City of Pensacola, Florida

Fiscal Year 2006
Report to Bondholders

Pelicans In Paradise

For the year ended
September 30, 2006

Introduction

Presented for your information is the City of Pensacola, Florida's thirteenth annual "Report to Bondholders". It is our effort 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 including economically, but not legally, defeased issues. All of the information presented is as of the close of our most recent fiscal year, September 30, 2006 unless the information is specifically noted as of a different date.

The Report to Bondholders and a Comprehensive Annual Financial Report (CAFR) will be submitted to the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) on an annual basis. The CAFR will remain as the City's official financial document. The City's internet home page also provides an electronic copy of the 2006 Report and CAFR under "City Financial Reports" (http://www.ci.pensacola.fl.us).

Any request for financial information must be submitted in writing, to the address noted below. 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 the NRMSIRS 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. 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.

The Pensacola community was impacted with two major hurricanes between September 2004 and July 2005. City Hall suffered significant wind and water damage causing city employees to relocate to various temporary sites. City Hall restoration was complete in July 2006 changing many departmental locations, primarily the City's Treasury activity from the fourth floor of City Hall to the first floor making it easier for customers to do business. The Housing department which previously occupied the third floor is now operating at a temporary offsite location until final renovation is made at a new location. The City continues to work with FEMA officials and insurance companies during the close out phase for Hurricanes Ivan and Dennis. The individual sections in this report, as well as the City's CAFR, contain pertinent information about the financial impact of Hurricanes Ivan, Dennis, and Katrina. Please read both documents for a complete understanding.

The 2006 Report to Bondholders is an updated version of the 2005 Report to Bondholders. If you have any comments or questions regarding this report or the City, please address them to:

Director of Finance
City of Pensacola
P.O. Box 12910
Pensacola, Florida 32521
(850) 435-1817 phone
(850) 595-1284 fax

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

REPORT TO BONDHOLDERS
CITY OF PENSACOLA, FLORIDA
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2006

JOHN R. FOGG
Mayor

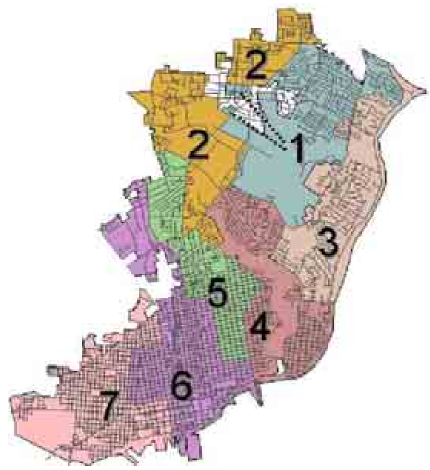
MICHAEL J. DeSORBO
Deputy Mayor, District 3

MARTY DONOVAN
Council, District 4

JOHN W. NOBLES
Council, At Large, District 8

RONALD P. TOWNSEND
Council, District 7

P. C. WU
Council, District 1



JEWEL CANNADA-WYNN
Council, District 6

JOHN JERRALDS
Council, District 5

J. D. SMITH
Council, District 2

MICHAEL C. WIGGINS
Council, At Large, District 9

THOMAS J. BONFIELD
City Manager

JOHN FLEMING
City Attorney

SALTMARSH, CLEAVELAND & GUND
City Auditors

RICHARD I. LOTT, ESQUIRE
City Bond Counsel

RBC CAPITAL MARKETS
City Financial Advisor

CITY ADMINISTRATION

ALVIN G. COBY Assistant City Manager	ROBERT T. PAYNE Assistant City Manager

DEPARTMENT DIRECTORS

DAVID BAILEY Community Redevelopment Agency	RICHARD BARKER, JR. Financial Services	ERICKA BURNETT City Clerk
KEVIN COWPER Community Development	MEL WATERS Interim Fire	GENE FISCHER West Florida Regional Library
AL GARZA, JR. Public Works	PAT HUBBARD Housing	SUZANNE HUMPHREY Civil Service
CLYDE E. MATHIS Port of Pensacola	JOHN MATHIS Police	FRANK MILLER Airport
JERRY MOORE Sanitation Services And Fleet Management	WILLIAM NORRISH Management Information Services	DERRIK OWENS Engineering
JODY SKELTON Parks and Recreation	MARY ANN STALCUP Employee Services	DON J. SUAREZ Energy Services of Pensacola

FINANCIAL SERVICES ACCOUNTING STAFF

PAMELA CHILDERS, CPA , CGFO
Financial Services Manager

AMBER McCLURE Accountant	LAURA PICKLAP Accountant

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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 has a Council-Manager form of government. The City Council consists of ten members. Members of the City Council serve for 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.

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

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

Thomas J. Bonfield, City Manager. Mr. Bonfield is an ICMA credentialed Manager and has been City Manager since November 1998. He is directly responsible for the overall administration of the City government, including departmental operations, budget and financial planning, and implementation of City Council policy. Mr. Bonfield's 29 year career in local government includes serving as City Manager for over thirteen years in Temple Terrace, Florida, and in finance related positions in various other local governments in Florida. He is an active member of the International City-County Management Association, sits of the board of The Alliance for Innovation (formally The Innovation Groups) and is a past president of the Florida City-County Management Association.

Robert T. Payne, Assistant City Manager. Mr. Payne has served as an Assistant City Manager since 1986. His areas of management responsibility include Energy Services of Pensacola (gas company), Pensacola Regional Airport, West Florida Regional Library, the City's Housing Department and the City's performing arts facilities. He also serves as the City's legislative liaison with the Florida Legislature. Mr. Payne received a Bachelors Degree in Political Science and a Masters Degree in Public Administration from the University of West Florida in 1980. He has served as an Adjunct Professor for the MPA program at UWF.

Al Coby, Assistant 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. His areas of management responsibility include Fire, Police, Sanitation Services and Fleet Management, Leisure Services, Public Works and Engineering. He also oversees real estate transactions for the City. 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).

John W. Fleming, City Attorney. Mr. Fleming received his Juris Doctor degree from Florida State University College of Law in 1974 and has been admitted to the Florida Bar since 1975. He became an Assistant City Attorney for the City of Pensacola in 1979 and has served as City Attorney since January 2006.

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 of the City of Pensacola from adverse effects of fires, sudden medical emergencies or exposure to dangerous conditions created by man or nature. The Fire Department, with 142 employees, serves the entire population within the city limits. Under a Mutual Aid Agreement with Escambia County, the Fire Department responds to emergencies and furnishes mutual aid to areas outside the city limits, if requested. The Fire 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. The Fire Department also in conjunction with Pensacola Junior College, serves as the regional testing and training site for the Florida Bureau of Fire Standards and Training.

The City of Pensacola Fire 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.

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 159 sworn officers, 68 civilians and 16 reserve 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 police department is to protect the lives and property of the citizens of Pensacola by enforcing municipal ordinances as well as county, state and federal laws.

The Pensacola Police Department is divided into the following major divisions:

- Uniform Patrol Division. These officers are the first responders around-the-clock on calls for service. Also included in this division is the Traffic Section.
- Criminal Investigations Division. These officers conduct follow-up investigations on all crimes related to property, such as burglaries, and to persons, such as homicide, sexual battery and assault. Also included in this division are Crime Scene, Tac and Crime Analysis.
- Administrative/Technical Services Division. This consists of the Records Section, which maintains all reports generated by officers plus the Communications Section, where dispatchers provide 24-hour service to the public and to officers. The division also includes Property Management/Fleet Management and Training. The Training section provides updated and mandatory training for all employees, and assists with the Citizens Police Academy.
- Community Services Division. This division is responsible for working with the various neighborhoods utilizing the Community Policing concept and assisting the residents in problem solving. The Community Service Division is responsible for D.A.R.E., the School Resource Officer program, and numerous other programs such as Neighborhood Watch.

***Engineering*.** The role of the Engineering Department is to provide technical and logistical support to all City Departments that includes surveying, engineering design, construction inspection, and complete project administration (including contract and grant management services) on street construction, storm drainage improvements, new building facilities and many other related site improvement projects on City property or in the public right-of-way (R/W). Engineering is also tasked with the issuance of R/W permits and Code Enforcement associated with permitted activities for modifications and construction in the public R/W by entities other than the City.

Engineering's primary objective is to upgrade existing infrastructure and to provide new infrastructure improvements consisting of transportation, stormwater facilities, traffic control, coastal/waterfront developments, new building facilities and environmental-related projects. The Department also strives to maximize R/W construction compliance with City Codes and to assist other departments and the public in properly addressing local, state, and federal requirements relating to most types of development and environmental issues.

Construction of new roadways is primarily financed by the Local Option Gas Tax (LOGT). This revenue source is collected county wide and is allocated on a pro rata basis to Escambia County and the City of Pensacola. The LOGT is strictly used for transportation related expenditures, whereas, the Local Option Sales Tax (LOST) is utilized primarily for infrastructure capital projects (building facilities, etc.). Construction of stormwater capital projects is primarily funded by the LOST and the Stormwater Utility Fee, which is a public assessment program adopted and put into place by the City Council.

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 of Public Works has assumed responsibility for all stormwater related activities of the City, including National Pollutant Discharge Elimination System (NPDES) compliance and all regulated parking and parking garage operations. Public Works also maintains the street sweeping activity, thereby placing all stormwater related maintenance activities within one department.

Stormwater and Street maintenance operations employ 27 full time people under the direction of a degreed specialist in Civil engineering. As of the FY 2005 Budget the Traffic, Signage, pavement maintenance , street sweeping and parking operations which employs 22 full time people is 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 Public Works Department is obtained through a combination of Stormwater Utility Revenue and from the City's General Fund. The Public Works Stormwater/ Transportation Capital Improvement five year program is funded through a combination of Local Option Sales Tax, Local Option Gas Tax and the Stormwater Capital Fund.

Parks and Recreation. The Department of Parks and Recreation 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 94 parks not including the Osceola Municipal Golf Course, Bayview Senior Citizens Center, and the Scott 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. Bayview Center, Gull Point Center, Fricker Center, Cobb Center, and Malcolm Yonge Center are some of the other centers run by our department. Also included are over 600 acres of well-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 with the Department 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.

Annually, more than 1 million participants and spectators enjoy the City's Athletic and Recreation programs, which includes the Community Center programs, Youth Soccer, Tee Ball and Machine Pitch Baseball, Youth Basketball, Youth Tackle Football, and Youth Baseball programs as well as adult softball, baseball, basketball, and volleyball.

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 cars, pull carts, a full service pro shop, and a restaurant and lounge. Approximately thirty-seven 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.

The golf course is accounted for as an enterprise fund, however, no debt has been issued and it will not have a separate section in this document.

West Florida Public Library. The West Florida Public Library serves residents of Escambia County and the City of Pensacola. The Pensacola Public Library (headquarters), the Tryon Branch, the Southwest Branch, the Westside Branch, the Century Branch and the 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. Some state aid supplements local funds, and federal grants may provide for special projects. 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, public parking, code enforcement, planning, inspections, neighborhood revitalization services and various municipally provided recreational services.

BUDGET

The City annually adopts an Operating Budget and a Capital Improvements 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 sixteen fiscal years, the City's operating budget has received the Government Finance Officers' Association's "Distinguished Budget Presentation Award."

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 been able to produce and finance two different and 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 which was extended by voter referendum on March 13, 2006. (Funding for the CIE is included within the CIP.) Enterprise departments provide funding for and develop their own capital improvement plan.

DEBT ADMINISTRATION

The majority of general government debt service obligations are paid from the Tax and Franchise Fee Debt Service Fund while the long term liability portion of the obligations are recorded in the General Long-Term Debt Account Group. Revenues pledged for debt retirement include 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 $3.8 million in principal and $2.5 million in interest for all general government debt transactions during the fiscal year 2006. Future debt maturities and enterprise debt administration are included in their respective sections of this report. The City has adopted a policy dealing with debt incurrence and administration 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 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 appropriate funds in order to properly reflect operations therein. In the fiscal year 2006, combined interest income for all Governmental, Expendable Trust, and Proprietary funds, and the component unit was $3,544,463, an increase from $2,155,911 in the previous year. The increase in interest income is a combination of rising interest rates and additional funds available for investments during the fiscal year. The City has adopted a policy dealing with investment activities which is included as Appendix B.

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 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). Pensacola's economy has traditionally been based on its natural resources: water, lumber and agriculture. The area is proud of its number one employer, the Navy; however tourism, industry, health care and education make up the majority of its workforce and economy. Existing industry has been joined over the past few years with corporate relocations and expansions from Michigan, Connecticut, Missouri, Ohio, Alabama and other states. Tourism is the area's second largest industry and has become a year-round business. The basis for that sustainable growth has been and continues to be the region's diversified economic base.

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 more than 30,000 military students annually. 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. A new National Flight Academy, focusing on math and science for 7 – 12 grade students, is under construction at the museum which will more than double the total size of the facility.

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 5,800 acres. In 1971, NAS Pensacola became the headquarters for NETC (Naval Education & Training Command), one of the largest U.S. 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 $2.1 billion, with over 21,000 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

	2003	**2004**	**2005**	**2006**
Total Personnel	22,334	20,698	18,677	21,140
Military	16,759	16,070	14,276	14,952
Civilian	5,575	4,898	4,401	6,188
Total Payroll*	$1,006,261	$862,371	$818,936	$ 1,110,135
Military*	$775,947	$637,920	$612,212	$768,402
Civilian*	$230,313	$224,451	$206,724	$341,922
Contracts and Purchases*	$357,091	$311,842	$263,557	$340,802

Source: NAS Pensacola Economic Impact Report (FY04), Pensacola Chamber of Commerce and University of West Florida Haas Center

- * - in thousands

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. Statistical Information gathered by the Haas Center for Business Research and Economic Development reported that in previous fiscal years Pensacola MSA tourism impact is $1.1 billion annually injected into the local economy which is the second largest sector of the county's economy. The Pensacola MSA area ranked 93rd for "Best Places for Business and Careers" among 200 large metro areas in Forbes magazine's May 4, 2006 issue.

Pensacola Beach tourism generates approximately $277 million in local sales per year representing one-third of the total Pensacola MSA impact as determined by the University of West Florida's Haas Center Economic Impact study prepared October 2002. Over 18,000 local jobs are directly or indirectly related to tourism; of that amount Pensacola Beach tourism supports an estimated 4,000. The main attraction is the area's sugar white sand beach along the Gulf of Mexico. Other attractions are the Gulf Island National Seashore (which includes Fort Pickens) and the National Museum of Naval Aviation with its IMAX theater. The National Seashore attractions are currently closed in the Fort Pickens Road and J. Earle Bowden Way areas due to damage from the recent hurricanes. It is anticipated road work will begin on Fort Pickens in 2007 pending all funding, design, and compliance restrictions are met. The area has a considerable number of facilities that support recreation and leisure activities including golf courses, marinas, museums, a zoo, and sports complexes.

With the relief of a hurricane free season in 2006, Pensacola Beach successfully continued its hurricane damage repair from the damage of the 2004 and 2005 hurricanes that struck the Gulf Coast. Even with one-third of its hotels off the market, the fiscal condition of the Santa Rosa Island Authority and Pensacola Beach improved through the support of tourists and locals. The majority of hurricane repair under local City government control is anticipated to be completed during 2007. A significant number of other hurricane damaged dwellings and buildings along the coast line will be rebuilt and replaced over an extended redevelopment period.

Government. Government's share of employment in the Pensacola MSA is approximately 17.62%. Government's employment share in Florida was 13.59% while its presence in Escambia County was 17.33%. 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 197,202 during calendar year 2006.

Pensacola MSA Employment/Unemployment Statistics
(in thousands)

	2002	2003	2004	2005	2006
Civilian Labor Force	186.57	191.30	194.84	197.18	203.57
Total Employment	176.64	181.98	185.72	189.45	197.20
Unemployed	9.92	9.32	9.12	7.73	6.37
Unemployment Rate (percent)	5.3	4.9	4.7	3.9	3.1

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

Ten Largest Employers and Manufacturers
Pensacola MSA

Rank	Employer	Principal Business	No. of Employees
1	Local Government	Government Services	15,848
2	Federal Government	Government Services	6,779
3	State Government	Government Services	5,121
4	Baptist Health Care	Health Care Service	5,000
5	Sacred Heart Health System	Health Care Service	4,160
6	Sacred Heart Women's Hospital	Health Care Service	4,000
7	Sacred Heart Children's Hospital	Health Care Service	2,500
8	Solutia, Inc.	Industrial Organic Chemicals	2,500
9	University of West Florida	Education	2,500
10	West Telemarketing	Telemarketing Services	2,500

Source: City of Pensacola, CAFR, Statistical section and the University of West Florida Haas Center.

TRANSPORTATION

Transportation facilities in northwest Florida include major federal and state highways linking the City of Pensacola and its hinterlands with major trade areas in the United States. Interstate 10 provides an east-west thoroughfare that connects Pensacola to Mobile, AL and New Orleans, LA to the west and Tallahassee, FL and Jacksonville, FL to the east. Highway 29 provides four-lane access to Interstate 65 connecting Pensacola to Birmingham and Montgomery, AL and Atlanta, GA to the north.

Two rail lines serve the City and the surrounding area with scheduled freight service. The Sunset Limited (Amtrak) passes 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 stations are currently closed until further notice. Interconnecting bus line service is available from the City to most of the nation and the City operates a bus transit service for the 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 Regional Airport is conveniently located near the center of Pensacola and is currently served by twelve different airlines.

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.

The available recreation system includes one public and numerous private golf courses, three private yacht clubs, 23 marinas, several tennis clubs, boat ramps, fishing piers, a private zoo, a paced 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 national seashore area was badly damaged due to the recent hurricanes and roadway access to many of the favorite public areas of gulf beachfront under federal and state control have yet to be restored.

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 Saenger Theater, a restored 1925 theater, with 1,778 seats and the University of West Florida Center for Fine and Performing Arts. The Saenger Theater will undergo a large renovation and expansion project beginning summer 2007. The project is anticipated to last anywhere from 10 – 24 months depending on construction, finances, and weather circumstances.

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 43,000 students, is the fourteenth largest school district in Florida and is the 110th largest in the nation. All high schools in the County are fully accredited by the Southern Association of Colleges and Secondary Schools. Pensacola High School ranked eighth in Newsweek magazine's May 2005 list of "America's Best High Schools". The following year in May

2006, Newsweek ranked Pensacola High School 38th out of America's 1,000 Top Schools. The District's average pupil/teacher ratio is approximately 14:1.

The University of West Florida was established in 1963 and classes began in 1967. The University is a public Four-Year and Masters University with the Carnegie Classification of MAI. The University is accredited by Southern Association of College and Schools. Graduate and undergraduate degree programs are offered in many disciplines including electrical engineering, education, business, and computer science with the current enrollment approximately 7,893 undergraduate, 1,264 graduate and 727 unclassified. Enrollment numbers are reported annually with the Florida Department of Education (http://www.fldoe.org).

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 30,000 students annually. The City also contains a number of private sector educational institutions including Pensacola Christian College.

UTILITY SERVICES

County residents, including residents of the City, receive water and sewer service from the Emerald Coast Utilities Authority, a franchised utility and a separate body, corporate and politic, of the State of Florida. 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 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.

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POPULATION AND PER CAPITA INCOME

Population. The population of the Pensacola MSA in 2006 was 445,021. Population for the Pensacola MSA is forecasted to grow to 525,710 over the next fourteen years. The current year's growth represents a 1.9% increase from the 2004 census population of 436,892. Income per capita in 2006, 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 $28,173, $28,069, $33,695 and $35,252 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
2006	307,806	137,215	445,021	17,706,930	298,444,215
FORECAST					
2010	317,262	150,523	467,785	18,866,703	308,936,000
2015	329,046	167,305	496,351	20,314,499	n/a
2020	341,072	184,638	525,710	21,792,601	335,805,000

Source: http://fred.labormarketinfo.com and http://www.cia.gov.

City of Pensacola Population

1980	1990	2000	2006	2010 Projectio
57,794	58,906	56,255	55,033 (a)	52,052

Source: City of Pensacola, CAFR, Statistical section and UWF HAAS Center
(a) 2006 population decreased as a result of the recent hurricane damage to the area causing a loss of homes and residents.

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Age and Gender Distribution for Population (percent)

2006

	Male	Female	0-14	15-24	25-34	35-44	45-54	55+	Median Age
City of Pensacola	47.1	52.9	18.2	12.5	11.3	12.4	15.2	30.4	41.9
Escambia County	49.9	50.1	19.4	15.6	12.8	12.9	13.7	25.6	36.8
Pensacola MSA	50.0	50.0	19.4	15.2	12.5	13.5	14.3	25.1	37.4
Florida	49.1	50.9	18.9	13.0	12.2	13.9	14.0	28.0	39.6

Source: Claritas Inc. through UWF Haas Center.

TOTAL RETAIL SALES

The following table sets forth the growth trend in total retail sales in the County for calendar years 2002, 2003, 2004, 2005 and 2006:

(In thousands)

	2002	2003	2004	2005	2006
Escambia Co.	$7,223,706	$7,622,642	$8,160,470	$9,437,405 (a)	$8,310,455

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

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

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BONDED INDEBTEDNESS

The following table shows the bonded indebtedness of the City and the principal amount outstanding on September 30, 2006.

Self-Supporting Revenue Debt	Principal
Gas System Revenue Refunding Bonds, Series 1994, due 12/01/07	$ 2,495,000
Airport Revenue Bonds, Series 1997B, due 10/01/14	5,190,000
Airport Revenue Refunding Bonds, Series 1998A, due 10/01/18	14,040,000
Gas System Revenue Bonds, Series 1999, due 12/01/19	8,000,000
Airport Capital Improvement Revenue Bonds, Series 2002, due 10/09	50,000
Airport Refunding Revenue Bonds, Series 2005A, due 10/01/27	15,145,000
Total Self-Supporting Revenue Debt:	$44,920,000
Non-Self Supporting Revenue Debt	
Capital Improvement Revenue Note, Series 1996, due 10/01/06	60,000
Sales and Excise Tax Revenue Bonds, Series 1996, due 10/01/08	7,060,000
Infrastructure Sales Tax Revenue Bonds, Series 1998, due 04/01/07	1,405,000
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	13,655,000
Redevelopment Refunding Bonds, Series 2004, due 04/01/13	2,605,217
Total Non-Self Supporting Revenue Debt:	$44,785,217
Total Bonded Indebtedness:	**$ 89,705,217**

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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, 2006	Non-Self Supporting	Self Supporting
Road Improvement Revenue Bonds, Series 1993B, due 1/1/2009	$ 0	$
Sales Tax Revenue Bonds, Series 2002, due 10/1/2033	86,335,000	
Tourist Development Revenue Bonds, Series 1992, due 1/1/2019	14,125,000	
Capital Improvement Bonds, Series 2002, due 10/01/2032	21,025,000	
Capital Improvement Revenue Notes/Bonds 97-99	18,646,000	
Capital Improvement Revenue Note, Series 2003	2,590,000	
Toll Facility Revolving Trust Fund	219,167	
Obligations under Capital Lease(s)	3,410,861	
Total Escambia County Direct Debt	$ 146,351,028	$ 0

Long-Term Debt of Escambia County School Board As of June 30, 2006	Non-Self Supporting	Self Supporting
State Board of Education Bonds	$ 10,470,000	$
Certificates of Participation	58,010,000	
Obligations under Capital Lease	4,070,281	.
Total Escambia County School Board Direct Debt	$ 72,550,281	$ 0

Direct, Overlapping and Underlying Debt Emerald Coast Utilities Authority As of September 30, 2006	Non-Self Supporting	Self Supporting
Utilities System Revenue Bonds, Series 1992B, due 1/1/15	$	$ 41,951,068
Sanitation System Impr & Refund Rev Bd, Series 1998, due 1/1/22		12,145,000
Utility System Revenue Bonds, Series 1998A, due 1/1/28		9,680,000
Utility System Refunding Revenue Bonds, Series 1998B, due 1/1/23		12,735,000
Utility System Revenue Bonds, Series 1998C, due 1/1/11		2,150,000
Utility System Revenue Bonds, Series 1998D, due 1/1/11		18,445,000
Utility System Revenue Bonds, Series 1999, due 1/1/29		22,520,000
Utility System Revenue Bonds, Series 2001, due 1/1/31		8,900,000
State of Fla Dept. of Envir. Protection, Revolving Loan, due 9/15/26		6,697,534
Utility System Revenue Bonds, Series 2001B, due 1/1/22		5,040,000
Utility System Revenue Bonds, Series 2003,due 1/1/33		22,210,000
Utility System Revenue Bonds, Series 2004, due 1/1/27		15,655,000
Utility System Revenue Bonds, Series 2006, due 1/1/27		17,335,000
Total Emerald Coast Utilities Authority Direct Debt	$ 0	$ 195,463,602

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 TOTAL GENERAL EXPENDITURES (1)
LAST TEN FISCAL YEARS
(Unaudited)

Fiscal Year	Principal	Interest	Total Debt Service	Total (2) General Expenditures	Ratio of Debt Service to Total General Expenditures
1996	2,171,590	1,533,472	3,705,062	39,852,622	9.30
1997	2,193,135	1,672,191	3,865,326	49,107,606	7.87
1998	1,989,795	1,884,271	3,874,066	42,586,603	9.10
1999	2,078,420	1,834,966	3,913,386	43,678,828	8.96
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

Source: City of Pensacola 2006 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.

PROSPECTIVE INDEBTEDNESS

The City is not anticipating issuing any new governmental debt in the succeeding year.

ASSESSED AND APPRAISED VALUES

The following table shows the assessed and estimated appraised value of taxable property (1) for the last ten fiscal years (unaudited):

Fiscal Year	Real Taxable Value (2)	Property Appraised Value (3)	Personal Taxable Value	Property Appraised Value (2)	Central Taxable Value	Property Appraised Value (2)	Total Taxable Value	Appraised Value (2)	Ratio of Total Taxable to Total Appraised Value
1997	1,221,514	1,979,990	285,977	326,791	4,291	4,291	1,511,782	2,311,072	0.65
1998	1,321,207	2,204,978	313,547	355,501	6,993	6,993	1,641,747	2,567,472	0.64
1999	1,446,293	2,408,748	315,854	357,361	5,651	5,651	1,767,798	2,771,760	0.64
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

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

PENSION FUNDS

The latest actuarial reports of the City's General, Fire and Police pension funds, each dated September 30, 2005 indicated that the pension benefit obligation as of that date exceeded the net assets available for benefits, at market, by $76,856,529. For the General Plan, the pension benefit obligation exceeded the net assets available for benefits, at market, by $53,477,790, for the Police Plan the pension benefit obligation exceeded the net assets available for benefits, at market, by $11,908,082, and for the Fire Plan, the pension benefit obligation exceeded the net assets available for benefits, at market, by $11,470,657. These liabilities are being funded on a "level percentage" basis for the defined benefit plans. The City anticipates it will be able to continue to fund such unfunded pension benefit obligation without adversely affecting operating revenues. The Pension information presented here is consistent with the information presented in the CAFR.

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	2002	2003	2004	2005	2006
Local Government Half Cent Sales Tax	$3,737,425	$3,809,645	$3,930,728	$4,407,658 (a)	$4,486,722 (a)
Local Option Sales Tax (one cent)	5,840,205	6,075,856	6,160,594	7,621,290 (a)	7,545,633 (a)
Franchise Fees					
Electric	3,267,474	3,726,879	3,869,524	4,062,816	4,623,059
Public Service Taxes					
Electric	3,471,997	3,888,937	4,011,306	4,091,458	4,572,114
Water	680,309	604,689	664,721	684,486	786,545
Gas (b)	595,117	647,045	517,963	487,828	456,161

(a) The increase in revenue collections is primarily due to the rebuilding efforts of the hurricanes.
(b) Declining gas public service tax revenues in FY 2004, 2005, and 2006 are a result of warmer than normal winters.

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 was 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, or storage for use, of tangible personal property in the State when the same is not sold in the State;
(c) rentals 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; apartments used as permanent dwellings; 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:

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

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

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, 2006 amounts received from the Local Government Half-Cent Sales Tax equaled $4,486,722.

AD VALOREM PROERTY TAX STRUCTURE

The City finances approximately 27 percent of its annual general fund operations from the receipt of ad valorem property taxes. Property values of existing homes and businesses have increased due to a hurricane destruction of a portion of the supply of available housing stock and business properties. A number of improved properties have not been reconstructed due to more stringent building codes, higher material costs, and higher insurance premiums. As the value of the destroyed improvements are taken off the tax rolls, the property tax burden is shifted to the remaining tax base. During the past year, property and casualty insurers have imposed unprecedented increases in property insurance rates due to hurricane losses. Such increases may constitute a significant barrier to ownership of both residential and commercial property. The State of Florida is expected to consider changes to the property tax system in order to offset some of the other factors that have increased the costs of owning property.

Property Tax Reform

In the current regular session of the Florida Legislature, it is expected that various property tax reforms proposals will be given serious consideration. Such proposals include, without limitation, replacement of property taxes with sales taxes, an increase in the $25,000 homestead exemption, portability of the limitations on increase in property valuation included in the Save Our Homes Amendment, and/or a cap on ad valorem tax revenues. In order for such proposals to become law, they would be required to pass both houses of the Florida Legislature and would need to avoid a veto by the Florida Governor. In addition, referendum approval by voters in the State of Florida may also be necessary. Furthermore, new and different proposals may emerge. At this time, there is no way to predict whether any of such proposals will become the law. While it is possible that any of such proposals, if they were to become law, could have an adverse affect on the amounts which it derives from ad valorem taxes, the City will continue to pay debt service on its bond obligations.

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 Escambia County (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 Statues.

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, 2006 amounts received from the Local Option Sales Tax equaled $7,545,633.

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, 2006, the franchise fees received from the Gulf Power Company amounted to $4,623,059.

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, 2006 the Public Service Taxes for electric, gas and water, amounted to $5,814,820.

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 pledged to existing debt issues, and may, in the future, be pledged to future debt issues of the City.** 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%. The collections for fiscal year 2006 were $5,620,991.

In February 2007, the City's Director of Finance learned that the Communications Services Tax (CST) for the City of Pensacola would be substantially lower than original estimates provided. The reduction in the monthly CST receipts is expected to impact the 2007 general fund operating budget on an ongoing basis of $1.9 million. The City understands that the correction of the error could be as high as $3.4 million for a total impact to the City of $5.3 million less in CST revenues for fiscal year 2007. The Communications Services Taxes collected in fiscal year 2006 totaled $5.6 million.

DEBT MANAGEMENT

On July 7, 2004, the City of Pensacola issued $14,000,000 of Sales & Excise Tax Refunding Revenue Bonds, Series 2004. These Bonds were used to refund the outstanding principal amount of the Sales & Excise Refunding Revenue Bonds, Series 1995 with the exception of the principal payment due October 1, 2004.

On July 23, 2000, the City of Pensacola issued $6,500,000 of Capital Improvement Revenue Bonds, Series 2000A. The funds were derived from the participation in the Gulf Breeze Capital Funding Loan Program. The proceeds were used to finance the acquisition and construction of capital improvement projects eligible to be financed from the Infrastructure Sales Tax.

On July 23, 2000, the City of Pensacola issued $13,500,000 of Capital Improvement Revenue Bonds, Series 2000B. The funds were derived from the participation in the Gulf Breeze Capital Funding Loan Program. Proceeds are being made available on an expense reimbursement basis. The proceeds are financing the acquisition and construction of capital improvement projects eligible to be financed from the Infrastructure Sales Tax.

On May 19, 1998, the City of Pensacola sold $10,000,000 of Infrastructure Sales Tax Revenue Bonds, Series 1998. The proceeds were used to finance the costs of certain capital infrastructure projects.

On November 7, 1996, the City of Pensacola sold $8,600,000 of Sales & Excise Tax Revenue Bonds, Series 1996. The proceeds were used for the purchase of capital assets and the construction of certain capital projects.

On July 19, 1996, the City of Pensacola issued a $500,000 Capital Improvement Revenue Note, Series 1996. The proceeds of this Note were used with other funds to commence the acquisition, construction and equipping of a capital project for renovation of the Saenger Theater.

HISTORICAL DEBT SERVICE COVERAGE

The following table shows historical debt service coverage for the Sales and Excise Tax Bond issues as of September 30, 2006. The table presents such coverage for all bond issues that pledge the Local Government Half-Cent Sales Tax (the "Sales Tax") and the Gulf Power Company Franchise Fee and Public Service Tax to meet debt service requirements.

DEBT SERVICE COVERAGE FOR SALES AND EXCISE TAX BONDS

	2002	2003	2004	2005	2006
Sales Tax	$3,737,425	$3,809,645	$3,930,728	$4,407,658	$4,486,722
Pubic Service Taxes	4,747,423	5,140,671	5,193,990	5,263,772	5,814,820
Franchise Fees (Electric)	3,267,474	3,726,879	3,869,524	4,062,816	4,623,059
Total Sales Taxes, Franchise Fees, and Public Service Taxes	$11,752,322	$12,677,195	$12,994,242	$13,734,246	$14,924,601
Total Maximum Bond Service Requirement on Parity Bonds	$3,854,471	$3,854,471	$3,737,057	$3,737,057	$3,737,057
Ratio of Total Sales Taxes, Franchise Fees and Public Services Taxes to Maximum Bond Service Requirement on Parity Bonds	3.05	3.29	3.48	3.68	3.99

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$8,600,000
CITY OF PENSACOLA, FLORIDA
SALES & EXCISE TAX REVENUE BONDS, SERIES 1996

Dated: November 1, 1996

PURPOSE:

The Series 1996 Bonds were issued to finance the costs of the acquisition and construction of certain capital projects of the City.

SECURITY:

The 1996 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 - MBIA Insurance Corporation

ISSUED AS:
$8,600,000 Serial Bonds

RATINGS:

Standard & Poors - AAA (insured) A+ (underlying)
Moody's - Aaa (insured)

REDEMPTION:

The 1996 Bonds maturing on or before October 1, 2006, are not subject to optional redemption prior to their respective stated dates of maturity.

Redemption Period (Both Dates Inclusive)	Redemption Price
10/01/2006 - 9/30/2007	102%
10/01/2007 - 9/30/2008	101%

OUTSTANDING PARITY BONDS:

The lien upon pledged revenues is on a parity with the Sales & Excise Tax Revenue Bonds, Series 2004.

$8,600,000
CITY OF PENSACOLA, FLORIDA
SALES & EXCISE TAX REVENUE BONDS, SERIES 1996

SUMMARY OF DEBT SERVICE REQUIREMENTS

FISCAL YEAR	INTEREST RATE %	PRINCIPAL	INTEREST	TOTAL
2007	4.90	2,680,000	300,400	2,980,400
2008	5.05	2,840,000	156,640	2,996,640
2009	5.10	1,540,000	39,270	1,579,270
Totals		$7,060,000	$ 496,310	$7,556,310

$10,000,000
CITY OF PENSACOLA, FLORIDA
INFRASTRUCTURE SALES TAX REVENUE BONDS, SERIES 1998

Dated: May 1, 1998

PURPOSE:

The Series 1998 Bonds were issued to finance costs of the acquisition, equipping and construction of certain capital infrastructure projects of the City.

SECURITY:

The Series 1998 bonds are payable solely from and secured by an irrevocable lien upon and pledge of receipts by the City from the proceeds of the Local Government Infrastructure Surtax.

AGENTS:

Registrar – The Bank of New York, Jacksonville, Florida
Paying Agent – The Bank of New York, Jacksonville, Florida
Trustee – The Bank of New York, Jacksonville, Florida
Bond Counsel - Miller, Canfield, Paddock and Stone, P.L.C., Pensacola, Florida

Insurance - MBIA Insurance Corporation

ISSUED AS:
$10,000,000 Serial Bonds

RATINGS:

Moody's - Aaa (insured); A1 (underlying)

Standard and Poor's - AAA (insured);
A+ (underlying)

Fitch - AAA (insured); A+ (underlying)

CALL PROVISIONS:

The Series 1998 Bonds are not subject to redemption prior to their stated dates of maturity.

OUTSTANDING PARITY BONDS:

None.

$10,000,000
CITY OF PENSACOLA, FLORIDA
INFRASTRUCTURE SALES TAX REVENUE BONDS, SERIES 1998

SUMMARY OF DEBT SERVICE REQUIREMENTS

FISCAL YEAR	INTEREST RATE %	PRINCIPAL	INTEREST	TOTAL
2007	4.45	1,405,000	62,523	1,467,523
TOTAL		$1,405,000	$62,523	$1,467,523

$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 the outstanding principal of the 1995 Sales & Excise Tax Refunding Revenue Bonds, Series 1995.

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 - MBIA Insurance Corporation

ISSUED AS:
$14,000,000 Serial Bonds

RATINGS:

Standard & Poors - AAA (insured)
Fitch - AAA (insured)

REEDEMPTION:

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 a 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
2007	2.500	178,000	471,288	22,000	58,249	200,000	529,537
2008	2.625	186,900	466,610	23,100	57,671	210,000	524,281
2009	3.250/4.000	952,300	447,492	117,700	55,308	1,070,000	502,800
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		$12,152,950	$2,283,122	$1,502,050	$282,184	$13,655,000	$2,565,306

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

$500,000
CITY OF PENSACOLA, FLORIDA
CAPITAL IMPROVEMENT REVENUE NOTE, SERIES 1996

The City of Pensacola issued its $500,000 Capital Improvement Revenue Note, Series 1996 with the proceeds to be used with other funds to commence the acquisition, construction and equipping of a capital project for renovation of the Saenger Theater. The note shall be payable solely from the amounts received by the Issuer, including donations in support of the Saenger Theater and certain non-ad valorem amounts deposited in the capital asset renewal fund of the Saenger Theater. Interest on the Note is 4.80% per annum, payable semi-annually April 1 and October 1 of each year, commencing October 1, 1996 with the Note maturing October 1, 2006. Principal balance as of September 30, 2006 is $60,000.

$6,500,000
CAPITAL IMPROVEMENT REVENUE BONDS, SERIES 2000A

The City of Pensacola issued $6,500,000 of Capital Improvement Revenue Bonds, Series 2000A on June 23, 2000. The funds were made available through participation in the Gulf Breeze Capital Fund Loan Program. The proceeds were received at closing and were used to finance the acquisition and construction of capital improvement projects eligible to be financed from the Infrastructure Sales Tax. The Bonds are variable rate with the interest rate set at the 7-day Bond Market Association (BMA) rate plus 34 basis points. Interest only is due through 2007 with principal and interest payments from 2008 through 2017. Principal balance as of September 30, 2006 is $6,500,000. The Series 2000A Bonds are payable from certain remaining Infrastructure sales tax revenues, and the City has also covenanted to budget and appropriate non-ad valorem revenues for payment of the Series 2000A Bonds. The City is currently seeking approval from the Loan Program to defer the repayment of principal installments on the Bonds until after 2012, to enable the City to use current collections of the 2006 renewal of the Infrastructure .Sales Tax to pay for additional infrastructure projects.

$13,500,000
CAPITAL IMPROVEMENT REVENUE BONDS, SERIES 2000B

In conjunction with the Series 2000A Bonds, the City of Pensacola issued $13,500,000 of its Capital Improvement Revenue Bonds, Series 2000B to evidence a loan in like amount from the Gulf Breeze Capital Fund Loan Program. Proceeds from the Series 2000B Bonds were thereafter drawn down from the Loan Program on an expense reimbursement basis. The proceeds were used to acquire or construct certain capital improvements eligible to be financed from the Infrastructure Sales Tax. The Bonds are variable rate with the interest rate set at the 7-day Bond Market Association (BMA) rate plus 34 basis points. Interest only is due through 2007 with principal and interest payments from 2008 through 2017. Principal balance as of September 30, 2006 is $13,500,000. The Series 2000B Bonds are payable from certain remaining Infrastructure sales tax revenues, and the City has also covenanted to budget and appropriate non-ad valorem revenues for payment of the Series 2000B Bonds. The City is currently seeking approval from the Loan Program to defer the repayment of principal installments on the Bonds until after 2012, to enable the City to use current collections of the 2006 renewal of the Infrastructure .Sales Tax to pay for additional infrastructure projects.

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.

MANAGEMENT

The CRA's operations are managed by a Director in coordination with the City Manager and other City support staff. David A.C. Bailey is the CRA Director. Mr. Bailey, a licensed architect (AR 0017296), was hired in January 2003. Mr. Bailey received a Master of Architecture from Virginia Tech in 1999 and a Bachelor of Design in Architecture from the University of Florida in 1991. Mr. Bailey is a member of the American Institute of Architects and holds a National Council of Architectural Registration Boards (NCARB) Certificate. Mr. Bailey previously practiced architecture in the Pensacola area, including several redevelopment projects within the CRA.

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 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. Over the past 22 years, the CRA has completed more than 35 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. One hundred eighty two (182) major projects (over $100,000 in permitted value) have been completed during this time period through private investment, public investment, and a combination of public/private partnerships. The public investment in these major projects totals $58,354,608 and the private investment in these major projects totals $189,456,336. The taxable value of taxable real property in the Urban Core Community Redevelopment Area has increased from $87,926,570 in calendar year 1984 to $340,264,710 in calendar year 2005. The Urban Core Community Redevelopment Area is approximately 8% of the City's calendar year 2005 taxable valuation for real property of $3.2 billion and represents approximately 8.6% of the City's land area.

Plaza de Luna (a 2 acre waterfront park), the Baylen Street Parking Garage, the Romana Street Drainage Improvements, and the Main Street Wastewater Treatment Plant Relocation are a few current examples of public within the Urban Core Community Redevelopment Area intended to continue the pattern of significant private reinvestment in the area. A variety of both current and past public projects are detailed in the "Community Redevelopment Agency Projects and Activities" section of this report and include the public-private partnership for Alcaniz streetscape, Hawkshaw Eastside Development, Community Maritime Park, 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.

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(l)(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.

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 appraised incremental property values for all Taxing Authorities within the Redevelopment Area for the past five calendar years:

Calendar Year	For Fiscal Year	Escambia County	City of Pensacola	Downtown Improvement Board
2001	2002	175,443,777	175,443,777	57,038,835
2002	2003	179,987,901	179,987,901	58,112,980
2003	2004	205,111,302	205,111,302	70,049,220
2004	2005	246,333,999	246,333,999	81,532,050
2005	2006	252,338,140	252,338,140	69,267,405

Source: City Finance Department - TIF-FY2005.xls

CERTIFIED MILLAGE OF TAXING AUTHORITIES

Fiscal Year	Escambia County	City of Pensacola	Downtown Improvement Board
2002	.008756	.005057	.002000
2003	.008756	.005057	.001000
2004	.008756	.005057	.002000
2005	.008756	.005057	.002000
2006	.008756	.005057	.002000

Source: City Finance Department

The annual millage rates levied by governmental units are subject to change by their respective governing bodies. No assurance can be given that the millage rates levied in the past will continue to be levied in the future.

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 are directly related to the recent development of several large residential and commercial projects.

Fiscal Year	Escambia County	City of Pensacola	Downtown Improvement Board *	Total	Percent Increase/ (Decrease)
2002	1,459,376	842,858	108,374	2,410,608	22.54%
2003	1,497,175	864,688	55,207	2,417,070	0.27%
2004	1,706,157	985,385	133,094	2,824,636	16.86%
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%

Source: City Finance Department

* FY 2002 and 2004-2006 Downtown Improvement Board millage rate was .00200. FY 2003 millage rate was .00100.

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 2005 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

	Real Property Taxable Value	Percentage of Total City Real Property Taxable Value
Simon DeBartolo Group (Cordova Mall)	$30,095,860	0.82%
Gulf Power Company	18,653,640	0.51%
Sacred Heart Hospital (Nemours Children's Clinic)	10,236,210	0.28%
Pensacola Gayfer Store (Dillards)	10,003,110	0.27%
Wal-Mart Stores, Inc.	8,282,840	0.23%

Source: Escambia County Property Appraiser's Office

REDEVELOPMENT AREA

	Real Property Taxable Value	Percentage of Redevelopment Area Real Property Taxable Values
Gulf Power Company	$18,653,640	5.48%
Pensacola City of Lessor (U.S. Federal Courthouse)	7,599,970	2.23%
GNL Pensacola LLC (Sun Bank Building)	7,067,630	2.08%
One Pensacola Plaza (Bank of Pensacola Building)	5,549,760	1.63%
Moulton Properties (Harbor View)	4,636,710	1.36%

Source: Escambia County Property Appraiser's Office

COMMUNITY REDEVELOPMENT AGENCY PROJECTS AND ACTIVITIES

Fiscal Year 2006 and Future

Two significant capital projects were completed or near completion in FY 2006. A 488 space parking garage was completed in partnership with Escambia County to serve both private and public parking needs associated with a thriving downtown and the completion of the new $28 million Courthouse complex. CRA provided $3 million in funding towards the garage portion of the project. Plaza de Luna, a 2 acre public waterfront park on the site of the former Bayfront Auditorium opened in January of 2007 and will help reenergize waterfront activity along the South Palafox St. corridor. The final cost of the park is projected at $2.9 million. The Berth 13 Bulkhead Replacement immediately adjacent to the park will be completed in 2007, providing additional public access to the waterfront.

The CRA continued to pursue the first phase of implementation of the Historic District Master Plan with a portion of the Alcaniz Initiative for streetscaping. Based on numerous public meetings with property owners, residents and business owners, the design of phase one of this project is near completion and the project is anticipated to begin in 2007. The estimated $3 million project includes undergrounding utilities and full streetscaping along 3 blocks within the Seville Historic District and partial undergrounding and full streetscaping along 6 blocks within the Old East Hill District.

The Main Street Sewage Treatment Plant Relocation Evaluation (2003), funded in cooperation with ECUA, is underway. ECUA has already initiated many aspects of the plant relocation process (including acquisition of a new plant site located outside of the CRA). It is anticipated that CRA will provide $19.5 million funding in beginning in fiscal year 2012 and commencing in fiscal year 2027 to assist in the clean up/demolition and reuse of the existing plant site. The plant is scheduled to close by September of 2009. In the event the plant is not relocated, funding will not be required.

A significant drainage project along East Romana Street in the vicinity of the Aragon neighborhood is being pursued to address some issues exacerbated by the tropical storm events of 2004 and 2005. Design work is fully underway and funding is being pursued through the FEMA State Joint Hazard Mitigation Program. The Community Redevelopment Plan was amended to include this project as a priority for action.

Over the past several years, the CRA has identified the need to prepare Request for Proposal (RFP) documents to solicit private interest in the redevelopment of certain CRA and City-owned parcels. A proposal for a Community Maritime Park on the 27 plus acre City-owned waterfront redevelopment site south of City Hall was accepted by the City Council in early 2006, passed by voter referendum in September 2006 and is now in development planning with a 3-5 year build out plan. CRA investment will be $40 million with remaining $30+ million from private investment and other sources. In a study completed by Haas Center, University of West Florida, 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 $124 million one-time economic benefit from the park's construction representing about 1,964 jobs and $51 million in labor income and forecasts that development of the park complex will result in 767 new jobs and $24.1 million annually in new wages that would not otherwise come to the region.

In late FY 2005, preparations began to declare a significant CRA-owned 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, the vacant 1.8 acre site, Hawkshaw Eastside, Inc. (HEI) was selected as the winning proposal in August 2006. HEI proposes a mixed use development including 96 residential units and 15,000 square feet of commercial space and to purchase the property for $1.4 million. The project incorporates significant elements of the Historic District Master Plan. Final negotiations for this project are underway with an anticipated construction start in 2007.

In FY 2006 the City of Pensacola amended the Land Development Code to allow greater residential density and eliminate parking requirement in portions of the central business district located within the CRA. As of FY 2006 year end, 20 significant multifamily residential projects within the CRA are proposed or in final approval stages, representing an additional 694 units upon completion, in addition to the single family development continuing in the Aragon Subdivision. This interest in residential housing and associated residents is having the anticipated effect of increased inquiries for development of retail, restaurant and other related commercial activities. The schedule for the construction of such projects or activities will depend upon economic conditions in the area. See "Ad Valorem Tax Structure" above. No assurance can be given that any of such projects or activities will be implemented or completed.

Recovery efforts from Hurricane Ivan (September 2004) dominated much of the energy of the CRA during fiscal year 2005 including assessment of damages, and identifying / securing Federal, state and local funding to execute the necessary repairs. The property damage and loss of structures due to Hurricane Ivan was reflected in property assessments in calendar year 2005. Although, no TIF growth was projected, the TIF funding actually did see a 2% increase.

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 2004 at 35% build out, it is generating approximately $334,000 in additional contribution, and with current projections would generate $884,000 at build out in additional annual TIF contributions, an increase of over 200% from initial projections. Upon build out, Palafox Pier Phase II was originally projected to generate $117,000 in additional TIF contributions. The calendar year 2004 TIF contributions from the second phase of the project was $188,000, well above the originally projected figure of $117,000. 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 50%. *Note: Increases and/or reductions of contribution from individual parcels are reflected cumulatively in the total TIF revenue collection each year.*

Past Projects and Activities

To assist with Hurricane recovery for low and moderate homeowners, a residential roofing program was developed to supplement numerous other programs of the City Housing Department and local non-profit organizations. The program provided up to $10,000 for roof and related repairs to owner occupied homes within the CRA. The existing Commercial Façade Program was critical to commercial property owners within the façade target area by providing necessary funding to address less critical, but highly publicly visible renovations and repairs.

While significant damage from the hurricanes was sustained by the Bayfront Municipal Auditorium, the *Waterfront Development Plan 2000* had called for its demolition in FY 2006. In concert with the demolition of the auditorium and finalization of park plans, Urban Design Associates was contracted to develop design guidelines for potential redevelopment of several significant City owned waterfront surface parking lots. The guidelines, once finalized and approved will serve as a basis for possible future development requests for proposals on these prime sites.

In March 2004, Zimmerman & Volk, Inc. reported on a market position analysis of market-rate residential development in the Community Redevelopment Area and the core of Downtown Pensacola. In summary, the analysis concluded that the CRA has a market potential of over 300 new dwelling units annually, with approximately half of those households moving from outside Escambia County. Additionally, based on the capture rates for the Community Redevelopment Area, absorption of 500 new dwelling units developed on large infill sites could be achieved within approximately three to five years from commencement of marketing, depending on housing type, phasing and construction, and barring a significant and persistent downturn in the national, regional and local economies. With the aftermath of the recent hurricanes, the assumptions under the study are still valid.

The CRA approved funding for streetscape improvements on Government Street between Baylen and Palafox Streets in September 2004. The section of Government Street located between South Palafox and Baylen in the urban core of the downtown central business district is the site of the Old County Court House Block Redevelopment area. Redevelopment includes significant private as well as public investments. The proposed streetscape renovation project design will allow for continuity along this corridor in conjunction with the upcoming construction of the Baylen Street Parking garage. This is another important part of the redevelopment of the central downtown business district. The revitalization activity proposed is designed to improve the redevelopment of the commercial core area by the stimuli of private investment. As commercial core properties are renovated and new construction is commenced will allow for occupancy by small businesses that will create jobs.

On September 30, 2003 the CRA partnered with the University of West Florida in a strategic planning and visioning process conducted by Urban Design Associates. In March 2004 the *Historic District Master Plan* was presented and outlined a comprehensive plan for the management of UWF historic structures and other historic resources in the downtown area, as well as strategies for significant redevelopment projects that may be incorporated into the CRA Plan. One such project is streetscape and improvements along the Alcaniz Street corridor. In the spring of 2004 CRA began a public input process for input on the scope of the project which would extend from Cervantes Street to Pensacola Bay. The mixed use corridor of Alcaniz Street is a primary gateway to the Pensacola Historic District from the north and south that can serve as a focus of community life and serve all neighborhoods. Its current design, however, prevents it from fulfilling this role.

On August 18, 2003 the CRA authorized an agreement with Gulf Power for the underground conversion of the substation located at Main and Barracks Street in an amount of $97,797 plus 10% contingency, and up to $55,000 for removal of the remaining substation enclosure, and provision of a new fence, landscaping, sidewalk, and historic lighting. Reconfiguration of the substation will eliminate visual blight from a major east-west traffic corridor and support the continued redevelopment of Pensacola's waterfront.

On August 18, 2003, the Community Redevelopment Agency (CRA) approved an Interlocal Agreement with Escambia County for the construction of a multi-level parking garage on County-owned property located on the northeast corner of Baylen Street and Intendencia Street and committed up to $3.0 million from the Community Redevelopment Agency Redevelopment Trust Fund (TIF) to pay for the construction of approximately 230 additional parking spaces in the garage. This project helps to support the redevelopment of the old courthouse block as well as nearby commercial activities. The 1999 *Downtown Pensacola Central Business District Expanded Parking Study,* completed in May 1999, projected the demand for downtown parking based on a projection of full build-out of the vacant parcels within the study area in mid-1999. The study also identified multiple sites throughout the study area for consideration for multi-level parking facilities. As part of the update of the parking study, the committee reviewed how the City and the County might partner to address the downtown parking demand on sites owned by the County.

Escambia County prepared a master plan for the entire block including the Old County Courthouse, the Matt Langley Bell Building, the legal services building and the adjacent Ordon's and Orvis buildings. The approved master plan for this block recommended that the Supervisor of Elections, Tax Collector, Property Appraiser, and Clerk of the Circuit Court be located in a new multi-story building on Government Street, as well as the renovated/rebuilt Ordon's and Orvis buildings, to create a County office complex centered around the Old County Courthouse in the heart of downtown. The Garage will also provide the required parking for the government facilities as required by the City of Pensacola Land Development Code, in addition to the approximately 230 spaces to be controlled by the CRA. The new multistory office building and the garage structure were completed at the end of calendar year 2006. The garage is available for public parking after business hours, providing convenient parking to downtown outdoor events such as Grace Fest, Spring Fest, and Jazz Fest. The County Administrator has brought about the possibility of the county operating the garage entirely and purchasing back the CRA's portion. It is anticipated, if this occurs, that the opportunity for monthly commercial leases will still exist.

The Community Redevelopment Agency (CRA) initiated two (2) downtown residential projects creating the opportunity for approximately 153 new residential units in the downtown area over a period of 3-5 years. The Aragon subdivision encompasses a 20 acre water-view site that was owned by the City and the CRA that was offered through a Request for Proposal (RFP) process for private development. The development group selected proposed the development of 129 residential units and 6 commercial sites. The final disposition agreement with the developer was executed and approved in June 1998 and the land was transferred in June 1999 after certain closing conditions had been satisfied. The CRA and the City completed streetscape improvements and drainage improvements estimated to cost $467,000 and $1.0 million respectively, as part of the public investment to prepare the site for redevelopment and to improve drainage conditions in the surrounding basin. The revenues received by the CRA and the City from the sale of the 20-acre site have been reinvested in the Redevelopment Area. In addition, at build-out this project is projected to generate an additional $280,000 annually to the CRA Tax Increment Financing (TIF) fund. As of September 2005, all 129 residential lots have been sold. Forty-five (45) units have been completed and 25 were under construction or in the building permit review process. Development plans for 12 commercial/retail lots are progressing.

A second residential project site was identified on City-owned property referred to as the Port Royal Phase II site. This site will accommodate 16 new single family and 8 carriage house residential units immediately north of the existing 61 unit Port Royal Phase I complex. The property is being leased to a private developer and lease revenues from the site will be reinvested in the Redevelopment Area. To date, eleven (11 residences (which include two (2) carriage house units) have been completed.

The South Palafox Marina and upland commercial project was constructed by the developer in two phases. The Phase I portion of the project involved the construction of the 92 slip marina and approximately 27,000 square feet of the upland development at a cost estimate of $5.2 million. The marina element of this phase of the project and the two upland buildings are completed. The projected annual TIF revenue, based on a recent Economic Development Ad Valorem Tax Exemption approved by the City Council for this phase of the project is $15,642. The Phase II element of the project included the remaining upland development with two (2) mixed-use 4 story buildings with approximately 47,000 square feet each and cost approximately $13.0 million. The calendar year 2004 TIF revenue from the second phase of the project was $188,000, well above the originally projected figure of $117,000. Construction of this second phase of the project was completed in September 2002 and build out of the interior units continues with current occupancy at approximately 50%.

DEBT MANAGEMENT

On July 23, 2004, the City of Pensacola sold $3,271,866 of Redevelopment Refunding Revenue Bonds, Series 2004. The proceeds were used to refund the Redevelopment Refunding Revenue Bonds, Series 1994.

HISTORICAL DEBT SERVICE COVERAGE

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

Fiscal Year Ending Sept 30	Total Tax Increment Revenues	Maximum Annual Debt Service	Debt Service Coverage on 1994 Bonds
2001 (1)	1,967,249	485,000	4.05
2002 (1)	2,410,608	485,000	4.97
2003 (1)	2,417,071	485,000	4.98
2004	2,824,635	429,414 (2)	6.58
2005	3,387,392	429,414	7.89
2006	3,442,877	429,414	8.02

Source: City Finance Department

(1) Fiscal years 2001-2003 refer to Series 1994 Bonds that were refunded July 2004. For the Series 1994 Bonds, maximum annual debt service occurs in 2011. Information is provided for historical viewpoint.

(2) Maximum annual debt service required by the Series 2004 Bonds occurred in 2004.

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

On July 23, 2004 Redevelopment Refunding Revenue Bonds, Series 2004 were issued to refund the outstanding principal amount of the Series 1994 Bonds. The tax increment revenues of the redevelopment area secure the principal and interest payments. Wachovia Bank, National Association was the sole purchaser of the bonds at a rate of 3.71% with the maturity in 2013.

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

SUMMARY OF DEBT SERVICE REQUIREMENTS

Fiscal Year Ending	Interest Rate %	Principal	Interest	Total
2007	3.71	332,761	96,653	429,414
2008	3.71	345,106	84,308	429,414
2009	3.71	357,909	71,505	429,414
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		$2,605,217	$400,682	$3,005,898

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 46,300 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 twenty-nine years of varied gas industry experience, twenty three of which have been with ESP. Mr. Suarez also serves on the Florida Natural Gas Association Board of Directors, 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 currently Vice 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 in 1993.

Glenn F. Bailey, Administrative Officer IV. Mr. Bailey received his Bachelor of Science Degree in Mechanical Engineering from the University of Alabama at Birmingham in 1990. He worked for the United State Air Force (USAF) as a Construction and Utility Engineer for approximately 10 years prior to joining Energy Services of Pensacola. He joined ESP in June 2001 and is currently responsible for engineering, construction and operations of the department.

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 as a Clerk I. In 1988, she promoted to Energy Services Representative, and then Senior Marketing Representative in 1994. In June 1997, Miss Wiggins became the Marketing Manager. In July 2000 she was promoted to Administrative Officer IV and is currently responsible for overseeing the Marketing activities of 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 1985 respectively. She joined ESP in March of 2001 in a newly created Business Development position with responsibility to develop new business opportunities. The purpose of which are to increase ESP’s customer base and/or increase gas sales through new services and new markets and improve customer satisfaction in existing markets in order to retain customers through the evaluation and implementation of special projects.

John Ramsey, Sr., Area Manager. Mr. Ramsey began his career with ESP as a laborer in 1972. Mr. Ramsey took advantage of opportunities to broaden his knowledge of natural gas industry by taking courses offered by industry association. Mr. Ramsey continued his advancement and reached the level of Gas Operations Supervisor in 1997. In fiscal year 2000 ESP reorganized it’s work flow model and based upon Mr. Ramsey’s experience he was selected Area Manager and currently oversees a staff of 71 and works closely with ESP’s independent contract coordinating construction projects.

CUSTOMERS

The customers of ESP fall into five major categories: Residential, Commercial, Municipal, Interruptible and Transportation. The largest classification is residential with 43,875 customers. The System has been aggressive in the residential markets by providing rebates to homebuilders resulting in the net addition of 220 new homes per year for the last three years. Currently there is customer growth particularly in the Northern and Western sections of the service area. If the current trends continue, a customer base near 44,100 should be achieved by the year 2007.

Historical Customer Connections

The following table shows the historical number of customer connections for the five fiscal years ending September 30, 2006.

	Total Customer Connections		
Fiscal Year Ended September 30	In City	Outside City	Total
2002	19,256	38,808	58,064
2003	19,046	39,663	58,709
2004	17,427	41,648	59,075
2005	17,396	41,828	59,224
2006	17,448	41,953	59,401

Ten Largest Customers

	MCF's	Revenue
Armstrong World Industries	713,132	$ 170,017
International Paper	661,179	997,312
Arizona Chemical, Inc.	161,113	143,712
Sacred Heart Hospital	118,999	1,267,073
Pensacola Christian Campus	112,479	1,240,384
University of West Florida	80,289	48,895
West Florida Hospital	72,757	792,305
Baptist Hospital	63,073	681,721
City of Gulf Breeze	60,769	695,384
Gelman Sciences Inc.	55,908	587,906
TOTALS	2,099,698	$6,775,904

Source: Energy Services of Pensacola

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 a 49% market penetration in new, residential construction. 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. The System 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. 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. One example is the tank-less, natural gas water heater. This type of water heater is becoming more popular in the residential and commercial markets. ESP also promotes gas cooking through a television show, Coastal Cooking, which airs weekly vignettes and quarterly cooking shows featuring local chefs and restaurants. ESP continued to offer free equipment inspections to local restaurants. Despite recent trends in gas conservation by its consumers, the system has had continued success in reaching its goal in attracting new consumers to natural gas. In fiscal 2006, based on City Council approval, ESP began a pilot project to offer gas piping installation for gas appliances and began an aggressive water heater replacement/conversion program throughout the ESP franchise area. In 2007 ESP will also offer subcontracting services to builders in the new home construction market.

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 $60.00 plus tax is required.

Fiscal Year 2006 Gas Billings

CLASSIFICATION	PERCENTAGE	AMOUNT
Residential	50.4	$25,925,074
Commercial	32.4	16,660,711
Industrial	12.2	6,301,397
Municipal	1.2	641,366
Other Billings	3.8	1,952,200
Total	100%	$51,480,749

Energy Services of Pensacola
Billings and Collections

Period Ended	Total Billed	Total Collected	Paid -30 Days	Paid -90 Days	Paid 90+ Days
9/30/06	$51,480,749	$50,965,942	$47,041,564	$1,885,740	$2,038,638

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 seven 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 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 46,000 regular gas service customers and 17 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, 2000.

ESP's current residential and commercial rate structure was instituted in fiscal year 2001 in response to increased competition by Gulf Power Company for ESP's gas markets and management's recognition that competitive pricing should be an important rate-making objective. In order to position itself more competitively in the industrial market, ESP created an innovative Industrial Flexible Contract Rate which has enabled ESP to negotiate prices with individual customers based upon their alternate fuel costs.

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Current Schedule of Rates and Charges
As Provided by Ordinance

Service Classification	Minimum Fee	Per MCF Charge
Residential (within City)	$ 6.00	$ 8.33
Residential (outside City)	7.00	10.00
Commercial (within City)	10.00	8.33
Commercial (outside City)	12.00	10.00
Gas Lights	6.20	
	Minimum Quantity	**Rate**
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
	Minimum Quantity	**1 MCF**
Interruptible Industrial Contract Service	25 MCF/Day	$ 5.00
		Per MCF Charge
Interruptible Industrial Contract Service	250 MCF/Day	$ 4.00
		Rate
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 three years has a stated expiration date of April 1, 2007; 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 currently negotiating a 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 utilizing the revised federal tax laws.

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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, 2006:

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)
2002	2,570,076	893,346	3,463,422	2,446,418	867,326	3,313,744	149,678
2003	3,210,077	904,710	4,114,787	3,134,841	883,506	4,018,347	96,440
2004	3,114,075 (2)	1,774,435	4,888,510	3,075,181	1,752,273	4,827,454	61,056
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

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, and 2006.

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 - $6.27 per MMBTU
Commodity Month Charge - Index minus $.09

FUTURE CAPITAL IMPROVEMENTS

The System's Capital Improvement Program is currently funded by current year revenues. The program is divided into three segments: capital equipment, South end construction and North end construction (the latter two referring to south and north of Ten Mile Road). Capital spending projections are approximately $6,130,000 over the next five years.

DEBT MANAGEMENT

On August 12, 1999, the City sold $8,000,000 in Gas System Revenue Bonds, Series 1999. The proceeds were used for numerous capital expansion projects.

On March 17, 1994, the City of Pensacola sold $12,760,000 of Gas System Revenue Refunding Bonds, Series 1994. The proceeds of this issue were used to refund Gas System Revenue Bonds, Series 1984 and Series 1990 and also to finance the cost of improvements to the gas distribution system.

DEBT SERVICE COVERAGE

Year Ending Sept 30	Operating Revenues(3)	Total Operating Expenses (1)	Total Net Revenues	Maximum Annual Debt Service(2)	Debt Service Coverage
2002	35,345,487	23,717,170	11,628,317	1,723,123	6.749
2003	40,710,596	32,202,634	8,507,962	1,723,123	4.938
2004	47,698,947	34,641,527	13,057,420	1,723,123	7.578
2005	47,698,953	35,967,157	11,731,796	1,723,123	6.808
2006	53,437,177	43,723,908	9,713,269	1,723,123	5.637

(1) Operating expenses are net of depreciation expenses.
(2) Maximum annual debt service occurs in fiscal year 2008.
(3) 2003 operating revenues are deflated by a deferred revenue posting of $2.3 million; 2004 operating revenues are inflated by the same posting. Deferred charges are not recognized as revenue in the year of posting; recognition of revenue is in the following year.
(4) 2006 operating expenses increased 21.5% primarily due to increased natural gas prices.

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$12,760,000
CITY OF PENSACOLA, FLORIDA
GAS SYSTEM REVENUE REFUNDING BONDS, SERIES 1994

Dated: February 1, 1994

PURPOSE:

The Series 1994 Bonds were issued to provide funds for the purpose of (i) financing the cost of refunding $3,182,914 outstanding principal amount of the City's Gas System Revenue Bonds, Series 1984; (ii) financing the cost of refunding all of the City's $6,555,000 outstanding principal amount Gas System Revenue Bonds, Series 1990; and (iii) financing the cost of construction of additions, extensions and improvements to the gas distribution system.

SECURITY:

The City has irrevocably pledged the Net Revenues derived from the operation of the Gas System for payment of principal and interest. In addition the City has established a Series 1994 Sinking Fund. Also, a municipal bond insurance policy was purchased to unconditionally and irrevocably guarantee the full and complete payment required to be made.

AGENTS:
Registrar – US Bank, Jacksonville, Florida
Paying Agent – US Bank, Jacksonville, Florida
Trustee - Wachovia Bank, Jacksonville, Florida
Bond Counsel - Miller, Canfield, Paddock and Stone & Lott, P.A., Gulf Breeze, Florida
Insurance -AMBAC Indemnity Corporation

ISSUED AS: $12,760,000 Serial Bonds

RATINGS:

Moody's - Aaa (insured)
Standard and Poor's - AAA (insured)

CALL PROVISIONS:

Optional Redemption

The Series 1994 Bonds maturing in the years 1994 through 2003, are not redeemable prior to their respective stated dates of maturity. The Series 1994 Bonds maturing in the year 2004 and thereafter are redeemable at the option of the City, in whole or in part, on or after December 1, 2003.

Redemption Dates (both dates inclusive)	**Redemption Price**
December 1, 2003 to November 30, 2004	102%
December 1, 2004 to November 30, 2005	101%
December 1, 2005 and thereafter	100%

OUTSTANDING PARITY BONDS:

The lien upon and pledge of the Pledged Revenues in favor of the Series 1994 Bonds is on a parity with the City's outstanding principal amount of Gas System Revenue Bonds, Series 1999.

$12,760,000
CITY OF PENSACOLA, FLORIDA
GAS SYSTEM REVENUE REFUNDING BONDS, SERIES 1994

SUMMARY OF DEBT SERVICE REQUIREMENTS

Fiscal Year Ending	Interest Rate %	Principal	Interest	Total
2007	4.750	1,215,000	92,856	1,307,856
2008	5.000	1,280,000	32,000	1,312,000
Totals		$2,495,000	$124,856	$2,619,856

$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 (i) to finance the cost of the acquisition and construction of certain additions, extensions and improvements to the City's existing gas distribution system; (ii) to pay the costs of a surety bond for the debt service Reserve Account; and (iii) to pay a portion of the issuance costs and municipal bond insurance.

SECURITY:

The City has irrevocably pledged the Net Revenues derived from the operation of the Gas System for payment of principal and interest. In addition the City has established a Series 1999 Sinking Fund. Also, a municipal bond insurance policy was purchased to unconditionally and irrevocably guarantee the full and complete payment required to be made of principal and of interest on the Series 1999 Bonds when due.

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:

Moody's - Aaa (insured); A2 underlying
Fitch - AAA (insured)

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 Refunding Bonds, Series 1994.

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

SUMMARY OF DEBT SERVICE REQUIREMENTS

Fiscal Year Ending	Interest Rate %	Principal	Interest	Total
2007	4.85	0	411,123	411,123
2008	4.85	0	411,123	411,123
2009	4.85	500,000	398,998	898,998
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		$8,000,000	$3,573,302	$11,573,302

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 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 10 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.

DESCRIPTION OF THE PORT

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

20 acres - tenant occupancy for marine related purposes
7 acres - warehouses for cargo operations
5 acres - berth aprons for vessel loading/discharging operations
4 acres - open for cargo not requiring cover
4 acres - roadways, rail trackage, equipment and materials storage

One of America's best protected harbors, the Port of Pensacola is also only eleven (11) miles from the deep-water sea buoy. The Port provides 2,370 linear feet of deep draft vessel accommodations and another 2,000 feet of shallow draft moorage. The Port can accommodate vessels with a draft of up to thirty-three feet (33') mean low water (MLW). There are five (5) general cargo transit sheds totaling over 300,000 square feet of covered storage, one (1) bulk warehouse totaling 45,000 square feet, a 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 both the CSX and Burlington Northern/Santa Fe Railroads.

MAJOR TENANTS

The following chart shows the six largest customers served by the Port as of September 30, 2006; revenue consists of rent, wharfage, storage and applicable vessel fees.

Customers	Revenue	Percentage of Total Revenues
Martin Marietta	$ 400,456	14.58%
CEMEX	395,000	14.38%
Pate Cold Storage	282,476	10.29%
Local Industries (GE, IP, PODS)	185,520	6.76%
Halcorp	134,584	4.90%
Delta Mariner	108,380	3.95%
USDA Bagged Grains	47,800	1.74%
Total	$1,554,216	56.60%

Source: City of Pensacola, Port records and 2006 CAFR. Percentages are based on total revenue of $2,746,166.

CARGO HANDLING

The Port has handled in excess of 35 million tons of cargo since 1970 with total tonnage handled at the Port in 2006 setting a five-year record of 849,000 tons.

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 annual in funding for infrastructure projects in designated SIS and emerging SIS regions. The Port has taken advantage of both programs.

Approved projects for the Port in fiscal year 2006 are as follows:

PROJECT	COST ESTIMATE	STATE CONTRIBUTION
Port Warehouse & Berth Improvements (FSTED) (06-07)	$500,000	$250,000
Warehouse & Cargo Protection Enhancements (FSTED) (07-08)	$500,000	$250,000
Port Rail Track Rehabilitation (SIS)	$1,000,000	$500,000
Port Ingress/Egress Improvements (SIS) (1)	$2,000,000	$1,000,000
Waterway Connector Dredging (SIS) (2)	$5,140,000	$2,570,000
Waterway Connector Bulkhead (FSTED) (2)	$3,780,000	$1,890,000
Berth 13 Bulkhead Replacement (3)	$500,000	$250,000

(1) Project being planned in conjunction with and will be partially funded by other City departments (Public Works/Streets, CRA, etc.) as part of ongoing evaluation of Main Street/Bayfront Parkway traffic flow issues.
(2) Project to be administered as part of the Maritime Park construction project. Partial funding (match requirement) to be provided by Community Maritime Park Associates.
(3) Berth 13 is contiguous to Plaza de Luna and administration of this asset has been assigned to the Community Redevelopment Agency (CRA). Therefore, partial funding (match requirement) will be provided by the CRA.

DEBT MANAGEMENT

On October 14, 1999 the Port of Pensacola entered into a Borrower's Agreement with the Florida Ports Financing Commission (the "Commission") to share in a cost-effective capital funding program made available through revenue bonds issued in the name of the Commission. On July 17, 1996, the Florida Ports Financing Commission was created pursuant to Section 320.20(3) and Chapter 163, Part I, Florida Statutes through an Interlocal Agreement among Canaveral Port Authority, Jacksonville Port Authority and Panama City Port Authority. The Commission's purpose is to provide a cost-effective means of financing various capital projects for the State of Florida's ports by issuing bonds and transferring the proceeds thereof to the individual ports. The Commission and SunTrust Bank, Central Florida, National Association, Orlando, Florida (the "Trustee") entered into an Indenture of Trust, dated September 1, 1999 (the "Indenture"), which authorized the issuance of $153,115,000 Florida Ports Financing Commission Revenue Bonds (State Transportation Trust Fund), Series 1999 (within this section only, the "Bonds"). On October 14, 1999, the Bonds were issued to provide funds to finance the costs of acquiring and constructing capital projects undertaken by 10 ports located in the State of Florida (the "Ports"), including the City. The amount allocated to the City is $2,696,036, which is available for approved expenditures. Additional funds can and have been made available from time to time when other participating ports fail to undertaken a specific project for which the funding was obligated. The Commission loaned the proceeds of the Bonds (the "Loans") to the Ports pursuant to separate loan agreements (the "Loan Agreements") entered into between each of the Ports individually and the Commission.

The Loan Agreement entered into by the City provides that the City will repay its Loan solely from moneys due from the State Transportation Trust Funds. Pursuant to Section 320.20(4), Florida Statutes, $10,000,000 of the revenues received by the State of Florida from motor vehicle registration fees is to be deposited annually in the State Transportation Trust Fund for funding Projects (the "State Moneys"). Basic Payments under the Loan Agreement are payable solely from moneys on deposit in the State Transportation Trust Fund. The Department of Transportation and the Commission entered into a Master Agreement pursuant to which the Department of Transportation agrees to transfer the State Moneys annually into an escrow account held by the State Department of Insurance, Division of Treasury, on behalf of the Trustee which may be drawn upon by the Trustee in order to pay the debt service on the Bonds as the same becomes due. The City has assigned all of its right, title and interest to the moneys allocated to the City from State Moneys to the Trustee on behalf of the Commission, to pay its portion of debt service on the Bonds.

In addition to the Basic Payments, the City agreed to pay on demand of the Commission or the Trustee additional payments constituting (a) its proportionate share of certain ongoing fees, costs and expenses related to the financing program, (b) all reasonable fees and expenses of the Commission and the administrator of the financing program, (c) its proportionate share of rebate obligations relating to the Bonds pursuant to Section 149 of the Internal Revenue Code of 1986, and (d) any unallowable costs required to be repaid by the Borrower under the Loan Agreement (the "Additional Payments"). The City has agreed to pay from legally available non-ad valorem revenues of its Port facilities (the "Port Revenues") sufficient moneys to make such Additional Payments. Such agreement is applicable solely to the Additional Payments and does not cover the Basic Payments.

The Bonds do not create nor constitute an obligation or debt of the State of Florida or any political subdivision thereof or any public corporation, port or governmental agency existing under the laws of the State of Florida other than the Commission. The Bonds do not constitute the giving, pledging or loan of the faith and credit of the State of Florida or any political subdivision thereof or any public corporation, port or governmental agency existing under the laws of the State of Florida. The Bonds are payable solely from State Moneys as the Basic Payments of the Borrowers.

The financing program of the Commission described above is in substance a grant program, inasmuch as all debt service payments on the Bonds are payable solely from moneys in the State Transportation Trust Fund. The program was structured with Loan Agreements in order to satisfy certain legal requirements. Bondholders have no recourse to the Borrowers, including the City, for payment of the principal and interest on the Bonds.

The City has not recorded a liability for the loan since it does not have any obligation except for moneys due to it from the State Transportation Trust Fund. As discussed above, all of such moneys have been assigned to the Trustee to pay the debt. Except to the extent the City is obligated to pay Additional Payments from the Port Revenues, the City has no other obligation on the debt and no other moneys of the Authority have been pledged, or are obligated for payment of the debt. As expenditures are incurred for the approved projects, the City records a receivable from the Commission for 50% of qualified amounts and records the amount to be reimbursed as contributed capital. As of September 30, 2006, the City has incurred $2,432,396 of eligible expenditures.

On August 1, 1995, the City issued $4,835,000 Public Improvement Refunding Revenue Bonds, Series 1995. The Series 1995 Bonds were issued to provide funds for the purpose of (i) financing the cost of refunding $4,350,000 outstanding principal amount of the City's Public Improvement Refunding Revenue Bonds, Series 1988; (ii) paying the costs of a surety bond for the debt service Reserve Account in an amount equal to the Maximum Bond Service Requirement of the 1995 Bonds; and (iii) paying a portion of the costs of issuance of the Series 1995 Bonds, including the costs of municipal bond insurance.

HURRICANES IVAN, DENNIS, AND KATRINA

The Port of Pensacola incurred $9.2 million in damages from Hurricane Ivan and a minimal $67,265 in damages from Hurricane Dennis. The port was not damaged by Hurricane Katrina, though it served for several weeks following Katrina's wake as the Gulf Coast's main lifeline for goods and fuel. In an effort to ensure that the port suffered minimum financial hardship from Hurricane Ivan, the Florida Seaport Transportation and Economic Development Council (FSTED) authorized a $610,000 grant to provide the local match required to receive Federal Emergency Management Agency (FEMA) funding. The Florida Department of Transportation also provided the City with $7.6 million from its State Infrastructure Bank Loan program to assist with Hurricane Ivan repairs. This $7.6 million was an interest-free loan to be repaid within two years with proceeds from the FSTED grants, FEMA reimbursement and insurance receipts. This loan has been fully repaid in compliance with the established terms.

DEBT SERVICE COVERAGE

The Port of Pensacola has no direct outstanding debt, however a portion of the 2004 Sales & Excise Tax Refunding Bonds 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 2004 Bonds.

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PENSACOLA REGIONAL AIRPORT

INTRODUCTION

The City of Pensacola owns and operates the Pensacola 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). In addition, New Orleans, Panama City and Montgomery Municipal airports define the outer boundaries of alternate airports a passenger in the region might choose. Pensacola's primary service area encompasses Escambia and Santa Rosa Counties in Florida and part of Baldwin County in Alabama. The secondary service area extends quite a bit further to the east and north. The area from Panama City to Defuniak Springs, north to Geneva marks the eastern boundary (approximately equidistant between Tallahassee and Pensacola). The western boundary of the secondary service areas overlaps that of Mobile Regional Airport. To the north, Escambia, Connecuh and Covington Counties in Alabama are part of the Airport's secondary service area.

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.

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.

Frank R. Miller, A.A.E., Airport Director. Mr. Miller has held the position of Airport Director since December 1987. He has held similar positions in Juneau, Alaska and with the Walker Field Airport Authority in Grand Junction, Colorado. Mr. Miller is a member of the American Association of Airport Executives (AAAE) having served as the Chairman of the AAAE Foundation Committee and two terms on the Board of Directors for AAAE. Mr. Miller is an active member of the Airports Council International – North America (ACI-NA) serving on the Government Affairs Committee and the Goals and Program Committee of the ACI-NA Board of Directors. Mr. Miller has also served twice on the ACI-NA Board of Directors and as the Chairman of the Small Airports

Committee. Mr. Miller is the Chairman of the Secure Airports for Florida's Economy (SAFE) Council created by the Florida legislature and charged with identifying new and innovative funding sources to help Florida's airports address increasing security and infrastructure needs. Mr. Miller is also past president of the Southeast Chapter of AAAE, past president of the Florida Airport Managers Association, past chair of the Northwest Region of the Continuing Florida Aviation System Planning Process (CFASPP), and past chair of the statewide committee for CFASPP.

Melinda Crawford, Assistant Airport Director for Finance**.** Ms. Crawford joined the Airport in August of 2002 overseeing Airport Finance. 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 M.B.A and B.S. in Accounting from Florida State University.

Greg Donovan, A.A.E., Assistant Airport Director for Operations. Mr. Donovan joined the Airport in June of 2001 overseeing airport security, maintenance and operations. Formerly of the Dane County Regional Airport in Madison, Wisconsin, he has more than 16 years professional experience in airport management having also worked for the Houston Airport System. Mr. Donovan received professional accreditation from the American Association of Airport Executives (AAAE) in 2004 and is an active member of AAAE, the Southeast Chapter of AAAE, past president of the Wisconsin Airport Management Association, and presently serves on the board of directors for the 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 7,004 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 six 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. Automobile rental services are provided by six rental car companies: Alamo, Avis, Budget, Dollar, Hertz and National.

General Aviation Facilities. General aviation facilities are operated by one fixed-base operator. Approximately 82 general aviation aircraft are based at the Airport. A new general aviation facility consisting of aprons, taxiways, roads, and parking facilities is operational. Infrastructure for corporate aircraft was completed in fiscal year 1998. Construction of 23 T-Hangars by private parties was completed in fiscal year 2000. Additional hangars were constructed in fiscal year 2001.

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

AIRLINE AND MARKET SHARES

The Airport is currently served by four major/national passenger airlines and seven regional/commuter airlines, operating under code-sharing agreements with four major airlines. The following table presents the airline shares of enplaned passengers and landed weight at the Airport for fiscal years 2002, 2003, 2004, 2005 and 2006.

Pensacola Regional Airport

(For Fiscal Years Ended September 30)

Share of Enplaned Passengers

Airline	FY 2002	FY2003	FY2004	FY2005	FY2006
AirTran Airways	12.30%	13.40%	12.69%	11.61%	16.02%
Continental	6.80	4.80	3.42	0.75	.02
Delta	33.20	33.90	33.29	33.62	26.83
US Airways	17.00	13.30	13.74	3.89	.17
Non-Commuter Total	69.30	65.50	63.14	49.87	43.04
Commuters (1)	30.70	34.50	36.86	50.13	56.96
	100%	100%	100%	100%	100%

Share of Landed Weight

Airline	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
AirTran Airways	12.15%	14.68%	13.13%	11.08%	15.32%
Continental	7.45	5.79	3.92	0.90	.02
Delta	31.06	29.28	32.62	32.47	.25.2
US AIR	16.47	13.27	13.09	3.74	.15
Airborne Express (2)	2.82	2.85	2.74	2.43	2.66
Total Non-Commuter	69.95	65.87	65.50	50.62	43.35
Commuters (1)	30.05	34.13	34.50	49.38	43.35
	100%	100%	100%	100%	100%

(1) Commuters 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, 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 began service in October 1990, ceased jet operations in May 1992, replacing it with Mid-Atlantic Freight in April 1992. Airborne Express returned to jet operations in November 1993. (Airborne Express, Inc. is a wholly-owned subsidiary of Airborne, Inc. which is owned by DHL Worldwide Express B.V.)

ENPLANED PASSENGERS AT THE AIRPORT

The introduction of a low fare carrier to Pensacola 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 1997 – 2006 has seen an overall increase in passenger traffic of 43%.

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Historical Enplaned Passengers

Fiscal Year Ending	Enplanements	Airport Growth
1997	564,235	3.9%
1998	575,052	1.9%
1999	552,057	(4.0%)
2000	530,137	(4.0%)
2001	523,991	(1.2%)
2002	637,885	21.7%
2003	672,397	5.4%
2004	740,608	10.14%
2005	799,907	8.0%
2006	811,291	1.4%

Source: City of Pensacola, Regional Airport records.

Annual Growth in Domestic Scheduled Enplanements

Fiscal Year	Airport	Annual Growth
2002	637,885	21.7%
2003	672,397	5.4%
2004	740,608	10.14%
2005	799,907	8.0%
2006	811,291	1.4%

Source: City of Pensacola, Regional Airport records

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

The table below sets forth the number of enplaned passengers at the Airport for major and national airlines and commuter airlines for Fiscal Years 1997 through 2006.

Historical Airline Traffic Pensacola Regional Airport Enplaned Passengers

Fiscal Year	Major and National (1)	Commuter (2)	Total
1997	427,481	136,754	564,235
1998	460,660	114,392	575,052
1999	446,005	106,032	552,057
2000	404,485	125,652	530,137
2001	392,521	131,470	523,991
2002	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

Source: City of Pensacola, Regional Airport records

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

(2) Includes Air New Orleans, American Eagle, Henson Airlines, ASA, Chautauqua, Comair, Dolphin, Express I (Northwest Airlink), Freedom, Pinnacle, Mesaba, Florida Gulf, PBA, Royale Airlines, Scheduled Skyways, Skyway Commuter, Continental Express, US Airways Express (PSA, Mesa, Piedmont), Gulfstream (dba Continental Connection), and Aspen Mountain Air.

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 jet service or with commuter service. The resultant growth in commuter traffic therefore reflects significant increases. In 1997, 136,754 passengers departed on commuter carriers. In 2006, 461,935 passengers departed on commuter carriers. Commuter enplanements increased 238% over this period. Part of the reason for this trend is the replacement of jet service, or the complementing of jet service, by the major carriers with commuter airlines operating under code sharing agreements. US Airways, Delta, and Continental offer both jet and commuter service to various destinations. Another reason for this trend is the switch to larger, regional jet aircraft to replace the small prop-type aircraft often used by the commuter carriers. 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 has experienced the fluctuations of the airline industry's financial woes. However, during these difficult financial times, the Airport has seen overall positive growth, demonstrating the relative strength of the market. The significant increase in 2002 was due to the introduction of AirTran Airways and their low fare travel into the Pensacola market.

For the fifth consecutive year, the Airport reported record growth with 1.6 million total passengers in FY-2006. With both Delta and Northwest, two of the Airport's major airlines, in bankruptcy, the Airport still experienced a 1.2% in overall passenger growth FY-2006. This was a monumental achievement considering that Delta's bankruptcy reorganization plan significantly reduced service to most airports, including service to Pensacola Regional Airport, when it shifted its focus to utilizing its larger aircraft in larger international markets. Throughout the year, service gradually returned to Pensacola, and the Airport saw significant improvements in the availability of seats by the fall of 2006 with Delta introducing a Boeing 757 to its fleet serving Pensacola and they also began non-stop service to Jacksonville. At the close of FY-2006, the Airport had twelve different airlines offering more than 50 flights a day to major hub cities.

FORECASTED AIR TRAFFIC

Aviation demand is traditionally considered a function of economic and demographic conditions, both locally and at the national level. Other factors have, in the past, and will continue to influence in the future, the level and quality of service offered and the demand for those services.

On the strength of Pensacola's recent history of growth in enplaned passengers (despite adverse economic conditions) the City expects that, through marketing efforts, the market reach of the Airport will be extended. After taking into account the AirTran effect (or the significant increase in passenger traffic the first year after a low fare carrier is introduced into a new market) traffic forecasts assume the average annual rate of increase of the next ten years is 4% and aircraft departures are forecast to increase at an average rate of 2%.

KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC

Key factors that will affect future airline traffic at the Airport include the growth in the population and economy of the Airport service region, national and international economic conditions, airline economics and air fares, the availability and price of aviation fuel, airline service and route networks, the capacity of the air traffic control system, the capacity of and ability to expand the Airport itself. The military influence is expected to increase due to the relocation of several military schools to Pensacola Naval Air Station.

EVENTS SUBSEQUENT TO SEPTEMBER 11, 2001

In the years following the attacks on America, numerous changes occurred at the Airport. The Federal Aviation Administration and the Transportation Security Administration mandated security measures which had the potential to negatively impact unrestricted cash. The availability of federal Grants-in-Aid and Passenger Facility Charge funds has allowed sufficient funding for the imposed security measures without impacting cash flows. Increased operating costs for security are being funded from the existing budget through cost cutting measures in other non-security areas. Further, passenger traffic throughout the country declined severely following the attacks; however, the Airport experienced moderate growth resulting from the introduction of Air Tran Airways. While the long-term impacts of the attacks remains unknown, the Airport experienced passenger growth in Fiscal Year 2002 and continued to grow in Fiscal Years 2003, 2004, 2005 and 2006. The Airport conservatively estimates an overall increase in passenger traffic and associated revenues for the fiscal year 2007.

HURRICANES IVAN, DENNIS, AND KATRINA

Engineers estimated that the Pensacola Regional Airport incurred $7.6 million in damage from Hurricane Ivan which impacted the Pensacola area September 16, 2004. In an effort to ensure that the airport suffered minimum financial hardship from the storm, the Federal Aviation Administration (FAA) quickly ascertained the airport's needs and authorized two grants to fund hurricane recovery. The first grant in the amount of $2,478,285 was given for the purpose of rehabilitation to the terminal building. The second grant in the amount of $1,005,144 was authorized to fund repairs to all city-owned buildings at the airport. In addition to the FAA grants, the Federal Emergency Management Agency (FEMA) processed sixteen project worksheets totaling $1,752,135 to assist with the funding of hurricane recovery. The Florida Department of Transportation also provided the City with $5 million from its State Infrastructure Bank Loan program to assist with repairs. This $5 million is an interest-free loan that will be repaid within two years with proceeds from the FAA grants, FEMA reimbursement and insurance receipts. Although the exact amount that will be received from insurance reimbursement has not yet been determined, the availability of FAA, FDOT and FEMA funds will ensure that the airport will be able to make all needed repairs with minimal impact to its operational budget.

Hurricane Dennis impacted Pensacola in July 2005 causing minimal damages. Total damages suffered by the Airport as a result of Hurricane Dennis were $300,910. Hurricane Katrina's impact to the Gulf Coast was felt lightly and did not cause any damages to the Pensacola Regional Airport. Hurricane Dennis expenditures are reimbursable 75% FEMA and 12.5% State leaving the remaining 12.5% to be paid for out of the Airport's operating budget.

The Airport also experienced the completion or near-completion of a majority of the hurricane-related repair projects during fiscal year 2006. A $1.3 million energy modification project which allowed for the replacement of the HVAC systems was completed, and a $3.2 million roof replacement project is in progress. A $1.3 million terminal repair project is also nearing completion. These projects were funded by a combination of FAA, FDOT, FEMA, insurance and airport capital improvement account proceeds.

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 twelve (12) months ended June 30, 2006.

Domestic Origin-Destination Patterns Pensacola Regional Airport for the 12 Months Ended June 30, 2006

Rank	City of Origin or Destination (a)	Percent of Scheduled Airline Passengers
1	Washington (DCA,IAD) / Baltimore (BWI)	7.8%
2	Atlanta, Georgia (ATL)	5.9%
3	New York (JFK,LGA) / Newark (EWR)	5.6%
4	Dallas, Ft Worth (DFW)	3.9%
5	Philadelphia, P.A. (PHL)	3.1%
6	Chicago, O'Hare, Illinois (ORD)	2.9%
7	Denver, CO (DEN)	2.5%
8	Los Angeles (LAX)	2.4%
9	Las Vegas (LAS)	2.4%
10	Boston Logan (BOS)	2.4%
11	Charlotte (CLT)	2.2%
12	Houston (IAH)	2.1%
13	San Fran(SFO)/Oakland(OAK)/San Jose (SJC)	2.1%
14	Minneapolis / St. Paul (MSP)	2.0%
15	Kansas City International (MCI)	1.8%
16	Detroit / Flint (DTW)	1.6%
17	Miami(MIA) / Ft Laud(FLL) / Palm Beach(PBI)	1.5%
18	Seattle	1.5%
19	San Diego (SAN)	1.5%
20	Norfolk, VA (ORF)	1.4%
	Cities listed	56.6%
	Other Cities	43.4%
	All Cities	100.00%

(a) Top 20 Cities with 1% or more of total inbound and outbound passengers (on scheduled airlines) at Pensacola Regional Airport in 10% sample for 12 months ended June 30, 2006.

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

FUTURE CAPITAL IMPROVEMENTS

The City completed an Airport Master Plan Update in fiscal year 1999. The Airport Master Plan identifies future capital improvements for the Airport, including consideration of high speed runway exits, an employee parking lot, runway overlays, expansion of cargo and aircraft parking aprons, and runway extensions. An aggressive property acquisition for cargo and industrial use is also planned.

In addition, the City completed a Federal Aviation Regulations Part 150 Noise Study, approved by the Federal Aviation Administration ("FAA") in 1991. The Part 150 Noise Compatibility Plan involving noise mitigation efforts includes land acquisition, purchasing of avigation easements and the construction of a vegetative barrier. In addition to the funding available in the Airport's Capital Fund, federal grants-in-aid, and State grants, the Passenger Facility Charge (the "PFC"), approved in 1992 by the FAA, will assist in the financing of certain capital projects. Projects identified in the Noise Compatibility Plan (land acquisition, purchase of avigation easements, and construction of a vegetative buffer) have been funded from the PFC.

A new Air Traffic Control Tower was completed in May 1995. In December 1995, the FAA approved the usage of PFC revenue for terminal building improvements to include a concourse extension and improvements to the baggage claim area, which were completed in fiscal year 2000. The City has completed construction of a parking garage. The concourse extension accommodates both commuter aircraft and jet aircraft. Financing for the construction of the parking garage was completed in May 1997 (see below).

The Airport is undergoing a 5 year pavement rehabilitation program, funded by Grants-in-Aid and Passenger Facility Charges, which encompasses all runways and taxiways in the movement areas of the airfield. Taxiway A and Taxiway B rehabilitations are complete. Rehabilitation of Runway 8/26 is complete and an extension of the runway is also complete. The Airport is anticipating the commencement of the final aspect of its pavement rehabilitation program, the reconstruction of Runway 17/35, in the fall of 2007. The reconstruction of this north/south runway will cost approximately $28 million. $13.9 million of the funds needed for this project have been secured by FAA entitlement grants, $12.6 million was secured in FAA discretionary grants, $.7 million in state FDOT grants and the remaining $.7 million has been budgeted from the Airport's capital improvement budget.

CHANGE IN PASSENGER FACILITY COLLECTIONS AND USE

The Airport is currently closing out its east/west runway extension project and is using the federal Passenger Facility Charge (PFC) program to fund this project. The FAA has authorized the airlines to collect $4.50 for each revenue passenger boarding a plane at Pensacola Regional Airport; of the $4.50 collected by the airlines, $4.38 is remitted to the Airport for the purpose of paying for this eligible project.

A new PFC application has been processed and approved by the FAA. This $82.5 million application authorized the funding and financing of an expansion of the terminal building, the construction of an in-line explosive detection system, the purchase of eleven jet bridges, the expansion of the aircraft parking ramp, the purchase of several acres of land adjacent to the Airport for terminal area expansion, and several other smaller projects. In 2006, the application was amended and authorized funding was increased to $120,367,000. It is anticipated the issuance of bonds will provide financing of the projects with future PFC revenue being pledged for repayment.

PROSPECTIVE INDEBTEDNESS

The increase in passenger traffic has accelerated plans for extensive expansion and improvement projects at the Pensacola Regional Airport. The FAA has authorized the collection of $120,367,000 in Passenger Facility to fund a terminal expansion project that will include an addition to the airline ticketing area that will allow new airlines to operate at Pensacola. The terminal concourse will be expanded to accommodate 3 to 5 additional airline gates, and the baggage claim area will be increased to allow for reconfigured baggage claim devices. This project will also include the purchase and installation of 11 to 13 new jet bridges, the construction of an inline baggage screening system and improvements to the second floor passenger screening area. An expansion of the airline ramp to provide space for additional overnight aircraft parking will also be included in this PFC funded project.

Rapid growth in passenger traffic expedited the need to relocate the Airport's rental car service facilities and expand public parking. Property will be acquired and up to six rental car service facilities will be constructed. This project will be funded through the collection of Customer Facility Charges (CFC). The current CFC collected on each on-airport rental car company for each day of vehicle rental is $1.10; in December 2006 an additional CFC in the amount of $2.50 was approved. CFC fees are remitted to the Airport by the car rental companies on a monthly basis. The size and location of the parking expansion project has not been determined, but the project will be funded with general airport revenues.

Within the next 12 months, to provide permanent financing for the future projects described above, the Airport expects to issue $30 million of bonds payable from general Airport Revenues, $50 million of bonds payable from PFC revenues and possible general Airport Revenues, and $20 million of bonds payable from the CFC Revenues. It is expected that all of such bonds will be secured with liens junior and subordinate to the outstanding Airport Revenue Bonds described below.

In January, 2007, the City entered into loan agreements with the City of Gulf Breeze 1997 Loan Program for two loans to finance initial costs of the new projects. A 2006A Loan, in the amount of $9.5 Million for PFC eligible projects is secured by the PFC revenues of the Airport. A 2006B Loan, in the amount of $10.5

Million for parking and other general airport aspects of the Airport's capital improvement plan, is secured by certain general airport revenues remaining after debt service on the Airport Revenue Bonds has been paid. Pursuant to the City's Bond Resolution controlling the collection and application of the Airport revenues, the 2006A Loan and 2006B Loan are treated as subordinate indebtedness payable from the Subordinate Securities account created in the Bond Resolution. Whenever available PFC or general Airport revenues are insufficient for payment of project costs, the City will draw down principal amounts of the loans from time to time, as needed to pay costs of the respective portions of the projects. It is expected the two loans will be repaid from bonds expected to be issued by the Airport to provide permanent financing for the projects. Until the loans are repaid, the City has covenanted that it will not issue any additional obligations payable from the respective revenue sources without the consent of MBIA. In the event the permanent bonds are not issued, the City expects the revenue sources to amortize the loans on or before the October 1, 2017 maturity date of the Loans.

DEBT MANAGEMENT

On July 29, 2005, the City issued $15,145,000 of Airport Refunding Revenue Bonds, Series 2005A. The Series 2005A Bonds were issued to provide funds for the primary purpose of (i) 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 and (ii) paying certain costs of issuance of the Series 2005A Bonds.

On May 15, 1997, the City issued $20,445,000 of Airport Revenue Bonds, Series 1997A&B. The Series 1997A Bonds were issued to provide funds for the purposes of (i) financing and refinancing part of the cost of acquisition, construction and equipping of certain additional parking facilities at the Pensacola Regional Airport; (ii) paying part of the cost of retiring certain outstanding Airport Revenue Bonds Anticipation Notes, Series 1996; and (iii) funding the Debt Service Reserve Account and paying certain costs of issuance of the Series 1997A Bonds. The Series 1997B Bonds were issued to provide funds for the purposes of (i) financing and refinancing the remaining cost of the acquisition, construction and equipping of the Parking Facilities; (ii) paying part of the cost of retiring the Series 1996 Notes; and (iii) funding the Debt Service Reserve Account and paying certain costs of issuance of the Series 1997B Bonds. The 1997A Bonds were called on July 29, 2005 and paid for with the proceeds from the Airport Refunding Revenue Bonds, Series 2005A.

On July 7, 1998, the City issued $18,120,000 of Airport Revenue Refunding Bonds, Series 1998A. The Series 1998A bonds were issued to provide funds for the purpose of (I) 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 and (ii) paying certain cost of issuance of the Series 1998A Bonds.

On July 10, 2002 the Pensacola Regional Airport issued $6,000,000 Airport Improvement Revenue Bonds, Series 2002. The bonds are structured as a drawdown instrument entered into with the Gulf Breeze 1997A Loan Program with a variable rate calculated using the Bond Market Association rate plus 34 basis points. The bonds are secured by and payable from a pledge of Passenger Facility Charge (PFC) revenues. Proceeds will be used to finance the rehabilitation of runway 8/26.

DEBT SERVICE COVERAGE

Fiscal Year Ending Sept. 30	Operating Revenues	(1) Total Operating Expenses	Total Net Revenues	Maximum Annual Debt Service(2)	Debt Service Coverage
2002	10,631,339	6,015,311	4,616,028	3,551,578	1.30
2003	10,776,719	6,392,688	4,384,031	3,551,578	1.23
2004	11,224,092	6,763,761	4,460,331	3,551,578	1.26
2005	12,629,806	7,947,127	4,682,679	3,029,849	1.55
2006	14,669,455	9,428,716	5,240,739	3,029,849	1.73

Source: City of Pensacola, Financial Services
(1) Operating Expenses are net of depreciation expenses.
(2) Maximum annual debt service occurs in 2015.

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 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 Regional Airport.

A five year history of PFC revenues is as follows:

PFC	2002	2003	2004	2005	2006
Revenues	$1,799,260	$2,683,573	$3,312,518	$3,210,949	$3,493,752

$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 for 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 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 - MBIA Insurance Corporation

ISSUED AS:

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

RATINGS:

Moody's - Aaa (insured); A3 (underlying)

Standard & Poor's - AAA (insured); BBB+ (underlying)

Fitch - AAA (insured); BBB+ (underlying)

CALL PROVISIONS:

Mandatory Redemption

Term Bonds Due October 1, 2007

Year	Amount
2004	$175,000
2005	$435,000
2006	$460,000
2007 (maturity)	$485,000

Term Bonds Due October 1, 2014

Year	Amount
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.

Redemption Dates (both dates inclusive)	**Redemption Price**
Oct. 1, 2007 to Sept. 30, 2008	102%
Oct. 1, 2008 to Sept. 30, 2009	101%
Oct. 1, 2009 and thereafter	100%

OUTSTANDING PARITY BONDS:

The lien upon the Pledged Funds is on a parity with the Airport Revenue Bonds, Series 1988 and 1997A, and Airport Revenue Refunding Bonds, Series 1993 and Series 1998A.

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

SUMMARY OF DEBT SERVICE REQUIREMENTS

FISCAL YEAR	INTEREST RATE %	PRINCIPAL	INTEREST	TOTAL
2007	5.400	460,000	277,391	737,391
2008	5.400	485,000	251,876	736,876
2009	5.625	510,000	224,438	734,438
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		$5,190,000	$1,417,597	$6,607,597

$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 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 and to pay certain costs of issuance.

SECURITY:

The Series 1998 Bonds are secured by the pledge of Net 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 1998 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 - MBIA Insurance Corporation

ISSUED AS:

$7,305,000 Serial Bonds

$3,000,000 Term, due 10/01/2012 and $7,815,000 Term, due 10/01/18.

RATINGS:

Moody's - Aaa (insured); A3 (underlying)

Standard & Poor's - AAA (insured); BBB+ (underlying)

Fitch - AAA (insured); BBB+ (underlying)

CALL PROVISIONS:

Mandatory Redemption

Term Bonds Due October 1, 2012

Year	Amount
2010	$ 940,000
2011	$1,000,000
2012	$1,060,000

Term Bonds Due October 1, 2018

Year	Amount
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 (both dates inclusive)	**Redemption Price**
Oct. 1, 2008 to Sept. 30, 2009	102%
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 a parity with the Airport Revenue Bonds, Series, 1988 and 1997A & B, and Airport Revenue Refunding Bonds, Series 1993.

$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
2007	6.250	735,000	837,263	1,572,263
2008	6.250	780,000	789,919	1,569,919
2009	6.250	830,000	739,606	1,569,606
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		$14,040,000	$6,285,317	$20,325,317

$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 (i) 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 and (ii) paying certain costs of issuance of the Series 2005A Bonds.

SECURITY:

The Series 2005A Bonds are secured by the pledge of Net 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 - MBIA Insurance Corporation

ISSUED AS:

$15,145,000 Serial Bonds

RATINGS:

Moody's - Aaa (insured)

Standard & Poor's - AAA (insured)

Fitch - AAA (insured)

Optional Redemption

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

Redemption Dates (both dates inclusive)	**Redemption Price**
Oct. 1, 2016 and thereafter	100%

OUTSTANDING PARITY BONDS:

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

$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
2007	3.000	100,000	620,195	720,195
2008	3.000	100,000	617,195	717,195
2009	3.000	100,000	614,195	714,195
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		$15,145,000	$9,721,247	$24,866,247

$6,000,000
CITY OF PENSACOLA
AIRPORT IMPROVEMENT REVENUE BONDS, SERIES 2002

On July 10, 2002 the Pensacola Regional Airport issued $6,000,000 Airport Improvement Revenue Bonds, Series 2002. The bonds are structured as a drawdown instrument entered into with the Gulf Breeze 1997A Loan Program with a variable rate calculated using the Bond Market Association rate plus 34 basis points. Interest is paid monthly and principal is paid quarterly. The bonds have a sole pledge of Passenger Facility Charge (PFC) revenues and are anticipated to be paid in full in 2010. Proceeds will be used to finance the rehabilitation of runway 8/26. The variable interest rate terms of the Bonds preclude a calculation and the disclosure of debt service to maturity. Principal balance as of September 30, 2006 is $50,000 which matures on November 1, 2006.

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 live (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

APPENDIX B

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 Statues, 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 Statues.

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.

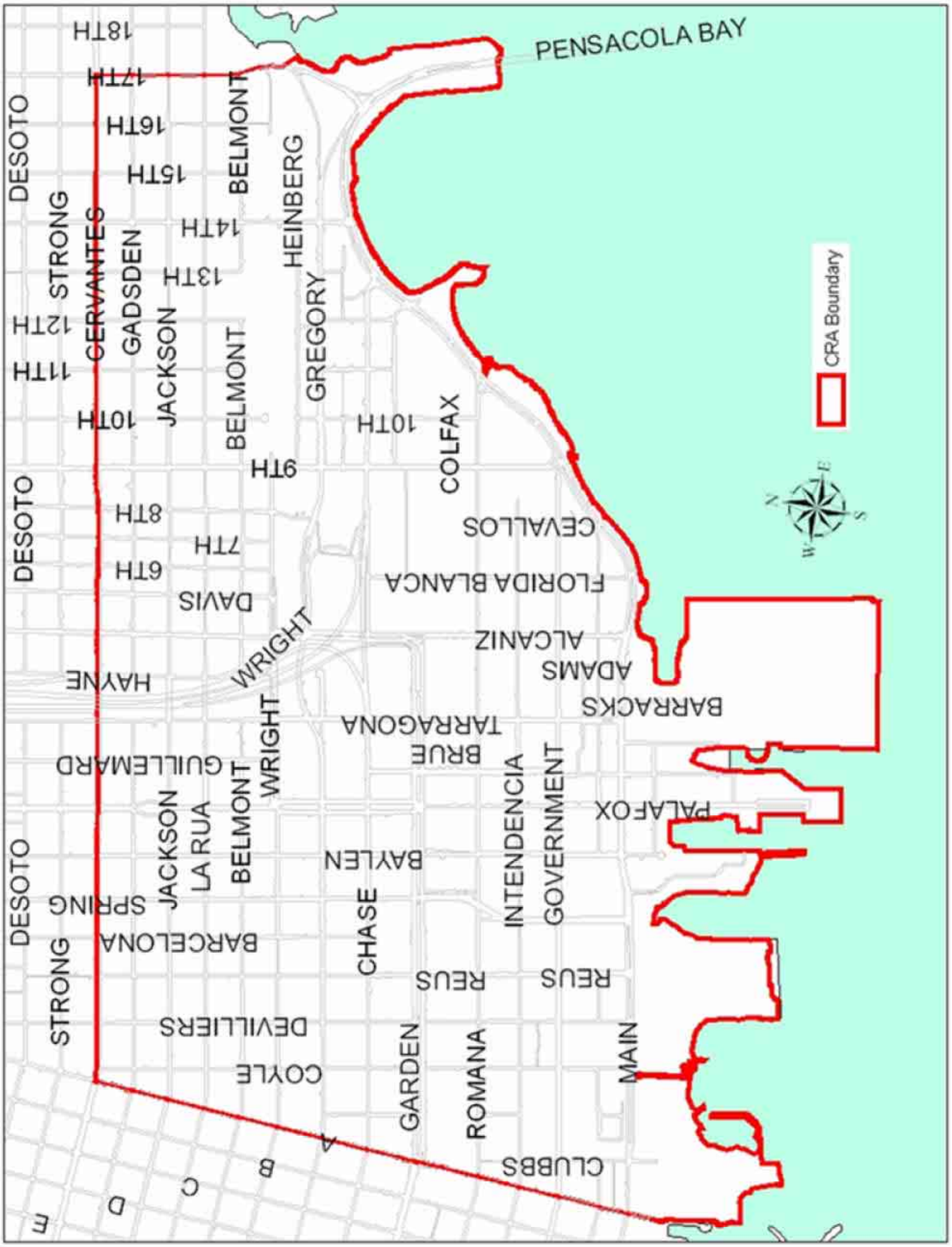
This resolution supercedes Resolution No. 27-01.

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.

APPENDIX D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CEVALLOS
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ALCANIZ
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GUILLEMARD
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GOVERNMENT
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