

RESOLUTION NO. 10-08

A RESOLUTION SUPPLEMENTING RESOLUTION NO. 03-55 OF THE CITY OF MARCO ISLAND, FLORIDA, AS PREVIOUSLY AMENDED AND SUPPLEMENTED; AUTHORIZING AND APPROVING THE NEGOTIATED SALE OF NOT TO EXCEED \$55,000,000 CITY OF MARCO ISLAND, FLORIDA TAX-EXEMPT UTILITY SYSTEM IMPROVEMENT AND REFUNDING REVENUE BONDS, SERIES 2010A AND NOT TO EXCEED \$10,000,000 CITY OF MARCO ISLAND, FLORIDA TAXABLE UTILITY SYSTEM REFUNDING REVENUE BONDS, SERIES 2010B TO FINANCE, REFINANCE AND/OR REIMBURSE THE COST OF CERTAIN ADDITIONS, EXTENSIONS AND IMPROVEMENTS TO THE MARCO ISLAND UTILITY SYSTEM, TO FUND NECESSARY RESERVES, TO CAPITALIZE INTEREST, AND TO PAY TRANSACTION COSTS, ALL SUBJECT TO THE SATISFACTION OF CERTAIN CONDITIONS CONTAINED HEREIN AND SUBJECT TO THE TERMS AND CONDITIONS OF A BOND PURCHASE CONTRACT; APPROVING THE FORMS OF AND AUTHORIZING THE EXECUTION OF SUCH BOND PURCHASE CONTRACT, A CONTINUING DISCLOSURE CERTIFICATE, AND A REGISTRAR AND PAYING AGENT AGREEMENT; DELEGATING TO THE CHAIRMAN THE AUTHORITY TO AWARD THE SALE OF SUCH BONDS TO MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED AND RBC CAPITAL MARKETS CORPORATION, PURSUANT TO A NEGOTIATED SALE AND SUBJECT TO THE CONDITIONS AND TERMS SET FORTH HEREIN AND IN THE PURCHASE CONTRACT; AUTHORIZING THE PURCHASE OF A FINANCIAL GUARANTY INSURANCE POLICY FOR ALL, SOME, OR NONE OF THE BONDS IN EITHER OR BOTH SERIES; AUTHORIZING EXECUTION OF AN INSURANCE COMMITMENT; APPROVING THE FORM AND DISTRIBUTION OF A PRELIMINARY OFFICIAL STATEMENT AND APPROVING THE EXECUTION AND DELIVERY OF A FINAL OFFICIAL STATEMENT; APPOINTING THE PAYING AGENT AND REGISTRAR; PROVIDING CERTAIN OTHER MATTERS IN CONNECTION THEREWITH; AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the City Council (the "City Council") of the City of Marco Island, Florida (the "Issuer") adopted Resolution No. 03-55 on September 29, 2003 (the "Original Resolution") to authorize the issuance of not to exceed \$105,000,000 City of Marco Island, Florida Utility System Revenue Bonds, Series 2003 (the "Series 2003 Bonds") and the issuance thereafter of "Additional Parity Obligations," as such term is defined therein; and

WHEREAS, pursuant to the Original Resolution, on November 6, 2003, the Issuer issued \$101,115,000 in original principal amount of its Utility System Revenue Bonds, Series 2003 (the "Series 2003 Bonds"); and

WHEREAS, the City Council of the Issuer adopted Resolution No. 05-71 on October 17, 2005 (together with the Original Resolution, the "Bond Resolution") to amend certain provisions of the Original Resolution; and

WHEREAS, all capitalized undefined terms shall have the meaning ascribed thereto in the Bond Resolution; and

WHEREAS, Section 20(Q) of the Bond Resolution provides that Additional Parity Obligations may be issued under the Bond Resolution, subject to the conditions set forth therein; and

WHEREAS, pursuant to the Bond Resolution, on December 5, 2006, the Issuer issued \$5,500,000 in original principal amount of its Utility System Revenue Bond, Series 2006 (the "Series 2006 Bond") as an Additional Parity Obligation thereunder; and

WHEREAS, pursuant to the Bond Resolution, on March 7, 2008, the Issuer issued \$7,477,241.15 in original principal amount of its Utility System Revenue Bond, Series 2008 (the "Series 2008 Bond") as an Additional Parity Obligation thereunder; and

WHEREAS, pursuant to the Bond Resolution, on November 20, 2008, the Issuer issued \$11,000,000 in original principal amount of its Utility System Revenue Bond, Series 2008B (the "Series 2008B Bond") as an Additional Parity Obligation thereunder; and

WHEREAS, pursuant to the Bond Resolution, on September 22, 2009, the Issuer issued \$11,000,000 in original principal amount of its Taxable Utility System Revenue Bond, Series 2009A (the "Series 2009A Bond") as an Additional Parity Obligation thereunder; and

WHEREAS, pursuant to the Bond Resolution, on September 22, 2009, the Issuer issued \$6,594,600 in original principal amount of its Taxable Utility System Revenue Bond, Series 2009B (the "Series 2009B Bond," and together with the Series 2009A Bond, the "Series 2009 Bonds") as an Additional Parity Obligation thereunder; and

WHEREAS, the proceeds of the Series 2009A Bond refinanced and retired the Series 2008B Bond; and

WHEREAS, the Issuer has determined to supplement the Bond Resolution to issue not to exceed \$55,000,000 City of Marco Island, Florida Tax-Exempt Utility System Improvement and Refunding Revenue Bonds, Series 2010A (the "Series 2010A Bonds"), and not to exceed \$10,000,000 City of Marco Island, Florida Taxable Utility System Refunding Revenue Bonds, Series 2010B (the "Series 2010B Bonds," and together with the Series 2010A Bonds, the "Series 2010 Bonds"), as Additional Parity Obligations; and

WHEREAS, the Series 2010A Bonds are being issued to: (i) finance and/or reimburse the costs of certain additions, extensions and improvements to the Utility System, including the costs of capitalized interest on a portion of the Series 2010A Bonds (the "2010A Project"); (ii) currently refund the Series 2009A Bond; (iii) fund a deposit into the 2010A Reserve Fund Subaccount created herein; and (iv) pay the allocable costs of issuance of the Series 2010A Bonds including, without limitation, the premium for financial guaranty insurance, if any; and

WHEREAS, the Series 2010B Bonds are being issued to (i) currently refund the Series 2009B Bonds; (ii) fund a deposit into the Reserve Fund created in the Bond Resolution; and (iii) pay the allocable costs of issuance of the Series 2010B Bonds including, without limitation, the premium for financial guaranty insurance, if any; and

WHEREAS, the Issuer has determined it to be in its best interests and to serve a paramount public purpose to provide in this Resolution for the issuance of the Series 2010 Bonds for the purposes heretofore stated, and this Resolution shall constitute a Supplemental Resolution for purposes of the Bond Resolution; and

WHEREAS, the Series 2010 Bonds shall be secured by the Pledged Revenues on parity and with and equal lien as to the Series 2003 Bonds, the Series 2006 Bond and the Series 2008 Bond; and

WHEREAS, pursuant to the Bond Resolution, the Issuer is permitted to incur "Subordinated Debt" which are obligations payable from Pledged Revenues on a junior, inferior and subordinate basis to the Series 2003 Bonds, the Series 2006 Bond, Series 2008 Bond, the Series 2010 Bonds and any Additional Parity Obligations issued in the future; and

WHEREAS, pursuant to the Bond Resolution, on May 22, 2007, the Issuer issued not to exceed \$20,000,000 in original principal amount of its Subordinate Wastewater Improvement Revenue Note, Series 2007 (the "Series 2007 Wastewater Note"), as Subordinated Debt in the form of a line of credit; and

WHEREAS, pursuant to the Bond Resolution, on August 5, 2008, the Issuer issued not to exceed \$18,500,000 in original principal amount of its Subordinate Wastewater Improvement Revenue Note, Series 2008 (the "Series 2008 Wastewater Note"), as Subordinated Debt in the form of a line of credit; and

WHEREAS, pursuant to the Bond Resolution, on August 5, 2008, the Issuer issued not to exceed \$4,000,000 in original principal amount of its Subordinate Water Improvement Revenue Note, Series 2008 (the "Series 2008 Water Note"), as Subordinated Debt in the form of a line of credit; and

WHEREAS, pursuant to the Bond Resolution, on March 3, 2009, the Issuer issued not to exceed \$14,155,000 in original principal amount of its Subordinate Wastewater Improvement

Revenue Note, Series 2009 (the "Series 2009 Wastewater Note"), as Subordinated Debt in the form of a line of credit; and

WHEREAS, on March 3, 2009, the Issuer reduced the amount of the line of credit relating to the Series 2008 Wastewater Note from \$18,500,000 to \$13,350,000; and

WHEREAS, on or about July 21, 2009, the Issuer retired the Series 2007 Wastewater Note; and

WHEREAS, pursuant to the Bond Resolution, on December 7, 2005, the Issuer entered into the Clean Water State Revolving Fund Loan Agreement WW71503P with the State of Florida Department of Environmental Protection (as amended, the "FDEP Loan Agreement"); and

WHEREAS, the FDEP Loan Agreement is Subordinated Debt and is payable from net revenues of the System on a junior, inferior and subordinate basis to the Bonds, the Series 2008 Wastewater Note, the Series 2008 Water Note and the Series 2009 Wastewater Note; and

WHEREAS, pursuant to the FDEP Loan Agreement, the Issuer borrowed \$1,657,448; and

WHEREAS, pursuant to the Bond Resolution, the Issuer may incur additional Subordinate Debt in the future, subject to satisfaction of certain requirements (i) therein, (ii) in certain loan agreements executed in connection with the issuance of the Series 2008 Wastewater Note, the Series 2008 Water Note, and the Series 2009 Wastewater Note, and (iii) in the FDEP Loan Agreement; and

WHEREAS, the Series 2010 Bonds shall not be or constitute general obligations or indebtedness of the Issuer as "bonds" within the meaning of the Constitution of the State, but shall be payable solely from and secured by a first lien upon and pledge of the Pledged Revenues in the manner and to the extent provided herein and in the Bond Resolution, and no Holder or Holders of Series 2010 Bonds issued hereunder and under the Bond Resolution shall ever have the right to compel the exercise of the ad valorem taxing power of the Issuer or taxation in any form of any real or personal property therein, or to compel the Issuer to pay such principal and interest from any other funds of the Issuer; and

WHEREAS, except as described above, the Pledged Revenues are not pledged or encumbered in any manner; and

WHEREAS, Merrill Lynch, Pierce, Fenner & Smith Incorporated, on behalf of itself and RBC Capital Markets Corporation (collectively, the "Underwriters") have indicated that they are willing to enter into the hereinafter defined Purchase Contract with the Issuer pursuant to which the Underwriters will agree to purchase the Series 2010 Bonds; and

WHEREAS, due to the present volatility of the market, the characteristics of the Series 2010 Bonds, the need to access the market very quickly, the willingness of the Underwriters to purchase the Series 2010 Bonds at interest rates favorable to the Issuer, and the critical importance of timing of the sale of the Series 2010 Bonds, the Issuer desires to sell the Series 2010 Bonds through a negotiated sale to the Underwriters pursuant to the terms of a Bond Purchase Contract, the form of which is attached hereto as Exhibit A (the "Purchase Contract"), if certain conditions set forth in this Resolution are satisfied; and

WHEREAS, prior to acceptance by the Issuer of the offer of the Underwriters to purchase the Series 2010 Bonds, the Underwriters will provide the Issuer with all applicable disclosure information required by Section 218.385, Florida Statutes, to be attached to, or otherwise included as part of, the Purchase Contract; and

WHEREAS, because of current volatile market conditions and conditions surrounding the current credit ratings of the various municipal bond insurance companies, the Issuer desires to provide for the option of insuring some, all or none of the Series 2010A Bonds and/or the Series 2010B Bonds, whichever is determined by the City Manager and the Finance Director to be in the best financial interests of the Issuer as provided herein, with financial guaranty insurance; and

WHEREAS, any such insurance would be obtained by issuance of a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") to be issued by Assured Guaranty Corp. (the "Insurer" with respect to any Series 2010 Bonds which are insured) pursuant to a commitment to provide such Financial Guaranty Insurance Policy (the "Insurance Commitment"); and

WHEREAS, although the Issuer is attempting to obtain the Insurance Commitment from the Insurer, current market conditions may prevent the Insurer from offering the Insurance Commitment in a timely fashion or at all; and

WHEREAS, any such Insurance Commitment will require that the Issuer agree to certain conditions relating to any Series 2010 Bonds which may be insured, including the making of certain covenants set forth herein; and

WHEREAS, in connection with the offering and sale of the Series 2010 Bonds, the Issuer desires to approve the distribution of the Preliminary Official Statement, a form of which is attached hereto as Exhibit B, to delegate to the Finance Director the authority to deem the Preliminary Official Statement "final" for purposes of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), and to delegate to the Chairman, the City Manager and the Finance Director the authority to execute and deliver a final Official Statement with respect to the Series 2010 Bonds (the "Official Statement"); and

WHEREAS, the Issuer desires to appoint the Registrar and Paying Agent with respect to the Series 2010 Bonds and authorize the execution and delivery of a Registrar and Paying Agent Agreement, a form of which is attached hereto as Exhibit C (the "Registrar and Paying Agent Agreement"); and

WHEREAS, in connection with its continuing disclosure obligations under the Rule, the Issuer desires to approve the form of, and authorize the execution and delivery of, a Continuing Disclosure Certificate, a form of which is attached hereto as Exhibit D (the "Continuing Disclosure Certificate").

NOW THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MARCO ISLAND, FLORIDA, AS FOLLOWS:

SECTION 1. Approval of Issuance of Series 2010 Bonds; Terms of Series 2010 Bonds; Execution of Series 2010 Bonds. The Series 2010 Bonds are hereby authorized to be issued subject to the terms and conditions set forth herein.

The Series 2010A Bonds are hereby authorized to be issued in the aggregate principal amount of not to exceed \$55,000,000, and the Series 2010B Bonds are hereby authorized to be issued in the aggregate principal amount of not to exceed \$10,000,000. The Series 2010 Bonds are hereby authorized to be issued in fully registered form without coupons; may be Serial Bonds or Term Bonds; shall be dated; shall be numbered consecutively from one upward in order of maturity preceded by the letter "R"; shall be in the denomination of \$5,000 each, or integral multiples thereof; shall bear interest at such rate or rates not exceeding the maximum rate allowed by State law, the actual rate to be approved based on the parameters set forth herein; such interest to be payable semiannually at such times as are described below, and shall mature annually on such date in such years and such amounts as will be fixed by the Purchase Contract.

Each Serial or Term Bond shall bear interest from the interest payment date next preceding the date on which it is authenticated, unless authenticated on an interest payment date, in which case it shall bear interest from such interest payment date, or, unless authenticated prior to the first interest payment date, in which case it shall bear interest from its date; provided, however, that if at the time of authentication, payment of any interest which is due and payable has not been made, such Serial or Term Bond shall bear interest from the date to which interest shall have been paid.

The principal of and the interest and redemption premium, if any, on the Series 2010 Bonds shall be payable in any coin or currency of the United States of America which on the respective dates of payment thereof is legal tender for the payment of public and private debts. Interest on the Series 2010 Bonds will be payable semiannually on April 1 and October 1, commencing on October 1, 2010, or such other date as set forth in the Purchase Contract. The interest on the Serial or Term Bonds shall be payable by the Paying Agent on each interest

payment date, or the first business day following an interest payment date if such interest payment date is not a business day, to the person appearing on the registration books of the Issuer hereinafter provided for as the registered Holder thereof, by check or draft mailed to such registered Holder at his address as it appears on such registration books or by wire transfer to Holders of \$1,000,000 or more in principal amount of the Series 2010 Bonds. Payment of the principal of all Serial or Term Bonds (reduced by any Amortization Installments previously paid by the Issuer on any Term Bonds) shall be made upon the presentation and surrender of such Series 2010 Bonds as the same shall become due and payable.

As long as any Series 2010 Bonds are outstanding in book-entry form, the provisions of the Bond Resolution and this Resolution inconsistent with such system of book-entry registration shall not be applicable to such Series 2010 Bonds, and the Issuer covenants to cause adequate records to be kept with respect to the ownership of the Series 2010 Bonds issued in book-entry form or the beneficial ownership of bonds issued in the name of a nominee.

The Issuer hereby delegates to the Chairman the authority to determine the final terms of the Series 2010 Bonds, including (i) the dated date, (ii) the principal amount and whether the Series 2010 Bonds shall be issued as Serial Bonds and/or Term Bonds, (iii) the maturity dates and amounts, (iv) the interest rates, prices and yields, (v) the optional redemption features, if any, (vi) the Amortization Installments and other mandatory redemption features, if any, (vii) the sale date and the delivery date, (viii) all other details of the Series 2010 Bonds, and to take such further action as shall be required for carrying out the purposes of this Resolution all with respect to the Series 2010 Bonds.

The proceeds of the Series 2010 Bonds shall be applied in accordance with Section 6 of this Resolution and as provided in a certificate of the Chairman and Finance Director delivered upon issuance and delivery of the Series 2010 Bonds. The issuance of the Series 2010 Bonds authorized by this Resolution shall be subject to all of the terms and conditions which are set forth in Section 20(Q) of the Bond Resolution, and shall any condition set forth in Section 20(Q) not be met, the Chairman shall not deliver the Series 2010 Bonds herein authorized. As required by Section 20(Q)(10) of the Bond Resolution, all covenants contained in the Bond Resolution with respect to the Bonds shall be applicable to the Series 2010 Bonds.

The Series 2010 Bonds, in substantially the form approved pursuant to the Bond Resolution, shall be signed by, or bear the facsimile signature of the Chairman and shall be attested and countersigned by, or bear the facsimile signature of, the City Clerk, shall be approved as to form by the signature of, or bear the facsimile signature of, the City Attorney, and a facsimile of the official seal of the Issuer shall be imprinted on the Series 2010 Bonds.

In case any officer whose signature or a facsimile of whose signature shall appear on any Series 2010 Bonds shall cease to be such officer before the delivery of such Series 2010 Bonds, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes the same as if such Person remained in office until such delivery. Any Series 2010 Bond may bear

the facsimile signature of or may be signed by such persons who, at the actual time of the execution of such Series 2010 Bond, shall be the proper officers to sign such Series 2010 Bonds although, at the date of such Series 2010 Bond, such persons may not have been such officers.

SECTION 2. Award of Sale of the Series 2010 Bonds; Execution of Purchase Contract. Due to the present volatility of the market, the characteristics of the Series 2010 Bonds, the need to access the market very quickly, the willingness of the Underwriters to purchase the Series 2010 Bonds at interest rates favorable to the Issuer, and the critical importance of timing of the sale of the Series 2010 Bonds, the Issuer hereby determines to sell the Series 2010 Bonds through a negotiated sale to the Underwriters, and it is hereby determined that it is in the best interest of the public and the Issuer to delegate to the Chairman the authority to fix the final details of the Series 2010 Bonds and accept the offer of the Underwriters to purchase the Series 2010 Bonds at a negotiated sale pursuant to the terms of a Purchase Contract, the form of which is attached hereto as Exhibit A, if certain conditions set forth in this Resolution are satisfied; provided, however, that the Chairman shall not have the authority to execute and deliver the Purchase Contract, unless the Chairman shall have received from the Underwriters (i) all applicable disclosure information required by Section 218.385, Florida Statutes, and (ii) such other information as the Chairman shall deem necessary, upon the advice of the Issuer's Financial Advisor, Fifth Third Securities, Inc., which demonstrates to the Chairman that (A) the aggregate principal amount of the Series 2010A Bonds is not in excess of \$55,000,000, (B) the aggregate principal amount of the Series 2010B Bonds is not in excess of \$10,000,000, (C) the final maturity of the Series 2010A Bonds is not later than October 1, 2040, (D) the final maturity of the Series 2010B Bonds is not later than October 1, 2033, (E) the underwriting discount is not greater than 1.0% of the original principal amount of the Series 2010 Bonds, (F) the true interest cost rate on the Series 2010A Bonds is not greater than 7.0%, and (G) the true interest cost rate on the Series 2010B Bonds is not greater than 9.0%.

All actions of the Chairman taken pursuant to the authority contained in Sections 1 and 2 of this Resolution shall be evidenced by the execution and delivery of the Purchase Contract, which shall be filed with the City Clerk. The execution and delivery of the Purchase Contract shall constitute complete evidence of the actions of the Chairman and shall constitute the action of the Issuer. Subject to satisfaction of the conditions in this Section 2, the Chairman is hereby authorized and directed to execute and deliver, the City Clerk is hereby authorized to attest under seal, and the City Attorney is hereby authorized to approve as to form, the Purchase Contract. The execution and delivery thereof in the manner described in the preceding sentence shall constitute complete approval of such Purchase Contract by the Issuer, including any changes to the form attached hereto as Exhibit A, and shall be deemed to be a part of this instrument as fully and to the same extent as if incorporated verbatim herein.

SECTION 3. Optional Financial Guaranty Insurance; Financial Guaranty Insurance Policy Covenants and Agreements.

(A) In the event that the Insurance Commitment is received by the Issuer by 5:00 p.m. on March 3, 2010, then the City Manager and the Finance Director are hereby authorized, based on the advice of the Financial Advisor, to determine whether it is in the best financial interests of the Issuer to obtain financial guaranty insurance for some, all or none of the Series 2010A Bonds and/or the Series 2010B Bonds, and to take any actions and do all things necessary in order to obtain such insurance. In the event that the Insurance Commitment is not received by the Issuer by 5:00 p.m. on March 3, 2010 in a form consistent with the authority in this Resolution, then the Series 2010 Bonds shall be issued without financial guaranty insurance.

(B) The Financial Guaranty Insurance Policy, which guarantees the payment of principal and interest on any Series 2010 Bonds insured thereby (the "Insured Bonds"), is hereby authorized to be purchased from the Insurer in accordance with the Insurance Commitment, and payment for such insurance is hereby authorized from the proceeds of the Series 2010A Bonds and/or Series 2010B Bonds, as applicable. Assuming timely receipt of the Insurance Commitment as provided for hereunder, the City Manager and the Finance Director are hereby authorized to execute such Insurance Commitment. A statement of insurance is hereby authorized to be printed on or attached to the Insured Bonds.

(C) The Issuer hereby makes the following covenants and agreements for the benefit of the Insurer so long as any Insured Bonds remain Outstanding and the Financial Guaranty Insurance Policy remains in effect:

(1) Notices and Other Information.

(a) Any notice that is required to be given to holders of the Insured Bonds (the "Insured Bondholders"), any entity required pursuant to Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission or to the Paying Agent pursuant to the Bond Resolution shall also be provided to the Insurer, simultaneously with the sending of such notices. In addition, to the extent that the Issuer has entered into a continuing disclosure agreement, covenant or undertaking with respect to the Insured Bonds, all information furnished pursuant to such agreement, covenant or undertaking shall also be provided to the Insurer, simultaneously with the furnishing of such information.

(b) All demands, notices and other information required to be given to the Insurer shall be in writing and shall be mailed by registered or certified mail or personally delivered or telecopied to:

Assured Guaranty Corp.
31 West 52nd Street
New York, New York 10019
Attn: Risk Management Department
(Re: Policy No. [____])
Telecopy No.: (212) 581-3268

Confirmation: (212) 974-0100

Email: riskmanagementdept@assuredguaranty.com

(In each case in which notice or other communication refers to an event of default, a claim on the Financial Guaranty Insurance Policy or any event with respect to which failure on the part of the Insurer to respond shall be deemed to constitute consent or acceptance, then such demand, notice or other communication shall be marked to indicate "URGENT MATERIAL ENCLOSED" and shall also be sent to the attention of the General Counsel at the same address and telecopy above and at generalcounsel@assuredguaranty.com.)

(c) The Insurer shall have the right to receive such additional information as it may reasonably request.

(d) The Issuer will permit the Insurer to discuss the affairs, finances and accounts of the Issuer or any information the Insurer may reasonably request regarding the security for the Insured Bonds with appropriate officers of the Issuer, and will use commercially reasonable efforts to enable the Insurer to have access to the facilities, books and records of the Issuer on any business day upon reasonable prior notice.

(e) The Paying Agent shall notify the Insurer of any failure of the Issuer to provide notices, certificates and other information under the Bond Resolution or this Resolution.

(2) Defeasance. In the event that the principal and/or interest due on the Insured Bonds shall be paid by the Insurer pursuant to the Financial Guaranty Insurance Policy, the Insured Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer, and the assignment and pledge of the Pledged Revenues and all covenants, agreements and other obligations of the Issuer to the registered owners shall continue to exist and shall run to the benefit of the Insurer, and the Insurer shall be subrogated to the rights of such registered owners including, without limitation, any rights that such owners may have in respect of securities law violations arising from the offer and sale of the Insured Bonds.

In addition to the requirements in the Bond Resolution, to accomplish a defeasance of any Insured Bonds, the Issuer shall cause to be delivered:

(a) An opinion of Bond Counsel that (i) the defeasance will not adversely impact the exclusion from gross income for federal income tax purposes of interest on the Insured Bonds which are refunded and (ii) the Insured Bonds are no longer "Outstanding" under the Bond Resolution.

(b) An escrow agreement, in the case where an escrow is necessary, and an opinion of counsel regarding the validity and enforceability of the escrow agreement.

(c) The escrow agreement shall provide that:

(i) Any substitution of securities shall require verification by an independent certified public accountant and the prior written consent of the Insurer.

(ii) The Issuer will not exercise any optional redemption of the Insured Bonds secured by the escrow agreement or any other redemption other than mandatory sinking fund redemptions unless (i) the right to make any such redemption has been expressly reserved in the escrow agreement and such reservation has been disclosed in detail in the official statement for the refunding bonds, and (ii) as a condition of any such redemption there shall be provided to the Insurer a verification of an independent certified public accountant as to the sufficiency of escrow receipts without reinvestment to meet the escrow requirements remaining following such redemption.

(iii) The Issuer shall not amend the escrow agreement or enter into a forward purchase agreement or other agreement with respect to rights in the escrow without the prior written consent of the Insurer.

(3) Paying Agent.

(a) The Insurer shall receive prior written notice of any name change of the Paying Agent or the removal, resignation or termination of the Paying Agent.

(b) No removal, resignation or termination of the Paying Agent shall take effect until a successor, acceptable to the Insurer, shall be appointed.

(c) The Paying Agent may be removed at any time, at the request of the Insurer, for any breach of its obligations under the Bond Resolution.

(d) Notwithstanding any other provision hereof, in determining whether the rights of Insured Bondholders will be adversely affected by any action taken pursuant to the terms and provisions hereof, the Paying Agent shall consider the effect on the Insured Bondholders as if there were no Financial Guaranty Insurance Policy.

(4) Amendments and Supplements. With respect to amendments or supplements to the Bond Resolution which do not require the consent of the Insured Bondholders, the Insurer must be given prior written notice of any such amendments or supplements. With respect to amendments or supplements to the Bond Resolution which require the consent of the Insured

Bondholders, the Insurer's prior written consent is required. Any amendments or supplements to the Bond Resolution which are consented to by the Insurer shall be sent to the rating agencies that have assigned a rating to the Insured Bonds.

(5) Insurer as Third Party Beneficiary. The Insurer is explicitly recognized as being a third party beneficiary under the Bond Resolution and may enforce any right, remedy or claim conferred, given or granted under the Bond Resolution.

(6) Control Rights. The Insurer shall be deemed to be the holder of all of the Insured Bonds for purposes of (a) exercising all remedies and rights with respect to the Insured Bonds and directing the Paying Agent to take actions or for any other purposes following a default or an event of default, and (b) granting any consent, direction or approval or taking any action permitted by or required under the Bond Resolution by the holders of such Insured Bonds.

Anything herein to the contrary notwithstanding, upon the occurrence and continuance of a default or an event of default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Insured Bondholders or the Paying Agent for the benefit of the Insured Bondholders under the Bond Resolution.

(7) Consent Rights of the Insurer.

(a) Any provision of the Bond Resolution expressly recognizing or granting rights in or to the Insurer may not be amended in any manner that affects the rights of the Insurer under the Bond Resolution without the prior written consent of the Insurer.

(b) Wherever the Bond Resolution requires the consent of Insured Bondholders, the Insurer's prior written consent shall also be required; provided, however, notwithstanding anything in the Bond Resolution to the contrary, the written consent of no other Credit Facility Issuer shall be required.

(c) Any reorganization or liquidation plan with respect to the Issuer must be acceptable to the Insurer. In the event of any reorganization or liquidation, the Insurer shall have the right to vote on behalf of all Insured Bondholders absent a payment default by the Insurer under the Financial Guaranty Insurance Policy.

(d) The Issuer agrees not to sell, lease, encumber or in any manner dispose of, or permit to be sold, leased, encumbered or in any way disposed of, the System or any of the component parts (the water system or the wastewater system) of the System or any material part of the System or any such component parts of the System, without the prior written consent of the Insurer.

(e) The prior written consent of the Insurer shall be a condition precedent to the deposit of any credit instrument provided in lieu of a cash deposit into the 2010A

Reserve Fund Subaccount. Notwithstanding anything to the contrary set forth in the Bond Resolution, amounts on deposit in the 2010A Reserve Fund Subaccount shall be applied solely to the payment of debt service due on the Series 2010A Bonds and, any other obligations secured thereby.

(8) Payment Procedure Under the Financial Guaranty Insurance Policy.

(a) At least two (2) Business Days prior to each payment date of the Insured Bonds, the Paying Agent will determine whether there will be sufficient funds to pay all principal of and interest on the Insured Bonds due on the related payment date and shall immediately notify the Insurer or its designee on the same business day by telephone or electronic mail, confirmed in writing by registered or certified mail, of the amount of any deficiency. Such notice shall specify the amount of the anticipated deficiency, the Insured Bonds to which such deficiency is applicable and whether such Insured Bonds will be deficient as to principal or interest or both. If the deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent shall so notify the Insurer or its designee.

(b) The Registrar, shall after notice is given to the Insurer as provided above, make available to the Insurer and, at the Insurer's direction, to any fiscal agent, the registration books of the Issuer maintained by the Registrar and all records relating to the funds maintained under the Bond Resolution.

(c) The Paying Agent shall provide the Insurer and any fiscal agent with a list of registered owners of Insured Bonds entitled to receive principal or interest payments from the Insurer under the terms of the Financial Guaranty Insurance Policy, and shall make arrangements with the Insurer, the fiscal agent or another designee of the Insurer to (i) mail checks or drafts to the registered owners of the Insured Bonds entitled to receive full or partial interest payments from the Insurer, and (ii) pay principal upon the Insured Bonds surrendered to the Insurer, the fiscal agent or another designee of the Insurer by the registered owners of Insured Bonds entitled to receive full or partial principal payments from the Insurer.

(d) The Paying Agent shall, at the time it provides notice to the Insurer of any deficiency pursuant to paragraph (a) above, notify registered owners of Insured Bonds entitled to receive the payment of principal or interest thereon from the Insurer (i) as to such deficiency and its entitlement to receive principal or interest, as applicable, (ii) that the Insurer will remit to them all or a part of the interest payments due on the related payment date upon proof of its entitlement thereto and delivery to the Insurer or any fiscal agent, in form satisfactory to the Insurer, of an appropriate assignment of the registered owner's right to payment, (iii) that, if they are entitled to receive partial payment of principal from the Insurer, they must surrender the related Insured Bonds for payment first to the Paying Agent, which will note on such Insured Bonds the

portion of the principal paid by the Paying Agent and second to the Insurer or its designee, together with an appropriate assignment, in form satisfactory to the Insurer, to permit ownership of such Insured Bonds to be registered in the name of the Insurer, which will then pay the unpaid portion of principal, and (iv) that, if they are entitled to receive full payment of principal from the Insurer, they must surrender the related Insured Bonds for payment to the Insurer or its designee, rather than the Paying Agent, together with an appropriate assignment, in a form satisfactory to the Insurer, to permit ownership of such Insured Bonds to be registered in the name of the Insurer.

(e) In addition, if the Paying Agent has notice that any holder of the Insured Bonds has been required to disgorge payments of principal or interest on the Insured Bonds previously Due for Payment pursuant to a final non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy laws, then the Paying Agent shall notify the Insurer or its designee of such fact by telephone or electronic notice, confirmed in writing by registered or certified mail.

(f) The Paying Agent is hereby irrevocably designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Insured Bonds as follows:

(i) If and to the extent there is a deficiency in amounts required to pay interest on the Insured Bonds, the Paying Agent shall (a) execute and deliver to the Insurer, in form satisfactory to the Insurer, an instrument appointing the Insurer as agent for such holders in any legal proceeding related to the payment of such interest and an assignment to the Insurer of the claims for interest to which such deficiency relates and which are paid by the Insurer, (b) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Financial Guaranty Insurance Policy payment from the Insurer with respect to the claims for interest so assigned, and (c) disburse the same to such respective holders; and

(ii) If and to the extent of a deficiency in amounts required to pay principal of the Insured Bonds, the Paying Agent shall (a) execute and deliver to the Insurer, in form satisfactory to the Insurer, an instrument appointing the Insurer as agent for such holder in any legal proceeding related to the payment of such principal and an assignment to the Insurer of the Insured Bonds surrendered to the Insurer in an amount equal to the principal amount thereof as has not previously been paid or for which moneys are not held by the Paying Agent and available for such payment (but such assignment shall be delivered only if payment from Insurer is received), (b) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Financial Guaranty Insurance Policy payment therefore from the Insurer, and (c) disburse the same to such holders.

(g) Payments with respect to claims for interest on and principal of the Insured Bonds disbursed by the Paying Agent from proceeds of the Financial Guaranty Insurance Policy shall not be considered to discharge the obligation of the Issuer with respect to such Insured Bonds, and the Insurer shall become the owner of such unpaid Insured Bond and claims for the interest in accordance with the tenor of the assignment made under the Bond Resolution.

(h) Irrespective of whether any such assignment is executed and delivered, the Issuer and the Paying Agent hereby agree for the benefit of the Insurer that:

(i) they recognize that to the extent the Insurer makes payments directly or indirectly (e.g., by paying through the Paying Agent), on account of principal of or interest on the Insured Bonds, the Insurer will be subrogated to the rights of such holders to receive the amount of such principal and interest from the Issuer, with interest thereon as provided and solely from the sources stated in the Bond Resolution and the Insured Bonds; and

(ii) they will accordingly pay to the Insurer the amount of such principal and interest, with interest thereon as provided in the Bond Resolution and the Insured Bonds, but only from the sources and in the manner provided in the Bond Resolution for the payment of principal of and interest on the Insured Bonds to holders, and will otherwise treat the Insurer as the owner of such rights to the amount of such principal and interest.

(i) The Insurer shall be entitled to pay principal or interest on the Insured Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment (as such terms are defined in the Financial Guaranty Insurance Policy) and any amounts due on the Insured Bonds as a result of acceleration of the maturity thereof in accordance with the Bond Resolution, whether or not the Insurer has received a Notice (as defined in the Financial Guaranty Insurance Policy) of Nonpayment or a claim upon the Financial Guaranty Insurance Policy.

(j) In addition, the Insurer shall to the extent it makes any payment of principal or interest on the Insured Bonds become subrogated to the rights of the recipients of such payments in accordance with the terms of the Financial Guaranty Insurance Policy, and to evidence such subrogation (i) in the case of claims for interest, the Registrar shall note the Insurer's rights as subrogee on the registration books of the Issuer maintained by the Registrar, upon receipt of proof of payment of interest thereon to the registered holders of the Insured Bonds, and (ii) in the case of claims for principal, the Registrar, if any, shall note the Insurer's rights as subrogee on the registration books of the Issuer maintained by the Registrar, upon surrender of the Insured Bonds together with receipt of proof of payment of principal thereof.

(9) Reimbursement Obligations.

(a) The Issuer hereby agrees to pay or reimburse the Insurer (A) all amounts paid by the Insurer under the Financial Guaranty Insurance Policy, and (B) to the extent permitted by law, any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, in connection with (i) any accounts established to facilitate payments under the Financial Guaranty Insurance Policy, (ii) the administration, enforcement, defense or preservation of any rights in respect of the Bond Resolution or the Insured Bonds, including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of the Issuer or any affiliate thereof) relating to the Bond Resolution or the Insured Bonds, any party to the Bond Resolution or the transactions contemplated by the Bond Resolution or the Insured Bonds, (iii) the foreclosure against, sale or other disposition of any collateral securing any Insured Bonds under the Bond Resolution, or the pursuit of any remedies under the Bond Resolution, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition, or (iv) any amendment, waiver or other action with respect to, or related to, the Bond Resolution whether or not executed or completed; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to time of employees of the Insurer spent in connection with the actions described in clauses (ii) – (iv) above. In addition, the Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver or consent proposed in respect of the Bond Resolution or the Insured Bonds. The Issuer will pay interest on the amounts owed in this paragraph from the date of any payment due or paid, at the per annum rate of interest publicly announced from time to time by JPMorgan Chase Bank, National Association at its principal office in New York, New York as its prime lending rate (any change in such prime rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank, National Association) plus three percent (3%) per annum (the "Reimbursement Rate"). The Reimbursement Rate shall be calculated on the basis of the actual number of days elapsed over a 360-day year. In the event JPMorgan Chase Bank ceases to announce its prime rate publicly, the prime rate shall be the publicly announced prime rate or base lending rate of such national bank, as the Insurer shall specify.

(b) In addition to any and all rights of reimbursement, subrogation and any other rights pursuant hereto or under law or in equity, the Issuer agrees to pay or reimburse the Insurer, to the extent permitted by law, any and all charges, fees, costs, claims, losses, liabilities (including penalties), judgments, demands, damages, and expenses which the Insurer or its officers, directors, shareholders, employees, agents and each Person, if any, who controls the Insurer within the meaning of either Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of

1934, as amended, may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, of any nature in connection with, in respect of or relating to the transactions contemplated by the Bond Resolution by reason of:

(i) any omission or action (other than of or by the Insurer) in connection with the offering, issuance, sale, remarketing or delivery of the Insured Bonds;

(ii) the negligence, bad faith, willful misconduct, misfeasance, malfeasance or theft committed by any director, officer, employee or agent of the Issuer in connection with any transaction arising from or relating to the Bond Resolution;

(iii) the violation by the Issuer of any law, rule or regulation, or any judgment, order or decree applicable to it;

(iv) the breach by the Issuer or any representation, warranty or covenant under the Bond Resolution or the occurrence, in respect of the Issuer, under the Bond Resolution of any default or event of default or any event which, with the giving of notice or lapse of time or both, would constitute any default or event of default; or

(v) any untrue statement or alleged untrue statement of a material fact contained in the official statement relating to the Insured Bonds, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such claims arise out of or are based upon any untrue statement or omission in information included in such official statement, if any, and furnished by the Insurer in writing expressly for use therein.

(10) No Purchase by Issuer. Without the prior written consent of the Insurer, no Insured Bonds shall be purchased by the Issuer, or any affiliate thereof, in lieu of redemption, unless such Insured Bonds are redeemed, defeased or cancelled.

(11) Reporting Requirements. The Issuer shall furnish to the Insurer:

(a) The fiscal budget of the Issuer prior to the beginning of each fiscal year;

(b) Annual audited financial statements of Issuer prepared by an independent certified public accountant by April 30th following the completion of the Issuer's fiscal year;

(c) Prior to issuing any Additional Parity Obligations, any disclosure document or financing agreement pertaining to such Additional Parity Obligations, which disclosure document or financing agreement shall include, without limitation, the applicable maturity schedule, interest rate or rates, redemption and security provisions pertaining to any Additional Parity Obligations.

(d) Immediate notice of any draw on the 2010 Reserve Fund Subaccount in the Reserve Fund; and

(e) Within 30 days following any litigation or investigation that may have a material adverse affect on the financial position of the System, notice of such litigation.

(12) Interest Rate Exchange Agreements. Any interest rate exchange agreement (an "Interest Rate Exchange Agreement"), entered into by the Issuer shall meet the following conditions so long as any Insured Bonds remain outstanding: (i) the Interest Rate Exchange Agreement must be entered into to manage interest costs related to, or a hedge against (a) assets then held, (b) debt then outstanding, or (c) debt reasonably expected to be issued or incurred within the next twelve (12) months, and (ii) the Interest Rate Exchange Agreement shall not contain any leverage element or multiplier component greater than 1.0x unless there is a matching hedge arrangement which effectively off-sets the exposure from any such element or component. Unless otherwise consented to in writing by the Insurer, any uninsured net settlement, breakage or other termination amount then in effect shall be subordinate to debt service on the Insured Bonds and on any Additional Parity Obligations. The Issuer shall not terminate an Interest Rate Exchange Agreement unless it demonstrates to the satisfaction of the Insurer prior to the payment of any such termination amount that such payment will not cause the Issuer to be in default under the Bond Resolution including but not limited to, any monetary obligations thereunder. All counterparties or guarantors to the Interest Rate Exchange Agreement must have a rating of at least "A-" and "A3" by Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"). If the counterparty or guarantor's rating falls below "A-" or "A3" by either S&P or Moody's, the counterparty or guarantor shall execute a credit support annex to the Interest Rate Exchange Agreement, which credit support annex must be acceptable to the Insurer. If the counterparty or the guarantor's long term unsecured rating falls below "Baa1" or "BBB+" by either Moody's or S&P, a replacement counterparty or guarantor, acceptable to the Insurer, shall be required.

(13) Representations of the Issuer.

(a) The Issuer has made its own independent investigation and decision as to whether to insure the payment when due of the principal of and interest on the Insured Bonds and whether the Financial Guaranty Insurance Policy is appropriate or proper for it based upon its own judgment and upon advice from such legal and financial advisers, as it has deemed necessary. The Issuer acknowledges that the Insurer has not made, and therefore the Issuer is not relying on, any recommendation from the Insurer that the

Issuer insure the Insured Bonds or obtain the Financial Guaranty Insurance Policy; it being understood and agreed that communications from the Insurer (whether written or oral) referring to, containing information about or negotiating the terms and conditions of the Financial Guaranty Insurance Policy, any related insurance document or the documentation governing the Insured Bonds do not constitute a recommendation to insure the Insured Bonds or obtain the Financial Guaranty Insurance Policy.

(b) The Issuer further acknowledges that the Insurer has not made any representation, warranty or undertaking, and has not given any assurance or guaranty, in each case, expressed or implied, concerning the rating of the Insurer's financial strength by the rating agencies. The Issuer acknowledges that the ratings of the Insurer reflect only the views of the rating agencies and an explanation of the significance of such ratings may be obtained only from the rating agencies. The Issuer understands that such ratings may not continue for any given time period and instead may change over time, including without limitation being placed under review for possible downgrade, revised downward, withdrawn entirely by the relevant rating agency if, in the judgment of such rating agency, circumstances so warrant, or withdrawn entirely by the Insurer in its sole discretion. The Issuer acknowledges and agrees that the Insurer undertakes no responsibility to bring to its attention, and shall have no liability for, the placement of a rating under review for possible downgrade or the downward revision or withdrawal of any rating obtained, and that any such review for possible downgrade, downward revision or withdrawal may have an adverse effect on the Insured Bonds. The Issuer acknowledges that the Insurer pays the rating agencies to rate the Insurer's financial strength, but that such payment is not in exchange for any specific rating within any particular range.

(14) Insurer as Third Party Beneficiary. The Insurer is hereby explicitly recognized as being a third-party beneficiary under the Bond Resolution and may enforce any right, remedy or claim conferred, given or granted under the Bond Resolution.

(15) Notices to Insurer; Insurer Deemed Sole Bondowner and a Party in Interest. While the Financial Guaranty Insurance Policy remains in effect with regard to any of the Insured Bonds, the Insurer shall be entitled to receive and shall be provided by certified mail all notices and reports which are required in the Bond Resolution to be prepared and to be sent or made available to registered owners of such Insured Bonds and a full transcript of any proceedings relating to the execution of any resolution supplemental hereto. Notwithstanding any other provisions of the Bond Resolution to the contrary, the Insurer, so long as it is not in default under the Financial Guaranty Insurance Policy, shall be deemed to be the sole registered owner of all Insured Bonds for purposes of exercising rights, consents or remedies granted under the Bond Resolution.

Any provision of the Bond Resolution to the contrary notwithstanding, if under any provision of the Bond Resolution any action is to be taken only with the consent or approval of

a Insurer, and if at the time such consent or approval would otherwise be called for such Insurer is not in compliance with its payment obligations of or is contesting its obligations under the Financial Guaranty Insurance Policy, then the rights of such Insurer to any consent or approval under the Bond Resolution shall be suspended while any such noncompliance or contest is ongoing.

Except as expressly provided in the Bond Resolution to the contrary, neither the Insurer nor the Paying Agent shall take the Financial Guaranty Insurance Policy into effect in determining whether the rights of registered owners are adversely affected by actions taken pursuant to the terms and provisions of the Bond Resolution.

The Insurer shall be included as a party of interest and as a party entitled to notify the Paying Agent or the Insurer to intervene in judicial proceedings that affect the Insured Bonds or the security therefore. The Paying Agent and the Insurer shall be required to accept notice of default from the Insurer.

For purposes of the Bond Resolution, the Financial Guaranty Insurance Policy is a Credit Facility and the Insurer is a Credit Facility Issuer.

SECTION 4. Reserve Fund and 2010A Reserve Fund Subaccount. In Section 16(C) of the Bond Resolution, the Issuer created and established the Reserve Fund. It is hereby determined that the Reserve Fund (exclusive of any subaccounts created therein) shall secure only the Series 2003 Bonds, the Series 2010B Bonds and any Additional Parity Obligations issued in the future to refund any or all of the Series 2003 Bonds and/or the Series 2010B Bonds (collectively, the "Refunding Bonds"), and not the Series 2006 Bond, the Series 2008 Bond, the Series 2010A Bonds or any other Series of Bonds other than Refunding Bonds. As of the date hereof, the Reserve Fund (exclusive of any subaccounts created therein) is currently funded with cash and/or Permitted Investments valued as of the date hereof to equal \$6,594,600, which amount was derived from proceeds of the Series 2009B Bond and which amount is equal to the Reserve Requirement calculated based on the Series 2003 Bonds only. Upon the issuance of the Series 2010B Bonds, proceeds thereof in an amount equal to the outstanding principal balance of the 2009B Bonds will be used to currently refund the Series 2009B Bonds. The Reserve Requirement applicable to the Reserve Fund (exclusive of any subaccounts created therein) shall be equal to the lesser of (i) the Maximum Bond Service Requirement calculated based on the Series 2003 Bonds, the Series 2010B Bonds and Refunding Bonds, if any, (ii) 125% of the Average Annual Bond Service Requirement calculated based on the Series 2003 Bonds, the Series 2010B Bonds and Refunding Bonds, if any, or (iii) 10% of the aggregate stated original principal amount of the Series 2003 Bonds, Series 2010B Bonds, and Refunding Bonds, if any (except that, in determining the aggregate stated original principal amount of such Bonds for purposes of (iii), the issue price of such Bonds (net of pre-issuance accrued interest) shall be substituted for the original stated principal amount if such Bonds are sold at either an original issue discount or premium exceeding two percent (2%) of its stated redemption price at maturity). In addition to the cash and/or Permitted Investments described above, there is currently on deposit in the

Reserve Fund a Reserve Fund Insurance Policy issued by MBIA Insurance Corporation ("MBIA") in an amount equal to \$6,594,600 with an expiration date of October 1, 2033 (the "MBIA Reserve Account Insurance Policy"). Because the rating of the claims-paying ability of MBIA has fallen below "A," the MBIA Reserve Account Insurance Policy has been disregarded for purposes of meeting the applicable Reserve Requirement, and as such, the Issuer deposited into the Reserve Fund (initially through interfund loans and ultimately with proceeds of the Series 2009B Bonds) an amount sufficient to cause the cash and/or Permitted Investments on deposit therein to equal the Reserve Requirement for the Series 2003 Bonds without regard to the amount of the MBIA Insurance Policy. The Issuer satisfied its deposit requirements within the prescribed time limitations pursuant to Section 20(B)(2) of the Bond Resolution.

Pursuant to Section 20(B)(2) of the Bond Resolution, there is hereby created and established a separate subaccount of the Reserve Fund to be designated the "2010A Reserve Fund Subaccount." It is hereby determined that the 2010A Reserve Fund Subaccount shall secure only the Series 2010A Bonds and any Additional Parity Obligations issued in the future which are designated to be secured thereby, and shall not secure the Series 2003 Bonds the Series 2006 Bond, the Series 2008 Bond, the Series 2010B Bonds or Additional Parity Obligations which are not designated to be secured thereby. Upon the issuance of the Series 2010A Bonds, proceeds thereof in an amount equal to the Reserve Requirement for the Series 2010A Bonds will be deposited in the 2010A Reserve Fund Subaccount. The Reserve Requirement applicable to the 2010A Reserve Fund Subaccount shall be equal to the lesser of (i) the Maximum Bond Service Requirement calculated based on Series 2010A Bonds and any Additional Parity Obligations issued in the future which are designated to be secured thereby (ii) 125% of the Average Annual Bond Service Requirement calculated based on the Series 2010A Bonds and any Additional Parity Obligations issued in the future which are designated to be secured thereby, or (iii) 10% of the aggregate stated original principal amount of the Series 2010A Bonds and any Additional Parity Obligations issued in the future which are designated to be secured thereby (except that, in determining the aggregate stated original principal amount of such Bonds for purposes of (iii), the issue price of such Bonds (net of pre-issuance accrued interest) shall be substituted for the original stated principal amount if such Bonds are sold at either an original issue discount or premium exceeding two percent (2%) of its stated redemption price at maturity).

SECTION 5. 2010 Project Fund Subaccount. Pursuant to Section 16 of the Bond Resolution, there is hereby created in the Project Fund the 2010 Project Fund Subaccount (hereafter the "2010 Project Fund Subaccount") which shall be held solely for the benefit of the Holders of the Series 2010 Bonds.

SECTION 6. Application of Series 2010 Bond Proceeds.

(A) The proceeds received from the sale of any or all of the Series 2010A Bonds shall be applied by the Issuer simultaneously with the delivery of the Series

2010A Bonds to the purchaser thereof, together with any other legally available funds of the Issuer, as follows:

(1) The Issuer shall prepay the principal of, and pay accrued interest on, the Series 2009A Bond being currently refunded.

(2) The Issuer shall pay and/or reimburse all costs and expenses in connection with the preparation, issuance and sale of the Series 2010A Bonds, including, but not limited to legal, financial advisory, accounting, engineering and underwriting fees and expenses and premium for financial guaranty insurance, if any.

(3) The Issuer shall deposit an amount equal to the Reserve Requirement for the Series 2010A Bonds into the 2010A Reserve Fund Subaccount.

(4) The Issuer shall deposit remaining proceeds in the 2010 Project Fund Subaccount to finance and/or reimburse the costs of the 2010A Project, including the payment of capitalized interest on a portion of the Series 2010A Bonds.

(B) The proceeds received from the sale of any or all of the Series 2010B Bonds shall be applied by the Issuer simultaneously with the delivery of the Series 2010B Bonds to the purchaser thereof, as follows:

(1) The Issuer shall prepay the principal of, and pay accrued interest on, the Series 2009B Bond being currently refunded.

(2) The Issuer shall pay and/or reimburse all costs and expenses in connection with the preparation, issuance and sale of the Series 2010B Bonds, including, but not limited to legal, financial advisory, accounting, engineering and underwriting fees and expenses and premium for financial guaranty insurance, if any.

(3) Taking into account amounts already on deposit in the Reserve Fund (exclusive of any subaccounts created therein), the Issuer shall deposit an amount equal to the Reserve Requirement for the Series 2003 Bonds and the Series 2010B Bonds into such Reserve Fund.

(C) The cash required to be accounted for in each of the funds and accounts described in this Section 6 and in the Bond Resolution may be deposited in a single bank account, provided that adequate accounting records are maintained to reflect and control the restricted allocation of the cash on deposit therein for the various purposes of

such funds and accounts as herein provided. The designation and establishment of the various funds in and by the Bond Resolution and this Resolution shall not be construed to require the establishment of any completely independent, self-balancing funds as such term is commonly defined and used in governmental accounting, but rather is intended solely to constitute an earmarking of certain revenues and assets of the System for certain purposes and to establish certain priorities for application of such revenues and assets as herein provided.

The Issuer may at any time and from time to time appoint one or more depositories to hold, for the benefit of the Series 2010 Bondholders, any one or more of the funds, accounts and subaccounts established hereby and by the Bond Resolution. Such depository or depositories shall perform at the direction of the Issuer the duties of the Issuer in depositing, transferring and disbursing moneys to and from each of such funds and accounts as herein set forth and as set forth in the Bond Resolution, and all records of such depository in performing such duties shall be open at all reasonable times to inspection by the Issuer and its agent and employees. Any such depository shall be a bank or trust company duly authorized to exercise corporate trust powers and subject to examination by federal or state authority, of good standing, and having a combined capital, surplus and undivided profits aggregating not less than fifty million dollars (\$50,000,000).

SECTION 7. Approval of Distribution of Preliminary Official Statement and Authorization of Final Official Statement. The preparation and distribution of the Preliminary Official Statement relating to the Series 2010 Bonds, in the form attached hereto as Exhibit B, is hereby approved and authorized, as is the use thereof by the Underwriters in connection with the sale of the Series 2010 Bonds. The Finance Director is hereby authorized to execute and deliver a certificate of the Issuer which deems such Preliminary Official Statement "final" within the contemplation of the Rule. The distribution of the final Official Statement relating to the Series 2010 Bonds is hereby authorized, and the execution of such Official Statement by the Chairman, the City Manager and the Finance Director is hereby authorized, which execution and delivery shall constitute complete evidence of the approval of such final Official Statement by the Issuer.

SECTION 8. Appointment of Registrar and Paying Agent; Authorization of Execution and Delivery of Registrar and Paying Agent Agreement. Wells Fargo Bank, N.A., Jacksonville, Florida is hereby appointed Registrar and Paying Agent relating to the Series 2010 Bonds. The Registrar and Paying Agent Agreement, in the form attached hereto as Exhibit C, is hereby approved and authorized. The Chairman is hereby authorized and directed to execute and deliver, the City Clerk is hereby authorized to attest under seal, and the City Attorney is hereby authorized to approve as to form, the Registrar and Paying Agent Agreement. The execution and delivery thereof in the manner described in the preceding sentence shall constitute complete approval of such Registrar and Paying Agent Agreement by the Issuer, including any

changes to the form being approved, and shall be deemed to be a part of this instrument as fully and to the same extent as if incorporated verbatim herein.

SECTION 9. Continuing Disclosure. The Issuer hereby covenants and agrees that, in order to assist the Underwriters in complying with the continuing disclosure requirements of the Rule with respect to the Series 2010 Bonds, it will comply with and carry out all of the provisions of the Continuing Disclosure Certificate, the form of which is attached hereto as Exhibit D, to be executed by the Issuer prior to the time the Issuer delivers the Series 2010 Bonds to the Underwriters, as it may be amended from time to time in accordance with the terms thereof.

The Issuer hereby approves the Continuing Disclosure Certificate, in the form attached hereto. The Chairman is hereby authorized and directed to execute and deliver, the City Clerk is hereby authorized to attest under seal, and the City Attorney is hereby authorized to approve as to form, the Continuing Disclosure Certificate. The execution and delivery thereof in the manner described in the preceding sentence shall constitute complete approval of such Continuing Disclosure Certificate by the Issuer, including any changes to the form being approved, and shall be deemed to be a part of this instrument as fully and to the same extent as if incorporated verbatim herein.

Notwithstanding any other provision of this Resolution, failure of the Issuer to comply with such Continuing Disclosure Certificate shall not be considered an Event of Default under the Bond Resolution. However, the Continuing Disclosure Certificate shall be enforceable by the Series 2010 Bondholders in the event that the Issuer fails to cure a breach thereunder within a reasonable time after written notice from a Series 2010 Bondholder to the Issuer that a breach exists. Any rights of the Series 2010 Bondholders to enforce the provisions of the Continuing Disclosure Certificate shall be on behalf of all Series 2010 Bondholders and shall be limited to a right to obtain specific performance of the Issuer's obligations thereunder.

SECTION 10. General Authority. The Chairman, the City Manager, the City Clerk, the Finance Director, the City Attorney or any other appropriate officers of the Issuer are hereby authorized and directed to execute any and all certifications or other instruments or documents required by the Bond Resolution and this Resolution, the Purchase Contract or any other document referred to above as a prerequisite or precondition to the issuance of the Series 2010 Bonds and any such representation made therein shall be deemed to be made on behalf of the Issuer. All action taken to date by the officers of the Issuer in furtherance of the issuance of the Series 2010 Bonds is hereby approved, confirmed and ratified.

SECTION 11. No Third Party Beneficiaries. Except as may be expressly described herein or in a Supplemental Resolution, nothing in the Bond Resolution or this Resolution, or in the Series 2010 Bonds, expressed or implied, is intended or shall be construed to confer upon anyone of another entity other than the Issuer, the Holders and the Insurer with respect to the Series 2010 Bonds, any right, remedy or claim, legal or equitable, under and by reason of this

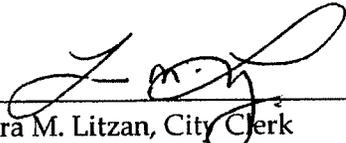
SECTION 15. Effective Date. This Resolution shall take effect immediately upon its adoption

Passed in open and regular session through roll call vote by the City Council of the City of Marco Island, Florida this 1st day of March, 2010.

(SEAL)

ATTEST:

CITY OF MARCO ISLAND, FLORIDA

By: 
Laura M. Litzan, City Clerk

By: 
Robert J. Popoff, Chairman

Approved as to Form:

WEISS SEROTA HELFMAN PASTORIZA
COLE & BONISKE P.L.

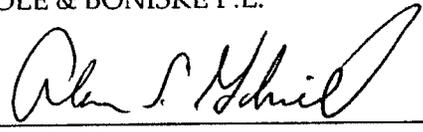
By: 
Alan L. Gabriel, Esq.

EXHIBIT A

**FORM OF
PURCHASE CONTRACT**

EXHIBIT B

**FORM OF
PRELIMINARY OFFICIAL STATEMENT**

EXHIBIT C

**FORM OF
REGISTRAR AND PAYING AGENT AGREEMENT**

EXHIBIT D

**FORM OF
CONTINUING DISCLOSURE CERTIFICATE**