them to:

**Director of Finance
City of Pensacola
222 West Main Street
Pensacola, Florida 32502
(850) 435-1817 phone
(850) 435-1700 fax**

<http://www.ci.pensacola.fl.us>

**REPORT TO BONDHOLDERS
CITY OF PENSACOLA, FLORIDA
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2009**



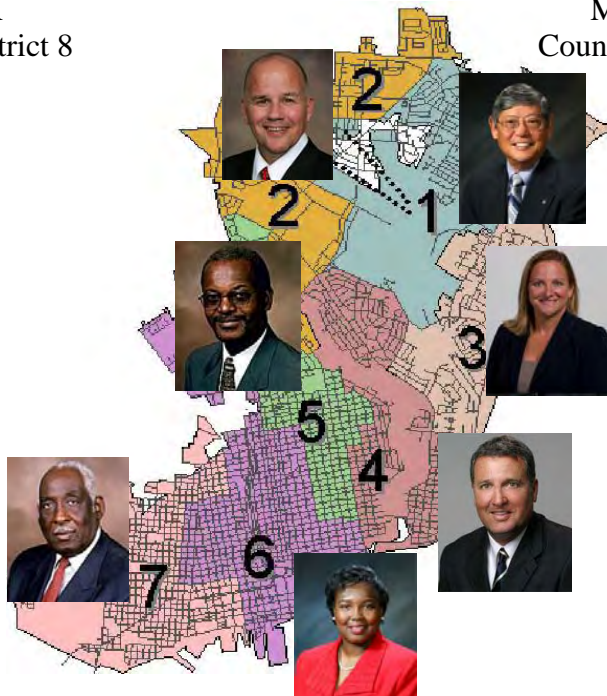
MICHAEL C. WIGGINS
Mayor



MEGAN B. PRATT
Council, At Large, District 9



DIANNE MACK
Council, At Large, District 8



P. C. WU
Council, District 1

SAM HALL
Council, District 2

MAREN DeWEESE
Council, District 3

JOHN JERRALDS
Deputy Mayor, District 5

LARRY B. JOHNSON
Council, District 4

JEWEL CANNADA-WYNN
Council, District 6

RONALD P. TOWNSEND
Council, District 7

CITY ADMINISTRATION

ALVIN G. COBY
City Manager

WILLIAM D. WELLS
City Attorney

DEPARTMENT DIRECTORS

RICHARD BARKER, JR.
Financial Services

ERICKA BURNETT
City Clerk

THADDEUS COHEN
Community Development

RUSSELL BEATY
(Interim) Fire

GENE FISCHER
West Florida
Regional Library

DAVID FLAHERTY
Parks and Recreation

AL GARZA, JR.
Public Works

PAT HUBBARD
Housing

SUZANNE HUMPHREY
Civil Service

CLYDE E. MATHIS
Port of Pensacola

JOHN MATHIS
Police

MELINDA CRAWFORD
(Interim*) Airport

JERRY MOORE
Sanitation Services
And Fleet Management

WILLIAM NORRISH
Management Information
Services

DERRIK OWENS
Engineering

MARY ANN STALCUP
Employee Services

DON J. SUAREZ
Energy Services of Pensacola

*Melinda Crawford was appointed as Airport Director December 30, 2009.

FINANCIAL SERVICES ACCOUNTING STAFF

PAMELA CHILDERS, CPA , CGFO
Financial Services Manager

AMBER McCLURE, CPA
Accountant

LAURA PICKLAP, CPA
Accountant

EXTERNAL PROFESSIONALS

RBC CAPITAL MARKETS
City Financial Advisor

LOTT & ASSOCIATES, P.L.
City Bond Counsel

EDWARDS ANGELL PALMER
& DODGE, LLP
City Disclosure Counsel

SALTMARSH, CLEVELAND
& GUND
City Auditors

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GENERAL INFORMATION CONCERNING THE CITY OF PENSACOLA

The City of Pensacola was incorporated in 1931 as a municipal corporation of the State of Florida. The City currently operates under a Council-Manager form of government which consists of ten Council members that serve two-year terms. Seven members are elected from single-member districts with the other two members and the Mayor elected at-large. The City employs a full-time manager, appointed by Council, who is the chief executive and administrative officer of the City.

On November 24, 2009 a referendum to change the City's charter received fifty-five percent voter approval. The Council-Manager structure changed to a Mayor-Council form of government effective January 11, 2010. The Mayor and Council will be seated with the November 2010 election. With the new structure, the Mayor will have the responsibility for the day-to-day management of the City, will not be a member of Council, will not have voting power but has a veto on most measures, subject to override by 60% of the Council, and has a four-year term of office as opposed to a two-year term. Members of Council are limited to three consecutive four-year terms. Every ten years the Charter Review Commission will review the City's charter. City Council adopted the new charter on November 25, 2009.

In November 2008 the County Commission and City Council passed a resolution to support the establishment of a Consolidated Study Commission of which they appointed 25 members tasked to study, debate and generate a consolidated plan for referendum. The plan proposes the consolidation of the City of Pensacola, Escambia County and Town of Century. The Town of Century voted a year ago to pull its support. The Escambia County Commissioners voted at their January 2010 meeting to send a letter to the Northwest Florida Legislative Delegation saying Commissioners do not support the current draft thereby delaying the referendum to the November 2012 ballot. The Mayor of the City of Pensacola sent notification to the Delegation that at the January 25, 2010 Pensacola City Council Committee of the Whole meeting the motion to approve the Proposed Charter for Consolidated Government failed. On January 15, 2010 the Escambia County Consolidated Study Commission forwarded its proposed consolidation plan to the Delegation for consideration. The Delegation failed to get a majority vote to either move the consolidation issue to a referendum or to delay it for two years before the February 26, 2010 deadline for submission of a bill to the State Legislature providing for a referendum. Accordingly, no referendum for consolidation will be considered by the State Legislature this year.

The City of Pensacola provides a full range of municipal services including public works, public safety, and recreation and cultural activities. In addition, the City's enterprise activities include a gas utility, port and airport operations, and sanitation services.

The City Manager Leadership Team, Director of Finance and City Attorney are as follows:

Al Coby, City Manager. Mr. Coby joined the City of Pensacola in 1984 as Assistant City Manager. Shortly after, he transferred to the Community Redevelopment Agency where he served as Director for eighteen months. He has served as Assistant City Manager since 1987 until being appointed as City Manager in September 2008. Mr. Coby is a native of Muskogee, Oklahoma and graduated from the University of Missouri. He served in the Marine Corps from 1971 to 1982, during which time he had flight training in Pensacola, served three tours in fighter squadrons and returned to Pensacola as flight instructor in 1978. Mr. Coby attended two years of graduate courses at the University of West Florida.

Richard Barker, Jr., CGFM, Director of Finance. Mr. Barker is a native of Pensacola and received his Bachelor's degree in accounting from the University of West Florida. He has worked for the City's finance department since 1980. In July 1998, he was appointed as the Director of Finance. He serves as Plan Administrator for the City's three defined benefit plans and five deferred compensation plans. He is an active member of the Government Finance Officers Association (GFOA), the Florida GFOA and the Association of Governmental Accountants (AGA).

William D. Wells, City Attorney. Mr. Wells received his Juris Doctorate from the Georgetown University Law Center in 1969 and was admitted to the Bar of the District of Columbia in 1970 and The Florida Bar in 1981. He has served as Assistant City Attorney in Pensacola since 1985 and was appointed by City Council to the position of City Attorney in July 2008.

GENERAL GOVERNMENT OPERATIONS

Fire. The City of Pensacola Fire Department is a comprehensive fire protection agency, operating under the direction of the Fire Chief, who is appointed by the City Manager. The primary mission of the department is to provide a range of programs designed to protect the lives and property of inhabitants from adverse effects of fires, sudden medical emergencies or exposure to dangerous conditions created by man or nature. The department, with 122 employees, serves the entire population within the city limits. Under a Mutual Aid Agreement with Escambia County, the department responds to emergencies and furnishes mutual aid to areas outside the city limits, if requested. The department maintains fire suppression staffing 24 hours a day, 7 days a week through use of a three-platoon system. The City currently has six fire stations, with one station located at the Regional Airport as an Aircraft Rescue/Fire Fighting Facility. From these six stations, the department staffs six engines, two ladder trucks, one rescue unit, and two air/crash rescue fire vehicles. The department also serves as the regional testing and training site for the Florida Bureau of Fire Standards and Training. The department provides fire code enforcement inspection and plans review services to business and commercial occupancies and life safety education to the public.

The department has earned a Class 2 fire service rating from the Insurance Service Organization (ISO). This rating, which ranges from a high of one (1) to a low of ten (10), is based on a review of fire-fighting capabilities, communications, training, water system facilities and other related factors. A Class 2 rating places the department in the top ten percent of fire service organizations in the country.

Police. The Pensacola Police Department is a full-service law enforcement agency operating under direction of the Chief of Police, who is appointed by the City Manager. Approximately 148 sworn officers, 58 civilians and 5 part-time officers are employed by the department, which is responsible for law enforcement within corporate city limits and works closely with other local law enforcement agencies.

The mission of the department is to provide professional, efficient, and courteous service to the public. Officers shall strive to improve the quality of life by enforcing laws in a fair and impartial manner while encouraging a spirit of cooperation and mutual trust with the public. Officers and support staff shall have respect for the dignity and rights of all people. The department is divided into four major divisions; uniform patrol, criminal investigations, administrative and technical services, and community services.

Public Works. The Public Works Department's purpose is to further improve the delivery of neighborhood-based services. In addition to encompassing the existing streets and traffic operations, the department has assumed responsibility for all stormwater related activities of the City, including National Pollutant Discharge Elimination System (NPDES) compliance. Public Works also maintains the street sweeping activity, thereby placing all stormwater related maintenance activities within one department.

Stormwater and Street maintenance operations employ 25 full time people under the direction of a degreed specialist in civil engineering. The traffic, signage, pavement maintenance and street sweeping divisions, which employ 17 full time people, are under the supervision of the City's transportation engineer, a degreed civil and professional engineer. The department director, also a degreed civil and professional engineer, coordinates the overall department operations. Funding for the department is obtained through a combination of Stormwater Utility Fund and General Fund revenue. The Public Works Transportation/Stormwater Capital Improvement Plan is a five year program funded from the Local Option Gas Tax and the Stormwater Capital Projects Fund.

Parks and Recreation. The Parks and Recreation Department offers the residents of the Pensacola community a wide range of leisure-time recreational, educational, and cultural opportunities for citizens of all ages.

The department has 93 parks in addition to the Osceola Municipal Golf Course, Bayview Senior Citizens Center, and the Scott Athletic Complex which includes Roger Scott Tennis Center, the William J. "Red" Vickrey Community Center, Scott Municipal Swimming Pool, and a number of playing and practice fields for various outdoor sports programs. Sanders Beach-Corrine Jones Center, Bayview Center, Gull Point Center, Fricker Center, Cobb Center, and Malcolm Yonge Center are some of the other centers managed by the department. Also

included are over 600 acres of landscaped parks and parkways. The City also has designated two special areas as Dog Parks (Roger Scott and Bayview). The City's streetscape and neighborhood park development programs continue to be enhanced by working with various community groups in planting flowering trees, installing playground equipment, constructing new playing fields, and maintaining the Streetscaping Program in the downtown area.

Osceola Golf Course. The City's 18-hole, par 72 golf course with hybrid bermuda greens and fairways is complete with an automated irrigation system, electric golf carts, pull carts, a full service pro shop, and a restaurant and lounge. Approximately thirty-five thousand rounds of golf are played annually. The facility is open seven days a week from daylight to dark and is closed only on Christmas Day.

West Florida Public Library. The West Florida Public Library serves residents of Escambia County and the City of Pensacola. The Pensacola Public Library (headquarters), Tryon Branch, Southwest Branch, Westside Branch, Century Branch, West Florida Genealogy Library and Bookmobile receive their primary funding from both the City of Pensacola and Escambia County. The City of Pensacola provides administration for the system through a contractual agreement with Escambia County. The West Florida Public Library Board, an advisory body, is made up of seven members. The Pensacola City Council and the Escambia County Commission each appoint three members to the Board. The seventh member is appointed by the other six members. The Board meets monthly, usually at the downtown Pensacola Public Library.

Other City Services. In addition to the services described above, and elsewhere in this report, the City provides other municipal services to its citizens such as federally funded low and moderate income housing, code enforcement, planning, inspections, neighborhood revitalization services and various municipally provided recreational services. The City also owns and operates through contract with the Saenger Management Group, the Pensacola Saenger Theatre. The Saenger Theater reopened in April 2009 after nearly a two year \$15 million renovation and expansion project.

BUDGET

The City annually adopts an Operating Budget and a Capital Improvement Plan. The City utilizes a target budgeting concept in developing its annual operating budget. Under this concept, each department or cost center is initially allocated a dollar total to meet all operating costs except capital and non-capital assets. Development of individual department budgets within the target is at the discretion of the departments. Departments must identify program objectives to be accomplished within their target allocations. Additional amounts above that target can be requested based on identified needs. For each of the last nineteen fiscal years, the City's operating budget has received the Government Finance Officers' Association's "Distinguished Budget Presentation Award." As discussed previously, the City adopted a Thirty-Month Balanced Budget Plan through September 2010.

The Capital Improvements Plan, as distinguished from the Operating Budget, is a financial plan for the expenditures of monies which add to, support, or improve the physical infrastructure, capital assets or productive assets of the City. The City has two distinct capital programs; the first is the Capital Improvement Element (CIE) and the second is the broader Capital Improvement Plan (CIP). The Capital Improvement Element is mandated by the State of Florida's Growth Management Act and is part of the City's comprehensive growth management plan. The City's Capital Improvement Plan has a total capital needs focus and will be financed through the Local Option Sales Tax (LOST) and, for transportation and stormwater related projects, the Local Option Gas Tax (LOGT) and the Stormwater Capital Projects Fund. Because of the different revenue sources involved, the adopted CIP consists of three elements; the five-year transportation plan, the five-year stormwater plan and the Penny for Progress (LOST) Plan. Funding for the CIE is included within the CIP. Enterprise departments provide funding for and develop their own capital improvement plan.

DEBT ADMINISTRATION

The general government debt service obligations are paid from the Tax and Franchise Fee Debt Service Fund, the CRA debt service obligations are paid from the CRA Debt Service Fund and the LOST debt service obligations are paid from the LOST fund. The long term liability portion of the obligations is recorded in the General Long-Term Debt Account Group. Specific revenues pledged for debt obligations include such sources as public service taxes, electric franchise fees, sales taxes and tax increment revenues. The City has no general obligation debt. The City paid a total of \$2,850,209 in principal and \$858,442 in interest for all general government debt transactions during the fiscal year 2009. The principal and interest amounts reported for fiscal year 2009 do not include debt service obligations on the \$45.6 million 2009 Redevelopment Revenue Bonds as the first interest payment is not due until April 1, 2010 while the first principal payment is not due until April 1, 2013. The City has adopted a Debt Incurrence and Administration Policy which is included as Appendix A.

CASH MANAGEMENT

Available cash from all funds is pooled and invested in certificates of deposit, obligations issued or guaranteed by the U.S. Government and a nominal amount in the State Board of Administration investment pool. Certificates of deposits are obtained only from banks that are state-certified qualified public depositories. Interest earned is allocated to the different funds based on their equity share. In fiscal year 2009 combined unrestricted interest income for all Governmental, Expendable Trust, and Proprietary funds was \$2,585,023, a 19 percent decrease from the previous year. The City has adopted a formal Investment Policy and is included as Appendix B.

As discussed in Note III of the Fiscal Year 2009 CAFR, at September 30, 2009, the City had a minimal balance of \$2,853 invested in the State Board of Administration's Local Government Surplus Funds Trust Fund Investment Pool (LGIP). Standard and Poor's Ratings Services assigned its "AAAm" principal stability fund rating to LGIP. The City also had

\$148,214 invested in the State Board of Administration's Fund B Surplus Funds Trust Fund. Fund B's fair value as of September 30, 2009 was \$81,392 resulting in an unrealized loss of \$66,822. Fund B is not rated by any nationally recognized statistical rating agency.

LOCATION AND CLIMATE

The City of Pensacola is located in Escambia County, in the extreme northwestern part of Florida. The City is the seat of County government and covers an area of 25 square miles in the southern part of the County. The City is situated just 50 miles east of Mobile, Alabama, via Interstate 10, and is directly connected by interstate highway to Tallahassee, the state capital, which is approximately 200 miles to the east. Located in a warm temperature zone, its climate is typical of the region along the upper Gulf Coast of Florida. The winters are mild, and the summer heat is tempered by the prevailing southerly winds from the Gulf of Mexico.

BUSINESS AND ECONOMIC ENVIRONMENT

The City of Pensacola is located in the Pensacola Metropolitan Statistical Area (MSA) and the Pensacola Mobile Designated Marketing Area (DMA). The Pensacola MSA comprises Escambia County (661 Square miles) and Santa Rosa County (1,024 square miles). The area is proud of its number one employer, the Navy; however tourism, health care and education make up the majority of its workforce and economy. Tourism is the area's third largest sector, behind military and health care, and has become a year-round business.

Military. The Pensacola MSA has an advantage in the caliber and economic strength generated by its military bases. Known since 1914 as the "Cradle of Naval Aviation", the area supports the Naval Air Station (NAS) Pensacola, NAS Whiting Field, Saufley Field, Corry Station and the Naval Hospital. These four bases support training of thousands of US Navy, Marine Corps, Coast Guard, and Air Force personnel. Pensacola is also home to the Blue Angels, the Navy's world famous flight demonstration team. The world class National Museum of Naval Aviation is also located at historic NAS Pensacola with approximately 600,000 visitors annually from around the world. A new National Flight Academy (NFA) is under construction at the museum which will more than double the total size of the facility. The NFA will become a premier Science Technology, Engineering and Math (STEM) education center designed to teach middle and high school students the necessary STEM tools to succeed.

In 1914, NAS Pensacola consisted of 9 officers, 23 mechanics and 8 airplanes. Today, NAS Pensacola is the home of 123 tenant commands located on board its 10,144 acres. In 1971, NAS Pensacola became the headquarters for NETC (Naval Education & Training Command), one of the largest Navy shore commands. NETC is responsible for training and education of all Navy & Marine Corps personnel worldwide.

The economic impact of the military in our two-county region is \$5.1 billion annually, with an average of 22,000 active military and civilian personnel, and well over 30,000 military retirees that call the greater Pensacola area home.

Military Direct Economic Impact NAS Pensacola

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total Personnel	18,677	21,140	22,207	21,711	22,456
Military	14,276	14,952	15,968	15,437	16,673
Civilian	4,401	6,188	6,239	6,274	5,783
Total Payroll*	\$818,936	\$ 1,110,135	\$ 1,039,572	\$1,029,710	\$1,000,052
Military*	\$612,212	\$768,402	\$741,557	\$720,878	\$699,074
Civilian*	\$206,724	\$341,922	\$298,014	\$224,971	\$300,979
Contracts and Purchases* (1)	\$263,557	\$340,802	\$259,819	\$308,832	\$179,682

Source: Pensacola Chamber of Commerce

* In thousands

(1) The primary reason for the fluctuation in contracts and purchases from 2005 to 2007 is related to the military construction contracts resulting from Hurricane Ivan.

Eglin Air Force Base and Hurlbert Field are located in Okaloosa County which borders the Pensacola MSA to the east. Eglin Air Force Base is the world's largest Air Force Base, covering 724 square miles as well as 97,963 square miles of water test ranges and belongs to the Air Force Material Command and the Air Armament Center is the host unit. The Air Armament Center is responsible for development, acquisition, testing, deployment and sustainment of all air-delivered weapons. Eglin has been a major employer in the area from the 1930's to the present day.

Hurlbert Field occupies 6,000 acres and is the headquarters of the Air Force Special Operations command. Its mission is to support the training and execution of special air operations that are conducted worldwide.

The Air Force's major installations; Eglin AFB, Hurlburt AFB and Duke Field spend about \$1.8 billion in Okaloosa County annually. Florida ranks sixth highest among the fifty states in the number of total military personnel. Approximately 30% of federal military and civilian personnel stationed in Florida live in Okaloosa County.

Tourism. Tourism has played a vital role as a source for economic activity in the Pensacola MSA. Visitors to the MSA are mainly from the Southeastern United States and Texas. Most popular are visitors from Ft. Walton, Destin and New Orleans for day trips to Pensacola Beach. The Pensacola Bay Area Convention and Visitors Bureau (CVB) reported fiscal year 2008 to be a record year for tourism with an estimated 3.7 million visitors despite the slowing economy and lodging revenues reaching the highest in history at nearly \$138 million. Fiscal year 2009 tourism was second-highest in history generating \$133 million in lodging revenue. The annual tourism industry economic impact, according to the Pensacola Bay Area CVB, is \$1.2 billion, employing approximately 18,000 local residents. The tourism industry is the third largest sector of the area's economy with the first and second being military and health care, respectively. Pensacola has ranked amongst Forbes magazine's 200 "Best Places for Business and Careers" since its inaugural list in 1999.

The Pensacola area has a considerable number of facilities that support recreation and leisure activities including a small amusement park, a water park, golf courses, marinas, museums, a zoo, and sports complexes. Pensacola's main attraction is its sugar white sand beach along the Gulf of Mexico. Other attractions are the Gulf Island National Seashore (which includes Fort Pickens, a historic U.S. military fort) and the National Museum of Naval Aviation with its IMAX Theater.

Government. As of calendar year 2008, government's share of employment in the Pensacola MSA is approximately 17.60%. Government's employment share in Florida was 14.08% while its presence in Escambia County was 16.81%. Government's large share of employment in the Pensacola MSA is accounted for by the relatively large presence of the military in the region.

EMPLOYMENT

The Pensacola MSA is a diversified trade, service, and manufacturing center with total civilian employment of 189,780 during calendar year 2009.

Pensacola MSA Employment/Unemployment Statistics
(In thousands)

	2004	2005	2006	2007	2008	2009
Civilian Labor Force	194.84	197.18	203.57	206.23	209.72	210.06
Total Employment	185.72	189.45	197.20	198.61	197.61	189.78
Unemployed	9.12	7.73	6.37	7.62	12.11	20.28
Unemployment Rate (percent)	4.7	3.9	3.1	3.7	5.8	9.7

Source: Florida Department of Labor and Employment Securities – <http://fred.labormarketinfo.com>

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**Ten Largest Employers and Manufacturers
Pensacola MSA**

Rank	Employer	Principal Business	No. of Employees
1	Local Government	Government Services	16,500
2	Federal Government (a)	Government Services	6,500
3	State Government	Government Services	6,100
4	Sacred Hearth Health System	Health Care Services	5,000
5	Baptist Health Care	Health Care Services	4,013
6	Lakeview Center	Behavioral Health Care Services	2,000
7	Ascend Performance Materials	Industrial Nylon Business	1,400
8	Gulf Power Company	Electric Utility	1,400
9	Wal-Mart	Retail	1,375
10	West Florida Regional Medical Center	Health Care Services	1,300

Source: City of Pensacola, CAFR, Statistical section.

Baptist Health Care’s proposed acquisition of West Florida Hospital from Hospital Corporation of America, which would have resulted in the elimination of 300 jobs, was halted in January 2009 due to national credit conditions.

TRANSPORTATION

Transportation throughout northwest Florida includes major federal and state highways connecting the Pensacola vicinity with major cities in the United States. Interstate 10 provides an east-west thoroughfare that connects Pensacola to Mobile, Alabama and New Orleans, Louisiana to the west and Tallahassee, Florida and Jacksonville, Florida to the east. Highway 29 provides four-lane access to Interstate 65 connecting Pensacola to Birmingham and Montgomery, Alabama and Atlanta, Georgia to the north.

Two rail lines serve the City and the surrounding area with scheduled freight service. Prior to August 2005, the Sunset Limited (Amtrak) passed through the Northwest Florida countryside making stops in Pensacola, Crestview, Chipley and Tallahassee tri-weekly along the CSX freight route. With the damage suffered by the Gulf Coast from the affects of Hurricane Katrina, the Pensacola, Chipley and Tallahassee Amtrak stations are currently closed until further notice. In January 2009 City Council adopted a resolution requesting Amtrak to restore the Sunset Limited rail passenger service in Florida. Interconnecting bus line service is available from the City to most of the nation and a bus transit service is operated by Escambia County Area Transit for the county area as well. The City has deepwater port facilities and is located on the inter-coastal waterway that allows barge service along the entire Gulf Coast. The Pensacola Gulf Coast Regional Airport is conveniently located near the center of the City of Pensacola with air service provided by two mainline air carriers and their five regional affiliates. In February 2010, United Express began offering flights at the Pensacola Gulf Coast Regional Airport.

RECREATION AND CULTURAL ACTIVITIES

Because of its favorable climate and environment, the Pensacola area provides opportunities for year-round recreation. Proximity to the Gulf of Mexico and interconnected bays, sounds and harbors provides residents and visitors alike with many natural amenities. Outdoor activities include swimming, sport fishing, boating, diving, tennis, golf, sailing, and camping.

Recreational amenities include one public and numerous private golf courses, three private yacht clubs, more than 25 marinas, several tennis clubs, public and private boat ramps, fishing piers, a private zoo, a paved stock car racetrack, dog racing, national monuments and the Gulf Island National Seashore. The national seashore area covers 16 miles of Santa Rosa Island and includes thousands of acres of seashore and dunes and 35 miles of beachfront. The two major roadways allowing access to the favorite public areas of gulf beachfront were reopened to the public during 2009 after being damaged by the 2004 and 2005 hurricanes. Tropical Storm Ida made landfall November 10, 2009 damaging the bicycle lanes and causing drop offs; however, the roadways are open to vehicular traffic.

The City's cultural activities include the Pensacola Symphony Orchestra, the Pensacola Little Theater, the Pensacola Cultural Center, the T. T. Wentworth, Jr. Museum and the National Museum of Naval Aviation. The cultural infrastructure also includes the Kaleidoscope Dance Theater/Ballet Pensacola, and the Pensacola Civic Center, a 10,000 plus seat arena which has hosted a wide variety of events. Other facilities include the City owned Saenger Theater, a restored 1925 theater, the University of West Florida Center for Fine and Performing Arts, and Pensacola Junior College's Ashmore Auditorium. The Saenger Theater has recently undergone a \$15 million renovation and expansion.

EDUCATION

Escambia County uses the County Unit System of education, operating under the supervision of the State of Florida. The School System is administered by the Escambia County School Board. The Escambia County School District, which serves over 40,000 students, is the 20th largest school district in Florida and 114th largest school district in the United States. All high schools in the County are fully accredited by the Southern Association of Colleges and Secondary Schools. The District's average pupil/teacher ratio is approximately 12:1. A significant number of secondary school students attend private institutions including Pensacola Christian School, Catholic schools and Creative Learning Center. In 2009 Pensacola High School, home of the area's International Baccalaureate Program, ranked as one of the top 100 public high schools in the United States for the fifth consecutive year.

The University of West Florida was established in 1963 and classes began in 1967. The University is a public Four-Year III Institution with the Carnegie Classification of Doctoral/Research. The University is Level V (of VI) accredited by Southern Association of Colleges and Schools. Graduate and undergraduate degree programs are offered in many disciplines including electrical engineering, education, business, and computer science with the current enrollment of 8,405 undergraduate, 1,395 graduate and 716 unclassified.

Pensacola Junior College was officially opened in September 1948 and provides programs in technical, vocational and adult education. The college has grown into a comprehensive multi-campus institution providing college credit courses to more than 27,000 students annually. The City also contains a number of private sector educational institutions including Pensacola Christian College which enrolls approximately 4,000 students annually from all 50 states and approximately 60 countries.

UTILITY SERVICES

County residents, including residents of the City, receive water and sewer service from the Emerald Coast Utilities Authority, a franchised utility. Electricity is provided by Gulf Power, a division of the Southern Company and is regulated by the Florida Public Service Commission. The City of Pensacola is the sole franchise holder for natural gas for Escambia County excluding the Town of Century which allows the City to be the primary provider of natural gas to both city and county residents.

POPULATION AND PER CAPITA INCOME

Population. The population of the Pensacola MSA in 2009 was 457,488. Population for the Pensacola MSA is forecasted to grow to 533,900 over the next sixteen years. The current year's growth represents an 11% increase from the 2000 census population of 412,153. Income per capita in 2009, according to a report provided by the UWF Hass Center, for the Escambia, Santa Rosa (both representing Pensacola MSA), State of Florida and the United States is \$23,688, \$24,474, \$27,128 and \$27,277 respectively.

HISTORICAL AND FORECAST POPULATION					
Pensacola MSA, State of Florida and United States 1980-2020					
	Escambia	Santa Rosa	Pensacola MSA	Florida	United States
HISTORICAL					
1980	233,794	55,988	289,782	9,747,000	226,546,000
1990	263,302	82,165	345,467	13,018,036	249,439,545
2000	294,410	117,743	412,153	15,982,378	281,421,906
2005	305,534	134,056	439,590	17,436,441	295,734,134
2009	312,980	144,508	457,488	18,807,219	305,529,237 (a)
FORECAST					
2010	315,400	147,100	462,500	18,881,445	310,232,863
2015	325,300	159,100	484,400	20,055,865	325,539,790
2020	336,600	172,900	509,500	21,417,450	341,386,665
2025	347,600	186,300	533,900	22,738,235	357,451,620

Source: fred.labormarketinfo.com; cia.gov; and census.gov.

(a) Estimate as of January 1, 2009.

City of Pensacola Population			
1980	1990	2000	2009
57,794	58,906	56,255	55,637

Source: City of Pensacola, CAFR, Statistical section and UWF HAAS Center

Age and Gender Distribution for Population (percent) 2009									
	Male	Female	0-14	15-24	25-34	35-44	45-54	55+	Median Age
City of Pensacola	47.0	53.0	16.5	12.4	13.0	11.9	14.9	31.3	41.8
Escambia County	49.8	50.2	18.0	15.6	14.2	12.9	13.9	25.4	36.8
Pensacola MSA	49.9	50.1	18.7	14.4	13.4	13.4	14.8	25.3	37.6
Florida	48.8	51.2	17.8	12.5	12.1	12.9	14.4	30.3	41.1
United States	49.2	50.8	20.1	14.0	13.3	13.7	14.6	24.1	36.9

Source: UWF Haas Center

TOTAL RETAIL SALES

The following table sets forth the trend in total retail sales in the County for calendar years 2005 through 2009:

(In thousands)

	2005	2006	2007	2008	2009
Escambia Co.	\$9,539,260 (b)	\$9,973,513 (b)	\$9,539,628	\$8,472,301 (c)	\$8,012,504 (c)

Source: Florida Department of Revenue (DOR), Tax Revenue Office; (<http://myflorida.com/dor>);

(a) The numbers presented above will continue to change as DOR audits are completed.

(b) 2005 and 2006 retail sales increased significantly as a result of the rebuilding efforts from the hurricane damages.

(c) The decline in revenue collections is attributed to the downturn in the national economy and increasing internet sales.

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BONDED INDEBTEDNESS

The following table shows the bonded indebtedness of the City and the principal amount outstanding on September 30, 2009 (a).

<u>Self-Supporting Revenue Debt</u>	<u>Principal</u>
Airport Revenue Bonds, Series 1997B, due 10/01/14	\$ 3,735,000
Airport Revenue Refunding Bonds, Series 1998, due 10/01/18	11,695,000
Gas System Revenue Bonds, Series 1999, due 12/01/19	7,500,000
Airport Refunding Revenue Bonds, Series 2005A, due 10/01/27	14,845,000
Airport Taxable Customer Facility Charges Revenue Note, Series 2008, due 2/1/11 (b)	17,847,177
Gas System Revenue Bonds, Series 2008, due 12/1/17	4,855,947
Airport Capital Improvement Revenue Bonds, Series 2008 (AMT), due 10/1/38 (c)	35,780,000
Gas Utility Revenue Note, Series 2009, due 3/1/18 (d)	4,122,778
Total Self-Supporting Revenue Debt:	<u>100,380,902</u>
<u>Non-Self Supporting Revenue Debt</u>	
Gulf Breeze Loan Pool Note, Series 2000A, due 10/01/17	6,500,000
Gulf Breeze Loan Pool Note, Series 2000B, due 10/01/17	13,500,000
Sales and Excise Tax Refunding Bonds, Series 2004, due 10/01/12	12,175,000
Redevelopment Refunding Revenue Note, Series 2004, due 04/01/13	1,569,441
Total Non-Self Supporting Revenue Debt:	<u>33,744,441</u>
Total Bonded Indebtedness:	\$ <u>134,125,343</u>

- (a) The table above reflects bonded indebtedness as of September 30, 2009; therefore, the \$45.6 million issuance of Redevelopment Revenue Bonds, Series 2009A and B is not included.
- (b) The Airport Taxable Customer Facility Charges Revenue Note, Series 2008 borrowing is authorized up to \$19 million.
- (c) The bonds have two series: \$29,060,000 pledging Passenger Facility Charge (PFC) revenues and \$6,720,000 pledging Net General Airport Revenues.
- (d) The Gas Utility Revenue Note, Series 2009 was removed from the City's books in December 2009 when the corresponding receivable was sold to the issuing financial institution.

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CITY'S DEBT LIMIT

There are no statutory, constitutional or City Charter debt limits applicable to the City.

OVERLAPPING DEBT

Direct Debt of Escambia County As of September 30, 2009	Non-Self Supporting	Self Supporting
Sales Tax Revenue Bonds, Series 2002, due 10/1/2033	\$ 80,915,000	\$
Tourist Development Revenue Bonds, Series 2002, due 10/1/2019	11,385,000	
Capital Improvement Bonds, Series 2002, due 10/1/2032	19,630,000	
Capital Improvement Revenue Notes, Series 1997	7,050,000	
Capital Improvement Revenue Note, Series 2003	1,955,000	
Obligations under Capital Lease(s)	1,164,512	
Total Escambia County Direct Debt	<u>\$ 122,099,512</u>	<u>\$ 0</u>

Long-Term Debt of Escambia County School Board As of June 30, 2009	Non-Self Supporting	Self Supporting
State Board of Education Bonds	\$ 9,100,000	\$
Certificates of Participation	50,274,838	
Obligations under Capital Lease	1,038,229	
Total Escambia County School Board Direct Debt	<u>\$ 60,413,067</u>	<u>\$ 0</u>

Direct Debt of Emerald Coast Utilities Authority As of September 30, 2009	Non-Self Supporting	Self Supporting
Utilities System Revenue Bonds, Series 1992B, due 1/1/15	\$	\$ 42,257,158
Sanitation System Impr & Refund Rev Bd, Series 1998, due 1/1/22		10,475,000
Utility System Refunding Revenue Bonds, Series 1998B, due 1/1/23		11,135,000
Utility System Revenue Bonds, Series 1998C, due 1/1/11		915,000
Utility System Revenue Bonds, Series 1998D, due 1/1/11		6,470,000
Utility System Revenue Bonds, Series 2001, due 1/1/31		7,820,000
State of Fla Dept. of Envir. Protection, Revolving Loan, due 9/15/26		20,080,754
Utility System Revenue Bonds, Series 2001B, due 1/1/22		4,335,000
Utility System Revenue Bonds, Series 2003, due 1/1/33		20,725,000
Utility System Revenue Bonds, Series 2004, due 1/1/27		14,105,000
Utility System Revenue Bonds, Series 2006, due 1/1/36		17,335,000
Utility System Refunding Revenue Bonds, Series 2006B, due 1/1/29		28,310,000
Utility System Revenue Note, Series 2008, due 1/1/28		130,000,000
Capital Lease, due 9/30/27		14,241,244
Capital Lease, due 9/30/10		574,616
Total Emerald Coast Utilities Authority Direct Debt	<u>\$ 0</u>	<u>\$ 328,778,772</u>

Source: Escambia County, Escambia County School Board, and the Emerald Coast Utilities Authority

BONDED DEBT TO TOTAL GENERAL EXPENDITURES

The following table sets forth the ratio of annual debt service expenditures for bonded debt to total general expenditures for the City during the last ten years:

CITY OF PENSACOLA, FLORIDA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL BONDED DEBT TO GENERAL OPERATING EXPENDITURES (1)
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Principal	Interest	Total Debt Service	(2) General Operating Expenditures	Ratio of Debt Service to General Operating Expenditures
2000	2,210,330	1,753,409	3,963,739	44,968,061	8.81
2001	2,341,155	1,604,058	3,945,213	47,911,376	8.23
2002	1,510,699	2,898,421	4,409,120	50,965,326	8.65
2003	1,455,478	2,924,389	4,379,867	63,400,314	6.91
2004	1,410,397	3,003,143	4,413,540	70,940,341	6.22
2005	6,136,150	2,720,775	8,856,925 (3)	109,828,931 (4)	8.06
2006	2,452,282	1,697,772	4,150,054	77,114,151 (5)	5.38
2007	3,250,760	869,914	4,120,674	75,777,269 (6)	5.44
2008	3,372,006	707,627	4,079,633	72,325,588	5.64
2009	2,850,209	558,267	3,408,476 (7)	70,969,063	4.80

Source: City of Pensacola CAFR

- (1) The City of Pensacola has no general obligation debt. Financing is secured by pledge of specific revenues not derived from ad valorem taxation. This schedule does not include refunded debt.
- (2) Includes General, Special Revenue, and Debt Service Funds. In fiscal year 2003, five Trust Funds were reclassified to Special Revenue Funds due to GASB 34 definitions. Prior years in this schedule are not restated. Excludes capital outlay expenditures.
- (3) Includes \$4,596,000 to payoff the 1997 and 1998 Gulf Breeze Loan Pool Bonds.
- (4) Includes expenditures of \$38,234,759 related to Hurricanes Ivan, Dennis, and Katrina.
- (5) Includes expenditures of \$5,094,628 related to Hurricanes Ivan, Dennis, and Katrina.
- (6) Includes expenditures of \$1,129,136 related to Hurricanes Ivan, Dennis, and Katrina.
- (7) Does not include expenditures for 2009 Redevelopment Revenue Bonds; the first interest payment is due April 1, 2010 and first principal payment is due April 1, 2013.

PROSPECTIVE FINANCINGS

In November, 2009, the City reserved \$10 million in State New Markets Tax Credits to augment the financing of the Community Maritime Park improvements. The City is further considering a plan to obtain up to \$ 56 million in Federal New Markets Tax Credits (NMTCs). It is estimated that such combination of tax credits would produce additional net proceeds available to the City of approximately \$12.5 million. Funding for the transaction is scheduled for the third quarter of 2010.

It is the intent of the City to utilize bond proceeds from the Redevelopment Revenue Bonds, Series 2009A and B, as the leveraged funds for the tax credits. The Community Maritime Park Associates, Inc. ("CMPA") a non-profit corporation formed to develop the park, will be the beneficiary of the NMTC transaction. CMPA, a qualified low income community business will become the recipient of a loan from the Community Development Entities (CDE) (comprised of approximately \$39.2 million in bond funds and approximately \$12.5 million from the monetized NMTCs) to fund the site improvements and other public improvements. The City further expects receive a grant for the park from the University of West Florida for \$600,000 for an amphitheatre at the park.

The City is considering refunding \$6.9 million of the 1999 Gas System Improvement Bonds at lower fixed interest rates, and to refund the City's \$6 Million Gas System Revenue Loan from the City of Gulf Breeze in order to convert the Loan debt from variable rate to fixed rate. The City also expects to convert up to \$ 20 Million of its variable rate local option sales tax loans from the City of Gulf Breeze to fixed rates and receive a swap termination fee in connection therewith. All of such indebtedness will have maturities going out to 2019. There is no assurance that such financings will be completed, as the feasibility of such financings is dependent upon market conditions

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ASSESSED AND APPRAISED VALUES

The following table shows the assessed and estimated appraised value of taxable property for the last ten fiscal years (unaudited):

Fiscal Year	Real Taxable Value (1) (2)	Property Appraised Value (1) (3)	Personal Taxable Value (1)	Property Appraised Value (1) (2)	Central Taxable Value (1)	Property Appraised Value (1) (2)	Total Taxable Value (1)	Total Appraised Value (1) (2)	Ratio of Total Taxable to Total Appraised Value
2000	\$1,492,504	\$2,450,587	\$348,575	\$391,675	\$5,935	\$5,935	\$1,847,014	\$2,848,197	0.65
2001	1,658,225	2,807,726	370,301	415,122	5,167	5,167	2,033,693	3,228,015	0.63
2002	1,781,5108	2,911,073	380,495	427,108	4,409	4,409	2,166,414	3,342,590	0.65
2003	1,822,015	2,965,797	394,324	441,745	4,616	4,616	2,220,955	3,412,158	0.65
2004	1,973,707	3,238,596	364,243	413,014	7,135	7,135	2,345,085	3,658,745	0.64
2005	2,219,645	3,594,930	376,062	421,212	6,946	6,946	2,602,653	4,023,088	0.65
2006	2,250,050	3,652,079	365,246	433,775	4,842	4,842	2,620,138	4,090,696	0.64
2007	2,834,420	4,713,764	400,810	534,628	4,517	4,517	3,239,747	5,252,909	0.62
2008	2,954,401	4,760,528	408,203	537,581	5,113	5,113	3,367,717	5,303,222	0.64
2009	2,782,691	4,749,243	400,151	568,137	7,384	7,608	3,190,226	5,324,988	0.60

Source: Escambia County Property Appraiser's Office

(1) In thousands. Estimates provided by the Escambia County Property Appraiser's Office and are found in the City's Comprehensive Annual Financial Report (CAFR).

(2) A dollar amount assigned to the total real estate on the tax roll for the purpose of equalizing the burden of taxation.

(3) An opinion of an appraiser, which is based upon an interpretation of facts and beliefs into an estimate of value, as of a stated date.

The fiscal year 2009 data, as released by the Escambia County Property Appraiser's Office, reflects a slight increase in appraised values to \$5.325 billion; however, taxable values declined \$178 million (5%) to \$3.190 billion as a result of the Portability of Save Our Homes Amendment.

PENSION FUNDS

The latest actuarial reports of the City's General pension fund, dated September 30, 2009, which is updated information from the Fiscal Year 2009 CAFR, indicates the pension benefit obligation exceeded the net assets available for benefits, at market, by \$66,241,009. The Fire pension fund actuarial report dated October 1, 2009 indicates the pension benefit obligation exceeded the net assets available for benefits, at market, by \$21,746,910. The Police pension fund actuarial report dated October 1, 2009 indicates the pension benefit obligation exceeded the

net assets available for benefits, at market, by \$17,713,459. The liabilities for the Fire and Police pension funds are being funded on a "level percentage" basis and for the General on a "level dollar" basis for the defined benefit plans.

The cost to the City Budget has increased from \$3 million in fiscal year 2003 to an anticipated \$14.3 million in fiscal year 2010. The City has been able to continue to fund from operating revenues. However, with the downturn in the economy and the cost of the defined benefit pension plans, City Council will review these plans during fiscal year 2010.

FLORIDA RETIREMENT SYSTEM

The City closed the General Pension and Retirement Plan on June 18, 2007 requiring non-public safety, full-time employees hired thereafter to join the Florida Retirement System (FRS). Existing non-public safety, full-time employees were given the option to remain in the retirement plan in which they currently participate or join FRS. The City's contribution to FRS for the year ending September 30, 2009 was \$897,260.

OTHER POST EMPLOYMENT BENEFIT PROGRAM

Retired employees have the option of continuing the same type of medical, including prescription drug benefits, and dental insurance coverage available to them while they were employed with the City. Section 112.0801, Florida Statutes, requires the City to provide retirees the opportunity to participate in the group employee health plan. Other post-employment benefits ("OPEB") are provided for certain of its retired employees in the form of an implicit rate subsidy by the commingling of claims to determine the annual premiums. The cost of the premiums is paid totally by the retirees with no explicit subsidy. In fiscal year 2008, the City implemented the Governmental Accounting Standards Board's Statement No. 45 – *Accounting and Financial Reporting by Employers for Post-employment Benefit Plans other than Pension Plans* (GASB 45). The City accounts for the annual premiums for retirees on a retiree pay all basis. GASB 45 attempts to more fully disclose the costs of employment by requiring governmental units to include future OPEB costs in their financial statements. The requirement is to recognize and disclose the unfunded OPEB liability; however, there is no requirement that the liability be funded.

The City hired a certified actuarial firm to calculate the OPEB liability. As disclosed in Note IV of the Fiscal Year 2009 CAFR, the calculation, based on 2007 data, produced an unfunded obligation of \$36,455,001 and an annual required contribution (ARC) of \$1,813,278. The ARC is reported on the proprietary fund financial statements as a salaries and employee benefits expense and is allocated as a functional expense of the governmental activities on the Statement of Activities. For fiscal year 2009, the ARC is reported as a net OPEB long-term liability on the respective statements and because the City does not intend to fund the ARC, the net OPEB liability will continue to grow each year.

GENERAL GOVERNMENT

INTRODUCTION

General Government includes programs normally considered to be governmental in nature (police, fire, recreation, etc.) and the revenue sources normally associated with financing those programs. Not included in the general government category would be enterprise operations, similar in nature to private sector entities, financed by the sale of a product or service to customers. Also excluded are the Community Redevelopment Agency and the City's housing program.

General government debt includes debt proceeds used to fund projects related to general government programs and for which debt service is paid from general government revenues.

REVENUES

A five-year summary of revenues pledged to support general government indebtedness follows:

Revenue Source	FISCAL YEAR 2005	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008 (d)	FISCAL YEAR 2009 (d)
Local Government Half Cent Sales Tax	\$4,407,658 (a)	\$4,486,722 (a)	\$4,093,001	\$3,824,971	\$3,442,652
Local Option Sales Tax (one cent)	7,621,290 (a)	7,545,633 (a)	6,960,630	6,550,530	5,976,299
Franchise Fees					
Electric	4,062,816	4,623,059	4,972,086	5,049,347	5,802,384 (e)
Public Service Taxes					
Electric	4,091,458	4,572,114	4,512,314	4,414,957	4,554,938 (e)
Water	684,486	786,545	776,250	754,749	757,328
Gas (b)	487,828	456,161	607,593 (c)	577,519	566,464

(a) The increase in revenue collections is primarily due to the rebuilding efforts after the hurricanes.

(b) Decreased gas public service tax revenues in FY 2005 and 2006 are a result of warmer than normal winters.

(c) The increase in gas public service tax collections is related to a rate increase effective June 1, 2007 and an adjustment of new and existing commercial customers.

(d) Decreased revenues in FY 2008 and 2009 are a result of the economic downturn experienced nationally.

(e) The increase in Electric Franchise Fees is related to rate increases by Gulf Power.

THE SALES TAX (Local Government Half Cent Sales Tax)

Pursuant to Chapter 212 of the Florida Statutes, the State is authorized to levy and collect a sales tax on, among other things, the sales price of each item or article of tangible personal property sold at retail in the State, subject to certain exceptions and dealer allowances as set forth in Chapter 212. Currently, the sales tax in the State is 6%, having been increased from 5% in February 1988 and from 4% in 1982. Chapter 218, Part VI, Florida Statutes (the "Sales Tax Act"), was added in 1982 and provides that money remitted to the State by a sales tax dealer located within a county and transferred to the Local Government Half-Cent Sales Tax Clearing Trust Fund in the State Treasury (the "Trust Fund") is earmarked for distribution to the governing body of that county and of each municipality within the county pursuant to a distribution formula. Chapter 212, Florida Statutes, provides that after various enumerated distributions, 8.814% of the remaining proceeds from the amount remitted by a sales tax dealer in a participating county are to be transferred to the Trust Fund. Such monies are referred to in Chapter 218, Part VI, as the Local Government Half-Cent Sales Tax. The Local Government Half-Cent Sales Tax is distributed from the Trust Fund on a monthly basis to participating units of local government. Chapter 218, Part VI, permits the City to pledge its shares of the Local Government Half-Cent Sales Tax for the payment of principal and interest on any capital project.

As initially enacted, Chapter 218, part VI, Florida Statutes provided that the Local Government Half-Cent Sales Tax was to be computed based upon one-half of the then newly effective 5th cent of the State sales tax. In 1985, the law was amended to provide that 9.697% of the proceeds of the sales tax remitted by a sales tax dealer located within the county were to be deposited in the Trust Fund. This percentage was amended in 1987 for the State's fiscal year ending June 30, 1988 to 9.846%; for fiscal years 1989-91 to 9.888%, fiscal years 1992-93 at 9.664%, fiscal years 1994-2003 to 9.653%, fiscal year 2004 to 8.715, and for fiscal year 2005 and all subsequent years to 8.814%.

Under Chapter 212 of the Florida Statutes, the sales tax collected by the State includes, but is not limited to, a levy on the following:

- (a) The sale of tangible personal property sold at retail in the State;
- (b) The use, consumption, distribution, or storage for use or consumption, of tangible personal property in the State when the same is not sold in the State;
- (c) The lease or rental on tangible personal property;
- (d) Accommodations in hotels, motels, some apartments and offices;
- (e) Parking and storage places in parking lots, garages and marinas for motor vehicles or boats;
- (f) Admissions to places of amusement, most sport or recreation events and theaters;
- (G) Utilities, except those used in homes;
- (h) Restaurant meals;
- (I) expendables used in radio and television broadcasting;
- (j) Telegraph messages and long distance telephone calls beginning and terminating in the State; and
- (k) Mail order sales to purchasers within the State.

Among the items exempted from the sales tax are groceries; medicines, hospital rooms and meals; seeds, fertilizers and farm crop protection materials; purchases by religious, charitable and educational non-profit institutions; professional, insurance and personal service transactions; and educational institutions' athletic events.

The sales tax is collected on behalf of the State by businesses at the time of sale at retail, use, consumption, or storage for use or consumption, of taxable property and remitted to the State on a monthly basis. Chapter 212 provides for penalties and fines, including criminal prosecution, for noncompliance with the provisions thereof.

To be eligible to participate in the Local Government Half-Cent Sales Tax, the counties and municipalities must comply with certain requirements set forth in 218.63, Florida Statutes. These requirements include those concerning the reporting and auditing of its finances, the levying of ad valorem taxes or receipt of other revenue sources, and certifying certain requirements pertaining to the employment and compensation of law enforcement officers, the employment of firefighters and the method of fixing millage rates for levying of ad valorem taxes.

The City has complied with and has covenanted in the resolutions authorizing the issuance of bonds payable from proceeds of the Local Government Half-Cent Sales Tax to take all lawful action necessary or required to comply with all of the requirements set forth in Chapter 218, Part VI, in order for the City to receive its maximum allocation of funds from the Trust Fund so long as any of such Bonds remain outstanding. To be eligible to participate in the Trust Fund in future years, the City must comply with certain eligibility and reporting requirements of 218.23(1), Florida Statutes. Otherwise, the City may lose its Trust Fund distributions for twelve (12) months following a "determination of noncompliance" by the State Department of Revenue.

The Local Government Half-Cent Sales Tax collected within a county and distributed to local government units is distributed among the county and the municipalities therein in accordance with the following formula:

$$\begin{array}{l}
 \text{County Share} \\
 \text{(percentage of} \\
 \text{total Half-Cent} \\
 \text{Sales Tax receipts)} \\
 \\
 \text{Each Municipality} \\
 \text{Share (percentage} \\
 \text{of total Half-Cent} \\
 \text{Sales Tax receipts)}
 \end{array}
 =
 \begin{array}{l}
 \frac{\text{unincorporated area} \\
 \text{population}}{\text{total county} \\
 \text{population}}
 +
 \frac{2/3 \text{ incorporated} \\
 \text{area population}}{2/3 \text{ incorporated} \\
 \text{area population}} \\
 \\
 \frac{\text{Municipality Population}}{\text{total county} \\
 \text{population}}
 +
 \frac{2/3 \text{ incorporated} \\
 \text{area population}}{2/3 \text{ incorporated} \\
 \text{area population}}
 \end{array}$$

For purposes of foregoing formula, "population" is based upon the latest official State estimate of population certified prior to the beginning of the local government fiscal year. Should any unincorporated area of the County become incorporated as a municipality, the share of the Local Government Half-Cent Sales Tax received by the County and the City would be reduced. During the fiscal year ended September 30, 2009 amounts received from the Local Government Half-Cent Sales Tax equaled \$3,442,652.

INFRASTRUCTURE SALES TAX (Local Option Sales Tax - one cent)

Section 212.055, Florida Statutes, authorizes local governments to impose a discretionary sales surtax of 0.5 percent or 1.0 percent to finance, plan and construct infrastructure projects, among other purposes (herein, the “Surtax”). However, local governments may not impose the Surtax on any sales amount above \$5,000 on any item of tangible personal property and long-distance telephone services (the “\$5,000 Cap”). Florida’s six percent (6%) sales and use tax (the “6% Sales Tax”) does not have the \$5,000 cap that is imposed on the Surtax. The levy of the Surtax must be pursuant to an ordinance of the county’s governing board and approved by a referendum of the electors of the county. The Surtax proceeds may be distributed pursuant to Section 218.62, Florida Statutes.

On January 28, 1992, the Board of County Commissioners of the County enacted Ordinance No. 92-10 which authorizes the County to levy throughout the County a 1.0 percent Surtax for a period of seven (7) years commencing June 1, 1992 and concluding May 31, 1999. On December 17, 1996, the County’s Board of County Commissioners enacted Ordinance No. 96-50 which extended the 1.0 percent Surtax for a period of eight (8) additional years commencing June 1, 1999 and concluding May 31, 2007 (the 1.0 percent Surtax as enacted and extended is hereinafter called the “Infrastructure Sales Tax”). The levy of the Infrastructure Sales Tax was approved by a special referendum of the County’s electorate on March 10, 1992 and the levy of the above-described extension of the Infrastructure Sales Tax was approved by a special referendum of the County’s electorate on May 13, 1997. Another extension of the Infrastructure Sales Tax was approved by referendum on March 13, 2006, commencing January 1, 2007 and concluding December 31, 2017. The County provided that distribution of the proceeds of the Infrastructure Sales Tax to the incorporated municipalities of the County would be controlled by the formula set forth in Section 218.62, Florida Statutes. The formula for distribution of the Infrastructure Sales Tax is the same as that of the Sales Tax. See formula under the section of this Report to Bondholders entitled “The Sales Tax”.

The Florida Department of Revenue (“DOR”) has the responsibility to administer, collect, and enforce all Surtaxes, including the Infrastructure Sales Tax. The proceeds of each county’s Surtax collections are transferred to the Discretionary Sales Surtax Trust Fund. DOR is the authorized collection agency and retains 3% of the total revenue generated for all counties levying a surtax. The amount deducted for administrative costs is required to be used only for those costs directly attributable to the Surtax. The total administrative costs are to be prorated among those counties levying the Surtax on the basis of the amount collected for a particular county to the total amount collected for all counties.

Pursuant to Section 212.15, Florida Statutes, vendors are required to remit sales tax receipts by the twentieth (20th) day of the month immediately following the month of collection. No statute prescribes a deadline for remitting Surtax proceeds to the local governing bodies. However, according to the accounting division of DOR, DOR consistently remits the Surtax proceeds to such local governing bodies by the twenty-fifth (25th) day of the month immediately following the month of receipt by DOR. During the fiscal year ended September 30, 2009 amounts received from the Local Option Sales Tax equaled \$5,976,299.

GULF POWER COMPANY FRANCHISE FEES

On October 25, 1949, the City enacted an ordinance granting the Gulf Power Company, for a period of 30 years, a franchise to construct, maintain and operate electric light and power facilities for the purpose of supplying electricity to the City and its inhabitants. In consideration for granting the franchise, and pursuant to such ordinance, the Gulf Power Company was required to pay annually to the City, and the City had the power to levy and collect, franchise fees equal to three percent (3%) of the revenues of Gulf Power Company from the sale of electric energy in the City.

On December 20, 1979, the City Council passed Ordinance No. 61-79 and Ordinance No. 62-79, effective December 26, 1979 (as further amended by Ordinance No. 7-94 enacted January 27, 1994), granting Gulf Power Company a new 30-year franchise. Among its provisions, the new franchise agreement provided that Gulf Power Company would pay to the City within thirty (30) days after the first day of each month a franchise fee determined by ordinance of the City based upon a percentage of the Gulf Power Company's revenue from the furnishing of electric service to customers served under all of its rate schedules within the corporate limits of the City collected during the preceding month. The agreement further provides that the percentage of revenue paid as a franchise fee will be negotiated every three (3) years, beginning in 1982, provided that the percentage shall in no event exceed that permitted by law. The City has covenanted in the resolution authorizing the issuance of bonds payable in part from such franchise fees not to grant any exemptions from payment of the franchise fee. The current percentage of revenues paid as a franchise fee is six percent (6%). During the Fiscal Year ended September 30, 2009, the franchise fees received from the Gulf Power Company amounted to \$5,802,384.

PUBLIC SERVICE TAXES

Pursuant to the City Charter and other applicable provisions of law, the City enacted Ordinance No. 30-87 on August 27, 1987, levying taxes currently designated as Public Service Taxes (formerly known as Utilities Services Taxes), on each and every purchase in the City of electricity, metered or bottled gas, water and local telephone service, in the amount of ten percent (10%) of the charge made by the seller of such service and each and every purchase in the City of fuel oil in the amount of four cents (\$.04) per gallon. During the fiscal year ended September 30, 2009 the Public Service Taxes for electric, gas and water, amounted to \$5,878,730.

On January 29, 1998, as authorized by Florida State Statute 166.231(9)(a)2, the City Council passed Ordinance No. 1-98 electing to change from a 10% Public Service Tax on local reoccurring telephone service to the 7% broadbased Telecommunications Tax. Ordinance No. 1-98 commenced on July 1, 1998. The City elected to terminate the Telecommunications Tax and commence the Communications Services Tax effective on and after October 1, 2001.

Beginning October 2001, the State of Florida, implemented a tax simplification plan, which authorized the City to collect a new Communications Services Tax. The tax combines the sales tax on communications services, the municipal public service tax on telecommunications

services, local franchise fees on cable and telecommunications companies and provides a permit fee option for local governments. The new structure is an attempt to simplify the way taxes are collected and distributed, and are also intended to capture emerging technologies. The Communications Services Tax is not directly pledged to existing debt issues; however, there exists a covenant to budget and appropriate on some outstanding bond issues. The City's tax rate at implementation was 5.50% effective one year until October 1, 2002 at which time the rate changed to 5.22%. During fiscal year 2007, the State discovered that a remittance error was made on behalf of Cox Communications. The error negatively impacted the City causing an immediate one time reduction of fund balance of \$3.3 million in the General Fund and a reduction of fiscal year 2007 and fiscal year 2008 revenues of \$1.8 million and \$1.6 million, respectively. The collections for fiscal year 2009 were \$3,738,973.

DEBT MANAGEMENT

On July 7, 2004, the City issued \$14,000,000 Sales & Excise Tax Refunding Revenue Bonds, Series 2004 (the "Series 2004 Sales Tax Bonds"). The proceeds were used to fund a portion of the outstanding principal amount of the Sales & Excise Refunding Revenue Bonds, Series 1995. The remaining principal of the Series 1995 Bonds matured on October 1, 2004.

On July 23, 2000, the City issued \$6,500,000 of Capital Improvement Revenue Bond, Series 2000A (the "2000A Bond") and \$13,500,000 Capital Improvement Revenue Bond, Subordinate Series 2000B (the "2000B Bond"). The proceeds were derived from the City's participation in the Gulf Breeze Loan Pool Program (defined above). The proceeds were used to finance the acquisition and construction of capital improvement projects eligible to be financed from the Infrastructure Sales Tax. On April 1, 2008, the City amended the 2000A and 2000B Bonds to defer the principal repayments to October 1, 2012 through October 1, 2017. Interest is paid monthly and is a calculation using the Securities Industry and Financial Markets Association (SIFMA) rate plus 34 basis points.

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HISTORICAL DEBT SERVICE COVERAGE

The following table shows historical debt service coverage for the Sales and Excise Tax Bond as of September 30, 2009. The Sales and Excise Tax Bonds are secured by a pledge of the Local Government Half-Cent Sales Tax (the “Sales Tax”) and the Gulf Power Company Franchise Fee and Public Service Taxes to meet debt service requirements.

DEBT SERVICE COVERAGE FOR SALES AND EXCISE TAX BONDS (a)

	FISCAL YEAR 2005	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008	FISCAL YEAR 2009
Local Government Half Cent Sales Tax (b)	\$4,407,658	\$4,486,722	\$4,093,001	\$3,824,971	\$3,442,652
Public Service Taxes	5,263,772	5,814,820	5,896,157	5,747,225	5,878,730
Franchise Fees (Electric)	<u>4,062,816</u>	<u>4,623,059</u>	<u>4,972,086</u>	<u>5,049,347</u>	<u>5,802,384</u> (d)
Total Sales Taxes, Franchise Fees, and Public Service Taxes	<u>\$13,734,246</u>	<u>\$14,924,601</u>	<u>\$14,961,244</u>	<u>\$14,621,543</u>	<u>\$15,123,766</u>
Total Maximum Bond Service Requirement on Sales and Excise Tax Bonds (c)	\$3,737,057	\$3,737,057	\$3,730,921	\$3,650,150	\$2,979,062
Ratio of Total Sales Taxes, Franchise Fees and Public Services Taxes to Maximum Bond Service Requirement on Sales and Excise Tax Bonds	3.68	3.99	4.01	4.01	5.08

(a) The City retired the remaining Series 1996 Sales Tax Bonds in the principal amount of \$1,540,000 on October 1, 2008.

(b) The fiscal year 2005 and 2006 collections were inflated by the rebuilding efforts after the hurricanes. Collections for fiscal year 2007 and thereafter decreased as a result of the decline in the economy.

(c) Maximum bond service occurs in fiscal year 2009.

(d) The increase in Electric Franchise Fees is related to rate increases by Gulf Power.

\$14,000,000
CITY OF PENSACOLA, FLORIDA
SALES & EXCISE TAX REFUNDING REVENUE BONDS, SERIES 2004

Dated: July 7, 2004

PURPOSE:

The Series 2004 Bonds were issued to refund a portion of the outstanding principal of the Sales & Excise Tax Refunding Revenue Bonds, Series 1995. The remaining principal of Series 1995 Bonds matured on October 1, 2004.

SECURITY:

The Series 2004 Bonds are special limited obligations of the City payable solely from and secured by an irrevocable lien upon and pledge of certain pledged revenues derived by the City from 1) certain portions of the Local Government Half-Cent Sales Tax and 2) certain available excise taxes consisting of the Public Service Taxes and 3) certain available Franchise Fees levied and collected by the City from the Gulf Power Company.

AGENTS:

Registrar - US Bank, Jacksonville, Florida

Paying Agent - US Bank, Jacksonville, Florida

Bond Counsel - Miller, Canfield, Paddock and Stone, P.L.C., Pensacola, Florida

Insurance - National Public Finance Guarantee Corporation (NPFGC) as successor to MBIA Insurance Corporation

ISSUED AS:

\$14,000,000 Serial Bonds

RATINGS:

For Insured Ratings, visit www.nationalpfg.com for current rating of NPFGC by Standard & Poor's and Moody's.

REDEMPTION:

The 2004 Bonds are not subject to redemption prior to their respective stated dates of maturity.

OUTSTANDING PARITY BONDS:

The lien upon pledged revenues is on parity with the Sales & Excise Tax Revenue Bonds, Series 1996.

\$14,000,000
CITY OF PENSACOLA, FLORIDA
SALES & EXCISE TAX REFUNDING REVENUE BONDS, SERIES 2004

SUMMARY OF DEBT SERVICE REQUIREMENTS

FISCAL YEAR	INTEREST RATE %	GENERAL GOVERNMENT		PORT		TOTALS	
		Principal	Interest	Principal	Interest	Principal	Interest
2010	3.500/5.250	\$ 2,545,400	\$ 386,127	\$ 314,600	\$ 47,724	\$ 2,860,000	\$ 433,851
2011	3.500/5.250	2,643,300	283,487	326,700	35,038	2,970,000	318,525
2012	3.625/4.000	2,763,450	170,446	341,550	21,066	3,105,000	191,512
2013	4.000	2,883,600	57,672	356,400	7,128	3,240,000	64,800
Totals		<u>\$ 10,835,750</u>	<u>\$ 897,732</u>	<u>\$ 1,339,250</u>	<u>\$ 110,956</u>	<u>\$ 12,175,000</u>	<u>\$ 1,008,688</u>

While it is not required by the Series 2004 bond resolution, the City internally allocates the debt service requirement between General Government and Sea Port as shown above.

HISTORICAL DEBT SERVICE COVERAGE

The following table shows historical debt service coverage for the Infrastructure Sales Tax Bonds as of September 30, 2009, assuming an average interest rate for fiscal year 2009 of 1.5291 percent. The Infrastructure Sales Tax Bonds are secured by a pledge of the Infrastructure Sales Tax.

DEBT SERVICE COVERAGE FOR CAPITAL IMPROVEMENT REVENUE BONDS

	FISCAL YEAR 2005	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008	FISCAL YEAR 2009
Infrastructure Sales Tax	\$7,621,290	\$7,545,633	\$6,960,630	\$6,550,530	\$5,976,299
Total Maximum Bond Service Requirement	2,871,917	2,871,917	4,163,125 (a)	4,163,125	4,163,125
Ratio of Total Infrastructure Sales Tax to Maximum Bond Service Requirement on Infrastructure Sales Tax Bonds	2.65	2.63	1.67	1.57	1.44

- (a) Maximum Bond Service Requirement changed as a result of the deferment of principal installments to being on October 1, 2012.
(b) Maximum Annual Debt Service occurs in fiscal year 2016.

\$6,500,000
CITY OF PENSACOLA, FLORIDA
CAPITAL IMPROVEMENT REVENUE BOND, SERIES 2000A

Dated: June 23, 2000

PURPOSE:

The Series 2000A Bond was issued to finance certain capital improvement of the City.

SECURITY:

The Series 2000A Bond is a limited obligation of the City payable solely from Pledged Revenues which include the City's Infrastructure Sales Tax and certain moneys budgeted and appropriated by the City pursuant to the provisions of the Bond Resolution.

AGENTS:

Trustee – US Bank, Jacksonville, Florida

Bond Counsel – Miller, Canfield, Paddock and Stone, P.L.C., Pensacola, Florida

Insurance – For the Gulf Breeze Loan Pool Program – National Public Finance Guarantee Corporation (NPFGC) as successor to MBIA Insurance Corporation

ISSUED AS:

\$6,500,000 Bond with Principal Installments

RATINGS:

None on the Series 2000A Bond.

REDEMPTION:

The Series 2000A Bond is subject to redemption prior to maturity in whole or in part on any Business Day at a price equal to the outstanding par amount plus accrued interest to the day of redemption.

OUTSTANDING PARITY BONDS:

None.

**NOT EXCEEDING
\$13,500,000
CITY OF PENSACOLA, FLORIDA
CAPITAL IMPROVEMENT REVENUE BOND, SUBORDINATE SERIES 2000B**

Dated: June 23, 2000

PURPOSE:

The Series 2000B Bond was issued to finance certain capital improvement of the City.

SECURITY:

The Series 2000B Bond is a limited obligation of the City payable solely from Pledged Revenues which include the City's Infrastructure Sales Tax remaining after payment of current debt service requirements on any obligations secured by a pledge of or lien on such Infrastructure Sales Tax, whether now outstanding or issued after the date thereof, but only to the extent revenues have been deposited into the Sinking Fund created under the Resolution and certain moneys budgeted and appropriated by the City pursuant to the provisions of the Bond Resolution.

AGENTS:

Trustee – US Bank, Jacksonville, Florida

Bond Counsel – Miller, Canfield, Paddock and Stone, P.L.C., Pensacola, Florida

Insurance – For the Gulf Breeze Loan Pool Program – National Public Finance Guarantee Corporation (NPFGC) as successor to MBIA Insurance Corporation

ISSUED AS:

Not Exceeding \$13,500,000 Bond with Principal Installments

RATINGS:

None on the Series 2000B Bond.

REDEMPTION:

The Series 2000B Bond is subject to redemption prior to maturity in whole or in part on any Business Day at a price equal to the outstanding par amount plus accrued interest to the day of redemption.

OUTSTANDING PARITY BONDS:

None.

\$6,500,000
CITY OF PENSACOLA, FLORIDA
CAPITAL IMPROVEMENT REVENUE BOND, SUBORDINATE SERIES 2000A

And

NOT EXCEEDING
\$13,500,000
CITY OF PENSACOLA, FLORIDA
CAPITAL IMPROVEMENT REVENUE BOND, SUBORDINATE SERIES 2000B

SUMMARY OF DEBT SERVICE REQUIREMENTS

FISCAL YEAR	INTEREST RATE % (Variable Assumed)	SERIES 2000A BOND		SERIES 2000B BOND		TOTALS	
		Principal	Interest	Principal	Interest	Principal	Interest
2010	5.000%	\$ -0-	\$ 325,000	\$ -0-	\$ 675,000	\$ -0-	\$ 1,000,000
2011	5.000%	-0-	325,000	-0-	675,000	-0-	1,000,000
2012	5.000%	-0-	325,000	-0-	675,000	-0-	1,000,000
2013	5.000%	682,500	293,719	1,417,500	610,031	2,100,000	903,750
2014	5.000%	893,750	249,911	1,856,250	519,047	2,750,000	768,958
2015	5.000%	1,121,250	194,797	2,328,750	404,578	3,450,000	599,375
2016	5.000%	1,218,750	134,266	2,531,250	278,859	3,750,000	413,125
2017	5.000%	1,282,125	70,423	2,662,875	146,264	3,945,000	216,687
2018	5.000%	1,301,625	5,423	2,703,375	11,264	4,005,000	16,687
Totals		<u>\$ 6,500,000</u>	<u>\$ 1,923,539</u>	<u>\$ 13,500,000</u>	<u>\$ 3,995,043</u>	<u>\$ 20,000,000</u>	<u>\$ 5,918,582</u>

Interest is payable monthly and is calculated using the Securities Industry and Financial Markets Association (SIFMA) rate plus 34 basis points.

COMMUNITY REDEVELOPMENT AGENCY (CRA)

INTRODUCTION

On September 25, 1980, the Pensacola City Council made the determination that a blighted area existed in the City, and that there was a need for a redevelopment agency to implement the revitalization of this blighted area. Based on this determination, the 10-member City Council declared itself the Community Redevelopment Agency (CRA) pursuant to the provisions of Chapter 163, Part III, Florida Statutes. This action, adopted by Resolution No. 55-80, also outlined the rights, powers, duties, privileges and immunities invested in the City Council acting as the CRA. The CRA as an agency exists until dissolved by action of the City Council.

MANAGEMENT

The CRA's operations are managed by the Director of Community Development, CRA Administrator, City Manager and other City support staff. Mr. Thaddeus Cohen, AIA was appointed the Director of the Community Development Department for the City of Pensacola in January 2008. Mr. Cohen leads the Community Development Department including the CRA and City's planning services, inspection services, and neighborhood and economic development services and has additional responsibilities for oversight of the Housing Department, Parks and Recreation Department, the historic Saenger Theater and Port of Pensacola. Mr. Cohen is a registered Architect in the State of Florida as well as Pennsylvania, Ohio and New Jersey and has over 30 years of private and local government experience in Florida. Mr. Cohen has extensive experience in affordable housing, urban planning, growth management and economic development. Most recently, Thaddeus Cohen served as Secretary of the Florida Department of Community Affairs under Governor Bush from 2004 to 2007, which included responsibility for the Division of Emergency Management during the 2004 and 2005 hurricane seasons that greatly impacted the State of Florida.

Rebecca V. Bray, AICP serves as the CRA Administrator. Ms. Bray joined the City of Pensacola in 1999 as a member of the newly formed neighborhood enhancement team in the Community Development Department. In 2004 she moved to the CRA as Assistant Director and was named Interim Director in August 2007 until reorganization of the CRA within the prevue of the Community Development Department in April 2008. Ms. Bray holds a Master's in Public Administration and a Bachelor's degree in Marketing, both from The University of West Florida and has received national accreditation by the American Institute of Certified Planners (AICP). Prior to joining the City, Ms. Bray worked as Community Development Project Manager for the Pensacola Area Chamber of Commerce.

THE REDEVELOPMENT AREA

In 1980, the City Council designated an area in the Pensacola inner city as a blighted area suitable for community redevelopment pursuant to the Redevelopment Act. The Urban Core Community Redevelopment Area comprises an area of 1,308 acres or 256 blocks bounded on the west by "A" Street; on the north by Cervantes Street; on the east by 17th Avenue, the L & N Railroad trestle and the mouth of Bayou Texar; and on the south by Pensacola Bay (see accompanying map in Appendix D). The Urban Core Community Redevelopment Area has experienced major revitalization as a result of private reinvestment attracted in large part by the City's redevelopment and planning efforts.

A significant portion of the public investment in the Urban Core Community Redevelopment Area has been in the form of infrastructure improvements, including new sidewalks, sewer and water lines, drainage improvements, historic street lighting, landscaping and parking facilities. Since 1984, the CRA has completed more than 50 capital construction projects designed to improve the public realm and stimulate private investment. These public improvements have leveraged substantial private sector reinvestment in the inner city area.

Since the establishment of the Redevelopment Area in 1980, significant growth in both private and public development activities has occurred. Over one hundred ninety (215) major projects (over \$100,000 each in permitted value) have been completed during this time period through private investment, public investment, and a combination of public/private partnerships. A variety of current and past public projects are detailed in the "Community Redevelopment Agency Projects and Activities" section of this report. The public investment in these major projects totals more than \$85 million and the private investment in these major projects totals more than \$193 million. The value of taxable real property in the Urban Core Community Redevelopment Area has increased from \$87,926,570 in calendar year 1984 to \$494,131,583 in calendar year 2008. The Urban Core Community Redevelopment Area is approximately 18% of the City's calendar year 2008 taxable valuation for real property of \$2.7 billion and represents approximately 8.6% of the City's land area.

TAX INCREMENT REVENUES

Pursuant to Chapter 163, Part III, Florida Statutes, the City is authorized to establish a redevelopment trust fund (the "Redevelopment Trust Fund") to be used to finance any community redevelopment it undertakes pursuant to the Community Redevelopment Plan. The Redevelopment Trust Fund was established by Ordinance No. 13-84, dated March 8, 1984, which provided for annual appropriations to the fund by each taxing authority, as described in the Redevelopment Act whose jurisdiction includes the Redevelopment Area, excluding school districts, water management districts and other taxing entities (none of which entities currently levy taxes within the Urban Core Community Redevelopment Area) enumerated in Section 163.387(1) (c), Florida Statutes. The amount of funds appropriated by each taxing authority is equal to 95% of the difference between the amount of ad valorem real property taxes levied, exclusive of debt service millage, by the taxing authority each year within the Urban Core Community Redevelopment Area and the amount which would have been produced by the same levy on the assessed value of taxable real property in the Redevelopment Area for calendar year 1983 (the "Tax Increment"). The base year for calculation of the Tax Increment is 1983.

Currently, the taxing authorities appropriating to the Redevelopment Trust Fund are the City, Escambia County and the City of Pensacola Downtown Improvement Board. Statutory requirement of each taxing authority to appropriate increment revenues to the Fund [F.S. 163.387 (2) (a)] will sunset no later than fiscal year 2044.

The Redevelopment Act requires that each Taxing Authority shall, by January 1 of each year, appropriate to the Redevelopment Trust Fund for so long as any bonds or other debt obligations are outstanding, a sum not less than the Tax Increment levied by each such Taxing Authority in such year. Any Taxing Authority which does not pay all of its Tax Increment to the Redevelopment Trust Fund by said date must pay to the Redevelopment Trust Fund an amount equal to 5% of such Tax Increment and shall pay interest of 1% per month on the balance, until paid.

INCREMENTAL PROPERTY VALUES OF TAXING AUTHORITIES

The following table shows the taxable incremental property values for all Taxing Authorities within the Redevelopment Area for the past five calendar years:

Calendar Year	Fiscal Year	Escambia County	City of Pensacola	Downtown Improvement Board
2004	2005	\$246,333,999	\$246,333,999	\$ 81,532,050
2005	2006	252,338,140	252,338,140	69,267,405
2006	2007	397,465,814	397,465,814	117,967,080
2007	2008	409,798,939	409,798,939	112,866,370
2008	2009	406,205,013	406,205,013	110,232,693

Source: City Finance Department - TIF-FY2009.xls

Note: All values above exclude the calendar year 1983 taxable property values which are \$87,926,570 for Escambia County and City of Pensacola and \$49,010,270 for Downtown Improvement Board. The tax increment revenue collections are calculated based on growth in the CRA which requires the current year taxable property values to be reduced by the base year taxable property values.

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Provisions of the Portability of Save Our Homes Amendment mandating changes (reductions) to the taxable property values took effect in 2008, resulting in a decrease for Escambia County and City of Pensacola of \$3,593,926 (0.7%) and for the Downtown Improvement Board of \$2,633,677 (1.6%). This was the first decrease in taxable values in 11 years. The Portability of Save Our Homes Amendment mandated up to \$25,000 in additional tax exemptions to homestead properties accounting for over \$9.5 million reduction of the 2008 taxable value. The 2008 taxable values (County and City) actually saw an increase of approximately 1.2% before the additional homestead was applied. Beginning in 2009, the Portability of Save Our Homes Amendment further mandates a limit on the assessment increases of specific non-homestead properties to 10% each year.

CERTIFIED MILLAGE OF TAXING AUTHORITIES

Fiscal Year	Escambia County	City of Pensacola	Downtown Improvement Board
2005	.008756	.005057	.002000
2006	.008756	.005057	.002000
2007	.008756	.004950	.002000
2008	.008017	.004598	.002000
2009	.0069755	.0045395	.002000

Source: Escambia County Tax Collector's Office

The annual millage rates levied by governmental units are subject to change by their respective governing bodies. The Portability of Save Our Homes Amendment also required the City and County to reduce its fiscal year 2009 millage rates; the County also voted to further reduce its millage rate. The DIB's millage rate was unaffected. No assurance can be given that the millage rates levied in the past will continue to be levied in the future.

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TAX INCREMENT REVENUE COLLECTIONS

The following table shows the actual amount of Tax Increment Revenues collected by the Taxing Authorities and remitted to the CRA for the past five fiscal years. Increased revenues in 2007 are directly related to the development of several large residential and commercial projects; however, the decreases that follow and the expectation through fiscal year 2010 are a result of the national downturn in real estate values and implementation of the Portability of Save Our Homes Amendment effective in fiscal year 2008.

Fiscal Year	Escambia County	City of Pensacola	Downtown Improvement Board	Total	Percent Increase/ (Decrease)
2005	\$2,049,055	\$1,183,425	\$154,911	\$3,387,391	19.92%
2006	2,098,999	1,212,270	131,608	3,442,877	1.64
2007 (1)	3,306,200	1,869,083	224,137	5,399,420	56.83
2008 (2)	3,121,090	1,790,043	214,446	5,125,579	(5.07)
2009 (2)	2,691,809	1,751,769	209,442	4,653,020	(9.22)

Source: City Finance Department

- (1) The increase in tax increment revenue collections directly correlates with the rebuilding efforts from the hurricanes and new projects coming online coupled with the then national rising trend in real estate prices.
- (2) The decrease in tax increment revenue collections is a result of the property tax reform in Florida (millage rate reductions) and lower valuation due to property tax reform coupled with the economic downturn.

HIGHEST TAXPAYERS BY PARCEL IN THE CITY AND REDEVELOPMENT AREA

The following charts list the five parcels located in the City with the highest taxable values and the top five parcels with in the Urban Core Community Redevelopment Area with the highest taxable values as shown on the calendar year 2008 Escambia County real property tax roll and the percentages of total City and Urban Core Community Redevelopment Area real property values represented thereby:

CITY OF PENSACOLA

Taxpayer	Real Property Taxable Value	Percentage of Total City Real Property Taxable Value
Simon DeBartolo Group (Cordova Mall)	\$38,105,890	1.37%
Gulf Power Company	22,202,347	0.80
Sacred Heart Health	15,641,282	0.56
Wal-Mart Stores East, Inc.	12,603,654	0.45
TBH Corp. (Crown Plaza Hotel)	11,793,489	0.42

Source: Escambia County Property Appraiser's Office

REDEVELOPMENT AREA

Taxpayer	Real Property Taxable Value	Percentage of Redevelopment Area Real Property Taxable Values
Gulf Power Company	\$22,202,347	4.49%
TBH Corp. (Crown Plaza Hotel)	11,793,489	2.39
Keating Development Co. (Pensacola City of Lessor - U.S. Federal Courthouse)	10,357,803	2.10
One Pensacola Plaza (Coastal Bank and Trust)	10,221,799	2.07
GNL Pensacola LLC (SunTrust Building)	8,494,479	1.72

Source: Escambia County Property Appraiser's Office

PROJECTS AND ACTIVITIES

Fiscal Year 2009 and Future

Comprehensive Update to CRA Master Plan. With the significant positive changes within and areas adjacent to the CRA underway, the CRA completed a new master plan for the area that will be critical to leverage the funding resources available and stimulate economic growth. This plan, as required by Florida Statutes (FS 163.360), includes the overall goals for redevelopment in the area, as well as identifying the types of projects planned for the area in the short term (2-5 years) as well as longer terms (5-15 years) for more significant goals. The last comprehensive update of the Urban Core Redevelopment Plan was undertaken in 1989

The CRA retained the consulting services of Looney, Ricks, Kiss (LRK) to update the plan to incorporate current plans and studies, market research and public input. The team has significant expertise and experience with successful downtown and waterfront redevelopment projects, pedestrian-oriented communities, urban traffic/transportation planning, and mixed-use and residential development that is compact, sustainable and contributes to economic, social and cultural diversity.

Upon adoption by the Pensacola City Council in January 2010, the Urban Core Community Redevelopment Area Plan 2010 will serve as the CRA's guiding document for annual budgeting and focus of activity. The new plan incorporates previous site specific plans and includes critical areas for future public and private development including nine (9) acres currently occupied by the Emerald Coast Utilities Authority Wastewater Treatment Plant, which is scheduled for demolition and disposal in 2012 and the City owned "Bruce Beach" area (approximately five (5) acres of waterfront.) In addition to a number of public capital projects identified as catalysts for further private investment, the Plan also identifies strategies for regulatory and zoning amendments, incentives, and residential development.

Special Events. The series of special events introduced in 2008 to enliven public spaces and help stimulate additional economic activity in downtown retail shops and hospitality venues continued with greater success in 2009. The events included First Friday Live after Five (a monthly live band and street party), Friday Family Flicks (a monthly free outdoor movie), Sunsets at Plaza de Luna (weekly music and kid friendly performances) and Palafox Market (a weekly Saturday produce, food and artists' market). The events were well attended and many downtown venues reported an increase in retail activity attributable to the events. The most significant new event was launched for New Year's - the "Pelican Drop™ New Year's Celebration. The first year event drew over 35,000 people to downtown Pensacola from throughout the Gulf Coast. Because of the unique nature of the event and its iconic Pelican, the CRA has applied for and received a U.S. Copyright (VA 1-678-050) and has U.S. Trademark pending approval.

Plaza de Luna Concession Operations. Construction of a concession and restroom facility to support activity at the new Plaza de Luna waterfront park was substantially completed and food and beverage concession operations began in the summer of 2009. The completion of the project and selection of a concession operator has greatly enhanced the park's use and activity along the waterfront and has supported visiting ships docked at the park. Adjacent to the new facility, reconstruction of South Jefferson Street, which was damaged by Hurricane Ivan, has been completed. This roadway project restores secondary access to the Park and access to approximately 100 public parking spaces at the waterfront.

Alcaniz Initiative. Phase IA of the Alcaniz Initiative identified in the Pensacola Historic District Master Plan was substantially completed in September 2008 with a streetscaping project. In FY 2009, Phase IB within the Old East Hill District was substantially completed. Phase IB included the removal of aerial east and west utility crossings over Alcaniz from Cervantes to Wright Street followed up with a streetscape in the same area

Two-Way Palafox and Baylen Streets. In February 2009, the last significant phase of returning two-way traffic to South Palafox and Baylen Streets was completed. The return of two-way streets has increased the vehicular traffic and visibility to this critical retail corridor and will positively impact the ability to market available space to local and regional retailers.

Main Street Wastewater Treatment Plant. In March 2007, the CRA approved an amendment to the CRA Plan and funding to assist in the relocation of the Emerald Coast Utilities Authority's (ECUA) Main Street Wastewater Treatment Plant. In August 2009 the City entered into an agreement with the Emerald Coast Utilities Authority (ECUA) as a commitment by the City to contribute to the Main Street Waste Water Treatment Plant Replacement Project (the Project). The City has committed up to \$19.5 million for the project and agreed to budget and appropriate water and sewer franchise fees and the beverage license tax revenues. Annual installments of \$1.3 million will begin in 2013. Related to this transaction, the City entered in an agreement with the Community Redevelopment Agency (CRA) wherein the annual installments to ECUA will be paid from CRA revenues and any shortfall paid by the City will be reimbursed. For accounting purposes, this is a voluntary non-exchange transaction therefore the obligation is not recorded until the project is completed.

Community Maritime Park Project. The City is in the process of developing a 27 plus acre water-front parcel on Pensacola Bay in the downtown area. On September 5, 2006, a voter referendum approved the project which is expected to include three waterfront parks, research center and marine services center, a multi-use athletic stadium, an amphitheater, and ancillary business and residential elements. A separate non-profit entity called Community Maritime Park Associates (CMPA) was established to promote and oversee the development as well as manage the long-term operation and maintenance of the park. Maritime Park Development Partners, LLC serve as the private master developer. The City Council voted on November 8, 2009 to preserve \$10 million in State New Market Tax Credits (NMTC) to produce additional funding for the project. On December 21, 2009, the City issued \$45.6 million of Redevelopment Revenue Bonds, Series 2009 A & B to fund the construction of the public improvements. It is the intent of the City to leverage these bond funds to take advantage of NMTC for the public improvement portion of the project. The total project is estimated at \$56 million including a \$600,000 contribution from the University of West Florida for the construction of an amphitheatre. [See the Sections of this Report to Bondholders entitled “Prospective Financings” in the General Information section.]

In a 2005 study completed by the University of West Florida (UWF) Haas Center, the annual economic benefit from the community maritime park project will be \$50.6 million for Escambia and Santa Rosa counties. The study also predicts a one-time \$124 million economic benefit during the construction phases of the park providing approximately 1,964 jobs and \$51 million in labor income. UWF Haas Center forecasts that development of the park complex, once complete, will result in 767 new jobs which results in \$24.1 million annually in wages.

A Complaint for Declaratory Judgment and Injunctive Relief was filed by Byron H. Keesler and Leroy Boyd against the CMPA. The action stipulates their concern as the right to have meetings of the CMPA open to the public; specifically that the CMPA has not permitted the public to participate in decision-making at CMPA meetings. The Complaint requested that all decisions made thus far by the CMPA be voided. In response, the CMPA prepared and served a motion for Sanctions for Dismissal of the complaint. A summary judgment in favor of the City was granted on March 2, 2009 in a lawsuit by opponents of the project. On March 10, 2010, District Court of Appeals released its opinion upholding the lower court's ruling that CMPA has not violated the Florida Sunshine Law. The appeal period for this judgment to the Florida Supreme Court has not yet expired and it is not known whether any appeal will be made.

Land Development. In late fiscal year 2005, preparations began to declare a significant CRA owned vacant 1.8 acre parcel of property (located adjacent to Admiral Mason Park, Gulf Power headquarters and the Aragon development at 9th Avenue and East Romana Street) as surplus and develop a Request for Proposals (RFP) for its development. After receiving and evaluating five responses, Hawkshaw Eastside, Inc. (HEI) was selected as the winning proposal in August 2006 for \$1.4 million. HEI’s proposal for a mixed use development includes 96 residential units and 15,000 square feet of commercial space. The closing date on the agreement was set for no later than December 31, 2008. The City was informed in late December 2008 that the developer did not intend to complete the contract due to the downturn in the economy. At this time the property is being held by the CRA for future development plans.

Although the economic downturn has affected the rate of build-out and property tax reform has reduced taxable values, projections of TIF contributions for several projects have surpassed expectations (see note below). The Aragon development project was initially projected to generate approximately \$280,000 upon project build out. In calendar year 2008 at 50% build out, it was generating approximately \$313,000 in additional contribution; 12% greater than projections upon full build-out. With current projections Aragon would generate \$450,000 in additional annual TIF contributions at build out, an increase of over 60% from initial projections. Upon build out, Palafox Pier Phase II was originally projected to generate \$117,000 in additional TIF contributions. The calendar year 2008 TIF contributions from the second phase of the project were \$123,000, still in excess of the originally projected figure. Construction of this second phase of the project was completed in September 2002 and build out of the units continues with current completion at approximately 60%. *Note: Increases and/or reductions of contribution from individual parcels are reflected cumulatively in the total TIF revenue collection each year. The significant increases in TIF revenues reflected in 2006 may be attributed to the rapid increase in housing prices prior to the current credit crisis. However, revenues have declined in fiscal year 2009 and there is no certainty when the decline will improve and the economy will recover.*

The amount of tax increment revenue realized by the CRA each year is dependent upon property tax collections. Please refer to the Section of this Report to Bondholders entitled "Property Tax Reform". The provisions of the tax reform proposals apply to counties as well as cities.

Past Projects and Activities

Previous significant projects that have contributed to the growth and investment in the CRA include the development of Plaza de Luna (a 2 acre waterfront park), Romana Street Drainage Improvements, South Palafox Marina development, South Palafox Pier streetscape, North Palafox Parkway, Zarragossa streetscape improvements in the Historic District, the Garden Street median improvement project, the Gregory/Chase streetscape improvements, and several park/public recreation enhancement projects. In addition, targeted studies have aided in public and private market positioning and management in areas such as residential development, parking, regulatory code revisions and retail development.

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DEBT MANAGEMENT

On July 23, 2004, the City issued its \$3,271,866 Redevelopment Refunding Revenue Note, Series 2004 (the "Series 2004 Note"). The proceeds were used to refund in their entirety the City's Redevelopment Refunding Revenue Bonds, Series 1994. In June 2009 the pledged revenues for the 2004 Redevelopment Refunding Revenue Note were substituted. The original issuance of bonds had a pledge of tax increment financing (TIF) revenues of the Community Redevelopment Agency (CRA). This pledge of TIF revenues was substituted with a covenant to budget and appropriate from non-ad valorem revenues of the City however the payment stream for debt service will continue to be made from CRA revenues. The pledge substitution was needed to increase the strength of the newly issued Redevelopment Revenue Bonds, Series 2009A and B.

HISTORICAL DEBT SERVICE COVERAGE

The following table summarizes the historical debt service coverage on the Series 2004 Note:

<u>Fiscal Year</u>	<u>Total Tax Increment Revenues</u>	<u>Maximum Annual Debt Service</u>	<u>Debt Service Coverage on 1994 Bonds</u>
2005	\$3,387,391	\$429,414	7.89
2006	3,442,877	429,414	8.02
2007	5,399,420	429,414	12.57
2008	5,125,579	429,414	11.94
2009	4,653,020	429,414	10.84

Source: City Finance Department

\$3,271,866
CITY OF PENSACOLA, FLORIDA
REDEVELOPMENT REFUNDING REVENUE NOTE, SERIES 2004

Dated: July 23, 2004

PURPOSE:

The Series 2004 Note was issued to finance the refunding of all of the City's then outstanding Redevelopment Refunding Revenue Bonds, Series 1994.

SECURITY:

The Series 2004 Note is a special and limited obligation of the City payable solely from Tax Increment Revenues as more fully described in the Note Resolution.

Substitution of security – In June 2009 the pledge of TIF revenues was substituted with a covenant to budget and appropriate from non-ad valorem revenues of the City however the payment stream for debt service will continue to be made from CRA revenues.

AGENTS:

Holder – Wachovia Bank, National Association

Bond Counsel – Miller, Canfield, Paddock and Stone, P.L.C., Pensacola, Florida

Insurance – None

ISSUED AS:

\$3,271,866 Note with Principal Installments

RATINGS:

None on the Series 2004 Note.

REDEMPTION:

The Series 2004 Note is subject to prepayment at any time upon payment of a Prepayment Price described in the Series 2004 Note.

OUTSTANDING PARITY BONDS:

None.

\$3,271,866
CITY OF PENSACOLA, FLORIDA
REDEVELOPMENT REFUNDING REVENUE NOTE, SERIES 2004

SUMMARY OF DEBT SERVICE REQUIREMENTS

Fiscal Year	Interest Rate %	Principal	Interest	Total
2010	3.71	\$ 371,188	\$ 58,226	\$ 429,414
2011	3.71	384,959	44,455	429,414
2012	3.71	399,241	30,173	429,414
2013	3.71	414,053	15,361	429,414
Totals		<u>\$ 1,569,441</u>	<u>\$ 148,215</u>	<u>\$ 1,717,656</u>

See the Sections of this Report to Bondholders entitled “Tax Increment Revenues” and “Property Tax Reform” for additional information relating to property tax reform relating to the tax increments.

ENERGY SERVICES OF PENSACOLA

INTRODUCTION

Energy Services of Pensacola (the System) became a City-owned utility on April 27, 1948, upon purchase from Gulf Power Company. The System supplies natural gas to approximately 44,700 customers in a service area located throughout Escambia County. The Escambia County Commission granted the City a gas service franchise encompassing urbanized and developing portions of Southern Escambia County in 1959. Upon expiration of the gas service franchise agreement, the Escambia County Commission voted to extend its term through March 1, 2040 with a renewal option for an additional fifty years. In January 1993, the City purchased Escambia County Utilities Authority's natural gas system which significantly expanded the service area.

ORGANIZATION AND MANAGEMENT

The System is one of four enterprise operations owned and operated by the City. The elected City Council sets policy guidelines and charges the City Manager with the general direction of all departments. The System is administered by the Director of Energy Service of Pensacola who reports to the City Manager. Following are biographies of key senior managers.

Don J. Suarez, Director of ESP. Mr. Suarez received his Bachelor of Science degree in Agricultural Economics from Auburn University, Auburn, Alabama, in 1978. In July 1984, he began his career with ESP as Assistant to the Director assigned to Marketing. His job duties included developing the marketing budget, promotions, advertising, and public relations. In June 1997, Mr. Suarez assumed responsibility for gas system construction and maintenance activities and renewal and replacement activities in addition to overseeing the marketing function. In October 1998, he was promoted to Assistant Director of ESP and in January 2000, he was promoted to Director. He has over thirty years of varied gas industry experience, twenty six of which have been with ESP. Mr. Suarez also serves on the Florida Natural Gas Association Board of Directors where he is currently First Vice President, the American Public Gas Association Board of Directors, the APGA Research Foundation Board of Directors, and the Florida Municipal Natural Gas Association Board of Directors where he is Immediate Past President.

Charles E. Good, Jr, Assistant Director of ESP. Mr. Good received his Bachelor of Science degree in Finance and Accounting from Auburn University in 1978. Mr. Good joined the City's Finance Department as an accountant in 1978. His responsibilities included many general accounting activities such as accounts receivables, budgets, pensions and property management. In July 1991, he transferred from the City Finance Department to the Gas Division of the Department of Public Utilities. In October 1998, he was promoted to Assistant Director in charge of customer service activities, budget analysis and gas acquisition. As budget analyst, he is charged with preparing ESP's annual budget. He has gained extensive training by attending various accounting schools in the southeast sponsored by GFOA and has advanced computer skills. Mr. Good is a member of the Florida Natural Gas Association, the Government Finance

Officers Association (GFOA) and is a Certified Government Financial Manager. A highlight of Mr. Good's career, he has attended and completed the S & W Management Consultants, Inc. "Utility Management Development Program" in New York.

Glenn F. Bailey, Gas Distribution Engineer. Mr. Bailey received his Bachelor of Science degree in Mechanical Engineering from the University of Alabama at Birmingham in 1990. Prior to joining Energy Services of Pensacola he worked for the United State Air Force (USAF) as a civil engineer/public works engineer for 10 years managing design and construction of numerous military construction projects. He joined ESP in June 2001 and was responsible for engineering and field operations until 2007. In 2007, Mr. Bailey became responsible for distribution system engineering and corrosion services. Mr. Bailey is a member of the National Association of Corrosion engineers (NACE) and holds certification as a corrosion engineer.

Linda D. Wiggins, Administrative Officer IV. Miss Wiggins received her Bachelor of Science degree in Systems Science-business with a minor in Finance from the University of West Florida in 1990. She joined ESP in 1986 working in Marketing. In July 2000, she was promoted to Administrative Officer IV. In January 2007, she became the Safety and Training Coordinator at ESP.

Dena Faessel, Administrative Assistant. Mrs. Faessel received her Bachelor of Arts degree and her Masters in Business Administration from the University of West Florida in 1978 and 1988, respectively. She joined ESP in March of 2001 in a newly created Business Development position with responsibility to develop new business opportunities in order to increase ESP's customer base and/or increase gas sales. Opportunities include new services and new markets as well as improve customer satisfaction in existing markets in order to retain customers through the evaluation and implementation of special projects.

Bonnie Hoffman, Area Manager. Mrs. Hoffman received her Associate in Science degree in Computer Information Systems from Cape Code Community College in 1994, Bachelor of Science degree in Business Administration from Eastern Nazarene College in 1996, and Masters in Business Administration from Anna Maria College in 1999. Prior to joining Energy Services of Pensacola in 2002, she worked in the operations area of an LDC in New England for 18 years. Mrs. Hoffman is responsible for overseeing the operational activities and staff at ESP.

Jill B. Grove, Marketing Manager of ESP. Ms. Grove received her Bachelor of Science degree in Marketing from Auburn University in 1979. After spending over 19 years in Marketing Management in the solid waste industry, Ms. Grove joined ESP in February 2008. Her responsibilities include managing the day to day activities of the marketing department with the primary emphasis on developing and implementing growth strategies through increased revenues and customer count. She works closely with the advertising agency to insure that the budgeted advertising dollars are spent in accordance with the goals established for the marketing department. Ms. Grove serves on the Marketing Public Relations committee for the Florida Natural Gas Association and is the Second Vice-Chairman for the Marketing and Sales committee for the American Public Gas Association. Locally she is actively involved in the Homebuilders Association of West Florida and the Green Building Council.

CUSTOMERS

The customers of ESP fall into five major categories: Residential, Commercial, Municipal, Interruptible and Transportation. The largest classification is residential with 42,277 customers. The System has been aggressive in the residential markets by providing rebates to homebuilders and homeowners.

Historical Customer Connections

The following table shows the historical number of customer connections for the five fiscal years ending September 30, 2009.

Total Customer Connections			
Fiscal Year	In City	Outside City	Total
2005	17,396	41,828	59,224
2006	17,448	41,953	59,401
2007	17,468	41,999	59,467
2008	17,121	42,121	59,242
2009	16,708	41,707	58,415

Note: Reduction in connections is attributable to the increase in removal of inactive connections.

Ten Largest Customers		
Customer	MCF's	Revenue
Armstrong World Industries	500,781	\$ 112,538*
Pensacola Christian Campus	130,331	1,629,154
Arizona Chemical, Inc.	126,186	896,446
Sacred Heart Hospital	110,355	1,436,586
West Florida Hospital	84,921	1,066,748
City of Gulf Breeze	76,574	493,360
University of West Florida	65,939	47,549*
Emerald Coast Utilities Auth.	62,901	512,981
Escambia County Clerk Court	60,471	392,437
Baptist Hospital	<u>59,905</u>	<u>784,323</u>
TOTAL	<u>1,278,363</u>	<u>\$7,372,122</u>

Source: Energy Services of Pensacola

Note: City of Gulf Breeze is a wholesale customer.

* Transportation only customers.

MARKETING

The City maintains an aggressive program to promote the use of natural gas for residential, commercial and industrial customers. Success has been measured by an 88% market penetration in new, residential construction representing a 21% increase over the previous year. Marketing efforts are guided by several objectives. The most productive marketing technique is building consumer awareness of natural gas through aggressive advertising and energy conservation incentive programs. Marketing also strives to educate consumers about the benefits of natural gas appliances by developing and implementing consumer education programs for civic groups, community organizations and the general public. Middle School education for area schools continues to be a focus for our Green Energy Specialist emphasizing the importance of climate change and how those changes have impacted our environment. New gas appliance products are introduced to consumers through advertising, Home Expo Shows and also by encouraging local vendors to stock and promote the new lines. The natural gas tankless water heater has become increasingly popular and the ESP incentives along with federal tax credits have assisted in promoting the growth of this product. ESP also promotes gas cooking through a television show, Coastal Cooking, which airs weekly cooking shows featuring local chefs and restaurants. Although marketing has had continued successes in attracting new consumers to natural gas, the suspension of the gas piping program along with the downturn in the economy have had an impact in the water heating conversion program. Conversions were down 50% from the previous year which follows the gas plumbing permits pulled which were down 60% over the previous year.

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BILLING

The City of Pensacola mails bills on approximately the 30th day of each billing cycle. There are 20 billing cycles per month. Unless payment is received within ten (10) days, it is considered delinquent and a late charge of 1-1/2% per month is imposed. The past due balance, if unpaid, appears on the next bill which will also include a collection bill message. If payment is not received by the cut-off date, service is terminated. Before service is reconnected, payment of the past due amount or an acceptable payment arrangement must be made plus a reconnect fee of \$70.00 plus tax is required. In fiscal year 2009, the City cut-off less than nine percent of its customer base due to non-payment.

The customer service and meter reading functions were included in the General Fund until fiscal year 2009 when ESP took over the responsibility for the eighteen employees and approximately \$1.25 million in personal service expense.

Fiscal Year 2009 Gas Billings		
Classification	Percentage	Amount
Residential	49.2	\$23,811,468
Commercial	28.6	13,847,745
Industrial	15.6	7,527,777
Municipal	0.5	233,246
Other Billings	<u>6.1</u>	<u>2,988,414</u>
TOTAL	<u>100.0</u>	<u>\$48,398,651</u>

Energy Services of Pensacola Billings and Collections					
Period Ended	Total Billed	Total Collected	Paid -30 Days	Paid -90 Days	Paid 90+ Days
9/30/09	\$48,266,106	\$45,370,140	\$41,513,678	\$2,177,767	\$1,678,695

GAS RATE

All rate changes are approved by ordinance of the Pensacola City Council. The system currently has 14 rate schedules for gas service, and gas transportation contracts for eight customers. Separate schedules are offered for residential and commercial service, each with a distinct schedule for service within and outside the limits of the City. These schedules are of the single-block structure. ESP offers two rate schedules for interruptible industrial contract service, depending upon daily volume. Each rate has a flat charge for all usage. ESP offers a flexible large volume interruptible industrial contract service rate which provides the ability to negotiate a suitable rate with customers based on alternate fuel cost. The system has approximately 45,000 regular gas service customers and 23 interruptible gas service customers. ESP also uses this

flexible rate to provide transportation service on its distribution system to industrial customers at a rate which is currently \$0.40/MMBtu of gas transported. In addition, under a separate contract with the City, the City of Gulf Breeze purchases natural gas. The system provides sales to the City under a separate rate schedule.

Gas costs constitute the major component of ESP's operation and maintenance costs. ESP's rates are designed to recover full purchased gas costs plus distribution system costs and other expenditures as approved by City Council. The present rates became effective October 1, 2008.

The City has established a hedging policy to manage the natural gas price risk associated with commodity purchases within the volatile natural gas market. The policy is designed to protect ESP's natural gas purchase risk and help insulate its customers from price spikes in the market especially during the winter heating season. It was established with the assistance of our current supplier. In general the policy establishes the range or the minimum and maximum amounts of purchases which should be accomplished at monthly intervals such as three (3) months or twelve (12) months into the future. The policy includes but is not limited to the use of futures products such as fixed price purchases, caps, and collars. A monthly meeting with the gas supplier allows for the review of the current positions and the analysis of recommendations from the supplier for future actions.

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**Current Schedule of Rates and Charges
As Provided by Ordinance**

<u>Service Classification</u>	<u>Minimum Fee</u>	<u>Per MCF Charge</u>
Residential (within City)	\$ 7.25	\$ 6.95
Residential (outside City)	8.29	8.720
Commercial (within City)	12.43	6.95
Commercial (outside City)	14.50	8.720
Gas Lights	6.20	-
	<u>Minimum Quantity</u>	<u>Rate</u>
GOF – Off Peak Service	Negotiable	Negotiable
GON – On Demand Peaking Service	Negotiable	Negotiable
GAF – Almost Firm Service	100 MCF/Day	Negotiable
GIT – Flexible Gas Transportation Service	Negotiable	Negotiable
	<u>Minimum Quantity</u>	<u>1 MCF</u>
Interruptible Industrial Contract Service	25 MCF/Day	\$ 5.00
		<u>Per MCF Charge</u>
Interruptible Industrial Contract Service	250 MCF/Day	\$ 4.00
		<u>Rate</u>
Interruptible Industrial Flexible Contract Service	500 MCF/Day	Negotiable
Interruptible Medium Volume	100-500 MCF/Day	Spot cost of gas plus transportation rate plus seven cents
Gas Transportation Service	100-500 MMBTU/Day	\$1.92 per MMBTU plus \$.0475 per MMBTU

On May 27, 2005 the City Council unanimously approved a revision to the rate ordinance to remove the base charge for fuel as a separate component. All fuel costs are now reflected in the Purchase Gas Adjustment.

GAS SUPPLY

In order to satisfy pipeline capacity, the System has an assured source of natural gas supply. A long term natural gas supply contract was entered into with Prior Energy, Inc of Mobile, Alabama a wholly owned subsidiary of BP. All of the gas demands up to 55,984 MMBtu per day are supplied by Prior, Inc. This contract for a term of one year and has a stated expiration date of April 1, 2010; however, the contract will continue on a yearly basis thereafter, unless cancelled by either party upon not less than 90 days notice immediately prior to the beginning of the next contract year.

A second contract exists for the transportation of natural gas with Gulf South Pipeline Company based out of Houston, Texas. A No Notice Service Agreement (NNS) was entered into due to FERC Order 636 passed in 1994. The NNS agreement provides firm gas transportation as well as firm storage capacity. This agreement assures the City that it will have pipeline capacity to meet the System's maximum daily quantity (MDQ) of 55,984 MMBtu(s) per day. These gas quantity requirements shall be delivered at a minimum delivery pressure of 110 psig (pounds per square inch gauge) to the City. The contract with Gulf South expires on March 31, 2012, but will continue on a month to month basis unless cancelled by either party upon 30 days notice.

The City is continually seeking a prepay gas supply contract for up to 50% of its minimum annual requirements of gas. Due to certain changes in federal tax law, the City may be able to realize substantial reduction of its costs for gas by entering into a purchase contract for 10 or more years in accordance with the tax law revisions. Such contracts typically include a "take or pay" provision for the minimum amount of gas set forth in the contract, but the City would expect that any surplus gas could be sold at prices sufficient to enable the City to offset any required purchases that exceed its needs. Any such contract would give the City a discount off of the market price of gas as gas prices fluctuate from day to day. Currently, no agreement has been reached, and the terms of any agreement will depend upon market conditions for gas, as well as prevailing interest rates. No assurance can be given that the City will be able to negotiate a satisfactory gas supply contract taking advantage of the revised federal tax laws. Any payments due under the gas supply contracts will be treated as operating costs, payable prior to debt service on indebtedness from gas revenues.

(Remainder of this page is intentionally left blank due to the length of the following schedule.)

Historical Gas Purchases and Sales

The following table displays the historical gas purchases and sales by the System for the five fiscal years ending September 30, 2009:

Fiscal Year	Regular Gas Purchases (MCF)	Interruptible Gas Purchases (MCF)	Total Gas Purchases (MCF)	Regular Gas Sales (MCF)	Interruptible Gas Sales (MCF)	Total Gas Sales (MCF)	Unaccounted For Gas (1) (MCF)
2005	2,936,722 (2)	1,687,825	4,624,547	2,843,829	1,634,437	4,478,266	146,281
2006	2,882,785 (2)	1,563,062	4,445,847	2,775,596	1,563,062	4,388,658	57,189
2007	2,781,917 (2)	1,672,986	4,454,903	2,431,205	1,672,986	4,279,547	175,356
2008	3,210,082 (3)	775,853	3,985,935	3,104,698	775,853	3,880,551	105,384
2009	2,571,907 (2)	961,102	3,533,009	2,357,172	961,102	3,318,274	214,735

Source: Energy Services of Pensacola.

(1) Unaccounted for Gas can be highly variable due to billing cycles that distort sales data.

(2) The decline in regular gas purchases is a direct reflection of the warmer than normal winters experienced in fiscal years 2004, 2005, 2006, 2007 and 2009.

(3) The 15% increase in 2008 regular gas purchases is from the securing of a new industrial customer.

RATES, FEES AND CHARGES

The pricing mechanism of interstate natural gas has changed considerably over the past ten years. The current rate, effective April 1, 2002, is as follows:

NNS Transportation Charge - \$6.38 per MMBTU
Commodity Month Charge - Index minus \$.09

FUTURE CAPITAL IMPROVEMENTS

The System's Capital Improvement Program is funded by current year revenues with the exception of the Automated Meter Reading (AMR) project and building addition which was financed and is near completion. The program is divided into two segments: capital equipment and construction. Capital spending projections are approximately \$6,881,000 over the next five years.

PROSPECTIVE FINANCINGS

See prospective indebtedness of the General Information section of this report (page 15).

DEBT MANAGEMENT

On August 12, 1999, the City issued its \$8,000,000 Gas System Revenue Bonds, Series 1999 (the "Series 1999 Bonds"). The proceeds were used for the acquisition and construction of capital improvement projects of the System.

On November 14, 2007, the City issued its not exceeding \$792,705.56 Gas Utility System Subordinate Revenue Note, Series 2007 (the "Series 2007 Note"), to fund certain customer gas consumption conservation and enhancement facilities. The Series 2007 Note is secured by the proceeds received by the City pursuant to two Energy Savings Performance Task Orders dated September 28, 2007, with the United States Department of Defense, United States Navy (the "Navy"). To the extent that the Series 2007 Note may ever be payable from the net revenues of the System, such payments shall be junior and subordinate in all respects to outstanding revenue bonds secured by net revenues of the System heretofore or hereafter issued pursuant to the Gas System Bond Resolution, including, in particular, the Series 1999 Bonds and the Series 2008 Bond herein described. The balance as of September 20, 2008 was \$704,599 with principal maturing in 2017. The note was paid in full on November 12, 2008.

On September 30, 2008, the City issued its not exceeding \$6,000,000 Gas System Revenue Bond, Series 2008. The proceeds were derived from the City's participation in the Gulf Breeze Loan Pool Program (defined above). The proceeds will be used to fund the purchase and installation of an automated wireless meter reading system and a 5,000 square foot expansion to an administrative building and related improvements. Principal payments begin in fiscal year 2011 with final maturity in fiscal year 2018. Interest is paid monthly and is a calculation using the Securities Industry and Financial Markets Association (SIFMA) rate plus 34 basis points.

On December 30, 2008 the City issued a \$4,549,709 Gas Utility Subordinate Revenue Note, Series 2009, to fund energy conservation projects through a Basic Operating Agreement (BOA) for the United States Navy. The City entered into a contract with a subcontractor to perform the services to be rendered and is thereby acting only as a conduit for financing. The balance as of September 30, 2009 was \$4,122,778 with principal maturing in 2018. On October 7, 2009 the Navy accepted the project and the note receivable was sold to Banc of America on October 29, 2009 and the debt was removed from the City's proprietary type Utility Fund.

(Remainder of this page is intentionally left blank due to the length of the following schedule.)

DEBT SERVICE COVERAGE

<u>Fiscal Year</u>	<u>Operating Revenues</u>	<u>Total Operating Expenses (1)</u>	<u>Total Net Revenues</u>	<u>Maximum Annual Debt Service (2)</u>	<u>Debt Service Coverage</u>
2005	\$47,698,953	\$35,967,157	\$11,731,796	\$1,723,123	6.808
2006	53,437,177	43,723,908 (3)	9,713,269	1,723,123	5.637
2007	52,914,171	39,455,193 (4)	13,458,978	1,723,123	7.811
2008	57,789,584 (5)	46,832,822 (6)	10,956,762	1,723,123	6.359
2009	47,925,799	38,601,467 (4)	9,324,332	1,635,962	5.700

(1) Operating expenses are net of depreciation expenses.

(2) Maximum annual debt service occurs in fiscal year 2011.

(3) 2006 operating expenses increased 21.5% primarily due to increased natural gas prices.

(4) 2007 and 2009 operating expenses decreased 10% and 18%, respectively primarily due to decreased natural gas prices.

(5) 2008 operating revenues increased 9% due to the first full year of implementation of a rate increase and from the increased cost of natural gas.

(6) 2008 operating revenues increased 18.7% primarily due to increased natural gas prices.

\$8,000,000
CITY OF PENSACOLA, FLORIDA
GAS SYSTEM REVENUE BONDS, SERIES 1999

Dated: August 1, 1999

PURPOSE:

The Series 1999 Bonds were issued to provide funds for the purpose of financing the cost of the acquisition and construction of certain additions, extensions and improvements to the System.

SECURITY:

The City has irrevocably pledged the Net Revenues derived from the operation of the System for payment of principal and interest.

AGENTS:

Registrar – Bank of New York, Jacksonville, Florida

Paying Agent – Bank of New York, Jacksonville, Florida

Trustee – Bank of New York, Jacksonville, Florida,

Bond Counsel – Miller, Canfield, Paddock and Stone & Lott, P.A., Gulf Breeze, Florida

Insurance –Financial Security Assurance Inc.

ISSUED AS:

\$8,000,000 Serial Bonds

RATINGS:

For Insured Ratings, visit www.FSA.com for current ratings of FSA by Moody's and Fitch.

Moody's – A2 underlying

CALL PROVISIONS:

Optional Redemption

The Series 1999 Bonds maturing in the year 2010 and thereafter, are redeemable prior to their respective stated dates of maturity at the option of the City, in whole on any date on or after December 1, 2009, or in part, from such maturities as the City may elect, on December 1, 2009, or on any date thereafter, at the redemption price of 100% of the principal amount of the Series 1999 Bonds so redeemed, plus accrued interest to the date fixed for redemption

OUTSTANDING PARITY BONDS:

The lien upon and pledge of the Pledged Revenues in favor of the Series 1999 Bonds is on a parity with the City's outstanding principal amount of Gas System Revenue Bond, Series 2008.

\$8,000,000
CITY OF PENSACOLA, FLORIDA
GAS SYSTEM REVENUE BONDS, SERIES 1999

SUMMARY OF DEBT SERVICE REQUIREMENTS

Fiscal Year	Interest Rate %	Principal	Interest	Total
2010	4.90	\$ 525,000	\$ 374,010	\$ 899,010
2011	4.95	555,000	347,411	902,411
2012	5.00	580,000	319,175	899,175
2013	5.05	610,000	289,273	899,273
2014	5.10	640,000	257,550	897,550
2015	5.15	670,000	223,978	893,978
2016	5.20	705,000	188,395	893,395
2017	5.25	745,000	150,509	895,509
2018	5.25	780,000	110,478	890,478
2019	5.30	825,000	68,140	893,140
2020	5.35	865,000	23,139	888,139
Totals		<u>\$ 7,500,000</u>	<u>\$ 2,352,058</u>	<u>\$ 9,852,058</u>

**NOT EXCEEDING
\$6,000,000
CITY OF PENSACOLA, FLORIDA
GAS SYSTEM REVENUE BOND, SERIES 2008**

Dated: September 30, 2008

PURPOSE:

The Series 2008 Bond was issued to provide funds for the purpose of financing the purchase and installation of an automated meter reading system and a 5,000 square foot expansion to an administration building and related improvements.

SECURITY:

The City has irrevocably pledged the Net Revenues derived from the operation of the Gas System for payment of principal and interest and certain moneys budgeted and appropriated by the City pursuant to the provisions of the Bond Resolution.

AGENTS:

Trustee - US Bank, Jacksonville, Florida

Bond Counsel - Lott & Associates, P.L.

Insurance – For the Gulf Breeze Loan Pool Program - National Public Finance Guarantee Corporation (NPFGC) as successor to MBIA Insurance Corporation

ISSUED AS:

Not Exceeding \$6,000,000 Bond with Principal Installments

RATINGS:

None on the Series 2008 Bond.

CALL PROVISIONS:

The Series 2008 Bond is subject to redemption prior to maturity in whole or in part on any Business Day at a price equal to the outstanding par amount plus accrued interest to the day of redemption.

OUTSTANDING PARITY BONDS:

The lien upon and pledge of the Pledged Revenues in favor of the Series 2008 Bond is on a parity with the City's outstanding principal amount of Gas System Revenue Bonds, Series 1999.

**NOT EXCEEDING
\$6,000,000
CITY OF PENSACOLA, FLORIDA
GAS SYSTEM REVENUE BOND, SERIES 2008**

SUMMARY OF DEBT SERVICE REQUIREMENTS

FISCAL YEAR	INTEREST RATE % (Variable Assumed)	PRINCIPAL	INTEREST	TOTAL
2010	5.000%	\$ -0-	\$ 300,000	\$ 300,000
2011	5.000%	630,000	276,375	906,375
2012	5.000%	660,000	243,750	903,750
2013	5.000%	695,000	209,438	904,438
2014	5.000%	725,000	173,562	898,562
2015	5.000%	765,000	135,813	900,813
2016	5.000%	800,000	96,250	896,250
2017	5.000%	840,000	54,750	894,750
2018	5.000%	885,000	11,062	896,062
Totals		<u>\$ 6,000,000</u>	<u>\$ 1,501,000</u>	<u>\$ 7,501,000</u>

The table as presented above is based upon full draw down of principal; however, the principal balance at September 30, 2009 was \$4,855,947. Interest is payable monthly and is calculated using the Securities Industry and Financial Markets Association (SIFMA) rate plus 34 basis points.

NOT EXCEEDING
\$4,549,709.58
CITY OF PENSACOLA, FLORIDA
GAS UTILITY SUBORDINATE REVENUE NOTE, SERIES 2009

Dated: December 30, 2008

PURPOSE:

The Series 2009 Note was issued to finance the cost of certain capital improvements made by the City for customer gas consumption, conservation and enhancement facilities.

SECURITY:

The Series 2009 Note is a special obligation payable solely from and secured by a prior lien upon and pledge of the proceeds to be hereafter received by the City pursuant to the contracts between the United States Department of Defense and the City acting as ESP dated September 28, 2007, and to the extent necessary, certain Excess Net Gas Revenues as described in the Series 2009 Note. The lien on the Excess Net Gas Revenues is junior and subordinate to the City's Series 1999 Bonds, Series 2008 Bond and any obligations hereafter issued pursuant to Resolution 4-94, as amended and supplemented of the City.

AGENTS:

Holder – Banc of America Leasing & Capital, LLC

ISSUED AS:

Not exceeding \$4,549,709.58 Note with Principal Installments

RATINGS:

None.

CALL PROVISIONS:

Optional Redemption

The Series 2009 Note is subject to optional redemption and prepayment in whole prior to maturity on any business day or in part on any principal payment date, at the price of par plus accrued interest to the business day upon which such redemption or prepayment is made.

OUTSTANDING PARITY BONDS:

None.

**NOT EXCEEDING
\$4,549,709.58
CITY OF PENSACOLA, FLORIDA
GAS UTILITY SUBORDINATE REVENUE NOTE, SERIES 2009**

SUMMARY OF DEBT SERVICE REQUIREMENTS

The principal balance as of September 30, 2009 was \$4,122,778.
The Series 2009 Note was paid in full in December 2009.

PORT OF PENSACOLA

INTRODUCTION

The Port of Pensacola is a department of the City of Pensacola performing marine terminal services connecting water and land transportation. The port provides efficient and competitively priced cargo-handling services and facilities. Income is generated through the assessment of fees for wharfage, handling, dockage, rent, storage, harbor access, and miscellaneous services. Rates are established in a published, publicly available tariff. The two basic categories of freight are general cargo and bulk cargo. The Port of Pensacola exports general cargo predominately breakbulk (i.e., bagged goods and frozen food). Imported cargo consists of general cargo (i.e., wind & conventional power generation equipment) as well as liquid and dry bulk products.

ORGANIZATION AND MANAGEMENT

The Port of Pensacola is owned and operated by the City of Pensacola, governed by a ten member City Council with a Department Director reporting to the City Manager. Effective September 1, 1997, the Port changed its management philosophy from an “operating port” to a “landlord/tenant” port. With this change, the “handling” function as it relates to cargo that was provided by the Port is now provided by licensed stevedores. This allowed the Port to reduce its staff to its current level of ten which perform administrative, maintenance, and limited operational duties.

Clyde E. Mathis, Port Director. Mr. Mathis is a 25 year veteran of the maritime industry and was named Port Director in August 2006. Previously, he was Executive Assistant for Marketing and Business Development for the Port of New Orleans. In his years in the maritime industry, Mr. Mathis has served in stevedoring, logistics, container services and port administration positions, including stints as President of International Logistics Company and Vice President of Osprey Line. He is active in numerous industry associations, including the American Association of Port Authorities, Gulf Ports Association of the Americas, Florida Ports Council, Florida Seaport Transportation and Economic Development Council, and the Florida Ports Financing Commission. He is a member of the World Trade Center and the Propeller Club of the United States. Mr. Mathis holds a Bachelor of Arts degree from The University of the South, Sewanee, Tennessee. He also attended academic programs at St. John’s College, Oxford University, and Birmingham-Southern College.

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DESCRIPTION OF THE PORT

The Port is positioned on approximately 50 acres of property on Pensacola Bay adjoining the Gulf of Mexico. Included on the site are the following:

- 8.8 acres - tenant occupancy for marine related purposes
- 6 acres - warehouses for cargo operations
- 5 acres - berth aprons for vessel loading/discharging operations
- 11.5 acres - open for cargo not requiring cover or for future development
- 4 acres - roadways, rail trackage, equipment and materials storage
- 4.7 acres - available for future development
- 10 acres - non-operational for dredge spoil disposal

One of America's best protected harbors, the Port of Pensacola is also only 11 miles from the deep-water sea buoy. The Port provides 2,570 linear feet of deep draft vessel accommodations. The Port can accommodate vessels with a draft of up to 33 feet mean low water (MLW). There are five general cargo transit sheds totaling 185,000 square feet of covered storage, one bulk warehouse totaling 45,000 square feet, a 15,000 square foot general cargo utility warehouse, and over 250,000 square feet of paved open storage. Along with a host of trucking firms, the Port is served by the CSX, Burlington Northern/Santa Fe, and Rail America (Alabama-Gulf Coast Line) railroads

MAJOR TENANTS

The following chart shows the six largest customers served by the Port as of September 30, 2009; revenue is rounded to the nearest hundred dollars and consists of rent, wharfage, storage, security and applicable vessel fees.

Customers	Revenue	Percentage of Operating Revenues
CEMEX	\$353,600	27.7%
Halcorp	\$252,400	19.7
Martin Marietta	\$236,900	18.5
Pate Stevedores & Cold Storage ¹	\$133,600	10.5
NWF Cold Storage ¹	\$111,400	8.7
General Electric International	<u>\$99,700</u>	<u>7.8</u>
TOTALS	<u>\$1,187,600</u>	<u>92.9%</u>

Source: City of Pensacola, Port records and Fiscal Year 2008 CAFR. Percentages are based on operating revenue of \$1,278,751.

¹ Pate Stevedores & Cold Storage operated the freezer terminal from 10/1/08 through 2/23/09 with NWF Cold Storage assuming the operation effective 2/24/09. Their totals combined represent total revenue from freezer operations for fiscal year 2009.

CARGO HANDLING

The following table sets forth the trend in exports and imports for fiscal years 2005 through 2009:

	FISCAL YEAR 2005	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008	FISCAL YEAR 2009
Exports	45,175	139,706	26,318	26,899	13,950
Imports	<u>448,831</u>	<u>709,103</u>	<u>498,925</u>	<u>357,532</u>	<u>233,822</u>
TOTAL	<u>494,006</u>	<u>848,809</u> (a)	<u>525,243</u>	<u>384,431</u> (b)	<u>247,772</u> (c)

Source: Port of Pensacola records.

- (a) Fiscal year 2006 increased 72% over fiscal year 2005 in the general cargo exports due to Hurricane Katrina rendering frozen cargo export terminals from Texas eastward temporarily inoperable and in dry bulk cargo imports due to the strength of the local construction industry.
- (b) Fiscal year 2008 tonnage decreased 27% from fiscal year 2007 primarily in the dry bulk cargo imports due to the decline in the local economy and the construction industry.
- (c) Fiscal year 2009 tonnage decreased 36% from fiscal year 2008. The decrease was in all product categories and can be attributed to the global economic recession.

FUTURE CAPITAL IMPROVEMENTS

In June of 1990 the Florida Legislature established the Florida Seaport Transportation and Economic Development (FSTED) Trust Fund. The creation of the FSTED Council dedicated a source of state matching funds for essential port facilities projects. In addition, in 2003, the Florida Legislature established the Florida Strategic Intermodal System (SIS) and committed \$100 million annually in funding for infrastructure projects in designated SIS and emerging SIS regions. The Port has taken advantage of both programs, but has no new projects approved for fiscal year 2009.

DEBT SERVICE COVERAGE

The Port of Pensacola has no direct outstanding debt, however a portion of the Sales & Excise Tax Refunding Bonds, Series 2004, are allocated to the Port. The Port has met all obligations to date. The City does not depend upon the Port revenues for payment of the Port's share of the Series 2004 Bonds.

The table below presents the five year history of the Port's profits and losses before depreciation:

	2005	2006	2007	2008	2009
Profit (Loss)	\$609,264	\$342,434	\$(136,545)	\$64,461	\$(408,885)

\$14,000,000
CITY OF PENSACOLA, FLORIDA
SALES & EXCISE TAX REFUNDING REVENUE BONDS, SERIES 2004

Dated: July 7, 2004

PURPOSE:

The Series 2004 Bonds were issued to refund a portion of the outstanding principal of the Sales & Excise Tax Refunding Revenue Bonds, Series 1995. The remaining principal of Series 1995 Bonds matured on October 1, 2004.

SECURITY:

The Series 2004 Bonds are special limited obligations of the City payable solely from and secured by an irrevocable lien upon and pledge of certain pledged revenues derived by the City from 1) certain portions of the Local Government Half-Cent Sales Tax and 2) certain available excise taxes consisting of the Public Service Taxes and 3) certain available Franchise Fees levied and collected by the City from the Gulf Power Company.

AGENTS:

Registrar - US Bank, Jacksonville, Florida

Paying Agent - US Bank, Jacksonville, Florida

Bond Counsel - Miller, Canfield, Paddock and Stone, P.L.C., Pensacola, Florida

Insurance - National Public Finance Guarantee Corporation (NPFGC) as successor to MBIA Insurance Corporation

ISSUED AS:

\$14,000,000 Serial Bonds

RATINGS:

For Insured Ratings, visit www.nationalpfg.com for current rating of NPFGC by Standard & Poor's and Moody's."

REDEMPTION:

The 2004 Bonds are not subject to redemption prior to their respective stated dates of maturity.

OUTSTANDING PARITY BONDS:

The lien upon pledged revenues is on parity with the Sales & Excise Tax Revenue Bonds, Series 1996.

\$14,000,000
CITY OF PENSACOLA, FLORIDA
SALES & EXCISE TAX REFUNDING REVENUE BONDS, SERIES 2004

SUMMARY OF DEBT SERVICE REQUIREMENTS

FISCAL YEAR	INTEREST RATE %	GENERAL GOVERNMENT		PORT		TOTALS	
		Principal	Interest	Principal	Interest	Principal	Interest
2010	3.500/5.250	\$ 2,545,400	\$ 386,127	\$ 314,600	\$ 47,724	\$ 2,860,000	\$ 433,851
2011	3.500/5.250	2,643,300	283,487	326,700	35,038	2,970,000	318,525
2012	3.625/4.000	2,763,450	170,446	341,550	21,066	3,105,000	191,512
2013	4.000	2,883,600	57,672	356,400	7,128	3,240,000	64,800
Totals		<u>\$ 10,835,750</u>	<u>\$ 897,732</u>	<u>\$ 1,339,250</u>	<u>\$ 110,956</u>	<u>\$ 12,175,000</u>	<u>\$ 1,008,688</u>

While it is not required by the Series 2004 bond resolution, the City internally allocates the debt service requirement between General Government and Sea Port as shown above.

PENSACOLA GULF COAST REGIONAL AIRPORT

INTRODUCTION

The City of Pensacola owns and operates the Pensacola Gulf Coast Regional Airport. The geographic area served by the Airport is a function of its proximity to other air carrier airports and the amount of commercial service available relative to other airports. Two other nearby airports offer service in the region -- Mobile Regional Airport and Fort Walton Beach (Eglin Air Force Base). The primary Airport service region consists of Escambia and Santa Rosa counties located in northwestern Florida (also referred to as the Florida Panhandle), which includes the westernmost 16 counties in the State of Florida. Escambia County accounts for about 70% of the population of the primary Airport service region and includes the City of Pensacola. The population densities for the two counties underline the importance of this region. The secondary region served by the Airport, which includes many of the counties surrounding Escambia and Santa Rosa counties, is defined by the location of (and the airline services provided at) other commercial service air carrier airports. Based on the Airport's overnight automobile parking lot inventory, Baldwin County, Alabama ranks in the top two counties for automobile parked in the Airport parking facility.

A new airport is currently under construction in Panama City that will replace the existing Panama City – Bay County International Airport. The new Panama City airport is expected to open in May 2010 with a primary air carrier runway of 10,000 feet long (compared with the existing 6,300 foot-long runway at the existing site). The Panama City - Bay County Airport and Industrial District is completing this \$300+ million airport on a green field site. In October 2009, Southwest Airlines announces service to the new Panama City airport beginning May 23, 2010. The new Southwest Airline air service will enhance the existing air service and may increase the level of enplanements at that airport. As Southwest Airlines currently operates at the New Orleans airport which has more frequencies and is approximately three hours driving time from Pensacola, it is not anticipated that the new air service at the Panama City airport, which is approximately two hours driving time from Pensacola, will impact passenger traffic at the Pensacola Gulf Coast Airport. Two of Pensacola's existing carriers, Air Tran Airways and Delta Airlines, have matched or offered lower fares than Southwest Airlines' introductory Panama City airport fares sales. Therefore, it is anticipated that the catchment areas of the new Panama City Airport and the Pensacola Gulf Coast Regional Airport will remain with little if any overlap.

The demand for air transportation is largely dependent upon the demographic and economic characteristics of the Air Service Area. This is particularly true for facilities such as the Airport, for which the majority of the passenger activity consists of origination/destination traffic, and not connecting traffic. For a detailed description of the demographic characteristics of the City of Pensacola, see information under the heading "General Information Concerning the City of Pensacola" of this Report to Bondholders.

Small Air Traffic Hub. The FAA classifies the Airport as a small air traffic hub airport. A small hub is defined as a community that enplanes between 0.05% and 0.25% of all passengers enplaned on certificated route air carriers in all services in the 50 states, District of Columbia, and other designated territorial possessions of the United States. According to the FAA data, the Airport has been categorized as being in the top 100 busiest airports in the United States.

ORGANIZATION AND MANAGEMENT

As previously stated, the Airport is owned and operated by the City of Pensacola with the 10 elected members of the City Council serving as the governing body that oversees the operation of the Airport. The Airport, operated by the City as an enterprise fund, is administered by the Airport Director who reports to the City Manager. Set forth below is biographical information pertaining to Airport management personnel.

Melinda Crawford, A.A.E., Interim Airport Director. Ms. Crawford joined the Airport in August of 2002 overseeing Airport Finance. In May 2009, she was appointed the Interim Airport Director and was appointed as the official Airport Director on December 30, 2009. Previously, Melinda was the Director of Finance and Administration for two years at the Gulfport-Biloxi International Airport. She was also the Director of Administration and Finance for Panama City-Bay County Airport before moving to Gulfport-Biloxi. She received her Masters in Business Administration and Bachelor of Science in Accounting from Florida State University. Ms. Crawford received professional accreditation from the American Association of Airport Executives (AAAE) in 2007 and is an active member of AAAE, the Southeast Chapter of AAAE, and Florida Airports Council.

DESCRIPTION OF THE AIRPORT

Airfield. The Airport is located on approximately 1,400 acres and includes two active runways: Runway 17-35 (orientation is North-South) which is 7,000 feet by 150 feet and Runway 8-26 (orientation is East-West) which is 7,000 feet by 150 feet. There is a full parallel taxiway system. Navigational and landing aids at the airport include high intensity lights on Runway 17-35, touchdown zone/centerline lights for Runway 17-35, medium intensity lights on Runway 8-26, an approach lighting system, a localizer and glide slope facility for Runway 17-35, a localizer for Runway 8-26, an FAA air traffic control tower, a rotating beacon, lighted windsock, segmented circle, runway visual range and air anemometer. Aircraft rescue and firefighting services are provided by a fire station located adjacent to the intersection of the two runways.

Air Carrier Terminal. The terminal area includes the passenger terminal building with eight gates and eight loading bridges, an air carrier apron large enough to accommodate eight jet aircraft, associated taxiways, a public parking garage and surface lot, rental car parking and service areas, an airport maintenance area, a fuel farm and various FAA facilities. Included in the terminal building are operational areas for the air carriers, ticket counters, waiting areas, baggage claim, restaurant, cocktail lounge, restrooms, rental car counters and gift shop.

Airport Concessions. Airport concessions consist primarily of the food and beverage concession, terminal advertising, automobile rentals, the news/gift concession, and automated teller machines. The public automobile parking is operated under a management contract. The public parking garage contains approximately 1,020 spaces with an additional 832 public surface parking spaces in the primary surface lot and 500 spaces in the new temporary shuttle parking lot. Automobile rental services are provided by eight on-airport rental car companies: Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National and Thrifty.

General Aviation Facilities. General aviation facilities are operated by one fixed-base operator, Pensacola Aviation Center. The general aviation facility consists of aprons, taxiways, roads, and parking facilities. The Airport has 29T-Hangars to accommodate general aviation aircraft at the Airport. Approximately 82 general aviation aircraft are based at the Airport. Tenants on the corporate ramp include PNS Navy Flying Club, Blue Angel Aviation, Lifeguard Air Ambulance and Innisfree Jet Center.

Heliworks. A helicopter parking and maintenance facility was opened in January, 2001 adjacent to the main terminal building. A major renovation of the facilities was completed in 2006, and the facility was further expanded in 2008. Services include ramp space for landing and take-off, helicopter parking and refueling, and maintenance and repair.

Sandspur Hotel and Retail Development: November 2008, Council approved a ground lease and development agreement with Sandspur Development LLC for the development of a hotel and related facility on 11.44 acres of Airport property. A lawsuit was filed in the Escambia County Circuit Court by PNS Hotel Group Ltd. opposing the hotel agreement. Staff has communicated the City's intent to stay all obligations under the Agreement pending the final decision on the lawsuit.

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AIRLINE AND MARKET SHARES

The following table presents the airline shares of enplaned passengers and landed weight at the Airport for fiscal years 2005, 2006, 2007, 2008 and 2009.

Share of Enplaned Passengers					
(For Fiscal Years Ended September 30)					
<u>Airline</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
AirTran Airways	11.61%	16.02%	17.85%	18.07%	15.80%
Continental	0.75	0.02	0.04	0.02	0.00
Delta	33.62	26.83	29.11	32.08	34.10
US Airways	<u>3.89</u>	<u>0.17</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Mainline	49.87	43.04	47.00	50.17	49.90
Regional (1)	<u>50.13</u>	<u>56.96</u>	<u>53.00</u>	<u>49.83</u>	<u>50.10</u>
TOTAL	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Share of Landed Weight					
(For Fiscal Years Ended September 30)					
<u>Airline</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
AirTran Airways	11.08%	15.32%	17.23%	16.98%	15.40%
Continental	0.90	0.02	0.07	0.05	0.00
Delta	32.47	25.20	28.54	30.47	35.70
US AIR	3.74	0.15	0.00	0.00	0.00
Airborne Express (2)	<u>2.43</u>	<u>2.66</u>	<u>2.55</u>	<u>2.58</u>	<u>0.90</u>
Total Mainline	50.62	43.35	48.39	50.08	52.00
Regionals (1)	<u>49.38</u>	<u>43.35</u>	<u>51.61</u>	<u>49.92</u>	<u>48.00</u>
TOTAL	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

(1) Regionals include Delta Connection (including ASA, SkyWest, Freedom, Comair and Chautauqua providing regional service for Delta Airlines), Northwest AirlinK (including Mesaba and Pinnacle providing regional service for Northwest Airlines), US Airways Express (including Piedmont, Air Midwest, PSA, Republic Airlines and Mesa providing regional service for US Airways), Continental Express (Gulfstream dba Continental Connection providing regional service for Continental Airlines), and American Eagle.

(2) Airborne Express is a cargo airline which provided jet operations since November 1993. (Airborne Express, Inc. is a wholly-owned subsidiary of Airborne, Inc. which is owned by DHL Worldwide Express B.V.) DHL announced, November 10, 2008 that it was cutting 9,500 jobs as it discontinues air and ground operations within the United States. Those impacted at the Airport by this workforce reduction will be limited to the four employees/contractors which DHL has badged for airside access at the Airport.

ENPLANED PASSENGERS AT THE AIRPORT

The introduction of a low fare carrier to Pensacola Gulf Coast Regional Airport in November, 2001 effectively forced the lowering of fares on competing carriers and had an overall effect of increasing passenger traffic for each of the subsequent years. The ten year period from 2000 through 2009 has seen an overall increase in passenger traffic of 32.2%.

In September 2008, airlines refocused their business processes to center on their hub-airports and international traffic due to increased fuel costs and the declining economic environment. As part of the changes in their business processes, the airlines reduced a large number of nonstop flights at many airports including Pensacola Gulf Coast Regional Airport. This reduction in the number of flights at the Airport resulted in a twenty-three percent decline in seat capacity. It is anticipated by April 2010, this reduction in seat capacity will be restored and additional seats will be gained due to airline fleet improvements and several new non-stop flights.

Historical Enplaned Passengers		
Fiscal Year	Enplanements	Airport Growth (%)
2000	530,137	(4.0)
2001	523,991	(1.2)
2002 (1)	637,885	21.7
2003	672,397	5.4
2004	740,608	10.14
2005	799,907	8.0
2006	811,291	1.4
2007	835,121	2.9
2008	814,279	(2.5)
2009	700,662	(13.9)

Source: City of Pensacola, Gulf Coast Regional Airport records.

(1) AirTran Airways began serving the Airport in Fiscal Year 2002.

Annual Growth in Domestic Scheduled Enplanements		
Fiscal Year	Airport	Annual Growth (%)
2005	799,907	8.0
2006	811,291	1.4
2007	835,121	2.9
2008	814,279	(2.5)
2009	700,662	(13.9)

Source: City of Pensacola, Gulf Coast Regional Airport records

The table below sets forth the number of enplaned passengers at the Airport for Mainline and Regional airlines for Fiscal Years 2000 through 2009. The Airport experienced a fifty-eight percent increase in enplaned passengers from fiscal year 2000 to 2007 primarily as a result of AirTran entering the market in fiscal year 2002. The number of enplaned passengers has declined over the last two fiscal years as a result of the 2008 reduction in flights offered at the Airport coupled with the national economic downturn. By April 2010, the number of flights offered at the Airport is anticipated to be greater than that offered prior to the 2008 cuts.

Historical Airline Traffic Enplaned Passengers			
Fiscal Year	Mainline (1)	Regional (2)	Total
2000	404,485	125,652	530,137
2001	392,521	131,470	523,991
2002 (3)	443,300	194,585	637,885
2003	440,202	232,195	672,397
2004	468,305	272,303	740,608
2005	398,914	400,993	799,907
2006	349,356	461,935	811,291
2007	393,124	441,997	835,121
2008	409,030	405,249	814,279
2009	350,575	350,087	700,662

Source: City of Pensacola Gulf Coast Regional Airport records

(1) Includes Air Florida, Continental, Delta, Eastern, US Airways, American and AirTran.

(2) Includes, at various times, American Eagle, ASA, Chautauqua, Comair, Express I (Northwest Airlink), Freedom, Pinnacle, Mesaba, Florida Gulf, Continental Express, US Airways Express (PSA, Mesa, Piedmont) and Gulfstream (dba Continental Connection).

(3) AirTran Airways began serving the Airport in Fiscal Year 2002.

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Airline Market Share of Enplaned Passengers (For Fiscal Years Ending September 30)					
	2005	2006	2007	2008	2009
Passenger Airlines					
<i>Major/national and Charter</i>					
Delta Air Lines	33.6%	26.8%	29.1%	32.1%	34.1%
AirTran Airways(a)	11.6%	16.0%	17.8%	18.1%	15.8%
Continental Airlines	0.7%	0.0%	0.0%	0.0%	0.0%
US Airways	3.9%	0.2%	0.0%	0.0%	0.0%
Charters	0.0%	0.0%	0.1%	0.1%	0.1%
<i>Subtotal</i>	49.9%	43.1%	47.1%	50.2%	50.0%
<i>Regional/commuter</i>					
Delta Connection (b)	17.7%	18.0%	13.5%	11.8%	13.6%
American Eagle	9.1%	13.0%	12.0%	11.5%	11.2%
Continental Express/ Continental Connection (c)	8.7%	10.6%	11.4%	11.2%	12.9%
US Airways Express (d)	6.9%	10.0%	10.6%	9.6%	8.5%
Northwest Airlink (e)	7.7%	5.3%	5.4%	5.6%	3.8%
<i>Subtotal</i>	50.1%	56.9%	52.9%	49.8%	50.0%
Total Passenger Airlines	100.0%	100.0%	100.0%	100.0%	100.0%
Airline Groups					
Delta Air Lines	51.3%	44.8%	42.7%	43.9%	47.7%
AirTran Airways	11.6%	16.0%	17.8%	18.1%	15.8%
American Eagle	9.1%	13.0%	12.0%	11.5%	11.2%
Continental Express	9.5%	10.7%	11.4%	11.2%	12.9%
US Airways	10.8%	10.2%	10.6%	9.6%	8.5%
Northwest Airlines	7.7%	5.3%	5.4%	5.6%	3.8%
Other	0.0%	0.0%	0.1%	0.1%	0.1%
Total Airline Groups	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Airport Revenue Bonds, Series 2008 Official Statement

- (a) Operated by air Wisconsin, d.b.a. AirTran Jet Connect, in 2004.
- (b) Operated by Atlantic Southeast Airlines, Chautauqua Airlines (FY 2004 – FY 2007), Comair (FY 2005 – FY 2008), Freedom Airlines (FY 2006 – FY 2008), and SkyWest Airlines (FY 2007 – FY 2008).
- (c) Operated by Chautauqua Airlines (FY 2007- FY 2008), ExpressJet Airlines and Gulfstream International Airlines (FY 2005 - FY 2008).
- (d) Operated by Air Midwest (FY 2004 - FY 2005), Air Wisconsin (FY 2006), Mesa Airlines, and Pacific Southwest Airlines (FY 2005 - FY 2008).
- (e) Operated by Mesaba Aviation (FY 2004 - FY 2005) and Pinnacle Airlines.
- (f) Delta Airlines and Northwest Airlines merged in FY-2009

The history of air carrier traffic shows the perturbations caused by economic recession and changes in carrier service. As certain carriers left the Airport others came in to replace them with either comparable mainline or regional service. The resultant growth in commuter traffic therefore reflects significant increases. In 1999, 106,032 passengers departed on commuter carriers. In 2009, 405,249 passengers departed on regional carriers. Regional enplanements increased 230% over this period. Part of the reason for this is the airline industry's trend for mainline carriers to provide service with 50, 70, and 90 seat regional jets operated by regional affiliates. US Airways, Delta, and Continental serve the Pensacola market through regional

affiliates. Delta and AirTran provide mainline service to the market. The additional seats available on the regional jets, as well as their increased comfort and convenience, offer an attractive incentive to utilize the commuter carriers.

During the last ten years, the Airport activity has been affected by the weak financial performance of the airline industry which has resulted in a series of airlines bankruptcies and ever changing airline business models. However, during these challenging times, the Airport has grown which demonstrates the resilience and strength of the market. The Airport's large origin-destination passenger base reflects the real strength of the Pensacola region's economy. The increase in 2002 was due to the introduction of low fares by AirTran Airways to the Pensacola market. During fiscal year 2009, 1.4 million total (inbound and outbound) passengers utilized the Airport with air service provided by two mainline carriers (Delta and AirTran) and five regional affiliates (American Eagle, Continental Express/Continental Connection, Delta Connections, Northwest AirlinK, and US Airways Express). Mainline carriers contract with one or more regional affiliates to transport passengers to their regional hubs or connecting points.

In 2009 the Airport had 44 daily nonstop departures to nine destinations. The Airport's sole all-cargo airline ceased operation at the Airport in fiscal year 2009.

AIRLINE INFORMATION

Revenues may be affected by the ability of the airlines operating at the Airport, individually and collectively, to meet their respective obligations under Ordinance No. 29-88, adopted by the City on August 11, 1988, or the operating agreements and terminal building leases with Continental Airlines, Delta Air Lines and US Airways, as the case may be. Each of said airlines or their respective parent corporations is subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission (the "SEC"). Certain information, including financial information, as of particular dates concerning each of the airlines operating at the Airport or their respective parent corporations is disclosed in certain reports and statements filed with the SEC. Such reports and statements can be inspected in the Public Reference Room of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20659, and at the SEC's regional offices at 219 South Dearborn Street, Chicago, Illinois 60604; 26 Federal Plaza, New York, New York 10278; and 5757 Wilshire Boulevard, Suite 500 East, Los Angeles, California 90036-3648 and copies of such reports and statements can be obtained from the Public Reference Section of the SEC at the above address at prescribed rates. In addition, each airline operating at the Airport is required to file periodic reports of financial and operating statistics with the United States Department of Transportation (the "U.S. DOT"). Such reports can be inspected at the following location: Bureau of Transportation Statistics, Office of Airline Information, Reports Reference Facility, 400 Seventh Street, SW, Washington, D.C. 20590, and copies of such reports can be obtained from the U.S. DOT at prescribed rates.

FORECASTED AIR TRAFFIC

Based upon current economic conditions and actual and projected changes in airline service, the Airport projects:

- 2010 — three (3%) growth in enplaned passengers
- 2011-2015 — one (1%) percent growth per year in enplaned passengers

The Airport projects that it will be back to the fiscal year 2007 enplaned passenger level after 2015. These projections are based upon the fact that United Airlines will begin new non-stop service to Washington DC (IAD) in February 2010 and American Eagle will begin new non-stop service to Miami in April 2010 and assumptions concerning the recovery of the national economy and current airline industry air service trends. If the economy and the conditions of the airlines strengthen sooner than projected, Airport traffic will grow at a greater rate that projected.

KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

In addition to future growth in the population and economy of the Air Service region and surrounding area key factors that will affect future airline traffic at the Airport are:

- Growth in population and economy of the Airport Service Region
- Economic conditions
- Aviation security concerns
- Airline service and routes
- Airline fares and competition
- Financial health of the airline industry
- Availability and price of aviation fuel
- Capacity of the national air traffic control and airport systems
- Capacity provided at Pensacola Gulf Coast Regional Airport
- Success of Panama City Airport to attract passengers from counties now served primarily by Pensacola Gulf Coast Regional Airport.

Historically, airline passenger traffic nationwide has correlated closely with the state of the U.S. economy and levels of real disposable income. Recession in the U.S. economy in 2001 and stagnant economic conditions in 2002 contributed to reduced passenger traffic in the nation during those years. Recession beginning in 2008, combined with a reduction in non-stop service and increased fuel charges, has and will continue to contribute to reduced air travel demand. Future increases in passenger traffic will depend largely on the ability of the nation to sustain growth in economic output and income.

ORIGINATION AND DESTINATION MARKETS

The Airport primarily serves passengers originating in or destined to Pensacola, which is primarily a function of air traveler demands as well as available services and facilities. The following table presents the Airport's top origination and destination markets for the 12 months ended June 30, 2009.

**Domestic Origin-Destination Patterns Pensacola Gulf Coast
Regional Airport for the 12 Months Ended June 30, 2009**

Rank	City of Origin or Destination (1)	Percent of Scheduled Airline Passengers
1	Atlanta, Georgia (ATL)	5.3
2	Denver, CO (DEN)	3.3
3	Dallas, Ft Worth (DFW)	3.3
4	Washington (DCA)	3.3
5	Philadelphia, P.A. (PHL)	2.9
6	Orlando, FL (MCO)	2.8
7	New York (LGA)	2.6
8	Charlotte (CLT)	2.4
9	Chicago, O'Hare, Illinois (ORD)	2.3
10	Las Vegas (LAS)	2.3
11	Baltimore (BWI)	2.2
12	Boston Logan (BOS)	2.0
13	San Diego (SAN)	1.9
14	Washington Dulles (IAD)	1.8
15	Ft Lauderdale (FLL)	1.8
16	Minneapolis / St. Paul (MSP)	1.8
17	Phoenix (PHX)	1.8
18	Seattle (SEA)	1.6
19	Detroit / Flint (DTW)	1.6
20	Los Angeles (LAX)	1.5
21	Newark, NJ (EWR)	1.5
22	St. Louis, MO (STL)	1.5
23	Tampa, FL (TPA)	1.5
24	Kansas City, MO (MCI)	1.4
25	Pittsburgh, PA (PIT)	1.4
26	Indianapolis, IN (IND)	1.3
27	Raleigh-Durham, NC (RDU)	1.2
28	San Francisco, CA (SFO)	1.2
29	Dayton, OH (DAY)	1.2
30	Milwaukee, WI (MKE)	1.1
	Cities listed	61.8
	Other Cities	38.2
	TOTAL ALL CITIES	100.0

Source: U.S. Department of Transportation/Federal Aviation Administration, OD1A Database, 10% Sample Survey.

(1) Top 30 Cities with 1% or more of total inbound and outbound passengers (on scheduled airlines) at Pensacola Gulf Coast Regional Airport in 10% sample for 12 months ended June 30, 2009.

FUTURE CAPITAL IMPROVEMENTS

THE 2008 PROJECT. In September 2008, the City proceeded with the 2008 Project that includes a terminal building expansion, an aircraft apron expansion and automobile parking. Components of this project are being completed in phases, some of which have been completed and many which are under construction as of the Report date.

Terminal Building Expansion. The terminal building expansion portion of the 2008 Project is to increase the overall size of the terminal building from about 172,000 square feet to approximately 246,000 square feet. The components of the terminal building expansion project are as follows:

- Airline ticketing and office expansion
- Concession areas expansion
- Terminal facility modifications and expansion to accommodate explosives detection system (EDS) equipment
- In-line baggage conveyer system acquisition and installation
- Baggage claim area renovation (including replacement and modification of baggage claim devices)
- Passenger security screening area expansion
- Jet bridge acquisition and installation (10 new bridges)
- Second floor expansion—greeters area
- Concourse door replacement
- Concourse gate stairwells renovation
- Incident Command Center construction
- Additional office space construction
- Aircraft apron expansion adjacent to the terminal
- Energy modification improvements

The terminal expansion project consists of expansion and redevelopment of portions of the terminal building to increase capacity and terminal functionality. The project is to add 90 linear feet to the airline-ticketing wing of the terminal and provide additional passenger circulation, airline ticketing, and Airport and airline support space and baggage make-up area. Renovation of the baggage claim wing of the terminal building and replacement of the associated baggage claim devices are also included.

Construction of the building shell at the end of the terminal and installation of inbound and outbound baggage conveyor systems and explosive detection systems are included in the terminal expansion project. These systems will result in the complete automation of the baggage screening process at the Airport.

The passenger screening area is to be expanded to improve the passenger screening process and capacity. Space is to be provided to double the number of passenger security screening lanes from three to six.

In addition, six aging loading bridges are to be replaced, two new loading bridges at two existing gates are to be provided and two new gate areas with loading bridges are to be added to the end of the concourse. The project will also improve safety by replacing concourse doors and renovating gate stairwells.

The terminal building expansion is estimated to cost \$50.3 million. This price includes design, program management, and a ten percent contingency. This project is to be funded with PFC revenues, the 2008 bonds (partly PFC supported), federal grants, Florida Department of Transportation (FDOT) grant proceeds, and Airport funds.

The terminal expansion project is scheduled to be completed in fiscal year 2010.

Aircraft Apron Expansion. The City is expanding the parking apron for aircraft remaining overnight. The project is being sized (94,000 square feet) to optimize the use of land adjacent to the terminal building to accommodate the overnight requirements of airlines and others. An apron expansion of 47,130 square feet was approved in PFC Application No. 05-07-C-01-PNS. In PFC Application No. 05-07-C-02-PNS, the apron expansion project was revised to include construction of 82,880 square feet of new apron. The remaining 11,120 square feet of new apron will be with a combination of grants and 2008 bond proceeds.

The apron expansion is estimated to cost \$2.8 million. This project is to be funded with FDOT grant proceeds, federal Airport Improvement Program (AIP) entitlement grant proceeds for Federal Fiscal Years (FFY) 2007 and a portion of FFY 2008, and the proceeds of the 2008 Bonds. This project is scheduled to be completed in fiscal year 2010.

In addition, the 2008 Project includes expansion of the aircraft apron around the end of the expanded concourse. This portion of apron expansion is to provide new pavement for aircraft parking at the terminal and maneuvering area around aircraft parked at the terminal.

This portion of the apron expansion project is estimated to cost \$1 million. This expansion is to be funded with AIP entitlement grant proceeds for FFY 2007 and 2008, and the proceeds of the 2008 Bonds. This project is scheduled to be completed in fiscal year 2010.

Automobile Parking. This project has two elements. The first element of this project is the construction of an additional surface parking lot with approximately 500 automobile parking stalls. This project was completed in the fall of 2009 at a cost of \$3.2 million.

The other element of this project is the development of plans and specifications for expansion of the automobile parking structure. The existing Airport parking structure contains a total of 1400 parking stalls. This project will result in expansion plans to approximately double the number of parking stalls in the parking structure. This design project is estimated to cost \$2.6 million.

These projects are to be funded with the proceeds of the proposed 2008 Bonds and were completed in fiscal year 2009.

Funding of “The 2008 Project”. On December 14, 2007, the Airport received the Federal Aviation Administration (FAA) approval of Passenger Facility Charges (PFC) Amendment No. 05-07-C-02-PNS. This amendment authorized total PFC collections in the amount of \$119,352,000 and it approved funding of both phases of the terminal project as well as included funding for several small projects (see “Passenger Facility Charges” below). The amendment also included funding for the financing costs associated with the terminal and ramp projects.

In addition to securing PFC approval for the project, the Airport also secured a \$7.7 million dollar grant from the Transportation Security Administration (TSA) for the in-line baggage screening portion of the project, a \$680,000 grant from the Florida Department of Transportation for the ramp expansion project, a \$2.2 million dollar grant from the FAA for ramp improvements, and obligated \$7.8 million in future FAA grants to the terminal project. The Airport pledged \$5.9 million of its current and future capital improvement funds to these projects. In July of 2008, City Council approved a resolution authorizing the issuance of Airport Revenue Bonds, and on August 14, 2008 the City of Pensacola issued \$35,780,000 of its Airport Revenue Bonds, Series 2008 to allow for the funding of phase one of the terminal/ramp project, the design of the parking garage expansion project, and the construction of a new surface parking area.

A notice to proceed for construction of phase one of the “2008 Terminal Expansion/Improvement Project” was issued to Greenhut Construction Company, the project’s construction-manager-at-risk, on September 30, 2008. The new surface parking area was completed in fiscal year 2009 and it is estimated that phase one of the terminal project will be completed in the winter of 2010.

AIR COMMERCE PARK DEVELOPMENT. The Airport’s 2000 Master Plan identified 65 acres of property adjacent to the northwest quadrant of the airport for future land acquisition and the development of an air commerce park. The Airport started the Commerce Park Land Acquisition project in 2004 when the services of a relocation firm were secured. As of September 30, 2009, City Council approved the purchase of fifty parcels to date. A multi-year FDOT grant is in place that will fund 75 percent of the cost of a majority of the acquisitions. This FDOT grant contains a provision that requires the Airport to repay FDOT 25 percent of the amount drawn within 10 years. This repayment will ultimately result in a 50 percent matching grant. The remaining funding of this project is provided by a combination of the Airport’s capital budget, PFCs and the \$2 million of City funds which were transferred to the Airport for the Roger Scott property purchase.

PROSPECTIVE FINANCINGS

Airport Parking Garage Expansion. The final phase of the planned capital project is the expansion of the public parking garage. It is anticipated that the expansion project will be located directly adjacent to the on-ramp of the existing garage and that the project will provide approximately 1,300 new parking spaces with an estimated cost of \$30 million. The City expects to construct this project when passenger enplanements demonstrate the need and the financial viability of the undertaking or when the City receives a grant for the total construction cost of the project. Otherwise, when Airport enplanements justify the project, construction of the parking structure expansion will be financed with airport revenue bonds.

Rental Car Service Facilities. Financing for the CFC Project was provided through a loan from Bank of America, N.A. (the “Bank”) evidenced by the City’s not exceeding \$19,000,000 Airport Taxable Customer Facility Charges Revenue Note (the “Airport Taxable Note”). On February 1, 2011 and each third anniversary thereof the Bank retains the right to reset certain provisions of the Airport Taxable Note unless it notifies the City that the principal amount shall become unconditionally due and payable. The City continues to monitor market conditions to determine if refinancing is beneficial.

DEBT MANAGEMENT

The Pensacola Airport is operated as a separate enterprise of the City and the obligations for repayment of the loans and the bonds of the Airport are expected to be payable solely from specified airport revenues, including rental car CFCs imposed on rental car contracts, PFCs and general airport revenues.

On May 15, 1997, the City issued its \$5,800,000 Airport Revenue Bonds, Series 1997B (AMT) (the “Series 1997B Bonds”). The Series 1997B Bonds were issued to provide funds for the primary purposes of (i) financing and refinancing a portion of the cost of the acquisition, construction and equipping of certain Parking Facilities; (ii) paying part of the cost of retiring the City’s then outstanding Airport Revenue Bonds Anticipation Notes, Series 1996; and (iii) funding the Debt Service Reserve Account.

On July 7, 1998, the City issued its \$18,120,000 Airport Revenue Refunding Bonds, Series 1998A (AMT) (the “Series 1998A Bonds”). The Series 1998A Bonds were issued to provide funds for the primary purpose of financing the cost of refunding \$17,865,000 in remaining outstanding principal amount of the City’s \$25,090,000 original principal amount Airport Revenue Bonds, Series 1988.

On August 16, 2005, the City issued its \$15,145,000 Airport Refunding Revenue Bonds, Series 2005A (Non-AMT) (the “Series 2005A Bonds”). The Series 2005A Bonds were issued to provide funds for the primary purpose of financing the cost of refunding \$13,655,000 in remaining outstanding principal amount of the City’s \$14,645,000 original principal amount Airport Revenue Bonds, Series 1997A.

On February 4, 2008, the City issued its Airport Taxable Note (described above in “Prospective Indebtedness”) for the purpose of financing the construction and equipping of a rental car service center to serve the Airport. The Bank can reset certain provisions (including the interest rate) at the end of every third year; otherwise, the loan under the Airport Taxable Note is payable in full at the end of every third anniversary beginning February 1, 2011. Should the Bank reset terms be unacceptable to the City or the Bank require repayment of the Airport Taxable Note, the City would seek to refinance the obligation. Depending on market conditions the City would seek to refinance the outstanding principal on a fixed rate basis over a term of 20 to 25 years. The Airport completed the \$19 million Rental Car Service Facility Area in June 2009. The City constructed four full-service and one quick-turn-around Rental Car Service Facilities on an approximately 20 acre site. The project was completed on schedule and under budget. Principal balance as of September 30, 2008 is \$10,055,250.

On August 14, 2008, the City issued its \$35,780,000 Airport Revenue Bonds, Series 2008 (the “Series 2008 Bonds”). The Series 2008 Bonds were issued to provide funds for the primary purpose of (i) financing the 2008 Project described as including a terminal expansion project, an aircraft apron expansion project, the construction of a 550-stall automobile parking lot, and the preparation of plans and specifications for the airport parking structure’s expansion and (ii) retiring all of the outstanding principal amount of the City’s Airport Improvement Revenue Bond, Series 2006A and Airport Improvement Revenue Bond, Subordinate Series 2006B.

DEBT SERVICE COVERAGE – GENERAL AIRPORT REVENUE BONDS (1)

Fiscal Year	Airport Charges for Services	Less: Operating Expense (2)	Net Available Revenue	Debt Service		Coverage before Transfer	Capital Fund Transfer (3)	Coverage after Transfer
				Principal	Interest			
2005	\$ 12,630	\$ 7,947	\$ 4,683	\$ 1,260	\$ 2,246	1.34	1,033	1.63
2006	14,669	9,429	5,240	1,279	1,572	1.84	1,513	2.37
2007	16,512	10,117	6,395	1,295	1,735	2.11	2,303	2.87
2008	17,700	10,559	7,141	1,365	1,659	2.36	2,492	3.19
2009	13,719	12,021	1,698	1,440	1,579 (4)	0.56	2,380	1.35

Source: City of Pensacola CAFR

- (1) Schedules presented in fiscal years 2008 and prior were prepared using Maximum Annual Debt Service; however, the FY 2009 schedule has been updated to reflect the bond resolution reference to annual debt service.
- (2) Operating expenses are net of depreciation expense.
- (3) The capital fund transfer is a prepaid revenue amount which is comprised of the prior year’s coverage plus non-obligated capital improvements and any excess operating funds.
- (4) Excludes interest expense paid with bond proceeds.

PASSENGER FACILITY CHARGE (PFC)

The US Congress enacted the Aviation Safety and Capacity Expansion Act of 1990 (ASCEA) which created 49 U.S.C. Subtitle VII, Part A – Air Commerce and Safety, Statute 40117 which enabled public agencies that enplane at least 2,500 passengers annually the ability to levy a facility charge of \$1, \$2, or \$3 per passenger. The revenues are to be used for airport planning and development projects approved by the Federal Aviation Administration (FAA). In

1992 the Pensacola City Council approved a \$3.00 passenger facility charge at the Pensacola Gulf Coast Regional Airport to support such capital improvement projects. The Federal Aviation Act of 1994, the Federal Aviation Reauthorization Act of 1996, and the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century made significant modifications to the Statute. Most significantly the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (signed into law on April 5, 2000) grants new PFC collection authority and enables a public agency to apply to the FAA to increase the PFC level to \$4 or \$4.50. In March of 2002 the City Council approved an amendment to the PFC to impose a \$4.50 passenger facility charge. FAA approved the amendment and collection of the \$4.50 PFC began in January, 2003. The charge is assessed to all revenue-paying enplaning passengers at the Pensacola Gulf Coast Regional Airport.

Passenger Facility Charge Revenues	
(for the Fiscal Year ending September 30)	
	2009
Enplaned Passengers	700,662
Percent of PFC Eligible Passengers	91%
PFC Eligible Enplaned Passengers	636,236
PFC Level	\$ 4.50
less: Airline Collection Fee	(0.11)
Net PFC Level	\$ 4.39
<i>PFC Collections (not including interest)</i>	<u>\$ 2,793,077</u>
Cummulative PFC Collections - Application No. 05-07-C-02-PNS	<u>\$ 4,785,554</u>
PFC Cash Flow	
PFC Fund Beginning Balance	\$ 3,364,377
Deposits:	
PFC Collections	2,793,077
Allowance - PFC Interest Earnings	112,477
<i>Total Annual PFC Revenues</i>	<u>2,905,554</u>
Annual Use of PFC Revenue:	
Pay-as-you-go	297,557
Debt Service:	
2008 Series - PFC Eligible Portion	1,096,607
<i>PFC Fund Ending Balance</i>	<u>\$ 4,875,767</u>

DEBT SERVICE COVERAGE – PASSENGER FACILITY CHARGE BONDS

Airport Revenue Bonds PFC

Fiscal Year	Passenger Facility Charge (1)	Debt Service		Coverage
		Principal	Interest	
2005	\$ 3,261	-	-	-
2006	3,623 (2)	-	-	-
2007	3,444 (3)	-	-	-
2008	3,328	-	-	-
2009	2,844	\$ 0	\$ 1,097	2.59

Source: City of Pensacola CAFR

Note: PFC revenues were pledged to the Series 2008A Airport Capital Improvement Revenue Bonds effective for fiscal year 2009.

- (1) Includes revenues and interest earnings.
- (2) Fiscal year 2006 PFC revenue collections were inflated due to an overpayment by Air Tran. The overpayments occurred from June through October 2006 in the amount of \$150,780.26.
- (3) Fiscal year 2007 PFC revenue collections are reduced by the fiscal year 2006 overpayments. Air Tran reduced the August and September 2007 PFC payments by \$56,709.51 and \$43,120.98, respectively.

RENTAL CAR CUSTOMER FACILITY CHARGE (CFC)

In October 1997, the City Council approved and adopted Ordinance Number 33-97. The Ordinance was entitled: “An Ordinance creating Article V, of Chapter 10-2 of the Code of the City of Pensacola, Florida; Establishing a fee to be regulating and assessing fees on certain rental car companies operating at Pensacola Regional Airport; providing penalties; providing for severability; providing an effective date”. This ordinance imposed on the on-airport rental car companies a Customer Facility Charge (CFC), a charge imposed on a transactional basis a fixed amount applied to each day, or fraction thereof, of each vehicle rental. The CFC was established to fund a ratable portion of the debt service and maintenance and operating expense associated with the Airport’s parking garage.

In January 2008, the City Council approved and adopted Ordinance Number 09-08. The ordinance amended the rental car ordinance provided for the necessary language to increase the collection of CFCs to allow for funding of the construction of the new Rental Car Service Facilities at Pensacola Regional Airport. Each rental car company is responsible for the collection and remittance of the combination of CFCs which funds the first floor of the parking garage and rental car service facilities.

In fiscal year 2008, CFC revenue began trending downward as a result of a declining volume of rental car Contract Days (the basis for calculating CFC payments). The decline in Contract Days is attributable to declining enplanements at the Airport and increases in the rental rates charged by the rental car companies resulting in lower rental car demand. To compensate for the lower volume of Contract Days, the City increased the daily CFC rate from \$3.60 to \$4.25 effective July 1, 2009. The City’s plan is to increase the daily CFC rate to maintain the

CFC revenue at the fiscal year 2008 level. The Airport also completed its Rental Car Concession bid process in 2009 which resulted in all eight major rental car companies (Alamo, Avis, Dollar, Enterprise, Hertz, National, and Thrifty) being awarded on-airport rental car concession agreements. The addition of both Enterprise and Thrifty is projected to significantly increase future CFC collection. Further, survey information provided by Jacobs Consultancy, Inc. shows that a series of other airports similarly situated levy CFC on average at \$4.25, therefore, it has been determined that this increase should not adversely affect rental car demand.

A five year history of CFC revenues is as follows:

	FISCAL YEAR 2005	FISCAL YEAR 2006	FISCAL YEAR 2007	FISCAL YEAR 2008	FISCAL YEAR 2009
CFC - 1st Floor Parking Garage (Collection at \$1.10 per contract day of rental)	\$699,494	\$675,750	\$ 613,980	\$ 662,088	\$ 517,293
CFC - Rental Car Service Facility (Collection at \$2.50 per contract day of rental) (a)	N/A	N/A	\$ 1,024,134	\$ 1,504,741	\$ 1,254,625

Source: City Financial Records

(a) Effective December 2006.

**DEBT SERVICE COVERAGE – CUSTOMER FACILITY CHARGE (\$2.50) REVENUE
NOTE**

<u>Airport Revenue Note CFC</u>					
<u>Fiscal Year</u>	<u>Customer Facility Charge</u>	<u>Debt Service</u>		<u>Coverage</u>	
		<u>Principal</u>	<u>Interest</u>		
2005	-	-	-	-	-
2006	-	-	-	-	-
2007	-	-	-	-	-
2008	-	-	-	-	-
2009	\$ 1,255	\$ -	\$ 245	5.12	

Source: City of Pensacola CAFR

Note: Prior to fiscal year 2009, only the \$2.50 of the current CFC revenues is pledged to the Series 2008 Airport Taxable Customer Facility Charges Revenue Note.

\$5,800,000
CITY OF PENSACOLA, FLORIDA
AIRPORT REVENUE BONDS, SERIES 1997B (AMT)

Dated: May 1, 1997

PURPOSE:

The Series 1997B Bonds were issued to provide funds for the purpose of financing the construction of additional parking facilities at the Pensacola Regional Airport and to pay a portion of the cost of retiring the outstanding Airport Revenue Bonds Anticipation Notes, Series 1996.

SECURITY:

The Series 1997 Bonds are secured by the pledge of Net General Airport Revenues, moneys established under the Bond Resolution (except Capital and Rebate Fund), and net proceeds of insurance on Airport Facilities (collectively, the "Pledged Funds"). In addition, the City has established a Series 1997B account in the Reserve Fund for payment of the Series 1997B Bonds when other funds are insufficient therefor.

AGENTS:

Registrar - The Bank of New York, Jacksonville, Florida

Paying Agent - The Bank of New York, Jacksonville, Florida

Bond Counsel - Miller, Canfield, Paddock, and Stone, P.L.C., Pensacola, Florida

Insurance - National Public Finance Guarantee Corporation (NPFGC) as successor to MBIA Insurance Corporation

ISSUED AS:

\$1,555,000 Term Bond due 10/01/2007 and \$4,245,000 Term Bond due 10/01/14.

RATINGS:

For Insured Ratings, visit www.nationalpfg.com for current rating of NPFGC by Standard & Poor's and Moody's.

Moody's – A3 (underlying)

Standard & Poor's –BBB+ (underlying)

Fitch – BBB+ (underlying)

CALL PROVISIONS:

Mandatory Redemption

Term Bonds Due October 1, 2007

<u>Year</u>	<u>Amount</u>
2004	\$175,000
2005	\$435,000
2006	\$460,000
2007 (maturity)	\$485,000

Term Bonds Due October 1, 2014

<u>Year</u>	<u>Amount</u>
2008	\$510,000
2009	\$540,000
2010	\$570,000
2011	\$605,000
2012	\$635,000
2013	\$675,000
2014 (maturity)	\$710,000

Optional Redemption

Series 1997B Bonds maturing on or after October 1, 2014 and thereafter are subject to redemption prior to their respective stated dates of maturity.

<u>Redemption Dates</u>	<u>Redemption Price</u>
Oct. 1, 2009 and thereafter	100%

OUTSTANDING PARITY BONDS:

The lien upon the Pledged Funds is on a parity with the Series 1998A Bonds, Series 2005 Bonds and the Series 2008 Bonds.

\$5,800,000
CITY OF PENSACOLA, FLORIDA
AIRPORT REVENUE BONDS, SERIES 1997B (AMT)

SUMMARY OF DEBT SERVICE REQUIREMENTS

<u>FISCAL</u> <u>YEAR</u>	<u>INTEREST</u> <u>RATE %</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2010	5.625	\$ 540,000	\$ 194,906	\$ 734,906
2011	5.625	570,000	163,688	733,688
2012	5.625	605,000	130,641	735,641
2013	5.625	635,000	95,766	730,766
2014	5.625	675,000	58,922	733,922
2015	5.625	710,000	19,969	729,969
Totals		<u>\$ 3,735,000</u>	<u>\$ 663,892</u>	<u>\$ 4,398,892</u>

\$18,120,000
CITY OF PENSACOLA, FLORIDA
AIRPORT REVENUE REFUNDING BONDS, SERIES 1998A (AMT)

Dated: July 1, 1998

PURPOSE:

The Series 1998A Bonds were issued to provide funds for the primary purpose of refunding \$17,865,000 in remaining outstanding principal amount of the City's \$25,090,000 original principal amount Airport Revenue Bonds, Series 1988.

SECURITY:

The Series 1998 Bonds are secured by the pledge of Net General Airport Revenues, moneys established under the Bond Resolution (except Capital and Rebate Fund), and net proceeds of insurance on Airport Facilities (collectively, the "Pledged Funds"). In addition, the City has established a Series 1998 account in the Reserve Fund for payment of the Series 1998A Bonds when other funds are insufficient therefor.

AGENTS:

Registrar - The Bank of New York, Jacksonville, Florida

Paying Agent - The Bank of New York, Jacksonville, Florida

Bond Counsel - Miller, Canfield, Paddock, and Stone, P.L.C., Pensacola, Florida

Insurance - National Public Finance Guarantee Corporation (NPFGC) as successor to MBIA Insurance Corporation

ISSUED AS:

\$7,305,000 Serial Bonds
 \$3,000,000 Term Bond due 10/01/2012 and
 \$7,815,000 Term Bond due 10/01/18.

RATINGS:

For Insured Ratings, visit www.nationalpfg.com for current rating of NPFGC by Standard & Poor's, Moody's and Fitch.

Moody's – A3 (underlying)

Standard & Poor's – BBB+ (underlying)

Fitch – BBB+ (underlying)

CALL PROVISIONS:

Mandatory Redemption

Term Bonds Due October 1, 2012

<u>Year</u>	<u>Amount</u>
2010	\$ 940,000
2011	\$1,000,000
2012	\$1,060,000

Term Bonds Due October 1, 2018

<u>Year</u>	<u>Amount</u>
2013	\$1,115,000
2014	\$1,185,000
2015	\$1,260,000
2016	\$1,335,000
2017	\$1,415,000
2018	\$1,505,000

Optional Redemption

Series Bonds maturing on or after October 1, 2012 and thereafter are subject to redemption prior to their respective stated dates of maturity.

Redemption Dates <u>(both dates inclusive)</u>	Redemption <u>Price</u>
Oct. 1, 2009 to Sept. 30, 2010	101%
Oct. 1, 2010 and thereafter	100%

OUTSTANDING PARITY BONDS:

The lien upon the Pledged Funds is on parity with the Series 1997B Bonds, the Series 2005 Bonds and the Series 2008 Bonds.

\$18,120,000
CITY OF PENSACOLA, FLORIDA
AIRPORT REVENUE REFUNDING BONDS, SERIES 1998A (AMT)

SUMMARY OF DEBT SERVICE REQUIREMENTS

FISCAL YEAR	INTEREST RATE %	PRINCIPAL	INTEREST	TOTAL
2010	6.250	\$ 880,000	\$ 686,169	\$ 1,566,169
2011	6.000	940,000	630,469	1,570,469
2012	6.000	1,000,000	572,269	1,572,269
2013	6.000	1,060,000	510,469	1,570,469
2014	6.125	1,115,000	444,522	1,559,522
2015	6.125	1,185,000	374,084	1,559,084
2016	6.125	1,260,000	299,206	1,559,206
2017	6.125	1,335,000	219,734	1,554,734
2018	6.125	1,415,000	135,516	1,550,516
2019	6.125	1,505,000	46,091	1,551,091
Totals		<u>\$ 11,695,000</u>	<u>\$ 3,918,529</u>	<u>\$ 15,613,529</u>

\$15,145,000
CITY OF PENSACOLA, FLORIDA
AIRPORT REFUNDING REVENUE BONDS, SERIES 2005A (Non-AMT)

Dated: July 29, 2005

PURPOSE:

The Series 2005A Bonds were issued to provide funds for the primary purpose of financing the cost of refunding \$13,655,000 in remaining outstanding principal amount of the City's \$14,645,000 original principal amount of Airport Revenue Bonds, Series 1997A.

SECURITY:

The Series 2005A Bonds are secured by the pledge of Net General Airport Revenues, moneys established under the Bond Resolution (except Capital and Rebate Fund), and net proceeds of insurance on Airport Facilities (collectively, the "Pledged Funds"). In addition, the City has established a Series 2005A account in the Reserve Fund for payment of the Series 2005A Bonds when other funds are insufficient therefor.

AGENTS:

Registrar - The Bank of New York, Jacksonville, Florida

Paying Agent - The Bank of New York, Jacksonville, Florida

Bond Counsel - Miller, Canfield, Paddock, and Stone, P.L.C., Pensacola, Florida

Insurance - National Public Finance Guarantee Corporation (NPFGC) as successor to MBIA Insurance Corporation

ISSUED AS:

\$15,145,000 Serial Bonds

RATINGS:

For Insured Ratings, visit www.nationalpfg.com for current rating of NPFGC by Standard & Poor's, Moody's and Fitch.

CALL PROVISIONS:

Optional Redemption

Series 2005A Bonds maturing on October 1, 2016 and thereafter are subject to redemption prior to their respective stated dates of maturity.

<u>Redemption Dates</u>	<u>Redemption Price</u>
Oct. 1, 2016 and thereafter	100%

OUTSTANDING PARITY BONDS:

The lien upon the Pledged Funds is on parity with the Series 1997B Bonds, the Series 1998A Bonds and the Series 2008 Bonds.

\$15,145,000
CITY OF PENSACOLA, FLORIDA
AIRPORT REFUNDING REVENUE BONDS, SERIES 2005A (Non-AMT)

SUMMARY OF DEBT SERVICE REQUIREMENTS

FISCAL YEAR	INTEREST RATE %	PRINCIPAL	INTEREST	TOTAL
2010	3.000	\$ 100,000	\$ 611,195	\$ 711,195
2011	3.250	100,000	608,070	708,070
2012	3.500	100,000	604,695	704,695
2013	3.750	110,000	600,883	710,883
2014	4.000	110,000	596,620	706,620
2015	3.750	125,000	592,076	717,076
2016	3.650	855,000	574,129	1,429,129
2017	4.000	885,000	540,825	1,425,825
2018	4.000	915,000	504,825	1,419,825
2019	4.000	955,000	467,425	1,422,425
2020	4.000	1,000,000	428,325	1,428,325
2021	4.125	1,030,000	387,081	1,417,081
2022	4.125	1,075,000	343,666	1,418,666
2023	4.250	1,120,000	297,694	1,417,694
2024	4.250	1,170,000	249,031	1,419,031
2025	4.250	1,220,000	198,244	1,418,244
2026	4.250	1,270,000	145,331	1,415,331
2027	4.375	1,325,000	89,359	1,414,359
2028	4.375	1,380,000	30,188	1,410,188
Totals		<u>\$ 14,845,000</u>	<u>\$ 7,869,662</u>	<u>\$ 22,714,662</u>

\$35,780,000
CITY OF PENSACOLA, FLORIDA
AIRPORT REVENUE BONDS, SERIES 2008 (AMT)

Dated: August 14, 2008

PURPOSE:

The Bonds were issued to provide funds for the primary purpose of (i) financing a portion of the Airport's 2008 Project described as including a terminal expansion project, an aircraft apron expansion project, the construction of a 550 stall automobile parking lot, and the preparation of plans and specifications for the airport parking structure's expansion; (ii) retiring the outstanding Airport Improvement Revenue Bonds, Series 2006A and Airport Improvement Revenue Bond, Subordinate Series 2006B; and (iii) funding the reserve requirement.

SECURITY:

The Series 2008 Bonds are secured by the pledge of Net General Airport Revenues of the Airport Facilities, moneys established under the Bond Resolution (except Capital and Rebate Fund), and net proceeds of insurance on Airport Facilities (collectively, the "Pledged Funds"). Under the Bond Resolution, PFC Revenues do not constitute Airport Revenues and the City is not required to deposit any particular amount of PFCs in any year into the Bond Fund. Pursuant to the resolution authorizing the Series 2008 Bonds, PFC Revenues which are deposited into the Bond Fund constitute Pledged Funds and shall be irrevocably committed to the payment of the Debt Service Requirement on those Series 2008 Bonds eligible to be paid from the PFC Revenues. Approximately 81% of the Series 2008 Bonds are qualified for funding by PFC Revenues. Portions of the Annual Debt Service Requirement on the Series 2008 Bonds that are not paid with PFC Revenues will be paid with Net General Airport Revenues.

AGENTS:

Registrar – TD Bank, National Association, Jacksonville, Florida

Paying Agent – TD Bank, National Association, Jacksonville, Florida

Bond Counsel – Lott & Associates, P.L., Pensacola, Florida

ISSUED AS:

\$5,800,000 Serial Bonds due 10/01/2009 through 10/01/2018, \$10,670,000 Term Bond due 10/01/2028 and \$19,310,000 Term Bond due 10/01/38.

RATINGS:

Moody's – A3 (underlying)

Standard & Poor's – BBB+ (underlying)

Fitch – BBB+ (underlying)

CALL PROVISIONS:

Mandatory Redemption

Term Bonds Due October 1, 2028

<u>Year</u>	<u>Amount</u>
2019	\$810,000
2020	860,000
2021	910,000
2022	965,000
2023	1,020,000
2024	1,080,000
2025	1,150,000
2026	1,220,000
2027	1,290,000
2028 (maturity)	1,365,000

Term Bonds Due October 1, 2038

<u>Year</u>	<u>Amount</u>
2029	\$1,445,000
2030	1,540,000
2031	1,635,000
2032	1,735,000
2033	1,845,000
2034	1,960,000
2035	2,085,000
2036	2,215,000
2037	2,355,000
2038 (maturity)	2,495,000

Optional Redemption

Series 2008 Bonds maturing on October 1, 2019, and thereafter are subject to redemption prior to their respective stated dates of maturity.

Redemption Dates

Oct. 1, 2019 and thereafter

Redemption Price

100%

OUTSTANDING PARITY BONDS:

The lien upon the Pledged Funds is on parity with the Series 1997B Bonds, the Series 1998A Bonds, and the Series 2005A Bonds.

\$35,780,000
CITY OF PENSACOLA, FLORIDA
AIRPORT REVENUE BONDS, SERIES 2008 (AMT)

SUMMARY OF DEBT SERVICE REQUIREMENTS

FISCAL YEAR	INTEREST RATE % (a)	GARB (2008A)		PFC (2008B)		TOTALS	
		Principal	Interest	Principal	Interest	Principal	Interest
		2010	5.00	\$ -0-	\$ 403,525	\$ 185,000	\$ 1,734,488
2011	5.00	-0-	403,525	420,000	1,719,363	420,000	2,122,888
2012	5.00	105,000	400,900	440,000	1,697,863	545,000	2,098,763
2013	5.00	110,000	395,525	460,000	1,675,363	570,000	2,070,888
2014	5.00	115,000	389,900	485,000	1,651,738	600,000	2,041,638
2015	5.00	120,000	384,025	510,000	1,626,863	630,000	2,010,888
2016	5.00/5.25	125,000	377,900	535,000	1,600,738	660,000	1,978,638
2017	5.25/5.00	135,000	371,231	560,000	1,572,663	695,000	1,943,894
2018	5.00/5.50	140,000	364,188	590,000	1,543,213	730,000	1,907,400
2019	5.50/6.00	145,000	356,700	620,000	1,511,413	765,000	1,868,113
2020	6.00	155,000	348,063	655,000	1,474,713	810,000	1,822,775
2021	6.00	165,000	338,463	695,000	1,434,213	860,000	1,772,675
2022	6.00	175,000	328,263	735,000	1,391,313	910,000	1,719,575
2023	6.00	185,000	317,463	780,000	1,345,863	965,000	1,663,325
2024	6.00	195,000	306,063	825,000	1,297,713	1,020,000	1,603,775
2025	6.00	205,000	294,063	875,000	1,246,713	1,080,000	1,540,775
2026	6.00	220,000	281,313	930,000	1,192,563	1,150,000	1,473,875
2027	6.00	235,000	267,663	985,000	1,135,113	1,220,000	1,402,775
2028	6.00	245,000	253,263	1,045,000	1,074,213	1,290,000	1,327,475
2029	6.00/6.25	260,000	238,113	1,105,000	1,009,713	1,365,000	1,247,825
2030	6.25	275,000	221,719	1,170,000	940,000	1,445,000	1,161,719
2031	6.25	295,000	203,906	1,245,000	864,531	1,540,000	1,068,438
2032	6.25	310,000	185,000	1,325,000	784,219	1,635,000	969,219
2033	6.25	330,000	165,000	1,405,000	698,906	1,735,000	863,906
2034	6.25	350,000	143,750	1,495,000	608,281	1,845,000	752,031
2035	6.25	375,000	121,094	1,585,000	512,031	1,960,000	633,125
2036	6.25	400,000	96,875	1,685,000	409,844	2,085,000	506,719
2037	6.25	425,000	71,094	1,790,000	301,250	2,215,000	372,344
2038	6.25	450,000	43,750	1,905,000	185,781	2,355,000	229,531
2039	6.25	475,000	14,844	2,020,000	63,125	2,495,000	77,969
Totals		<u>\$ 6,720,000</u>	<u>\$ 8,087,175</u>	<u>\$ 29,060,000</u>	<u>\$ 34,303,794</u>	<u>\$ 35,780,000</u>	<u>\$ 42,390,969</u>

(a) Interest is due semi-annually; principal is due annually on October 1.

\$19,000,000
AIRPORT TAXABLE CUSTOMER FACILITY CHARGES
REVENUE NOTE, SERIES 2008

Dated: February 4, 2008

PURPOSE:

The Airport Taxable Note was issued to provide funds for the primary purpose of constructing and equipping a rental car service center to serve the Airport.

SECURITY:

The Airport Taxable Note is secured by the pledge of certain Service Site Area Customer Facility Charges, the Service Site Area Ground Rent and the Facilities Rent each levied pursuant to a Rental Car Charge Ordinance of the City and certain amounts in or required to be transferred to the Rental Car Account and a Subordinate Securities Fund of Net General Airport Revenues under the Bond Resolution, all as described in a Loan Agreement between the Bank and the City dated as of February 4, 2008 (the "Loan Agreement").

AGENTS:

Holder – Bank of America, N.A

Bond Counsel – Lott & Associates, P.L.

ISSUED AS:

\$19,000,000 Note due February 1, 2028 subject to mandatory prepayment on February 1, 2011, or any third anniversary thereafter if extended by the Bank.

RATINGS:

None.

CALL PROVISIONS:

Optional Redemption

The Airport Taxable Note may be prepaid in whole or in part on any date with 3 days prior written notice to the Bank.

OUTSTANDING PARITY BONDS:

None.

\$19,000,000
AIRPORT TAXABLE CUSTOMER FACILITY CHARGES
REVENUE NOTE, SERIES 2008

SUMMARY OF DEBT SERVICE REQUIREMENTS

The Airport Taxable Note bears a variable interest rate using 30 Day LIBOR rate plus 0.75% per annum with interest payments due monthly. All principal is due February 1, 2028, subject to mandatory prepayment in full on February 1, 2011, and each third anniversary thereof, unless the Bank, in its sole discretion, shall have notified the City in writing on or before each such date that the principal amount of the Note shall not become unconditionally due and payable on such date. The principal balance as of September 30, 2009 was \$17,847,177.

APPENDIX A

DEBT INCURRENCE AND ADMINISTRATION POLICY (Approved By City Council August 11, 2005)

The following policy of the City Council covers the incurrence and administration of debt (both short and long term) by the City. It is intended to apply to all situations, except for those normal transactions with vendors, suppliers and service providers (essentially transactions covered by the City's Purchasing Policies) that result in the City incurring debt. It serves as a guide under which new debt may be incurred and existing debt refinanced or repaid. As a part of this policy statement the City Council reserves the right to provide exceptions and waivers when unexpected circumstances justify such exception or waiver.

In approving this policy statement, the City Council acknowledges the importance of debt as a tool in financing needed capital. Judicious use of debt provides an equitable financing method. Projects with long lives (parks, roads, etc.) provide benefits each year to the same citizens who are responsible for providing the funds to meet the debt service requirement on the bonds that financed the original construction/acquisition. Debt is the one financing method that provides that matching of benefit with payment.

- Long-term debt should be used to meet capital needs when such needs cannot be financed from current revenues. Further, it should only be used when adequate funds are likely to be available to meet future debt service requirements.
- The City will not use long-term debt to finance current operations.
- On all debt issuances the City Council will be informed of the nature of the financing and the proposed structure of the financing team. In the instance of a negotiated sale or private placement, City Council will also be informed of the underwriter(s) to be selected and the reasons for the selection.
- Repayment of long-term debt should occur within a time period that does not exceed the estimated useful life (lives) of the project(s) financed. (For multiple acquisition long-term debt, acquisition lives should be measured against principal retirements during the early years.)
- The average life of any long-term debt issuance will not initially exceed 20 years.
- The ratio of general government debt service expenditures to general government total expenditures should not exceed 15 percent (as measured by either the most recent comprehensive annual financial report or the adopted current year budget) except when a proposed borrowing is necessitated to finance reconstruction following emergencies (such as a hurricane or other natural disaster).
- Except for Pensacola Regional Airport whose coverage requirements are established by contracts with the airlines, long-term debt of City enterprises should be maintained at minimum coverages of 130 percent.

- The City will meet full disclosure requirements/needs on all debt issuances. In order to meet our commitment to full disclosure the following will be implemented:
 - The City will annually produce and distribute to interested parties, a "Report to Bondholders", updating information on the City's finances and debt.
 - The City Manager will establish procedures dealing with requests for information about the City's finances and/or debt. The policy should designate a single source for response. Further, information provided as a result of a request, also when appropriate, be provided to the market. Finally, the procedures should provide that whenever a material event occurs, timely notification to the market will be provided.
- The City staff will maintain good communications with rating agencies and bond insurance companies.
- The City staff will take advantage of the technical expertise and professionalism of its financing team (financial advisor, bond counsel and disclosure counsel) on all debt issuances.
- Prior to issuing long-term debt, the City shall consider the alternatives of competitive bids, negotiated sales or private placements giving consideration to the following criteria:
 - Is the issue viewed by the market as carrying complex or innovative features and/or requiring explanation as to the bonds' soundness?
 - Are interest rates stable, is market demand strong, and/or is the market able to absorb a reasonable amount of buying or selling without substantial price changes?
 - Does the issue have a non-enhanced credit rating of an A or greater or can a credit enhancement be obtained prior to the sale?
 - Is the debt structure backed by the City's full faith and credit or a strong, known or historically performing revenue stream?
- The following requirements must be met by any applicant for conduit financing:
 - The applicant should submit audited financial statements for its three most recent years.
 - The applicant must pay a fee of not less than \$1,000 to cover the administrative cost of processing the application. In addition, the applicant must pay for a financial review by the City's financial advisor. Applicant must also pay reasonable fees for legal reviews by or for the City.
 - The applicant must agree to include in the bond resolution, provisions that insure adequate disclosure relating to the issuance and all post issuance disclosures (see disclosure requirements outlined above).

- Refunding or advance refunding of outstanding debt can be a valuable tool in reducing annual borrowing costs. Such refundings can be undertaken within the following parameters:
 - The final maturity is not later than that of the refunded issue.
 - The refunding results in present value savings of at least 3 percent. (Present value savings may be used to reduce debt service or fund capital projects.)
 - The refunding itself does not result in net new debt service. (However, a refunding may be combined with issuance of new debt for capital projects.)

The following definitions apply to this policy:

Advance Refunding - When the issue to be refunded cannot presently be retired. Refunding bond proceeds are placed in escrow and the proceeds plus earnings are used to meet debt service on the refunded issue until it can be retired.

Average Life - The point when half of the original principal has been retired as opposed to the final maturity which is the point at which the total original principal has been retired.

Capital - Includes projects, improvements or equipment (individually or related) with a cost in excess of \$50,000 and an estimated useful life of at least 5 years.

Coverage - Net profit plus interest and non-cash charges against net profit divided by average annual debt service.

Conduit Financings - Financings issued in the name of the City for which a third party accepts responsibility for payment (for example: industrial revenue bonds, hospital authority bonds).

Current Operations - Includes regular, recurring expenditures for "personal services" and "operating expenses".

Debt - Includes any form of borrowing monies. Bonds, contracts, letters, notes, or lines of credit, etc. are forms of debt. For purposes of this policy, debt does not include normal day-to-day transactions with vendors, suppliers or service providers that result in accounts payable. Debt has two time frames: short-term which is payable in full within one year of incurrence and long-term which has a final maturity beyond one year.

Debt Service - The annual principal and interest payments and service charges required to repay debt.

Market - Includes the Municipal Securities Rulemaking Board and the Nationally Recognized Municipal Securities Information Repositories, as appropriate.

Material Event - An occurrence that when material requires notice to investors. The Securities and Exchange Commission has determined that the following, among others, are such events.

- a. Principal and interest payment delinquencies
- b. Nonpayment related defaults
- c. Unscheduled draws on reserves
- d. Unscheduled draws on credit enhancements
- e. Substitution of credit or liquidity providers, or their failure to perform
- f. Adverse tax opinions or events affecting the tax exempt status of the security
- g. Modifications to rights of security holders
- h. Bond Calls
- i. Defeasances
- j. Matters affecting collateral
- k. Rating changes

**INVESTMENT POLICY
(Approved By City Council September 26, 2002)**

The following document, adopted under the authority of 218.415, Florida Statutes, sets forth the policy of the City of Pensacola with regard to the investment of funds in excess of those required to meet short-term expenditures. The City Manager shall be responsible for implementing this policy through the Director of Finance. No person may engage in any investment transaction with City funds or funds held in a trust relationship by or for the City, except as authorized by the Director of Finance or authorized designee. Provided, however, this policy shall not apply to pension funds, trust funds, or funds related to the issuance of debt.

AUTHORITY

The responsibility for administering the investment program of the City resides with the Director of Finance. The Director of Finance has the responsibility to insure the proper management, internal controls, safekeeping and recording of all investment assets held or controlled by the City. No person may engage in any investment transaction with City funds or funds held in a trust relationship by or for the City, except as authorized by the Director of Finance or authorized designee.

SCOPE

This policy sets forth guidelines with regard to the investment of funds in excess of those required to meet short-term obligations and does not apply to pension funds, trust funds or funds related to the issuance of debt. All financial assets held or controlled by the City, not otherwise classified as restricted assets requiring separate investing, shall be identified as "general operating funds" of the City for the purpose of this policy, and shall be invested using the guidelines as herein set forth. This Policy is promulgated pursuant to and consistent with the provisions of Section 166.261 and Section 218.415, Florida Statutes, and City Ordinance No. 48-98.

Although restricted assets such as pension funds, certain bond-related funds and trust funds are not required to be covered by this Policy, such funds may be invested under this Policy, when deemed to be in the City's best interest to do so, and when permitted by governing policies or documents.

OBJECTIVES

Safety of capital is regarded as the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Each investment transaction shall be entered into with every effort to prevent capital losses, whether they are from securities defaults, theft, or the impact of adverse market conditions. The City's investment strategy will provide sufficient liquidity to meet operating, payroll and capital requirements. Investments shall be made to maximize income on surplus funds but only after the objectives of security and liquidity have been met.

ETHICAL STANDARDS

The standard of prudence to be used by the City of Pensacola is that of the Prudent Person Rule, which states that: “Investments should be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.” The Director of Finance and authorized designee, acting in accordance with established policies and procedures and exercising due diligence, shall be relieved of personal responsibility for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to minimize adverse developments. The Prudent Person Rule shall be applied in the context of managing all assets invested under this Policy.

Employees of the City who are involved in the investment process shall refrain from personal business activity that could conflict with State Statutes, City Ordinances, proper management of the City’s investment program, or which could impair their ability to make impartial investment decisions.

CONTINUING EDUCATION

The Director of Finance and appropriate staff shall annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.

PERFORMANCE MEASUREMENT

The City of Pensacola seeks to optimize return on investments within the constraints of safety and liquidity. The investment portfolio shall be designed with the annual objective of exceeding by 50 basis points the weighted average return earned on investments held by the State Board of Administration Investment Pool. The State Board of Administration Investment Pool is the most appropriate benchmark given the imposed limits in maturities. (See “Portfolio Composition” for maturity limits).

AUTHORIZED INVESTMENTS

The following is a list of authorized investments as provided by Section 218.415(16), Florida Statutes;

- (a) The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01; Florida Statutes.
- (b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.
- (c) Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02; Florida Statutes.
- (d) Direct obligations of the United States Treasury.
- (e) Federal agencies and instrumentalities.

- (f) Securities of, or other interests in, any open-end or closed-end management-type investment company or investment trust registered under the Investment Company Act of 1940, 15 U.S.C. ss. 80a-1 et seq., as amended from time to time, provided that the portfolio of such investment company or investment trust is limited to obligations of the United States Government or any agency of instrumentality thereof and to repurchase agreements fully collateralized by such United States Government obligations, and provided that such investment company or investment trust takes delivery of such collateral either directly or through an authorized custodian.
- (g) Other investments authorized by law or by ordinance for a county or a municipality.

Additional investments types permitted by the City of Pensacola are granted authority through a separate ordinance approved by the Pensacola City Council. Investments not listed in this Policy or that have not been given separate approval by City Council are prohibited.

BID REQUIREMENTS

The City of Pensacola will attempt to make investments with local banks that have been approved by the State Treasurer to act as qualified public depositories (QPDs) as governed by Chapter 280, Florida Statutes, and Rule 4C-2, Florida Administrative Code. In the case where interest rates of the local banks are not competitive, investment-banking firms with national repute can be selected at the Director's discretion.

The City of Pensacola will engage in a competitive bid selection with a minimum of three bids solicited. The bid deemed to best meet the investment objectives will be selected. These bids will be recorded and retained in the Financial Services Department.

PORTFOLIO COMPOSITION

There are no limits set by this Policy as to the maximum amount that any particular institution can hold. The institution will set its own limits by virtue of its ability to collateralize the investments.

Certificates of deposit purchased under the authority of this Policy will be purchased only from Qualified Public Depositories of the State of Florida as identified by the State Treasurer, in accordance with Chapter 280 of the State Statutes.

Repurchase agreements shall only be entered into with the City's primary depository, Wachovia Bank, which is also identified as a qualified public depository.

Dollar limits for types of investments such as, Treasury's, Agencies or Certificates of Deposit, will be based on market conditions at the time of the investment or will be government by the Director of Finance's discretion.

Average maturity of all surplus investments is not to exceed two years with the maximum maturity of any investment not to exceed five years.

SAFEKEEPING AND CUSTODY

All securities purchased by the City's Director of Finance under this Policy, except certificates of deposits, shall be properly designated as assets of the City of Pensacola and shall be protected through a third-party agreement. The City shall enter into a formal agreement with an institution of such size and expertise as is necessary to provide the services needed to protect and secure the investment assets of the City. Certificates of deposit may be held in safekeeping at the issuing financial institution or may be held in physical custody by the City's Financial Services Department.

The City's Director of Finance shall establish appropriate safekeeping procedures so that, whenever possible, all investments are custodied in accordance with Governmental Accounting Standards Board Statement Number 3, Category (1), which specifies that all securities are insured or registered, or held by the City or its agent, in the City's name. Repurchase Agreements are disclosed as Category (2) as uninsured and unregistered investments for which the securities are held by the counter party, or by its trust department or agent in the City's name.

COLLATERAL

Collateral for public deposits is regulated by the State of Florida through, Chapter 280, Florida Statutes. The City shall not be under any obligation to secure additional collateral beyond the provisions set forth in Chapter 280, except in the case of Repurchase Agreements. Collateral requirements for Repurchase Agreements are contained in the Master Repurchase Agreement.

MASTER REPURCHASE AGREEMENT

The City has entered into only one Master Repurchase Agreement. Wachovia Bank, the City's primary depository, holds the contract.

Overnight ("sweep") Repurchase Agreements are collateralized by full faith or general faith and credit obligations of the United States Government or United States Government Agency securities.

- Purchased only from the City's contracted banking service provider.
- Securities used as collateralization for the overnight (sweep) Repurchase Agreement will be held for the benefit of the City with a third party, the Federal Reserve Bank or the contracted bank's correspondent bank in an amount not less than 100% of the overnight amount of the Repurchase Agreement.
- The City's primary depository must have on file an executed copy of the City's Master Repurchase Agreement for overnight repos and an executed Sweep Investment Service Agreement.
- Repurchase Agreements for the City of Pensacola will exist only for the purposes of an overnight "sweep".

At this time the Sweep agreement is dormant. On August 1, 2001, the Financial Service Department changed its venue for daily investment of surplus funds. Surplus funds are being invested in a Wachovia product entitled "Public Funds Now". This is an interest bearing account that mirrors the Sweep agreement. It calculates interest daily according to the agreed upon interest rate, adheres to collateralization rules, but posts an aggregate interest earnings amount at the end of the month instead of daily recording. The change was instituted to simplify the recording of interest on surplus funds that remain in the General Clearance Account.

INTERNAL CONTROLS

The Director of Finance has established internal controls to prevent loss of funds by fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the City. The internal controls are as follows:

- Investment transactions authority is limited to specific persons within the Financial Services Department.
- All investment transactions require approval of the Director of Finance.
- Staff in the Financial Services Department reconciles the City's general depository account on a monthly basis by comparing the City's general ledger with the applicable bank account statements. The reconciliation of the general depository account would reveal any difference in investment transaction recording and the actual movement of funds.
- Each month the designated staff person authorized to transact investments shall prepare an Investment Schedule. The schedule is then reviewed and reconciled to the general ledger by a person independent of the investment functions.
- Authority for wire transfers is restricted to specific individuals with specific dollar limits within the Financial Services Department. All non-repeat type wire transfers require verification authorization by a second individual specified in wire authority documents executed with the City's primary depository.
- Transfer of all funds through a central account only.
- Each year the City's external auditors review existing internal controls as well as investment transactions by examining data on a random basis.

The internal controls are designed to prevent losses of funds which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees. As required by Section 218.415(13), Florida Statutes, the internal controls shall be reviewed, at least annually, by the City's external auditors, as part of the required financial audit.

ACCOUNTING METHOD

For all investments with a remaining maturity of 1 year or less, the City of Pensacola has elected to use amortized cost method. All investments with a remaining maturity of 1 year or more are restated to fair value. All investment income, including changes in fair value of investments, shall be reported as revenue in the operating statement. The City shall comply with Statement No. 31 of the Government Accounting Standards Board.

REPORTING

The Director of Finance shall generate monthly investment reports for internal management purposes. Quarterly investment reports shall be prepared and reviewed by the City's financial advisors to evaluate overall performance and to assess the security of the investment types. It is incumbent on the financial advisor to notify the Director of Finance of any unsafe or unsecured investments. A plan of action will be obtained from the financial advisor when adverse circumstances occur.

This resolution supercedes Resolution No. 27-01.

**COMPLIANCE WITH CONTINUING DISCLOSURE
UNDERTAKINGS**

The City has entered into Continuing Disclosure Undertakings and covenanted to provide continuing disclosure for the benefit of the Bondholders in the respective Bond Resolutions in accordance with Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934. The Undertakings provide that for as long as the Rule shall be in effect and the Bonds outstanding, each year the City shall file certain financial and operating information and timely notices of the occurrence of certain material events with each nationally recognized municipal securities information repository, the appropriate state information depository, if any, and with the Municipal Securities Rulemaking Board in certain cases.

The City is in compliance with the requirements as described in Section (b) (5) of the Rule for each Undertaking made by the City on or after July 3, 1995. The City has not filed any notice of "material events" as described in the Rule.

