

RESOLUTION NO. 16-__

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 \$45,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF CITY OF MARCO ISLAND, FLORIDA UTILITY SYSTEM REFUNDING REVENUE BONDS, SERIES 2016 TO REFUND CERTAIN UTILITY SYSTEM DEBT OF THE CITY ATTRIBUTABLE TO THE WATER AND SEWER SYSTEM, 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 AND DELIVERY OF SUCH BOND PURCHASE CONTRACT, A CONTINUING DISCLOSURE CERTIFICATE, A REGISTRAR AND PAYING AGENT AGREEMENT, AND AN ESCROW DEPOSIT AGREEMENT; DELEGATING TO THE CHAIRMAN THE AUTHORITY TO AWARD THE SALE OF SUCH BONDS TO MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, ON BEHALF OF ITSELF, CITIGROUP GLOBAL MARKETS INC. AND RBC CAPITAL MARKETS, LLC, PURSUANT TO A NEGOTIATED SALE AND SUBJECT TO THE CONDITIONS AND TERMS SET FORTH HEREIN AND IN THE BOND PURCHASE CONTRACT; AUTHORIZING THE CITY TO OPT TO INSURE ALL, A PORTION OF OR NONE OF THE BONDS WITH A POLICY OF FINANCIAL GUARANTY INSURANCE, WHICHEVER IS IN THE BEST FINANCIAL INTEREST OF THE CITY; 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, REGISTRAR AND ESCROW AGENT; 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"); 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 April 1, 2010, the Issuer issued its \$50,475,000 City of Marco Island, Florida Tax-Exempt Utility System Improvement and Refunding Revenue Bonds, Series 2010A (the "Series 2010A Bonds"), and \$7,365,000 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 thereunder; and

WHEREAS, pursuant to the Bond Resolution, on August 23, 2011, the Issuer issued its \$26,253,513.01 City of Marco Island, Florida Tax-Exempt Utility System Refunding Revenue Bond, Series 2011 (the "Series 2011 Bond"), as an Additional Parity Obligation thereunder; and

WHEREAS, pursuant to the Bond Resolution, on August 13, 2013, the Issuer issued its \$61,995,000 City of Marco Island, Florida Utility System Refunding Revenue Bonds, Series 2013 (the "Series 2013 Bonds"), as Additional Parity Obligations thereunder; and

WHEREAS, the Issuer has determined to supplement the Bond Resolution to authorize the issuance of not to exceed \$45,000,000 City of Marco Island, Florida Utility System Refunding Revenue Bonds, Series 2016 (the "Series 2016 Bonds"), as Additional Parity Obligations and to authorize the cash legal defeasance described below; and

WHEREAS, the proceeds of the Series 2016 Bonds are being issued to (i) advance refund all or a portion of the Series 2010A Bonds maturing after October 1, 2020 (the "Refunded Bonds"), and (ii) pay the costs of issuance of the Series 2016 Bonds, including without limitation, the premium for a Bond Insurance Policy, if any; and

WHEREAS, on the same date that the Series 2016 Bonds are issued, the Issuer anticipates using other legally available funds to legally defease all or a portion of the Series 2010B Bonds (the "Defeased Bonds"); and

WHEREAS, the Issuer has determined it to be in the best interests of the rate payers of the Issuer and to serve a public purpose to provide in this Resolution for the issuance of the Series 2016 Bonds and the use of other legally available funds of the Issuer for the purposes heretofore stated to realize significant net present value debt service savings, and this Resolution shall constitute a Supplemental Resolution for purposes of the Bond Resolution; and

WHEREAS, the Series 2016 Bonds shall be secured by the Pledged Revenues on parity and with an equal lien as to the Series 2006 Bond, the Series 2010 Bonds not being refunded through the issuance of the Series 2016 Bonds or legally defeased with other legally available funds of the Issuer, the Series 2011 Bond and the Series 2013 Bonds (collectively, the "Parity Bonds"); 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 Parity Bonds and any Additional Parity Obligations issued in the future; and

WHEREAS, pursuant to the Bond Resolution, on May 26, 2011, the Issuer entered into the Drinking Water State Revolving Fund Construction Loan Agreement DW110301 with the State of Florida Department of Environmental Protection (as amended, the "2011 FDEP Loan Agreement"); and

WHEREAS, the 2011 FDEP Loan Agreement is Subordinate Debt and is payable from net revenues of the System on a junior, inferior and subordinate basis to the Bonds; and

WHEREAS, pursuant to the 2011 FDEP Loan Agreement, the Issuer borrowed \$5,309,320; and

WHEREAS, pursuant to the Bond Resolution, the Issuer may incur additional Subordinate Debt in the future, subject to satisfaction of certain requirements therein and in the 2011 FDEP Loan Agreement; and

WHEREAS, the Series 2016 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 2016 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, Citigroup Global Markets Inc. and RBC Capital Markets, LLC (collectively, the "Underwriters") have indicated that they are willing to enter into the hereinafter defined Bond Purchase Contract with the Issuer pursuant to which the Underwriters will agree to purchase the Series 2016 Bonds; and

WHEREAS, due to the present volatility of the market, the characteristics of the Series 2016 Bonds, the need to access the market very quickly, the willingness of the Underwriters to purchase the Series 2016 Bonds at interest rates favorable to the Issuer, and the critical importance of timing of the sale of the Series 2016 Bonds, the Issuer desires to sell the Series 2016 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 "Bond Purchase Contract"), if certain conditions set forth in this Resolution are satisfied; and

WHEREAS, due to the present volatility of the market and conditions surrounding the current credit ratings of the various municipal bond insurance companies, the Issuer desires to opt to insure some, all or none of the Series 2016 Bonds, whichever is in the best financial interests of the Issuer based on the advice of the Financial Advisor, with a Bond Insurance Policy, and to authorize the Chairman, based on the advice of the Financial Advisor, to take any actions and do all things necessary in order to accept any such policy in connection with the issuance of the Series 2016 Bonds; and

WHEREAS, prior to acceptance by the Issuer of the offer of the Underwriters to purchase the Series 2016 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 Bond Purchase Contract; and

WHEREAS, in connection with the offering and sale of the Series 2016 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 2016 Bonds (the "Official Statement"); and

WHEREAS, the Issuer desires to appoint the Registrar and Paying Agent with respect to the Series 2016 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"); and

WHEREAS, the Issuer desires to appoint the Escrow Agent with respect to the Refunded Bonds and the Defeased Bonds and authorize the execution and delivery of an Escrow Deposit Agreement, a form of which is attached hereto as Exhibit E (the "Escrow Deposit Agreement").

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

SECTION 1. Authorization of Refunding and Defeasance; Approval of Issuance of Series 2016 Bonds; Terms of Series 2016 Bonds; Execution of Series 2016 Bonds. The refunding of the Refunded Bonds and the legal defeasance of the Defeased Bonds is hereby authorized. The Series 2016 Bonds are hereby authorized to be issued to refund the Refunded Bonds subject to the terms and conditions set forth herein.

The Series 2016 Bonds are hereby authorized to be issued in the aggregate principal amount of not to exceed \$45,000,000. The Series 2016 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 Bond 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 2016 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 2016 Bonds will be payable semiannually on April 1 and October 1, commencing on April 1, 2017, or such other date as set forth in the Bond 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 2016 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 2016 Bonds as the same shall become due and payable.

As long as any Series 2016 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 2016 Bonds, and the Issuer covenants to cause adequate records to be kept with respect to the ownership of the Series 2016 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 2016 Bonds, including (i) the dated date, (ii) the principal amount and whether the Series 2016 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, and (viii) all other details of the Series 2016 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 2016 Bonds.

The proceeds of the Series 2016 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 2016 Bonds. The issuance of the Series 2016 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 2016 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 2016 Bonds.

The Series 2016 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 2016 Bonds.

In case any officer whose signature or a facsimile of whose signature shall appear on any Series 2016 Bonds shall cease to be such officer before the delivery of such Series 2016 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 2016 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 2016 Bond, shall be the proper officers to sign such Series 2016 Bonds although, at the date of such Series 2016 Bond, such persons may not have been such officers.

SECTION 2. Award of Sale of the Series 2016 Bonds; Execution of Bond Purchase Contract. Due to the present volatility of the market, the characteristics of the Series 2016 Bonds, the need to access the market very quickly, the willingness of the Underwriters to purchase the Series 2016 Bonds at interest rates favorable to the Issuer, and the critical importance of timing of the sale of the Series 2016 Bonds, the Issuer hereby determines to sell

the Series 2016 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 2016 Bonds and accept the offer of the Underwriters to purchase the Series 2016 Bonds at a negotiated sale pursuant to the terms of a Bond 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 Bond 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, which demonstrates to the Chairman that (A) the aggregate principal amount of the Series 2016 Bonds is not in excess of \$45,000,000, (B) the final maturity of the Series 2016 Bonds is not later than October 1, 2040, (C) the underwriting discount is not greater than 0.5% of the original principal amount of the Series 2016 Bonds, and (D) net present value debt service savings is not less than 5% of the par amount of the Refunded Bonds.

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 Bond Purchase Contract, which shall be filed with the City Clerk. The execution and delivery of the Bond 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 Bond Purchase Contract. The execution and delivery thereof in the manner described in the preceding sentence shall constitute complete approval of such Bond 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. Application of Series 2016 Bond Proceeds and Other Legally Available Funds.

(A) The proceeds received from the sale of any or all of the Series 2016 Bonds shall be applied by the Issuer simultaneously with the delivery of the Series 2016 Bonds to the Underwriters, together with any other legally available funds of the Issuer, as follows:

(1) The Issuer shall pay and/or reimburse all costs and expenses in connection with the preparation, issuance and sale of the Series 2016 Bonds, including, but not limited to legal, financial advisory, accounting, engineering, financial feasibility and underwriting fees and expenses and premium for a Bond Insurance Policy, if any.

(2) A sum specified in the Escrow Deposit Agreement that, together with other legally available funds of the Issuer and taking into account investments, if any, shall be sufficient to pay the principal of and interest on the Refunded Bonds and the

Defeased Bonds, shall be deposited with the Escrow Agent pursuant to the hereinafter defined Escrow Deposit Agreement and used in the manner described therein.

Simultaneously with the delivery of the Series 2016 Bonds to the Underwriters, the Issuer shall enter into the Escrow Deposit Agreement with Wells Fargo Bank, National Association (the "Escrow Agent") which shall provide for the deposit of sums and, if applicable, for the investment of moneys in appropriate Acquired Obligations so as to produce sufficient funds to make all the payments described in the Escrow Deposit Agreement. The Escrow Deposit Agreement is to be in substantially the form set forth in Exhibit E attached hereto, together with such changes as shall be approved by the Chairman, such approval to be conclusively evidenced by the execution thereof by the Chairman. The execution of the Escrow Deposit Agreement is hereby approved, and the execution of the Escrow Deposit Agreement by the Chairman is hereby authorized, to be attested by the City Clerk, the form and correctness of which to be approved by the City Attorney. At the time of execution of the Escrow Deposit Agreement, the Issuer shall furnish to the Escrow Agent named therein appropriate documentation to demonstrate that the sums being deposited and the investments to be made will be sufficient for such purposes.

Subject to the execution and delivery of the Series 2016 Bonds for the purpose of refunding the Refunded Bonds, the Issuer hereby irrevocably calls the Refunded Bonds and the Defeased Bonds for early redemption on October 1, 2020, or such other date as determined by the Chairman in the Escrow Deposit Agreement or by certificate. Not less than thirty (30) days prior to such redemption date, the Issuer hereby directs Wells Fargo Bank, National Association, in its capacity as Registrar for the Series 2010 Bonds, to mail a notice of the redemption of the Refunded Bonds and the Defeased Bonds to each holder thereof in accordance with the requirements of Section 14 of the Bond Resolution. Furthermore, upon issuance of the Series 2016 Bonds for the purposes of refunding the Refunded Bonds, the Issuer hereby directs Wells Fargo Bank, National Association to mail a notice of defeasance to each holder of the Refunded Bonds and the Defeased Bonds.

On the date of issuance of the Series 2016 Bonds, the Issuer may transfer moneys on deposit in the funds and accounts created for the benefit of the Refunded Bonds and the Defeased Bonds to the Escrow Agent to be held on behalf of the Issuer and to be used pursuant to the terms of the Escrow Deposit Agreement.

Unless the Financial Advisor recommends that funds should be held uninvested, the Issuer may invest certain proceeds of the Series 2016 Bonds, together with other legally available funds, in U.S. Treasury Obligations—State and Local Government Series for deposit pursuant to the Escrow Deposit Agreement, to the extent possible. If more financially advisable, the Issuer may cause the Escrow Agent to purchase, on behalf of and for the benefit of the Issuer, certain direct and general obligations of the United States of

America, or those obligations which are unconditionally guaranteed as to the timely payment of principal and interest by the same, in a manner which Bryant Miller Olive P.A., as Bond Counsel determines is required by applicable federal tax law, which may include the necessity that a competitive bidding process be utilized. If a competitive bidding process is required, PFM Asset Management, LLC is hereby authorized to conduct such process for a bidding agent fee in accordance with a separate letter agreement. Such fee is separate and apart from the fees and expenses charged by the Financial Advisor pursuant to its existing services contract with the Issuer. The Issuer authorizes Bond Counsel, the Financial Advisor, the Escrow Agent, the Chairman, the City Manager, the Finance Director, the City Attorney, the City Clerk or any other appropriate officers of the Issuer, to do all things and take any actions which are necessary to accomplish the foregoing, including without limitation the execution and delivery or consents or approvals.

(B) The cash required to be accounted for in each of the funds and accounts described in this Section 3 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 2016 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 4. 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 2016 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 2016 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 2016 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 5. Series 2016 Bonds Not Secured by Reserve Fund. The Series 2016 Bonds are not secured by the Reserve Fund or any subaccount therein created.

SECTION 6. Appointment of Registrar and Paying Agent; Authorization of Execution and Delivery of Registrar and Paying Agent Agreement. Wells Fargo Bank, National Association is hereby appointed Registrar and Paying Agent relating to the Series 2016 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 7. 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 2016 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 2016 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 2016 Bondholders in the event that the Issuer fails to cure a breach thereunder within a reasonable time after written notice from a Series 2016 Bondholder to the Issuer that a breach exists. Any rights of the Series 2016 Bondholders to enforce the provisions of the Continuing

Disclosure Certificate shall be on behalf of all Series 2016 Bondholders and shall be limited to a right to obtain specific performance of the Issuer's obligations thereunder.

SECTION 8. 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 Bond Purchase Contract or any other document referred to above as a prerequisite or precondition to the issuance of the Series 2016 Bonds and/or the defeasance of the Defeased 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 2016 Bonds is hereby approved, confirmed and ratified.

SECTION 9. Optional Financial Guaranty Insurance. The Issuer is hereby authorized to insure all, some or none of the Series 2016 Bonds, whichever is in the best financial interests of the Issuer based on the advice of the Financial Advisor, with a Bond Insurance Policy, and further authorizes the Chairman to take any actions and do all things necessary in order to accept such policy in connection with the issuance of the Series 2016 Bonds, including without limitation, the execution and delivery of a credit enhancement agreement.

SECTION 10. 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 2016 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 2016 Bonds which are insured, if any, any right, remedy or claim, legal or equitable, under and by reason of this Resolution or any provision hereof or the Bond Resolution or any provision thereof, or of the Series 2016 Bonds, all provisions hereof and thereof being intended to be and being for the sole and exclusive benefit of the Issuer, the Holders from time to time and the insurer with respect to the Series 2016 Bonds which are insured, if any.

SECTION 11. Severability. If any one or more of the covenants, agreements or provisions of the Bond Resolution or this Resolution shall be held contrary to any express provision of law or contrary to the policy of express law, though not expressly prohibited, or against public policy, or shall for any reason whatsoever be held invalid, then such covenants, agreements or provisions shall be null and void and shall be deemed separable from the remaining covenants, agreements and provisions of the Bond Resolution or this Resolution and shall in no way affect the validity of any of the other covenants, agreements or provisions hereof, thereof or of the Series 2016 Bonds issued under the Bond Resolution or this Resolution, or the defeasance of the Defeased Bonds.

SECTION 12. No Personal Liability. Neither the members of the City Council, nor any officials or employees of the Issuer, nor any person executing the Series 2016 Bonds shall be

personally liable therefor or be subject to any personal liability or accountability by reason of the issuance thereof.

SECTION 13. Repeal of Inconsistent Instruments. All prior resolutions of the Issuer inconsistent with the provisions of this Resolution are hereby repealed to the extent of such conflict and, except as otherwise repealed hereby, shall remain in full force and effect.

SECTION 14. 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 17th day of October, 2016.

(SEAL)

ATTEST:

CITY OF MARCO ISLAND, FLORIDA

By: _____
Laura M. Litzan, City Clerk

By: _____
Bob Brown, Chairman

Approved as to Form:

By: _____
Alan L. Gabriel, City Attorney

EXHIBIT A

**FORM OF
BOND PURCHASE CONTRACT**

CITY OF MARCO ISLAND, FLORIDA

\$_____
UTILITY SYSTEM REFUNDING REVENUE BONDS,
SERIES 2016

BOND PURCHASE CONTRACT

October __, 2016

City Council of the City of
Marco Island, Florida
50 Bald Eagle Drive
Marco Island, Florida 34145

Ladies and Gentlemen:

Merrill Lynch, Pierce, Fenner & Smith Incorporated (the "Representative"), on behalf of itself, Citigroup Global Markets Inc. and RBC Capital Markets, LLC (collectively, the "Underwriters") offers to enter into the following agreement with the City of Marco Island, Florida (the "City") which, upon your acceptance of this offer, will be binding upon the City and upon the Underwriters. This offer is made subject to your acceptance on or before 5:00 P.M., New York Time, on the date hereof, and if not so accepted, will be subject to withdrawal by the Representative upon notice to the City at any time prior to the acceptance hereof by the City. The Representative hereby warrants that it is authorized to enter into this Bond Purchase Contract on behalf of the Underwriters and to take any other actions that may be required on behalf of the other Underwriters. All capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the hereinafter defined Resolution.

1. Purchase and Sale. Subject to the terms and conditions and in reliance upon the representations, warranties, and agreements set forth in this Bond Purchase Contract, the Underwriters hereby agree to purchase from the City for offering to the public and the City hereby agrees to sell and deliver to the Underwriters for such purpose, all (but not less than all) of the \$_____ aggregate principal amount of the City of Marco Island, Florida Utility System Refunding Revenue Bonds, Series 2016A (the "Series 2016 Bonds"). The Series 2016 Bonds shall be dated the date of delivery, shall be issued in such amounts of serial Bonds and term Bonds, shall be issued in such original principal amounts, bear such rates of interest and/or be redeemable upon such

terms as set forth in Exhibit A attached hereto. Interest on the Series 2016 Bonds shall be payable on April 1, 2017, and on each April 1 and October 1 thereafter to maturity or earlier redemption. The aggregate purchase price of the Series 2016 Bonds shall be \$_____ (which equals the principal amount, [plus/less a net original issue premium/discount] of \$_____ and less an Underwriters' discount of \$_____). The Series 2016 Bonds shall initially be offered to the public at such prices or yields as indicated on Exhibit A attached hereto. The Series 2016 Bonds shall be issued pursuant to and under the authority of the Constitution and the laws of the State of Florida including Chapter 166, Part II, Florida Statutes, Chapter 159, Part I, Florida Statutes, the charter of the City and other applicable provisions of law (collectively, the "Act"), and under and pursuant to Resolution No. 03-55, adopted by the City Council of the City on September 29, 2003, as amended and supplemented, particularly as amended by Resolution No. 05-71, adopted by the City Council on October 17, 2005, as particularly supplemented by Resolution No. 16-__, adopted by the City Council of the City on October 17, 2016 (collectively, the "Resolution").

The Series 2016 Bonds are being issued for the purposes of: (i) advance refunding all or a portion of the City's Tax-Exempt Utility System Revenue Bonds, Series 2010A, maturing after October 1, 2020, and currently outstanding in the principal amount of \$_____ (the "Refunded 2010A Bonds"); and (ii) paying the costs of issuance of the Series 2016 Bonds, including without limitation, the premium for financial guaranty insurance, if any.

The Series 2016 Bonds are special and limited obligations of the City, payable solely from and secured by the Pledged Revenues in the manner and to the extent provided in the Resolution.

The Series 2016 Bonds will be payable solely from, and secured by, a pledge of and lien on the Pledged Revenues on a parity with the City's outstanding Utility System Revenue Bond, Series 2006, Tax-Exempt Utility System Improvement and Refunding Revenue Bonds, Series 2010A, maturing before October 1, 2020 and not being refunded by the Series 2016 Bonds, and Taxable Utility System Refunding Revenue Bonds, Series 2010B, maturing before October 1, 2020, Utility System Refunding Revenue Bond, Series 2011 and Utility System Refunding Revenue Bond, Series 2013 (collectively, the "Parity Obligations") heretofore issued under the Resolution in the manner to the extent provided in the Resolution.

2. Good Faith Deposit. Delivered to you herewith, as a good faith deposit, is a corporate check of the Representative payable to the order of the City in the amount of _____ Thousand and 00/100 Dollars (\$_____) as security for the performance by the Underwriters of their obligation to accept and pay for the Series 2016 Bonds at Closing (as such term is hereinafter defined) in accordance with the provisions hereof. In the event that you accept this offer, said check will be held uncashed by the

City as a good faith deposit. At the Closing, the check will be returned to the Representative. In the event you do not accept this offer, the check shall be immediately returned to the Representative. If the Underwriters fail (other than for a reason permitted hereunder) to accept and pay for the Series 2016 Bonds at the Closing as provided herein, the check may be cashed by you and the proceeds retained by the City as and for full liquidated damages for such failure and for any and all defaults hereunder on the part of the Underwriters, and the retention of such amounts shall constitute a full release and discharge of all claims and damages for such failure and for any and all such defaults hereunder on the part of the Underwriters.

In the event that the City fails to deliver the Series 2016 Bonds at the Closing, or if the City is unable at or prior to the date of Closing to satisfy or cause to be satisfied the conditions to the obligations of the Underwriters contained in this Bond Purchase Contract, or if the obligations of the Underwriters contained herein shall be cancelled or terminated for any reason permitted by this Bond Purchase Contract, the City shall be obligated to immediately return the check to the Representative and such return shall constitute a full release and discharge of all claims by the City and the Underwriters arising out of the transaction contemplated herein except for the respective obligations of the City and the Underwriters set forth in Section 10 below.

3. Offering. It shall be a condition of your obligation to sell the Series 2016 Bonds to the Underwriters and deliver the Series 2016 Bonds to the Representative, and the joint and several obligation of the Underwriters to purchase and accept delivery of the Series 2016 Bonds, that the entire aggregate principal amount of the Series 2016 Bonds shall be sold and delivered by you and accepted and paid for by the Underwriters at the Closing.

The Underwriters agree to make a public offering of all of the Series 2016 Bonds at the prices no greater than or yields no less than the initial offering prices or yields set forth in Exhibit A attached hereto; provided, however, the Underwriters reserve the right to make concessions to dealers and to change such initial offering prices as the Underwriters shall deem necessary in connection with the marketing of the Series 2016 Bonds.

The City acknowledges and agrees that: (i) the primary role of the Underwriters, as underwriters, is to purchase securities, for resale to investors, in an arm's length commercial transaction between the City and the Underwriters and the Underwriters have financial and other interests that differ from those of the City; (ii) the Underwriters are acting solely as principals and are not acting as municipal advisors, financial advisors or fiduciaries to the City and have not assumed any advisory or fiduciary responsibility to the City with respect to the transaction contemplated hereby and the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriters have provided other services or are currently providing other services to the City on other

matters); (iii) the only obligations the Underwriters have to the City with respect to the transaction contemplated hereby expressly are set forth in this Bond Purchase Contract; and (iv) the City has consulted its own financial and/or municipal, legal, accounting, tax and other advisors, as applicable, to the extent it has deemed appropriate.

4. Preliminary Official Statement and Official Statement. The City hereby confirms that it has heretofore made available to the Underwriters a Preliminary Official Statement of the City relating to the Series 2016 Bonds, dated October 18, 2016 (which, together with the cover page and appendices contained therein and any amendments thereto, is herein called the "Preliminary Official Statement"), and authorizes and ratifies the distribution thereof to prospective purchasers and investors. Within seven business days of the acceptance hereof by the City and at least three business days prior to the date of Closing, the City shall cause to be delivered the final Official Statement, dated the date hereof in substantially the form of the Preliminary Official Statement with all "permitted omissions" (as defined in the hereinafter described Rule) completed (which, together with the cover page and appendices contained therein and any amendments thereto, is herein called the "Official Statement"), executed on behalf of the City by the Chairman of the City Council of the City, the City Manager and the Finance Director and such reasonable numbers of conformed copies as the Underwriters shall request, which shall be sufficient in number to comply with Rule 15c2-12 of the Securities and Exchange Commission (17 CFR 240.15c2-12) under the Securities Exchange Act of 1934 (the "Rule") and with Rule G-32 and all other applicable rules of the Municipal Securities Rulemaking Board (the "MSRB"). The City, by its acceptance hereof, ratifies and approves the Preliminary Official Statement and deems it "final" as of its date for purposes of the Rule and approves and authorizes the Underwriters to use the Official Statement and all documents described therein in connection with the public offering and the sale of the Series 2016 Bonds.

In order to assist the Underwriters in complying with the Rule, the City will undertake, pursuant to a Continuing Disclosure Certificate, to be dated as of the date of the herein defined Closing (the "Disclosure Certificate"), to provide annual financial information and notices of the occurrence of certain enumerated events. A description of the Disclosure Certificate is set forth in, and the form of the Disclosure Certificate is attached as APPENDIX E to, the Preliminary Official Statement and the Official Statement.

In accordance with Section 218.385, Florida Statutes, the Representative hereby discloses the information required by such Section, including a truth-in-bonding statement, as provided in Exhibit B attached hereto.

5. Use of Documents. The City hereby authorizes the use by the Underwriters of (a) the Resolution, (b) the Preliminary Official Statement, (c) the Official Statement (including any supplements or amendments thereto), (d) the Disclosure

Certificate, and (e) any other documents related to the transactions contemplated in the Official Statement in connection with the public offering, sale and distribution of the Series 2016 Bonds.

6. Representations, Warranties and Agreements. The City by its acceptance of this Bond Purchase Contract hereby represents, warrants to each of the Underwriters, as of the date hereof, and agrees as follows:

(a) As of the date of the Preliminary Official Statement and the Official Statement and at all times after the date of each up to and including the date of Closing, the statements and information contained in the Preliminary Official Statement (except for permitted omissions) and Official Statement will be true, correct and complete in all material respects and the Preliminary Official Statement (except for permitted omissions) and Official Statement will not omit any statement or information which should be included therein for the purposes for which the Preliminary Official Statement and Official Statement are to be used or which are necessary to make the statements or information contained therein, in light of the circumstances under which they were made, not misleading (provided, however, that no representation or warranty is being provided with respect to The Depository Trust Company ("DTC") and its book-entry only system of registration).

(b) Between the date of this Bond Purchase Contract and the time of Closing, the City will not execute any bonds, notes or obligations for borrowed money, other than the Series 2016 Bonds or obligations which pledge neither the faith and credit of the City nor any portion of the Pledged Revenues, without giving prior written notice thereof to the Underwriters.

(c) The City is, and will be at the date of Closing, duly organized and validly existing as a municipal corporation of the State of Florida, with the powers and authority set forth in the Act.

(d) The City has full legal right, power and authority to: (i) enter into this Bond Purchase Contract, the Disclosure Certificate, the Escrow Deposit Agreement dated as of November __, 2016 between the City and Wells Fargo Bank, National Association, as escrow holder (the "Escrow Holder") relating to the Refunded Bonds (the "Escrow Agreement"), and all other agreements, certificates and other instruments executed in connection with the Series 2016 Bonds and the transactions contemplated hereby and thereby (collectively, the "City Documents"), (ii) adopt the Resolution and Resolution No. 12-06, adopted by the City on July 16, 2012, which established the current rates and fees for water and wastewater services in the City (the "Rate Resolution"), (iii) sell, issue and deliver the Series 2016 Bonds to the Underwriters as provided herein, (iv) refund the Refunded Bonds, (v) execute the Official Statement and (vii) carry out and consummate the transactions contemplated by the City Documents, the Resolution and the Official

Statement. The City has complied, and at the Closing will be in compliance, in all respects, with the terms of the Act and with the obligations on its part in connection with the issuance of the Series 2016 Bonds contained in the Resolution, the Series 2016 Bonds and the City Documents.

(e) By all necessary official action, the City has duly adopted the Resolution and the Rate Resolution, has duly authorized and approved the Preliminary Official Statement and the Official Statement, has duly authorized and approved the execution and delivery of, and the performance by the City, of the City Documents and all other obligations on its part in connection with the issuance of the Series 2016 Bonds and the consummation by it of all other transactions contemplated by the City Documents in connection with the issuance of the Series 2016 Bonds; upon delivery of the Series 2016 Bonds, the Resolution, the Rate Resolution and the City Documents such foregoing documents will each constitute a legal, valid and binding obligation of the City, enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity.

(f) When delivered to the Representative and paid for by the Underwriters at the Closing in accordance with the provisions of this Bond Purchase Contract, the Series 2016 Bonds will have been duly authorized, executed, issued and delivered and will constitute valid and binding obligations of the City in conformity with the Act and the Resolution, and shall be entitled to the benefits of the Resolution, including a pledge of and lien upon the Pledged Revenues in the manner and to the extent provided by the Resolution, subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity.

(g) The adoption of the Resolution, the refunding of the Refunded Bonds and the authorization, execution and delivery of the City Documents and the Series 2016 Bonds, and compliance with the provisions hereof and thereof, will not conflict with, or constitute a breach of or default under any law, administrative regulation, consent decree, ordinance, resolution or any agreement or other instrument to which the City was or is subject, as the case may be, nor will such enactment, adoption, execution, delivery, authorization or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the City, or under the terms of any law, administrative regulation, ordinance, resolution or instrument, except as expressly provided by the Resolution or the Series 2016 Bonds.

(h) At the time of Closing, the City will be in compliance in all respects with the covenants and agreements contained in the Resolution and no event of default and no

event which, with the lapse of time or giving of notice, or both, would constitute an event of default under the Resolution will have occurred or be continuing.

(i) Except as provided in the Official Statement, all approvals, consents, authorizations and orders of any governmental authority or agency having jurisdiction in any matter which would constitute a condition precedent to the performance by the City of its obligations hereunder and its obligations under the Resolution, the Rate Resolution and the City Documents have been obtained and are in full force and effect.

(j) The City is lawfully empowered to pledge and grant a lien upon the Pledged Revenues for payment of the principal of, redemption premium, if any, and interest on the Series 2016 Bonds in the manner and to the extent provided by the Resolution.

(k) Except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or threatened against the City, which could have a material adverse affect on the City's ability to pay debt service on the Series 2016 Bonds, the refunding of the Refunded Bonds or the sale, issuance or delivery of the Series 2016 Bonds or the collection and/or pledge of and lien on the Pledged Revenues created by the Resolution or contesting or affecting as to the City the validity or enforceability in any respect relating to the Series 2016 Bonds or the City Documents, or contesting the tax-exempt status of interest on the Series 2016 Bonds, or contesting the completeness or accuracy of the Official Statement or any supplement or amendment thereto, or contesting the powers of the City or City Council or any authority for the issuance of the Series 2016 Bonds, the adoption of the Resolution or the Rate Resolution or the execution and delivery by the City of the City Documents, or which would otherwise adversely affect the City's ability to perform its obligations with respect to the Series 2016 Bonds.

(l) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriters as the Underwriters may reasonably request in order to (i) qualify the Series 2016 Bonds for offer and sale under the "blue sky" or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriters may designate, and (ii) determine the eligibility of the Series 2016 Bonds for investment under the laws of such states and other jurisdictions, and will use its best efforts to continue such qualifications in effect so long as required for the distribution of the Series 2016 Bonds; provided, however, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(m) The City will not take or omit to take any action which action or omission will in any way cause the proceeds from the sale of the Series 2016 Bonds to be applied in a manner contrary to that provided for in the Resolution and as described in the Official Statement.

(n) The City is not and has not been in default on any bond, note or other obligations which it has issued, assumed or guaranteed as to payment of since December 31, 1975 that would be considered material by a reasonable investor. The City has not undertaken an independent review or investigation of securities for which it has served as a conduit issuer ("Conduit Securities"). The City does not believe that disclosure of information about any default on such Conduit Securities is appropriate, or would be considered material by a reasonable investor in the Series 2016 Bonds because the City is not obligated to pay the principal, premium, if any, or interest on such Conduit Securities, except from payments made to the City from private companies on whose behalf such Conduit Securities were issued, and no funds of the City have been pledged or used to pay the principal, premium, if any, or interest on such Conduit Securities.

(o) The City has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

(p) As of its date, the Preliminary Official Statement has been deemed "final" by the City for purposes of the Rule except for omission of certain matters permitted thereby.

(q) If, after the date of this Bond Purchase Contract and until the earlier of (i) 90 days from the end of the "underwriting period" (as defined in the Rule) or (ii) the time when the Official Statement is available to any person from the MSRB (but in no case less than 25 days following the end of the underwriting period), any event shall occur which might or would cause the Official Statement, as then supplemented or amended, to contain any untrue statement of a material fact or to omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (for purposes of this subparagraph, an "Event"), the City shall notify the Representative thereof, and, if in the reasonable opinion of the Representative such Event requires the preparation and publication of a supplement or amendment to the Official Statement, the City will at its own expense (unless the Event was caused by the Underwriters) forthwith prepare and furnish to the Underwriters a sufficient number of copies of an amendment of or supplement to the Official Statement (in form and substance satisfactory to Counsel to the Underwriters) which will supplement or amend the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at such time, not misleading. The

Representative shall notify the City in writing of the date on which the "underwriting period" ends.

(r) Except as expressly disclosed in the Official Statement, the City has not, in the last five (5) years, failed to comply with any prior continuing disclosure obligation arising out of the Rule.

(s) Subsequent to the respective dates as of which information is given in the Official Statement, and prior to the Closing, except as set forth in or contemplated by the Official Statement, unless consented to by the Underwriters, (i) the City has not incurred and shall not have incurred any material liabilities or obligations relating to the Utility System, direct or contingent, except in the ordinary course of business, and has not entered into and will not have entered into any material transaction relating to the Utility System not in the ordinary course of business, (ii) there has not been and will not have been any material adverse change in the business or financial position or results of operations of the Utility System, (iii) no loss or damage (whether or not insured) to the property of the Utility System has been or will have been sustained which materially and adversely affects the operations of the Utility System, and (iv) no legal or governmental proceeding affecting the Utility System or the transactions contemplated by this Bond Purchase Contract has been or will have been instituted or threatened which is material.

(t) The financial statements and other historical financial and statistical information contained in the Official Statement fairly represent the financial position and results of the City's operations, specifically including the financial positions of the city's Utility System, as of the date and for the periods set forth in such financial statements and statistical information in accordance with generally accepted accounting principles applied consistently. Except as disclosed in the Official Statement or otherwise as disclosed in writing to the Representative, there has not been any materially adverse change in the financial condition of the System or in its operations since September 30, 2015 and there has been no occurrence, circumstance or combination thereof which is reasonably expected to result in any such materially adverse change.

7. Closing. At or prior to 1:00 P.M., local time, on November __, 2016, or at such time on such earlier or later date as shall be agreed upon, you will deliver for the account of the Underwriters, through the facilities of DTC, the Series 2016 Bonds in definitive form (all such Series 2016 Bonds bearing proper CUSIP numbers), duly executed and authenticated, together with the other documents herein mentioned; and the Underwriters, will accept such delivery and pay at such location as may be agreed upon by the City and the Underwriters the purchase price of the Series 2016 Bonds as set forth in Section 1 hereof in immediately available funds, payable to the order of the City. This delivery and payment is herein called the "Closing." The Closing shall occur at the offices of the City in Marco Island, Florida, or such other place as shall have been mutually agreed to by the City and the Representative. The Series 2016 Bonds shall be

prepared and delivered as fully registered bonds in the definitive form of one fully registered bond for each stated maturity of the Series 2016 Bonds and in the name in which the DTC requests that the Series 2016 Bonds be registered, and will be made available for inspection and checking by the Underwriters at the office of DTC in New York, New York, or at such other place as shall be mutually agreed upon, not later than 12:00 p.m., Eastern time, on the business day prior to the date of Closing.

8. Closing Conditions. The Underwriters have entered into this Bond Purchase Contract in reliance upon the representations and warranties of the City herein contained and the performance by the City of its obligations hereunder, both as of the date hereof and as of the time of Closing. The obligations of the Underwriters under this Bond Purchase Contract are and shall be subject to the following conditions:

(a) The representations, warranties and agreements of the City contained herein shall be true and correct and complied with as of the date hereof and as of the date of the Closing, as if made on the date of the Closing.

(b) At the time of the Closing, the Resolution and the Rate Resolution shall be in full force and effect in accordance with their respective terms and shall not have been amended, modified or supplemented, and the Official Statement shall not have been supplemented or amended, except in any such case as may have been agreed to by the Representative.

(c) At the time of the Closing, the City Documents and the Series 2016 Bonds shall be in full force and effect in accordance with their respective terms and shall not have been amended, modified or supplemented in any material respect, except in each case as may have been agreed to by the Representative.

(d) At or prior to the date of the Closing, the Representative shall receive the following documents:

(i) The Resolution and the Rate Resolution, each certified by the Clerk of the City under seal as having been duly adopted by the City and as being in effect, with only such supplements, modifications or amendments as may have been agreed to by the Representative.

(ii) Fully executed counterparts of:

(A) the City Documents, as applicable; and

(B) the Official Statement and copies of conformed Official Statements sufficient to satisfy the requirements of Section 4 of this Bond Purchase Contract.

(iii) A final approving opinion of Bryant Miller Olive P.A., Bond Counsel to the City, addressed to the City, dated the date of the Closing, in substantially the form included in the Official Statement as Exhibit E.

(iv) A letter of Bryant Miller Olive P.A., Bond Counsel to the City, addressed to the Underwriters, and dated the date of Closing, to the effect that their final approving opinion referred to in Section 8(d)(iii) hereof may be relied upon by the Underwriters to the same extent as if such opinion were addressed to the Underwriters.

(v) A supplemental opinion of Bryant Miller Olive P.A., addressed to the City and the Underwriters, and dated the date of Closing, to the effect that:

(A) the information set forth in the Official Statement under the headings, "INTRODUCTORY STATEMENT," "PURPOSE OF THE 2016 BONDS," "THE REFUNDING PLAN," "DESCRIPTION OF THE SERIES 2016 BONDS" (other than the information under the subheading "Book-Entry Only System"), "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS," "FLOW OF FUNDS," "ENFORCEABILITY OF REMEDIES," and "APPENDIX B – FORM OF COMPOSITE BOND RESOLUTION" (other than the financial and statistical information included under any such headings, as to which no opinion need be expressed), insofar as such information purports to be descriptions or summaries of the Resolution and the Series 2016 Bonds, constitute accurate and fair statements or summaries of the documents or information referred to therein, and the information under the heading "TAX MATTERS" and in "APPENDIX D - PROPOSED FORM OF OPINION OF BOND COUNSEL" is correct as to matters of law;

(B) the Series 2016 Bonds are not required to be registered under the Securities Act of 1933, as amended, and it is not necessary to qualify the Resolution under the Trust Indenture Act of 1939, as amended; and

(C) the Refunded Bonds have been defeased and the Holders of the Refunded Bonds have ceased to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the City to the Holders of such refunded Bonds have ceased, terminated and become void and are discharged and satisfied.

(vi) An opinion of Weiss Serota Helfman Cole & Bierman, City Attorney, addressed to the City, the Underwriters and Bond Counsel, and dated the date of the Closing, substantially to the effect that:

(A) the City is a municipality of the State of Florida, duly organized and validly existing and has full legal right, power and authority to adopt and perform its obligations under the Resolution and the Rate Resolution, and to authorize, execute and deliver and to perform its obligations under the City Documents and the Series 2016 Bonds;

(B) the City has duly adopted the Resolution and the Rate Resolution and each has not been modified, amended or repealed except as disclosed in the Official Statement and has duly authorized, executed and delivered the Series 2016 Bonds and the City Documents and assuming the due authorization, execution and delivery of the City Documents by the other parties thereto, such instruments, the Series 2016 Bonds, the Resolution and the Rate Resolution constitute legal, binding and valid obligations of the City, enforceable in accordance with their respective terms; provided, however, the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights and subject, as to enforceability, to general principles of equity;

(C) the information in the Official Statement under the caption "LITIGATION" is true and complete in all material respects, and with respect to the other information in the Official Statement, as to legal matters, based upon their review of the Official Statement as City Attorney and without having undertaken to determine independently the accuracy or completeness of the contents of such other portions of the Official Statement, they have no reason to believe that such other portions of the Official Statement (except for the financial and statistical data contained therein and the information relating to DTC and its book-entry system of registration, as to which no view need be expressed) contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading;

(D) to the best of their knowledge, except as disclosed in the Official Statement, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending or, threatened, against the City, affecting or seeking to prohibit, restrain or enjoin the sale, issuance or delivery of the Series 2016 Bonds or the pledge of and lien on the Pledged Revenues, or contesting or affecting as to the City the validity or enforceability in any respect of the Series 2016 Bonds, the Resolution, the Rate Resolution or the City Documents, or contesting the exclusion

from gross income of interest on the Series 2016 Bonds, or contesting the completeness or accuracy of the Official Statement or any supplement or amendment thereto, or contesting the powers of the City and City Council or any authority for the issuance of the Series 2016 Bonds, the adoption or enactment, as the case may be, of the Resolution or the Rate Resolution or the execution and delivery by the City of the City Documents or which could adversely affect the City's ability to perform its obligations with respect to the Series 2016 Bonds;

(E) the adoption of the Resolution and the Rate Resolution and the authorization, execution and delivery of the City Documents and the Series 2016 Bonds and compliance with the provisions hereof and thereof, will not conflict with, or constitute a material breach of or default under, any law or administrative regulation, or to the best of their knowledge, any consent decree, ordinance, resolution or any agreement or other instrument to which the City was or is subject, as the case may be, nor will such enactment, adoption, execution, delivery, authorization or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the City, or under the terms of any law, administrative regulation, ordinance, resolution or instrument, except as expressly provided by the Resolution;

(F) the use of the Preliminary Official Statement by the Underwriters for the purpose of offering the Series 2016 Bonds for sale has been duly authorized by the City; and

(G) the Official Statement has been duly authorized, executed and delivered by the City, and the City has consented to the use thereof by the Underwriters.

(vii) A certificate, which shall be true and correct at the time of Closing, signed by the Chairman of the City Council of the City, the City Manager of the City and the Finance Director, or such other officials satisfactory to the Underwriters, and in form and substance satisfactory to the Underwriters, to the effect that, to the best of their knowledge and belief:

(A) the representations, warranties and covenants of the City contained herein are true and correct in all material respects and are complied with as of the time of Closing;

(B) the Official Statement did not as of its date, and does not as of the date of Closing, contain any untrue statement of a material fact or omit to state a material fact which should be included therein for the purposes

for which the Official Statement is to be used, or which is necessary in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading (provided, that no opinion need be expressed regarding the information contained therein relating to DTC and its book-entry only system of registration);

(C) that, except as disclosed in the Official Statement, no litigation or other proceedings are pending or, to their knowledge, threatened against the City in any court or other tribunal of competent jurisdiction, State or federal, in any way (i) restraining or enjoining the issuance, sale or delivery of any of the Series 2016 Bonds, or (ii) questioning or affecting the validity of the Series 2016 Bonds, the Resolution, the Rate Resolution, the City Documents, or the pledge by the City of the Pledged Revenues, or (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution, issuance or delivery of the Series 2016 Bonds or (iv) questioning or affecting (I) the organization or existence of the City or the title to office of the officers thereof, and (II) the refunding of the Refunded Bonds, or (III) the power or authority of the City to collect the Pledged Revenues or (v) asserting that the Preliminary Official Statement or the Official Statement contains any untrue statement of a material fact or omits any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading;

(D) since the date of the audited financial statements for the fiscal year ended September 30, 2015, included in the Official Statement as Appendix C thereto, (i) there has been no material adverse change in the financial condition of the City and (ii) the City has not incurred any material liabilities other than in the course of ordinary business, except as set forth or contemplated by the Official Statement;

(E) that no event affecting the City has occurred since the date of the Official Statement that should be disclosed in the Official Statement for the purposes for which it is to be used or that is necessary to be disclosed therein in order to make the statements and information therein not misleading in any material respect;

(F) to the best of our knowledge, the adoption of the Rate Resolution and the Resolution, and the authorization, execution and delivery of the City Documents and the Series 2016 Bonds, and compliance with the provisions thereof, will not conflict with, or constitute a breach of or default under, any resolution or any agreement or other instrument to which the City was or is subject, as the case may be, nor will such enactment,

adoption, execution, delivery, authorization or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the City, or under the terms of any law, administrative regulation, ordinance, resolution or instrument, except as expressly provided by the Rate Resolution and the Resolution and all approvals, consents, authorizations and orders of any governmental authority or agency having jurisdiction in any matter which would constitute a condition precedent to the performance by the City of its obligations under the Resolution have been obtained and are in full force and effect; and

(G) the audited financial statements of the City for the fiscal year ended September 30, 2015 as presented in the Official Statement fairly and accurately reflect the financial condition of the Utility System as of the date of such financial information.

(viii) An opinion of Bryant Miller Olive P.A., Disclosure Counsel to the City, addressed to the City with a reliance letter thereon addressed to the Underwriters, and both dated the date of Closing, substantially to the effect that:

(A) the Series 2016 Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended;

(B) based upon their participation and their review of the Official Statement as Disclosure Counsel for the City and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to their attention causing them to believe that the Official Statement contains any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except for the financial and statistical information contained in the Official Statement and the information related to DTC or its book-entry only system as to which no view need be expressed); and

(C) with respect to the issuance of the Series 2016 Bonds, the continuing disclosure undertaking of the City complies as to form in all material respects with the requirements for such an agreement in paragraph (b)(5) of the Rule.

(ix) The opinion of Counsel to the Underwriters covering such matters as the Representative may reasonably request;

(x) A certificate of an authorized representative of Wells Fargo Bank, National Association (the "Bank"), in its capacity as Registrar and Paying Agent and Escrow Holder to the effect that:

(A) the Bank is a national banking association duly organized, validly existing and in good standing under the laws of the United States of America and is duly authorized to exercise trust powers in the State of Florida;

(B) the Bank has all requisite authority, power, licenses, permits and franchises, and has full corporate power and legal authority to execute and perform its functions under the Resolution, the Escrow Agreement and the Registrar and Paying Agent Agreement (the "Paying Agent Agreement") to be executed in connection with the issuance of the Series 2016 Bonds;

(C) the performance by the Bank of its functions under the Resolution, the Escrow Agreement and the Paying Agent Agreement will not result in any violation of the Articles of Association or Bylaws of the Bank, any court order to which the Bank is subject or any agreement, indenture or other obligation or instrument to which the Bank is a party or by which the Bank is bound, and no approval or other action by any governmental authority or agency having supervisory authority over the Bank is required to be obtained by the Bank in order to perform its functions under the Resolution, the Escrow Agreement and the Paying Agent Agreement;

(D) the Escrow Agreement and the Paying Agent Agreement constitute valid and binding obligations of the Bank in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity; and

(E) to the best of such authorized representative's knowledge, there is no action, suit, proceeding or investigation at law or in equity before any court, public board or body pending or, to his or her knowledge, threatened against or affecting the Bank wherein an unfavorable decision, ruling or finding on an issue raised by any party thereto is likely to materially and adversely affect the ability of the Bank to perform its obligations under the Resolution, the Escrow Agreement and the Paying Agent Agreement.

(xi) A certificate, dated the date of the Closing, signed by the Utility System General Manager to the effect that he has reviewed the information in the Official Statement under the headings "THE UTILITY SYSTEM," "WATER

SYSTEM," "SEWER SYSTEM," "WASTEWATER TREATMENT" and "RATES, FEES AND CHARGES," such information is accurate and complete, and that the information under such headings does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(xii) A signed copy of the letter of representations from the City to DTC.

(xiii) A certificate of the Chairman of the City Council deeming the Preliminary Official Statement "final" as of its date for purposes of the Rule.

(xiv) A letter of Moody's Investors Service ("Moody's") to the effect that the Series 2016 Bonds have been assigned a rating of than "___," and a letter of Fitch Ratings ("Fitch") to the effect that the Series 2016 Bonds have been assigned a rating of "___," all of which ratings shall be in effect as of the date of Closing.

(xv) Evidence that the City has complied with the Resolution with respect to the issuance of the Series 2016 Bonds as Additional Parity Obligations.

(xvi) Internal Revenue Service Form 8038-G.

(xvii) State of Florida Division of Bond Finance Form BF2003/2004-B.

(xviii) A certificate from the City's Financial Advisor to the effect that all of the parameters set forth in Section 2 of Resolution No. 16-__ have been satisfied.

(xix) Evidence of redemption of the Refunded Bonds.

Such additional legal opinions, certificates, instruments and other documents as the Underwriters may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the date of the Closing, of the City's representations and warranties contained herein and of the statements and information contained in the Official Statement and the due performance or satisfaction by the City on or prior to the date of Closing of all the agreements then to be performed and conditions then to be satisfied by it.

If the City shall be unable to satisfy the conditions to the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Series 2016 Bonds contained in this Bond Purchase Contract and the Underwriters do not waive such inability in writing, or if the obligations of the Underwriters to purchase, to accept delivery of and to pay for the Series 2016 Bonds shall be terminated for any reason permitted by this Bond Purchase Contract, this Bond Purchase Contract shall terminate,

the good faith deposit described in Section 2 hereof shall be returned to the Representative and neither the Underwriters nor the City shall be under any further obligation hereunder, except that the respective obligations of the City and the Underwriters set forth in Section 10 hereof shall continue in full force and effect.

9. Termination of Bond Purchase Contract. The Representative may terminate this Bond Purchase Contract, in its absolute discretion, without liability, by written notification to the City, if at any time subsequent to the date of this Bond Purchase Contract and prior to the Closing:

(a) The marketability of the Series 2016 Bonds, in the reasonable opinion of the Representative, has been materially adversely affected by an amendment to the Constitution of the United States of America or by any legislation (other than any actions taken or proposed by either House of Congress on or prior to the date of this Bond Purchase Contract): (i) enacted or adopted by the United States of America; (ii) recommended to the Congress or otherwise endorsed for passage, by press release, other form of notice or otherwise, by the President of the United States of America, the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, the Treasury Department of the United States of America or the Internal Revenue Service; or (iii) favorably reported out of the appropriate Committee for passage to either House of the Congress by any full Committee of such House to which such legislation has been referred for consideration, or by any decision of any court of the United States of America or by any order, rule or regulation (final, temporary or proposed) on behalf of the Treasury Department of the United States of America, the Internal Revenue Service or any other authority or regulatory body of the United States of America, or by a release or announcement or communication issued or sent by the Treasury Department or the Internal Revenue Service of the United States of America, or any comparable legislative, judicial or administrative development adversely affecting the federal tax status of the City, its property or income, obligations of the general character of the Series 2016 Bonds, or any tax exemption of the Series 2016 Bonds; or

(b) Any legislation, rule, or regulation shall be introduced in, or be enacted or adopted by any department or agency in the State, or a decision by any court of competent jurisdiction within the State shall be rendered which, in the reasonable opinion of the Representative, materially adversely affects the market for the Series 2016 Bonds or the sale, at the contemplated offering prices, by the Underwriters of the Series 2016 Bonds to be purchased by them; or

(c) Any amendment or supplement to the Official Statement is proposed by the City or deemed necessary by Bond Counsel or Disclosure Counsel which, in the reasonable opinion of the Representative, materially adversely affects the market for the

Series 2016 Bonds or the sale, at the prices stated in this Bond Purchase Contract, by the Underwriters of the Series 2016 Bonds; or

(d) Legislation shall be enacted or adopted, or any action shall be taken by, or on behalf of, the Securities and Exchange Commission (the “Commission”) which, in the reasonable opinion of Counsel to the Underwriters, has the effect of requiring the contemplated distribution of the Series 2016 Bonds to be registered under the Securities Act of 1933, as amended, or any laws analogous thereto relating to governmental bodies, and compliance therewith cannot be accomplished prior to the Closing; or

(e) Legislation shall be introduced by amendment or otherwise in or be enacted by, the House of Representatives or the Senate of the Congress of the United States of America, or a decision by a Court of the United States of America shall be rendered, or a stop order, ruling, release, regulation, official statement or no-action letter by or on behalf of the Commission or any other governmental agency having jurisdiction of the subject matter of the Series 2016 Bonds shall have been proposed, issued or made (which is beyond the control of the Representative or the City to prevent or avoid) to the effect that the issuance, offering or sale of the Series 2016 Bonds, including all the underlying obligations as contemplated by this Bond Purchase Contract or by the Official Statement, or any document relating to the issuance, offering or sale of the Series 2016 Bonds is or would be in violation of any of the federal securities laws at Closing, including the Securities Act of 1933, as amended and then in effect, the Securities Exchange Act of 1934, as amended and then in effect, or with the purpose or effect of otherwise prohibiting the offering and sale of obligations of the general character of the Series 2016 Bonds, as contemplated by this Bond Purchase Contract; or

(f) There shall have occurred, after the signing of this Bond Purchase Contract, either a financial crisis or a default with respect to any debt obligation of the City, or proceedings under the federal or State bankruptcy laws shall have been instituted by the City, in either case the effect of which, in the reasonable judgment of the Representative, is such as to materially and adversely affect (i) the market price or the sale at the offering prices as stated in this Bond Purchase Contract, by the Underwriters of the Series 2016 Bonds, or (ii) the ability of the Underwriters to enforce contracts for the sale of the Series 2016 Bonds; or

(g) A general banking moratorium shall have been declared by the United States of America, New York or State authorities, which in the reasonable opinion of the Representative, materially adversely affects the market price for the Series 2016 Bonds or the sale, at the contemplated offering prices, by the Underwriters of the Series 2016 Bonds; or

(h) Any national securities exchange, or any governmental authority, shall impose, as to the Series 2016 Bonds or any obligation of the general character of the

Series 2016 Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of the Underwriters, or the establishment of material restrictions upon trading of securities, including limited or minimum prices, by any governmental authority or by any national securities exchange; or

(i) Legal action shall have been filed against the City from which an adverse ruling would materially adversely affect the transactions contemplated by this Bond Purchase Contract or the Official Statement, or the validity of the Series 2016 Bonds or this Bond Purchase Contract; provided, however, that as to any such litigation, the City may request and the Representative may accept an opinion by Bond Counsel, or of other counsel acceptable to the Representative, that in such counsel's reasoned opinion, the issues raised by any such litigation or proceeding are without substance or that the contentions of any plaintiffs are without merit; or

(j) Trading in any securities of the City shall have been suspended on any national securities exchange; or any proceeding shall be pending or threatened by the Commission against the City; or a general suspension of trading on the New York Stock Exchange or the American Stock Exchange or other national securities exchange, the effect of which, in the reasonable opinion of the Representative, is to affect materially and adversely the market prices of the Series 2016 Bonds; or

(k) Any information shall have become known or an event shall have occurred which, in the Representative's reasonable opinion, makes untrue, incorrect or misleading in any material respect any statement or information contained in the Official Statement, as that information has been supplemented or amended, or causes the Official Statement, as so supplemented or amended, to contain an untrue, incorrect or misleading statement of a material fact or to omit to state a material fact required or necessary to be stated in the Official Statement in order to make the statements made in the Official Statement, in light of the circumstances under which they were made, not misleading and upon the receipt of notice of same by the City, (i) the City fails to promptly amend or supplement the Official Statement in a manner which is reasonably acceptable in form and content to the Representative, or (ii) the City agrees to the proposed amendment, and such disclosed information or event in the reasonable opinion of the Representative (upon due inquiry by the Representative and the City's Financial Advisor as to the effect such information or event has on the market price of the Series 2016 Bonds or their sale at the prices stated in this Bond Purchase Contract), materially adversely affects the market price for the Series 2016 Bonds or their sale, at the prices stated in this Bond Purchase Contract, and the City's Financial Advisor concurs in such conclusion; or

(l) There shall have occurred an outbreak or escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis after the execution of this Bond Purchase Contract which, in the sole but reasonable

opinion of the Representative, would have a material adverse effect on the market price of the Series 2016 Bonds or their sale at the prices stated in this Bond Purchase Contract; or

10. Expenses. The Underwriters shall be under no obligation to pay, and the City shall pay, any expense incident to the performance of the City's obligations hereunder including, but not limited to: (a) the cost of preparing, printing and delivery of this Bond Purchase Contract; (b) the cost of preparation, printing and delivery of the Resolution; (c) the cost of preparation and printing of the Series 2016 Bonds; (d) the fees and disbursements of Bond Counsel; (e) the fees and disbursements of Disclosure Counsel; (f) the fees and disbursements of the Financial Advisor; (g) the fees and disbursements of any experts, consultants or advisors retained by the City; (h) fees for bond ratings; (i) the fees and expenses of the Registrar and Paying Agent and of their counsel; and (j) the costs of preparing, printing and delivering the Preliminary Official Statement and the Official Statement and any supplements or amendments thereto.

The Underwriters shall pay: (a) the cost of all "blue sky" and legal investment memoranda and related filing fees; (b) the fees and expenses of Counsel to the Underwriters; (c) all advertising expenses; and (d) all other expenses incurred by the Underwriters in connection with the public offering of the Series 2016 Bonds. In the event that either party shall have paid obligations of the other as set forth in this Section 10, adjustment shall be made at the time of the Closing. The City shall be solely responsible for and shall pay for any expenses incurred by the Underwriters on behalf of the City's employees and representatives in connection with this Bond Purchase Contract, including, but not limited to, meals, transportation, lodging, and entertainment of those employees and representatives. Such payment may be in the form of inclusion of such expenses in the expense component of the Underwriters' discount.

11. Notices. Any notice or other communication to be given to you under this Bond Purchase Contract may be given by mailing the same to City of Marco Island, Florida, 50 Bald Eagle Drive, Marco Island, Florida 34145, to the attention of Finance Director, and any such notice or other communication to be given to the Underwriters may be mailed to Merrill Lynch, Pierce, Fenner & Smith Incorporated, 250 S. Park Avenue, Suite 400, Winter Park, FL 32789, to the attention of Mr. Coleman Cordell.

12. Parties in Interest. This Bond Purchase Contract is made solely for the benefit of the City and the Underwriters and no other party or person shall acquire or have any right hereunder or by virtue hereof. All your representations, warranties and agreements in this Bond Purchase Contract shall remain operative and in full force and effect and shall survive the delivery of the Series 2016 Bonds.

13. Waiver. Notwithstanding any provision herein to the contrary, the performance of any and all obligations of the City hereunder and the performance of any

and all conditions contained herein for the benefit of the Underwriters may be waived by the Underwriters, in their sole discretion, and the approval of the Underwriters when required hereunder or the determination of their satisfaction as to any document referred to herein shall be in writing, signed by an appropriate officer or officers of the Representative and delivered to you.

14. No Liability. Neither the Chairman, the City Council, nor any of the members thereof, nor any officer, agent or employee thereof, shall be charged personally by the Underwriters with any liability, or held liable to the Underwriters under any term or provision of this Bond Purchase Contract because of its execution or attempted execution, or because of any breach or attempted or alleged breach thereof.

15. Governing Law. This Bond Purchase Contract, and the terms and conditions herein, shall constitute the full and complete agreement between the City and the Underwriters with respect to the purchase and sale of the Series 2016 Bonds. This Bond Purchase Contract shall be governed by and construed in accordance with the laws of the State of Florida.

16. Operation of Warranties, Etc. All the representations, warranties, covenants and agreements of the City in this Bond Purchase Contract shall remain operative and in full force and effect as if made on the date hereof and on the date of Closing, regardless of (i) any investigation made by or on behalf of the Underwriters or by Disclosure Counsel, (ii) delivery of and any payment for the Series 2016 Bonds hereunder, or (iii) any termination of this Bond Purchase Contract, other than pursuant to Section 9.

17. Section Headings. Section headings have been inserted in this Bond Purchase Contract as a matter of convenience of reference only, and it is agreed that such section headings are not a part of this Bond Purchase Contract and will not be used in the interpretation of any provisions of this Bond Purchase Contract.

18. Severability. If any provision of this Bond Purchase Contract shall be held or deemed to be, or shall in fact be, invalid, inoperative or unenforceable as applied in any particular case in any jurisdiction or jurisdictions, or in all jurisdictions because it conflicts with any provisions of any constitution, statute, or rule of public policy, or for any other reasons, such circumstances shall not have the effect of rendering the provision in question invalid, inoperative or unenforceable in any other case or circumstances, or of rendering any other provision or provisions of this Bond Purchase Contract invalid, inoperative or unenforceable to any extent whatever.

[Remainder of Page Intentionally Left Blank.]

19. Execution of Counterparts. This Bond Purchase Contract may be executed in any number of counterparts, all of which taken together shall be one and the same instrument, and any parties hereto may execute this Bond Purchase Contract by signing any such counterpart. The execution of this Bond Purchase Contract has been duly authorized by the City Council of the City.

Very truly yours,

**MERRILL LYNCH, PIERCE, FENNER &
SMITH INCORPORATED,**
as Representative

Authorized Representative

Accepted as of the date first indicated above.

CITY OF MARCO ISLAND, FLORIDA

Chairman

ATTEST:

(SEAL)

City Clerk

Approved as to form:

City Attorney

EXHIBIT A

SERIES 2016 BONDS MATURITY SCHEDULE

\$ _____
Utility System Refunding Revenue Bonds, Series 2016

Maturity (October 1,)	Amount	Interest Rate	Yield

Optional Redemption

The Series 2016 Bonds maturing on or prior to October 1, 20__, are not subject to redemption prior to their stated dates of maturity. The Series 2016 Bonds maturing on or after October 1, 20__ are redeemable prior to their stated dates of maturity, at the option of the City, in whole or in part on any date on or after October 1, 20__ (in such manner of selection of maturities as the City shall deem appropriate and by lot within maturities), at a redemption price of 100%, plus interest accrued to the date of redemption.

Mandatory Redemption

The Series 2016 Bonds maturing on October 1, ____ shall be subject to mandatory redemption prior to maturity, by lot, in such manner as the Registrar may deem appropriate, at a redemption price equal to the principal amount thereof plus interest accrued to the date of redemption, on October 1, ____, and on each October 1 thereafter, from Amortization Installments deposited in the Redemption Account, in the following principal amounts in the years specified:

Date (October 1)	Amortization Installments
---------------------	------------------------------

*

\$

*Maturity

EXHIBIT B

DISCLOSURE STATEMENT AND TRUTH-IN-BONDING STATEMENT

November __, 2016

City Council of the City of
Marco Island, Florida
50 Bald Eagle Drive
Marco Island, Florida 34145

Re: \$_____ Utility System Refunding Revenue Bonds,
Series 2016

Ladies and Gentlemen:

In connection with the proposed issuance by the City of Marco Island, Florida (the "City") of \$_____ in aggregate principal amount of its City of Marco Island, Utility System Refunding Revenue Bonds, Series 2016 (the "Series 2016 Bonds"), Merrill Lynch, Pierce, Fenner & Smith Incorporated, on behalf of itself, Citigroup Global Markets Inc. and RBC Capital Markets, LLC (collectively, the "Underwriters") is underwriting a public offering of the Series 2016 Bonds.

The purpose of the following six paragraphs of this letter is to furnish, pursuant to the provisions of Section 218.385(6), Florida Statutes, as amended, certain information in respect of the arrangements contemplated for the purchase and sale of the Series 2016 Bonds, as follows:

(a) The nature and estimated amount of expenses to be incurred by the Underwriters in connection with the purchase and re-offering of the Series 2016 Bonds are set forth in Schedule I attached hereto.

(b) There are no "finders," as defined in Section 218.386, Florida Statutes, as amended, connected with the sale and purchase of the Series 2016 Bonds.

(c) The underwriting spread, the difference between the price at which the Series 2016 Bonds will be initially offered to the public by the Underwriters and the price

to be paid to the City for the Series 2016 Bonds will be approximately \$_____ per \$1,000 of Series 2016 Bonds issued.

(d) As part of the estimated underwriting spread set forth in paragraph (c) above, the Underwriters will charge a management fee of \$0 per \$1,000 of Series 2016 Bonds issued.

(e) No other fee, bonus or other compensation is estimated to be paid by the Underwriters in connection with the issuance of the Series 2016 Bonds to any person not regularly employed or retained by the Underwriters (including any "finder" as defined in Section 218.386(1)(a), Florida Statutes), except as specifically enumerated as expenses to be incurred by the Underwriters, as set forth in paragraph (a) above.

(f) The name and address of the Underwriters are:

Merrill Lynch, Pierce, Fenner & Smith Incorporated
250 S. Park Avenue, Suite 400
Winter Park, FL 32789

RBC Capital Markets, LLC
100 Second Avenue South, Suite 800
St. Petersburg, Florida 33701

Citigroup Global Markets Inc.
100 North Tampa St., Suite 3750
Tampa, 33602

The purpose of the following two paragraphs is to furnish, pursuant to the provisions of Sections 218.385(2) and (3), Florida Statutes, as amended, the truth-in-bonding statement required thereby, as follows:

(a) The City is proposing to issue \$_____ of the Series 2016 Bonds for the purposes outlined in the Resolution defined below. This obligation is expected to be repaid over a period of __ years. At a true interest cost of approximately _____%, total interest paid over the life of the obligation will be \$_____.

(b) The source of repayment or security of the Series 2016 Bonds is the Pledged Revenues, which Pledged Revenues include Net Revenues of the Utility System, as such terms are defined in Resolution No. 03-55 of the City adopted on September 29, 2003, as amended and supplemented, as particularly amended by Resolution No. 05-71, adopted by the City Council on October 17, 2005, as particularly supplemented by Resolution No. 16-__, adopted by the City Council of the City on October 17, 2016 (collectively, the "Resolution"), on a parity with the City's outstanding Utility System

Revenue Bond, Series 2006, Tax-Exempt Utility System Improvement and Refunding Revenue Bonds, Series 2010A, maturing before October 1, 2020 and not being refunded by the Series 2016 Bonds, and Taxable Utility System Refunding Revenue Bonds, Series 2010B, maturing before October 1, 2020, Utility System Refunding Revenue Bond, Series 2011 and Utility System Refunding Revenue Bond, Series 2013 heretofore issued under the Resolution in the manner to the extent provided in the Resolution. Authorizing this debt will result in an average of approximately \$_____ (average annual debt service) of such Pledged Revenues not being available to finance other services of the City each year for ____ years.

The foregoing is provided for information purposes only and shall not affect or control the actual terms and conditions of the Series 2016 Bonds.

Very truly yours,

**MERRILL LYNCH, PIERCE, FENNER &
SMITH INCORPORATED,**
as Representative

Title: Authorized Representative

SCHEDULE I

UNDERWRITERS' ESTIMATED EXPENSES

Underwriters' Counsel Fees	
and Expenses	\$
I-Deal Expenses	
CUSIP Fee	
DTC Fee	
Micellaneous	
Total	\$

EXHIBIT B

**FORM OF
PRELIMINARY OFFICIAL STATEMENT**

PRELIMINARY OFFICIAL STATEMENT DATED _____, 2016

NEW ISSUE - FULL BOOK-ENTRY ONLY

RATINGS: See "RATINGS" herein.

In the opinion of Bond Counsel, assuming compliance by the City with certain covenants, under existing statutes, regulations and judicial decisions, the interest on the Series 2016 Bonds is excluded from gross income for federal income tax purposes of the holders thereof and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, interest on the Series 2016 Bonds shall be taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax on corporations. See 'TAX MATTERS' herein for a description of certain other tax consequences to holders of the Bonds.

\$ _____ *

**CITY OF MARCO ISLAND, FLORIDA
UTILITY SYSTEM REFUNDING REVENUE BONDS, SERIES 2016**

Dated: Date of Delivery

Due: October 1 in each year as shown below

The \$ _____ * Utility System Refunding Revenue Bonds, Series 2016 (the "Series 2016 Bonds") are being issued by the City of Marco Island, Florida (the "City") as fully registered bonds and will be initially issued to and registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Series 2016 Bonds. The Series 2016 Bonds will be available to purchasers in denominations of \$5,000 or any integral multiple thereof under the book-entry only system maintained by DTC through brokers and dealers who are, or act through, Direct Participants (as defined herein). Purchasers will not receive physical delivery of the Series 2016 Bonds. For so long as any purchaser is the beneficial owner of a Series 2016 Bond, such purchaser must maintain an account with a broker or dealer who is, or acts through, a Direct or Indirect Participant in order to receive payment of principal of and interest on such Series 2016 Bond. For so long as the book-entry only system is in effect, any reference to a Series 2016 Bondholder or Series 2016 Bondholders shall be deemed to be Cede & Co. and not the beneficial owners of the Series 2016 Bonds. See "DESCRIPTION OF THE SERIES 2016 BONDS -- Book-Entry Only System" herein. Interest on the Series 2016 Bonds is payable on April 1 and October 1 of each year, commencing April 1, 2017. Wells Fargo Bank, National Association, Jacksonville, Florida, shall serve as Paying Agent and Registrar for the Series 2016 Bonds.

The Series 2016 Bonds may be subject to optional and mandatory redemption prior to their stated dates of maturity as described herein.

The Series 2016 Bonds are being issued pursuant to and under the authority of the Constitution and the laws of the State of Florida including Chapter 166, Part II, Florida Statutes, Chapter 159, Part I, Florida Statutes, the municipal charter of the City and other applicable provisions of law, and under and pursuant to Resolution No. 03-55 adopted by the City Council of the City on September 29, 2003, as amended and supplemented, as particularly amended by Resolution No. 05-71 adopted by the City Council on October 17, 2005, as particularly supplemented by Resolution No. ____-____ adopted by the City Council on _____, 2016 (collectively, the "Bond Resolution"). The Series 2016 Bonds are being issued, together with other legally available funds, to (i) advance refund all or a portion of the Tax-Exempt Utility System Improvement and Refunding Revenue Bonds, Series 2010A maturing on and after October 1, 2020, and (ii) pay the costs of issuance of the Series 2016 Bonds.

The Series 2016 Bonds will be issued on a parity with the City's Utility System Revenue Bond, Series 2006, Tax-Exempt Utility System Improvement and Refunding Revenue Bonds, Series 2010A, not refunded with proceeds of the Series 2016 Bonds, Taxable Utility System Refunding Revenue Bonds, Series 2010B, not legally defeased by the City as described in "PLAN OF FINANCE" herein, Utility System Refunding Revenue Bond, Series 2011, and Utility System Refunding Revenue Bonds, Series 2013 (collectively, the "Outstanding Parity Bonds"). The City may issue Additional Parity Obligations (as defined herein) on a parity with the Series 2016 Bonds and the Outstanding Parity Bonds, subject to compliance with certain conditions set forth in the Bond Resolution.

THE SERIES 2016 BONDS SHALL NOT BE NOR CONSTITUTE GENERAL OBLIGATIONS OR INDEBTEDNESS OF THE CITY AS "BONDS" WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF FLORIDA, BUT SHALL BE PAYABLE SOLELY FROM AND SECURED BY A FIRST LIEN UPON AND A PLEDGE OF THE PLEDGED REVENUES AS PROVIDED IN THE BOND RESOLUTION. NO HOLDER OR HOLDERS OF ANY SERIES 2016 BONDS ISSUED UNDER THE BOND RESOLUTION SHALL EVER HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE AD VALOREM TAXING POWER OF THE CITY OR TAXATION IN ANY FORM OF ANY REAL OR PERSONAL PROPERTY THEREIN, OR TO COMPEL THE CITY TO PAY SUCH PRINCIPAL AND INTEREST FROM ANY OTHER FUNDS OF THE CITY.

This cover page contains certain information for quick reference only. It is not a summary of the transaction. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Series 2016 Bonds are offered when, as and if issued and received by the Underwriters, subject to the opinion as to legality by Bryant Miller Olive P.A., Tampa, Florida, Bond Counsel. Certain legal matters will be passed upon for the City by Weiss Serota Helfman Cole & Bierman, P.L., Fort Lauderdale, Florida, City Attorney and by Bryant Miller Olive P.A., Tampa, Florida, Disclosure Counsel. Certain other legal matters will be passed upon for the Underwriters by Moskowitz, Mandell, Salim & Simowitz, P.A., Fort Lauderdale, Florida, Counsel to the Underwriters. Public Financial Management Inc., Orlando, Florida is serving as Financial Advisor to the City. It is expected that the Series 2016 Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about _____, 2016.

BofA Merrill Lynch

RBC Capital Markets

Citigroup

Dated: _____, 2016

*Preliminary, subject to change.

\$ _____ *

CITY OF MARCO ISLAND, FLORIDA
Utility System Refunding Revenue Bonds, Series 2016

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS,
PRICES AND INITIAL CUSIP NUMBERS**

Maturity (October 1)*	Principal Amount*	Interest Rate	Yield	Price	Initial CUSIP No.**
--------------------------	----------------------	------------------	-------	-------	------------------------

\$ _____ *	_____ %	Term Bonds due on October 1, _____ *	-- Price _____ --	Yield _____ %	-- Initial CUSIP Number _____ **
\$ _____ *	_____ %	Term Bonds due on October 1, _____ *	-- Price _____ --	Yield _____ %	-- Initial CUSIP Number _____ **

* Preliminary, subject to change.

** CUSIP numbers have been assigned by an independent company not affiliated with the City and are included solely for the convenience of the owners of the Series 2016 Bonds. The City is not responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Series 2016 Bonds or as indicated above.

**CITY OF MARCO ISLAND, FLORIDA
PRINCIPAL OFFICIALS**

CITY COUNCIL

Bob Brown, Chairman
Amadeo R. Petricca, Vice-Chairman
Joseph R. Batte, Councilman
Kenneth E. Honecker, Councilman
Larry Honig, Councilman
Victor Rios, Councilman
Laurence I. Sacher, Councilman

ADMINISTRATION

Roger T. Hernstadt, City Manager
Guillermo A. Polanco, CPA, Finance Director
Jeffrey E. Poteet, MBA, Utilities System General Manager
Laura M. Litzan, City Clerk

CITY ATTORNEY

Weiss Serota Helfman Cole & Bierman, P.L.
Fort Lauderdale, Florida

FINANCIAL ADVISOR

Public Financial Management Inc.
Orlando, Florida

BOND COUNSEL

Bryant Miller Olive P.A.
Tampa, Florida

DISCLOSURE COUNSEL

Bryant Miller Olive P.A.
Tampa, Florida

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering contained herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters. This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any securities, other than the securities offered hereby, or an offer or a solicitation of an offer of the securities offered hereby to any person in any jurisdiction where such offer or solicitation of such offer would be unlawful. Any statements in this Official Statement involving estimates, assumptions and matters of opinion, whether or not expressly so stated, are intended as such and are not representations of fact, and the City expressly makes no representation that such estimates, assumptions or opinions will be realized or fulfilled. The information and expressions of opinion herein are subject to change without notice and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

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

Upon issuance the Series 2016 Bonds will not be registered under the Securities Act of 1933, will not be listed on any stock or other securities exchange and neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, other than the City, will have passed upon the accuracy or adequacy of this Official Statement or approved the Series 2016 Bonds for sale.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2016 BONDS OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

References herein to laws, rules, regulations, resolutions, agreements, reports and other documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein. Where full texts have not been included as appendices to this Official Statement they will be furnished on request.

UPON ISSUANCE, THE SERIES 2016 BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933 NOR WILL THE BOND RESOLUTION BE QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2016 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF THE SECURITIES LAWS OF A STATE, IF ANY, IN WHICH THE SERIES 2016 BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN CERTAIN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT	1
THE CITY.....	2
General.....	2
City and Water and Sewer Department Administration	2
PURPOSE OF THE SERIES 2016 BONDS	3
PLAN OF FINANCE.....	3
THE REFUNDING PLAN	3
DESCRIPTION OF THE SERIES 2016 BONDS.....	4
General.....	4
Book-Entry Only System	4
Negotiability, Registration and Transfer	7
Optional Redemption.....	8
Mandatory Redemption.....	8
Notice of Redemption	8
SECURITY AND SOURCES OF PAYMENT FOR THE BONDS	9
General.....	9
No Reserve Fund for the Series 2016 Bonds.....	11
Rate Covenant	11
Additional Parity Obligations.....	12
Capital Facilities Fees	14
No Free Service	14
Mandatory Cut Off	15
Mandatory Connections; No Competing System.....	15
Enforcement of Collections.....	15
Disposition of the System	15
FLOW OF FUNDS	17
Funds and Accounts	17
Gross Revenues.....	18
Capital Facilities Fees	20
Rate Stabilization Fund	20
ESTIMATED SOURCES AND USES OF FUNDS	22
DEBT SERVICE SCHEDULE	23
OUTSTANDING UTILITY SYSTEM DEBT	24
THE UTILITY SYSTEM.....	25
General.....	25
WATER SYSTEM.....	25
General.....	25
Sources of Water Supply.....	26
Demand for Potable Water	26
Water Use Permit.....	26
SEWER SYSTEM.....	30
Sewer Collection	30
Septic Tank Replacement Program	31
RATES, FEES AND CHARGES	34

Price Index Rate Adjustment Clause.....	36
Rate Comparisons.....	36
Ten Largest Customers of Utility System.....	39
Capital Improvement Program.....	39
Historical Operating Results	40
ENFORCEABILITY OF REMEDIES.....	43
LITIGATION	43
LEGAL MATTERS.....	43
TAX MATTERS.....	44
General.....	44
Information Reporting and Backup Withholding.....	45
Other Tax Matters	45
Tax Treatment of Original Issue Discount	46
Tax Treatment of Bond Premium	46
FINANCIAL STATEMENTS.....	47
INVESTMENT POLICY	47
UNDERWRITING	49
RATINGS.....	49
CONTINUING DISCLOSURE.....	50
FINANCIAL ADVISOR.....	51
CONTINGENT FEES	51
DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS	51
ACCURACY AND COMPLETENESS OF OFFICIAL STATEMENT.....	51
AUTHORIZATION OF OFFICIAL STATEMENT.....	52

APPENDICES:

APPENDIX A	GENERAL INFORMATION REGARDING MARCO ISLAND AND COLLIER COUNTY, FLORIDA
APPENDIX B	FORM OF COMPOSITE BOND RESOLUTION
APPENDIX C	FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015
APPENDIX D	PROPOSED FORM OF OPINION OF BOND COUNSEL
APPENDIX E	FORM OF CONTINUING DISCLOSURE CERTIFICATE

OFFICIAL STATEMENT
Relating To
\$_____*
CITY OF MARCO ISLAND, FLORIDA
UTILITY SYSTEM REFUNDING REVENUE BONDS, SERIES 2016

INTRODUCTORY STATEMENT

The purpose of this Official Statement, which includes the cover page, inside cover page and the appendices, is to furnish certain information with respect to the sale of \$_____* Utility System Refunding Revenue Bonds, Series 2016 (the "Series 2016 Bonds") by the City of Marco Island, Florida (the "City").

The Series 2016 Bonds are being issued pursuant to and under the authority of the Constitution and the laws of the State of Florida including Chapter 166, Part II, Florida Statutes, Chapter 159, Part I, Florida Statutes, the municipal charter of the City and other applicable provisions of law (collectively, the "Act"), and under and pursuant to Resolution No. 03-55, adopted by the City Council of the City (the "City Council") on September 29, 2003, as amended and supplemented, as particularly amended by Resolution No. 05-71 adopted by the City Council on October 17, 2005, as particularly supplemented by Resolution No. __-__ adopted by the City Council on _____, 2016 (collectively, the "Bond Resolution").

The Series 2016 Bonds will be issued on a parity with the City's Utility System Revenue Bond, Series 2006, Tax-Exempt Utility System Improvement and Refunding Revenue Bonds, Series 2010A, not refunded with proceeds of the Series 2016 Bonds, Taxable Utility System Refunding Revenue Bonds, Series 2010B, not legally defeased by the City as described in "PLAN OF FINANCE" herein, Utility System Refunding Revenue Bond, Series 2011, and Utility System Refunding Revenue Bonds, Series 2013 (collectively, the "Outstanding Parity Bonds"). The City may issue Additional Parity Obligations (as defined herein) on a parity with the Outstanding Parity Bonds and the Series 2016 Bonds, subject to compliance with certain conditions set forth in the Bond Resolution. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2016 BONDS - Additional Parity Obligations" herein. The Outstanding Parity Bonds, the Series 2016 Bonds and any Additional Parity Obligations are herein collectively referred to as the "Bonds."

Capitalized terms used but not otherwise defined herein have the same meaning as when used in the Bond Resolution unless the context would clearly indicate otherwise. Complete descriptions of the terms and conditions of the Series 2016 Bonds are set forth in the Bond Resolution, a composite form of which is contained in APPENDIX B to this Official Statement. The descriptions of the Series 2016 Bonds, the documents authorizing and securing the same, and the information from various reports and statements contained herein, are not comprehensive or definitive. All references herein to such documents, reports and statements are qualified by the entire, actual content of such documents, reports and statements. Copies of such documents, reports and statements referred to herein that are not included in their entirety in this Official Statement may be obtained from the City at 50 Bald Eagle Drive, Marco Island, Florida 34145 (239) 389-5000.

* Preliminary, subject to change.

THE CITY

General

The City was incorporated on August 28, 1997 and is located on a barrier island approximately three miles wide and four miles long in Collier County (the "County") in the Gulf of Mexico on the southwestern portion of the Florida coast. The City has a permanent population of approximately 17,000, which grows up to 45,000 in peak winter season with the influx of part-time residents and tourists. The City is the second largest municipality located in the County after the City of Naples, Florida. The Florida Legislative Office of Economics and Demographic Research reported that the City's population increased by over twelve percent (12%) between 2000 and 2015. Total population of the County is estimated as 343,802 for 2015, which places it as the seventeenth most populated county in Florida.

City and Water and Sewer Department Administration

Roger T. Hernstadt was appointed by the City Council as the City Manager on January 31, 2014. His selection was based upon his extensive public administration experience necessary to meet the challenges of managing a dynamic coastal community where small-town ambiance meets 21st century technology. Mr. Hernstadt has over 34 years of public administration experience. He began his career in 1980 as the Code Compliance Manager for the Public Works Department in Miami-Dade County, Florida. He was subsequently promoted to positions of increasing responsibility there, including the Chief of Causeways and Special Taxing Districts, Chief of Public Services and Administration and Assistant Director of Public Works. In 1990, Mr. Hernstadt was promoted to the Miami-Dade County Manager's Office where he served as the Capital Improvement Coordinator and the Director of the Office of Capital Improvements. During this time he managed numerous multi-billion dollar infrastructure improvements, all at a substantial cost savings to the residents. In 2007, Mr. Hernstadt was hired as the Assistant City Manager/Chief of Staff for the City of Miami, Florida. In 2010, he was chosen from a pool of 95 candidates as the City Manager of Marathon, Florida, where he served until he was recruited to be the next city manager of Marco Island. Mr. Hernstadt earned a Bachelor of Science degree from Brooklyn College in New York and a Master of Public Administration degree from the University of Miami. He also attended public administration, management decision making and leadership seminars conducted by the John F. Kennedy School of Government (Harvard University).

Guillermo A. Polanco, CPA, Finance Director, has been with the City of Marco Island, Florida, since December 12, 2012. During this time he implemented several financial modules of a new enterprise resource planning ("ERP") software system, TylerMunis, which have catapulted the City into becoming paperless and more efficient by using electronic workflows. In addition Mr. Polanco has been instrumental in the City's debt refunding during his tenure by taking advantage of the low interest rate environment. Mr. Polanco began his career as an auditor with the CPA Firm of PricewaterhouseCoopers, performing audits of various organizations across different industries. From there he accepted an offer from the Florida Auditor General's Office to carry out operational and financial audits of governmental organizations from both the Miami office and then later from the Fort Myers office. After leaving the Auditor General's Office, Mr. Polanco went to work at Edison State College as the Assistant Finance Director and later became the Director of Accounting Services. At Edison, he implemented various ERP modules as part of his paperless environment initiatives relative to the College's long term strategic plan, including a travel module, a student refund debit card program, ebills, vendor automated clearing house ("ACH") payments, and a peripheral component interconnect ("PCI") compliant payment gateway for online payments. Mr. Polanco is an active member of the Florida Institute of Certified Public

Accountants, the American Institute of Certified Public Accountants, the Florida Government Finance Officer Association, and the Government Finance Officers Association. He graduated from the University of South Florida with a degree in Accounting.

Jeffrey E. Poteet, MBA, is General Manager of the City's Water and Sewer Department, with twenty-four years of experience in drinking water and wastewater utility operations. Mr. Poteet holds a Bachelor Degree in Mathematics Education from the University of South Florida and an MBA from Hodges University. Mr. Poteet started his career as a wastewater operator trainee and worked his way up into his current position as the General Manager of the City's Water and Sewer Department. Mr. Poteet holds dual Florida treatment plant operator licenses: Class "A" Wastewater Operators License and a Class "C" Drinking Water License. Mr. Poteet served as President of the Florida Water & Pollution Control Operators Association ("FW&PCOA") in 2013 and 2014. Mr. Poteet has been recognized by the FW&PCOA, the Florida Water Environmental Association and the Florida Section of the American Water Works Association for his contributions to the drinking water and wastewater industry. Mr. Poteet's accolades include: Honorary Life Member of the FW&PCOA, Florida Select Society of Sanitary Sludge Shovelers, 2004 William Hatfield Award, 2010 Ralf Baker Award and the 2016 Leroy H. Scott Award. The City's Water and Sewer Department, under Mr. Poteet's leadership has earned numerous awards on both a state and national level for outstanding performance and professionalism in the industry.

PURPOSE OF THE SERIES 2016 BONDS

The Series 2016 Bonds are being issued together with other legally available funds to (i) advance refund all or a portion of the City's Tax-Exempt Utility System Improvement and Refunding Revenue Bonds, Series 2010A Bonds maturing after October 1, 2020 (the "Refunded 2010A Bonds"), and (ii) pay the costs of issuance of the Series 2016 Bonds.

PLAN OF FINANCE

On the same date that the Series 2016 Bonds are issued, the City anticipates using other legally available funds of the City to legally defease all of the City's outstanding Taxable Utility System Refunding Revenue Bonds, Series 2010B that mature on and after October 1, 2020 (the "Defeased 2010B Bonds").

THE REFUNDING PLAN

The Series 2010A Bonds were originally issued to refinance and retire the Taxable Utility System Revenue Bond, Series 2009A, finance certain capital improvements, fund reserves and pay costs of issuance. The City has determined that it is in the best interests of the City to provide for the advance refunding of the Refunded Bonds. The Refunded Bonds will be redeemed prior to maturity on October 1, 2020 at a redemption price of one hundred percent (100%) of the principal amount thereof, plus accrued interest to the redemption date. Provision for payment will be accomplished through the issuance of the Series 2016 Bonds and the use of a portion of the proceeds thereof, together with other legally available funds, to advance refund the Refunded Bonds.

Upon delivery of the Series 2016 Bonds, Wells Fargo Bank, National Association, Jacksonville, Florida, as escrow agent (the "Escrow Agent") will enter into an Escrow Deposit Agreement (the "Escrow Agreement") with the City to provide for the current refunding of the Refunded Bonds. The Escrow Agreement will create an irrevocable escrow deposit trust fund (the "Escrow Fund") which will be held

by the Escrow Agent. The money and securities held in the Escrow Fund are to be applied to the payment of principal of and interest on the Refunded Bonds, as the same become due and payable upon redemption. Immediately upon the issuance and delivery of the Series 2016 Bonds, the City will deposit a portion of the proceeds from the sale of the Series 2016 Bonds into the Escrow Fund, together with other legally available funds of the City. Such money will be invested in certain noncallable United States Treasury obligations (the "Acquired Obligations"). The maturing principal amount of and interest on the Acquired Obligations, and any cash held in the Escrow Fund uninvested, (i) will be sufficient to pay the principal of and interest on the Refunded Bonds to the redemption date of the Refunded Bonds according to the schedules prepared by _____ and verified by _____ (the "Verification Agent"), (ii) will be pledged solely for the benefit of the holders of the Refunded Bonds, and (iii) will not be available for payment of debt service on the Series 2016 Bonds. See "VERIFICATION OF ARITHMETICAL COMPUTATIONS" herein.

In reliance upon the above-referenced schedules and verification, at the time of delivery of the Series 2016 Bonds, Bond Counsel will deliver to the Underwriters and the City an opinion to the effect that the Refunded Bonds have been legally defeased and the Holders of the Refunded Bonds shall cease to be entitled to any lien, benefit or security under the Bond Resolution, and all covenants, agreements and obligations of the City to the Holders of such Refunded Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

DESCRIPTION OF THE SERIES 2016 BONDS

General

The Series 2016 Bonds will be initially issued as a single fully-registered Series 2016 Bond for each respective maturity, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). See the subheading "Book-Entry Only System" below. Wells Fargo Bank, National Association, Jacksonville, Florida, shall serve as Paying Agent and Registrar for the Series 2016 Bonds.

The Series 2016 Bonds will be dated the Date of Delivery, shall bear interest at the rates per annum set forth on the inside cover page hereof, pay interest semiannually on each April 1 and October 1 (or the first business day following an interest payment date if such interest payment date is not a business day), commencing April 1, 2017 (the "Interest Payment Dates"), and shall mature on October 1 in the years and in the principal amounts set forth on the inside cover page hereof.

Interest on the Series 2016 Bonds shall be payable by the Paying Agent on each Interest Payment Date to the person appearing on the registration books of the City by check or draft mailed to the registered owner at its 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 2016 Bonds. Interest on the Series 2016 Bonds will be computed on the basis of a 360-day year of twelve 30-day months. The principal of the Series 2016 Bonds shall be payable upon the presentation and surrender thereof as the same falls due at the principal office of the Registrar.

Book-Entry Only System

THE INFORMATION UNDER THIS CAPTION CONCERNING DTC AND DTC'S BOOK ENTRY SYSTEM HAS BEEN OBTAINED FROM DTC AND THE CITY MAKES NO REPRESENTATION

OR WARRANTY OR TAKES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

DTC will act as securities depository for the Series 2016 Bonds. The Series 2016 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Series 2016 Bonds in the aggregate principal amount of such maturity, and deposited with DTC.

DTC, the worlds' largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Inc. ("S&P") rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2016 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for such Series 2016 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2016 Bond (the "Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2016 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2016 Bonds, except in the event that use of the book-entry system for the Series 2016 Bonds is discontinued.

To facilitate subsequent transfers, all of the Series 2016 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2016 Bonds with DTC and their registration in the name of Cede & Co., or such other DTC nominee, do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2016 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series

2016 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2016 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2016 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of the Series 2016 Bonds may wish to ascertain that the nominee holding the Series 2016 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of a maturity of the Series 2016 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such Series 2016 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2016 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2016 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal, redemption premium, if any, and interest payments on the Series 2016 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2016 Bonds at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, the Series 2016 Bonds are required to be printed and delivered.

The City may, pursuant to the procedures of DTC, decide to discontinue use of the system of book-entry only transfers through DTC (or a successor securities depository). In that event, the Series 2016 Bonds will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE SERIES 2016 BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDER OF THE SERIES 2016 BONDS OR REGISTERED OWNERS OF THE SERIES 2016 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES 2016 BONDS.

The City can make no assurances that DTC will distribute payments of principal of, redemption premium, if any, or interest on the Series 2016 Bonds to the Direct Participants, or that Direct and Indirect Participants will distribute payments of principal of, redemption price, if any, or interest on the Series 2016 Bonds or redemption notices to the Beneficial Owners of such Series 2016 Bonds or that they will do so on a timely basis, or that DTC or any of its Participants will act in a manner described in this Official Statement. The City is not responsible or liable for the failure of DTC to make any payment to any Direct Participant or failure of any Direct or Indirect Participant to give any notice or make any payment to a Beneficial Owner in respect to the Series 2016 Bonds or any error or delay relating thereto.

The rights of holders of beneficial interests in the Series 2016 Bonds and the manner of transferring or pledging those interests is subject to applicable state law. Holders of beneficial interests in the Series 2016 Bonds may want to discuss the manner of transferring or pledging their interest in the Series 2016 Bonds with their legal advisors.

For every transfer of ownership interests in the Series 2016 Bonds, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Negotiability, Registration and Transfer

So long as the Series 2016 Bonds are registered in the name of Cede & Co., as the nominee of DTC, the transfer and exchange of any Series 2016 Bonds shall be governed by rules established between DTC and its Direct and Indirect Participants. See the subheading "Book-Entry Only System" above. Upon the discontinuance of the book-entry only registration system for the Series 2016 Bonds, the following provisions described under this subheading shall apply for Beneficial Owners.

The Registrar shall keep books for the registration of and for the registration of transfers of Series 2016 Bonds as provided in the Bond Resolution. The transfer of any Series 2016 Bonds may be registered only upon such books and only upon surrender thereof to the Registrar together with an assignment duly executed by the Series 2016 Bondholder or his attorney or legal representative in such form as shall be satisfactory to the Registrar. Upon any such registration of transfer, the City shall execute and the Registrar shall authenticate and deliver in exchange for such Series 2016 Bond, a new Series 2016 Bond or Bonds registered in the name of the transferee, and in an aggregate principal amount equal to the principal amount of such Series 2016 Bond or Bonds so surrendered.

In all cases in which Series 2016 Bonds shall be exchanged, the City shall execute and the Registrar shall authenticate and deliver, at the earliest practicable time, a new Series 2016 Bond or Bonds of the same type (e.g., Serial Bonds will be exchanged for Serial Bonds) in accordance with the provisions of the Bond Resolution. All Series 2016 Bonds surrendered in any such exchange or registration of

transfer shall forthwith be cancelled by the Registrar. The City or the Registrar may make a charge for every such exchange or registration of transfer of Series 2016 Bonds sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, but no other charge shall be made to any Series 2016 Bondholder for the privilege of exchanging or registering the transfer of Series 2016 Bonds under the provisions of the Bond Resolution. Neither the City nor the Registrar shall be required to make any such exchange or registration of transfer of Series 2016 Bonds after the Record Date.

Optional Redemption

The Series 2016 Bonds maturing on or prior to October 1, ____, are not subject to redemption prior to their stated dates of maturity. The Series 2016 Bonds maturing on or after October 1, ____ are redeemable prior to their stated dates of maturity, at the option of the City, in whole or in part on any date on or after October 1, ____ (in such manner of selection of maturities as the City shall deem appropriate and by lot within maturities), at the redemption price of 100%, plus interest accrued to the date of redemption.

Mandatory Redemption

The Series 2016 Bonds maturing on October 1, ____ shall be subject to mandatory redemption prior to maturity, by lot, in such manner as the Registrar may deem appropriate, at a redemption price equal to the principal amount thereof plus interest accrued to the date of redemption, on October 1, ____, and on each October 1 thereafter, from Amortization Installments deposited in the Redemption Account, in the following principal amounts in the years specified:

Date (October 1)	Amortization Installments
*	\$

*Maturity.

Notice of Redemption

Notice of such redemption shall, at least thirty (30) days prior to the redemption date, be filed with the Registrar, and mailed by the Registrar on behalf of the City, first class mail, postage prepaid, to all Holders of Bonds to be redeemed at their addresses as they appear on the registration books hereinbefore provided for on the Record Date, but failure to mail such notice to one or more Holders of Bonds, or any defect therein, shall not affect the validity of the proceedings for such redemption with respect to Holders of Bonds to which notice was duly mailed hereunder and no defect occurred. Such notice shall also be sent to the registered securities depositories and two or more nationally recognized municipal securities information repositories. Each such notice shall set forth the date fixed for redemption, the redemption price to be paid and, if less than all of the Bonds of one maturity are to be called, the distinctive numbers of such Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the portion of the principal amount thereof to be redeemed.

Any notice of optional redemption given pursuant to the Bond Resolution may state that it is conditional upon receipt by the Paying Agent of moneys sufficient to pay the redemption price, plus interest accrued to the redemption date, or upon the satisfaction of any other condition, or that it may be rescinded upon the occurrence of any other event, and any conditional notice so given may be rescinded at any time before payment of such redemption price and accrued interest if any such condition so specified is not satisfied or if any such other event occurs. Notice of such rescission shall be given by the Paying Agent to affected Holders of Bonds as promptly as practicable upon the failure of such condition or the occurrence of such other event.

Notwithstanding the foregoing, so long as Cede & Co. is the registered owner of the Series 2016 Bonds pursuant to DTC's book-entry only system of registration, notice of redemption required to be mailed to holders of Series 2016 Bonds shall only be sent to Cede & Co.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

General

The payment of the principal of and interest and redemption premium, if any, on the Bonds is secured by a pledge of and an irrevocable lien on (1) the Net Revenues derived from the operation of the City's Utility System (as hereinafter defined), (2) the Sewer System Capital Facilities Fees and Water System Capital Facilities Fees (as defined below), and (3) until applied in accordance with the Bond Resolution, the moneys on deposit in the various funds and accounts created pursuant to the Bond Resolution, except (A) the Rebate Fund, (B) to the extent moneys therein shall be required to pay the Cost of Operation and Maintenance as defined and in accordance with the Bond Resolution, and (C) to the extent moneys on deposit in a subaccount of the Reserve Fund or Project Fund shall be pledged solely for the payment of a particular Series of Bonds for which it was established in accordance with the provisions of the Bond Resolution (clauses (1), (2) and (3) above are collectively referred to as the "Pledged Revenues"). Such lien would be prior and superior to all other liens and encumbrances on such Pledged Revenues. (Neither the Reserve Fund nor any subaccount created therein shall secure the Series 2016 Bonds.) The City has covenanted that it will deposit all Gross Revenues it collects from the operation of or ownership of the Utility System into the Revenue Fund, where they will be subject to the lien of the Bonds.

THE BONDS SHALL NOT BE NOR CONSTITUTE GENERAL OBLIGATIONS OR INDEBTEDNESS OF THE CITY AS "BONDS" WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF FLORIDA, BUT SHALL BE PAYABLE SOLELY FROM AND SECURED BY A FIRST LIEN UPON AND A PLEDGE OF THE PLEDGED REVENUES AS PROVIDED IN THE BOND RESOLUTION. NO HOLDER OR HOLDERS OF ANY BONDS ISSUED UNDER THE BOND RESOLUTION SHALL EVER HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE AD VALOREM TAXING POWER OF THE CITY OR TAXATION IN ANY FORM OF ANY REAL OR PERSONAL PROPERTY THEREIN, OR TO COMPEL THE CITY TO PAY SUCH PRINCIPAL AND INTEREST FROM ANY OTHER FUNDS OF THE CITY.

The Bond Resolution has ascribed the following meanings to the terms "Cost of Operation and Maintenance," "Gross Revenues," "Net Revenues," "Sewer System Capital Facilities Fees," "Sewer System," "System" or "Utility System," "Water System" and "Water System Capital Facilities Fees."

For all other terms not otherwise defined herein, see "APPENDIX B — FORM OF COMPOSITE BOND RESOLUTION" attached hereto.

"Cost of Operation and Maintenance" shall mean the then current expenses, paid or accrued, in the operation, maintenance and repair of the Utility System, as calculated in accordance with generally accepted accounting principles, including, but not limited to, general administrative and indirect labor costs, personal services, contractual services, repairs and maintenance, and materials and supplies, but shall not include expenses not annually recurring, any reserve for renewals and replacements, extraordinary repairs or any allowance for depreciation, any Bond Service Requirement, any payments in lieu of taxes, franchise fees or other transfers.

"Gross Revenues" or "Revenues" shall mean all income and earnings, including Connection Fees, received by the City or accrued to the City from the ownership, use or operation of the Utility System and all parts thereof, including, without limitation, unencumbered, non-ad valorem special assessments which are not pledged for the repayment of, or as security for, any indebtedness of the City, whether currently outstanding or hereafter issued, other than the Bonds, and which are legally available to be used as contemplated in the Bond Resolution, moneys deposited from the Rate Stabilization Fund into the Revenue Fund in accordance with the terms of the Bond Resolution, provided any moneys transferred from the Rate Stabilization Fund into the Revenue Fund within 90 days following the end of a Fiscal Year may be designated by the City as Gross Revenues of such prior Fiscal Year, and shall also include investment income, if any, earned on any fund or account created pursuant to the Bond Resolution, except for the Rebate Fund, the Sewer System Capital Facilities Fee Fund, the Water System Capital Facilities Fee Fund, and also including any income or earnings (including investment income) derived from the Utility System in any prior Fiscal Year and which is redeposited into the Revenue Fund, all as calculated in accordance with generally accepted accounting principles, and any payment received by the City from a Qualified Agreement Provider pursuant to a Qualified Agreement, but "Gross Revenues" or "Revenues" shall not include non-ad valorem special assessments which are pledged for the repayment of, or as security for, any indebtedness of the City, whether currently outstanding or hereafter issued, other than the Bonds, proceeds from the sale or other disposition of the Utility System or any part thereof, condemnation awards or proceeds of insurance received with respect to the Utility System and moneys deposited to the Rate Stabilization Fund from the Surplus Fund, including any moneys transferred from the Surplus Fund to the Rate Stabilization Fund within 90 days following the end of a Fiscal Year which the City determines not to be Gross Revenues of such prior Fiscal Year, Contributions in Aid of Construction, Sewer System Capital Facilities Fees, Water System Capital Facilities Fees or unrealized gains or losses from investments.

"Net Revenues" of the Utility System shall mean the Gross Revenues or Revenues, after deduction of the Cost of Operation and Maintenance.

"Sewer System" shall mean the complete sewer, wastewater and residential reuse system now owned, operated and maintained by the City and which the City is, or shall be responsible for maintaining, together with any and all acquisitions, improvements, extensions and additions thereto, hereafter constructed or acquired, together with all lands or interests therein, including plants, buildings, machinery, franchises, pipes, mains, fixtures, equipment and all property, real or personal, tangible or intangible (including agreements for the providing of such services), now or hereafter constructed and/or owned or used in connection therewith.

"Sewer System Capital Facilities Fees" shall mean the impact fees, if any, imposed by the City upon and collected from new users of the Sewer System which represent an equitable share of the capital costs of the Sewer System which are attributable to the increased demand such additional connections create upon the Sewer System. The term "Sewer System Capital Facilities Fees" in each year shall not include any amounts in excess of the Bond Service Requirement for such Bond Year multiplied by the Expansion Percentage applicable to the Sewer System.

"System" or "Utility System" shall mean, collectively, the Water System and the Sewer System of the City. Upon compliance with the provisions of the Bond Resolution, the term "System" may be deemed to include other utility functions added to the System, including, but not limited to a stormwater system, the acquisition, distribution and sale of natural gas, the providing of electricity, the providing of cable television services, the providing of telecommunication services or other utility functions that are authorized from time to time pursuant to the Act. Notwithstanding the foregoing definition of the term System, such term shall not include any properties or interest in properties of the City which the City determines shall not constitute a part of the System for the purpose of the Bond Resolution.

"Water System" shall mean the complete water system now owned, operated and maintained by the City or which is proposed to be acquired by and operated and maintained by the City and which the City is, or shall be responsible for maintaining, together with any and all acquisitions, improvements, extensions and additions thereto, hereafter constructed or acquired, together with all lands or interests therein, including plants, buildings, machinery, franchises, pipes, mains, fixtures, equipment and all property, real or personal, tangible or intangible (including agreements for the providing of such services), now or hereafter constructed and/or owned or used in connection therewith.

"Water System Capital Facilities Fees" shall mean the impact fees, if any, imposed by the City upon and collected from new users of the Water System which represent an equitable share of the capital costs of the Water System which are attributable to the increased demand such additional connections create upon the Water System. The term "Water System Capital Facilities Fees" in each year shall not include any amounts in excess of the Bond Service Requirement for such Bond Year multiplied by the Expansion Percentage applicable to the Water System.

No Reserve Fund for the Series 2016 Bonds

The Series 2016 Bonds will not be secured by any amounts or deposit in the Reserve Fund or any subaccount therein. In the future, the City may secure Additional Parity Obligations hereafter issued with the Reserve Fund or a subaccount created therein. The Series 2016 Bonds will not be secured by any such Reserve Fund or subaccount created therein.

Rate Covenant

Pursuant to the Bond Resolution, the City has covenanted to fix, establish, revise from time to time whenever necessary, maintain and collect such fees, rates, rentals and other charges for the use of the products, services and facilities of the Utility System as will always provide, (1) Net Revenues in each Fiscal Year sufficient to pay 110% of the Bond Service Requirement on all Outstanding Bonds in the applicable Bond Year, or (2) Net Revenues in each Fiscal Year sufficient to pay 105% of the Bond Service Requirement on all Outstanding Bonds in the applicable Bond Year; and Net Revenues, Water System Capital Facilities Fees and Sewer System Capital Facilities Fees in each Fiscal Year adequate to pay at least 120% of the Bond Service Requirement on all Outstanding Bonds in the applicable Bond Year.

In addition to compliance with either (1) or (2) above, Net Revenues in each Fiscal Year shall also be sufficient to provide 100% of the Bond Service Requirement on all Outstanding Bonds in the applicable Bond Year, any amounts required in the Bond Resolution to be deposited into the Reserve Fund or with any Credit Facility Issuer as a result of a withdrawal from the Reserve Fund, the Renewal, Replacement and Improvement Fund and debt service on other obligations payable from the Revenues of the Utility System, and other payments, and all allocations and applications of revenues required in such Fiscal Year by the terms of the Bond Resolution.

Net Revenues shall not be reduced so as to render them insufficient to provide revenues for the purposes provided therefor by the Bond Resolution. Nothing in the Bond Resolution obligates the City to impose Sewer System Capital Facilities Fees or Water System Capital Facilities Fees.

Additional Parity Obligations

No Additional Parity Obligations may be issued under the Bond Resolution unless the City shall have first complied with the following requirements:

(1) There shall have been obtained and filed with the Clerk of the City a certificate of the Finance Director stating:

(a) that the books and records of the City relative to the Utility System and the Net Revenues and if applicable, the Sewer System Capital Facilities Fees and the Water System Capital Facilities Fees, have been reviewed by the Finance Director; and either

(b) that the amount of the Net Revenues derived for any consecutive twelve (12) months out of the preceding thirty (30) months preceding the date of issuance of the proposed Additional Parity Obligations (the "Test Period") adjusted as described in paragraphs (2), (3), (4), (5) and/or (6) below, is equal to not less than 110% of the Maximum Bond Service Requirement becoming due in any Bond Year thereafter on (A) all Bonds issued under the Bond Resolution, if any, then Outstanding, and (B) on the Additional Parity Obligations with respect to which such certificate is made, or

(c) that the amount of the Net Revenues during the Test Period adjusted as described in paragraphs (2), (3), (4), (5) and/or (6) below is equal to not less than 105% of the Maximum Bond Service Requirement becoming due in any Bond Year thereafter on (A) all Bonds issued under the Bond Resolution, if any, then Outstanding, and (B) on the Additional Parity Obligations with respect to which such certificate is made, and Net Revenues during the Test Period as so adjusted plus Sewer System Capital Facilities Fees and Water System Capital Facilities Fees during the Test Period is equal to not less than 120% of the Maximum Bond Service Requirement becoming due in any Bond Year thereafter on (A) all Bonds issued under the Bond Resolution, if any, then Outstanding, and (B) on the Additional Parity Obligations with respect to which such certificate is made.

(2) Upon recommendation of the Qualified Independent Consultants, the Net Revenues certified as described in to (b) and (c) in the previous paragraph may be adjusted, for the purpose of determining whether Additional Parity Obligations may be issued, by including: (a) 100% of the additional Net Revenues which in the opinion of the Qualified Independent Consultant would have been derived by the City from rate increases adopted before the Additional Parity Obligations are issued, if

such rate increases had been implemented before the commencement of such Bond Year, and (b) 100% of the additional Net Revenues estimated by the Qualified Independent Consultant to be derived during the first full twelve (12) month period after the facilities of the Utility System are extended, enlarged, improved or added to with the proceeds of the Additional Parity Obligations with respect to which such certificate is made.

(3) Upon recommendation of the Qualified Independent Consultants, if the Additional Parity Obligations are to be issued for the purpose of acquiring an existing water system and/or sewer system and/or any other utility system in accordance with the Bond Resolution, the Net Revenues certified as described in (b) or (c) in paragraph (1) above may be adjusted by including: 100% of the additional estimated Net Revenues which in the written opinion of the Qualified Independent Consultants will be derived from the acquired facilities during the first full twelve (12) month period after the issuance of such Additional Parity Obligations (the Qualified Independent Consultants' report shall be based on the actual operating revenues of the acquired utility for a recent twelve (12) month period adjusted to reflect the City's ownership and the City's rate structure in effect with respect to the Utility System at the time of the issuance of the Additional Parity Obligations).

(4) Upon recommendation of the Qualified Independent Consultants, if the number of connections as of the first day of the month in which the proposed Additional Parity Obligations are to be issued exceeds the average number of such connections during such twelve (12) consecutive month period, then the Net Revenues certified as described in (b) or (c) in paragraph (1) above may be adjusted to include the Net Revenues which would have been received in such 12 consecutive months if those additional connections had also been connected to the Utility System during all of such twelve (12) consecutive months.

(5) Upon recommendation of the Qualified Independent Consultant, if the City shall have entered into a contract, which contract shall be for a duration of not less than the final maturity of the proposed Additional Parity Obligations, with any public body, whereby the City shall have agreed to furnish services for the collection, treatment or disposal of sewage or agreed to furnish services in connection with any water system or any other utility system, then the Net Revenues certified as described in (b) or (c) in paragraph (1) above may be increased (to the extent such amounts were not reflected in such Net Revenues) by the minimum amount which the public body shall guarantee to pay in any one year for the furnishing of services by the City, after deducting from such payment the estimated Cost of Operation and Maintenance attributable in such year to such services.

(6) Upon recommendation of the Qualified Independent Consultants, if there is an estimated increase in Net Revenues to be received by the City as a result of additions, extensions or improvements to the Utility System during the period of three years following the completion of such additions, extensions or improvements financed with the proceeds of Bonds or Additional Parity Obligations, then the Net Revenues derived from the Utility System certified as described in (b) or (c) in paragraph (1) above may be increased by 50% of the average annual additional Net Revenues calculated for such three year period.

(7) The City need not comply with the provisions of paragraph (1) above if and to the extent the Additional Parity Obligations to be issued are Refunding Bonds, if the City shall cause to be delivered a certificate of the Finance Director of the City setting forth the Average Annual Debt Service Requirement (a) for the Bonds then Outstanding, and (b) for all Series of Bonds to be immediately

Outstanding thereafter, and stating that the Average Annual Debt Service Requirement as described in (b) is not greater than that set forth as described in (a).

(8) The City need not comply with the provisions described in paragraph (1) above if and to the extent the Additional Parity Obligations to be issued are for the purpose of providing any necessary additional funds required for completion of any improvements to the Utility System ("Completion Bonds") if originally financed with the proceeds of Bonds; provided that such Completion Bonds for which the City need not comply with the provision described in paragraph (1) above may not exceed 10% of the total principal amount of Bonds estimated to be required for such improvements to the Utility System at the time of issuance of the initial Series of Bonds to finance such improvements.

(9) The Finance Director of the City shall have certified that the City is not in default in the carrying out of any of the obligations assumed under the Bond Resolution and no event of default shall have occurred under the Bond Resolution and shall be continuing, and all payments required by the Bond Resolution to be made into the funds and accounts established under the Bond Resolution shall have been made to the full extent required.

(10) The Supplemental Bond Resolution authorizing the issuance of the Additional Parity Obligations shall recite that all of the covenants contained in the Bond Resolution will be applicable to such Additional Parity Obligations.

Capital Facilities Fees

Pursuant to the Bond Resolution, the City is required to deposit, as received, all Sewer System Capital Facilities Fees into the Sewer System Capital Facilities Fees Fund. The City is also required to deposit, as received, all Water System Capital Facilities Fees into the Water System Capital Facilities Fees Fund. The aggregate amount of Sewer System Capital Facilities Fees and Water System Capital Facilities Fees (collectively, the "Capital Facilities Fees") applied to pay principal of, redemption premium, if any, and interest on the Bonds in any Bond Year shall never exceed the maximum amount permitted by law.

Generally, under Florida law, impact fees (such as the Capital Facilities Fees) may be validly imposed against new construction or development in order to fund capital improvements or capacity which are necessitated by such new construction or development or to satisfy debt service for the bonds or other obligations issued for such purposes. Moneys in the Sewer System Capital Facilities Fees Fund and Water System Capital Facilities Fees Fund may be used only for the capital improvements or capacity attributable to the new construction or development or to pay associated debt service.

The receipt of the Capital Facilities Fees, if any, by the City is dependent on new development within the geographical limits of the service area of the City and the extent to which such fees may be used to pay principal of and interest on the Series 2016 Bonds is limited by Florida law. Although the City has had substantial growth in the past, no assurance can be given that new development will continue within the City or that the City will ever receive a significant amount of Capital Facilities Fees that would be permitted to be applied to pay debt service on the Series 2016 Bonds.

No Free Service

Pursuant to the Bond Resolution, so long as any Bonds are outstanding, the City shall not furnish or supply the facilities, services and commodities of the System either free of charge or for a nominal charge to any person, firm or corporation, public or private, including the City's departments, agencies

and instrumentalities which avail themselves of the services of the Utility System. The City shall promptly enforce the payment of any and all accounts owing to the City and delinquent, by discontinuing service or by filing suits, actions or proceedings, or by both discontinuance of service and filing suit.

Mandatory Cut Off

Pursuant to the Bond Resolution, the City is required to establish a written policy consistent with sound business judgment for the disconnection from the Utility System of any customer who fails to pay for services rendered by the Utility System, and shall enforce such policy diligently and fairly.

Mandatory Connections; No Competing System

Pursuant to the Bond Resolution, so long as service is in fact available as reasonably determined by the City, the City will, to the full extent permitted by law, require all lands, buildings and structures within the area being served by the Utility System, to connect with and use such facilities within sixty (60) days after notification. To the extent permitted by law, the City will not grant a franchise for the operation of any competing utility system or systems within the area served by the Utility System until all Bonds issued under the Bond Resolution, together with the interest thereon, and redemption premium, if any, have been paid in full. Notwithstanding the foregoing, the City shall not be required to duplicate services being provided by private or public utilities in the area being served by such private or public utilities. In addition, the City shall not be prohibited from allowing other private or public utilities to provide services within the area being served by the Utility System, if the City shall not be providing such service in such area on that date. Nothing herein shall be deemed to constitute the approval of the City for any private or public utility (other than the Utility System) to provide any services within the boundaries of the City or within the area being served by the Utility System or within any other area of the City.

Enforcement of Collections

Pursuant to the Bond Resolution, the City has covenanted to diligently enforce and collect the rates, fees and other charges for the services and facilities of the Utility System and will take all steps, actions and proceedings for the enforcement and collection of such rates, charges and fees as shall become delinquent to the full extent permitted or authorized by law; and will maintain accurate records with respect thereof. All such fees, rates, charges and revenues shall, as collected, be held in trust to be applied as provided in the Bond Resolution.

Disposition of the System

Pursuant to the Bond Resolution, the Utility System may be sold or otherwise disposed of as a whole or substantially as a whole, only if the net proceeds to be realized, together with other moneys available for such purpose, shall be sufficient to fully retire all of the Outstanding Bonds issued pursuant to the Bond Resolution and all interest thereon to their respective dates of maturity or earlier redemption dates and to make any termination payments required under any Qualified Agreement. The proceeds from such sale or other disposition of the Utility System shall immediately be deposited first in the Bond Service Fund and then in the Subordinated Debt Service Fund and shall be used only for the purpose of paying Parity Contract Obligations, and paying the principal of and interest on the Bonds and Subordinated Debt as the same shall become due, or the redemption price of callable Bonds and

Subordinated Debt, or the purchase of Bonds and Subordinated Debt at a price not greater than the redemption price of said Bonds and Subordinated Debt, or, if the Bonds or Subordinated Debt are not then redeemable prior to maturity, at prices not greater than the redemption price of such Bonds or Subordinated Debt on the next ensuing redemption date.

The foregoing provision notwithstanding, the City shall have and has reserved the right under the Bond Resolution to sell, lease, exchange or otherwise dispose of any of the tangible property or ownership interest in tangible property comprising a part of the Utility System in the following manner, if any one of the following conditions exist: (a) such property is not necessary for the operation of the Utility System or (b) such property is not useful in the operation of the Utility System or (c) such property is not profitable in the operation of the Utility System.

Prior to any sale, lease, exchange or other disposition of said property:

(1) if the amount to be received therefor is not in excess of one-half (1/2) of one percentum (1%) of the value of the gross plant investment in the Utility System, the officer of the City charged with the normal acquisition, construction, operation, maintenance and repair of the portion of the Utility System for which disposition is sought, may determine that such property comprising a part of such Utility System is either no longer necessary, useful or profitable in the operation thereof.

(2) if the amount to be received therefor is in excess of one-half (1/2) of one percentum (1%) of the value of the gross plant investment in the Utility System, the officer of the City charged with the normal acquisition, construction, operation, maintenance and repair of the portion of the Utility System for which disposition is sought and the Consulting Engineers shall each first make a finding in writing determining that such property comprising a part of such Utility System is either no longer necessary, useful or profitable in the operation thereof, and the City shall, by resolution duly adopted, approve and concur in the finding of such authorized officer and the Consulting Engineers.

The net proceeds realized from such disposal of a part of the Utility System shall be deposited in the Renewal, Replacement and Improvement Fund to the extent necessary to make the amount on deposit therein equal to the amount then required to be on deposit therein; and any additional moneys not needed for said fund shall be used for any capital expenditures in connection with the Utility System or the purchase or redemption of Outstanding Bonds.

Notwithstanding any other provision of the Bond Resolution to the contrary, except for the initial paragraph described in this subsection, the City may sell, lease, exchange or otherwise dispose of tangible property or an ownership interest in tangible property comprising a part of the Utility System provided the duly authorized officer charged with the normal acquisition, construction, operation, maintenance and repair of the portion of the Utility System for which disposition is sought, and the Qualified Independent Consultant each make a finding in writing, adopted and confirmed by resolution of the City, determining that (i) such sale, lease, exchange or other disposition will not materially impair or restrict the City's ability to realize Gross Revenues in compliance with the requirements therefor as set forth in the Bond Resolution, and (ii) such sale, lease, exchange or other disposition is in the economic best interests of the City.

Notwithstanding any other provision of the Bond Resolution to the contrary, the City may transfer ownership and/or operation of all or a portion of the Utility System to any public body authorized by the laws of the State to own and/or operate such Utility System on an installment sale basis

provided that the City (i) has received an opinion of Bond Counsel stating the federal income tax exemption of the interest on the Bonds (not including taxable Bonds) will not be affected and has received an opinion of Bond Counsel stating that such sale is not prohibited by any applicable State law, and (ii) the City adopts a resolution to the effect that, based upon such certificates and opinions of its Consulting Engineers, independent certified public accountants, Bond Counsel, Financial Advisor or other Qualified Independent Consultant as the City shall deem necessary, desirable or appropriate, such transfer will not materially adversely affect the rights of the Holders of the Bonds.

FLOW OF FUNDS

Funds and Accounts

Pursuant to the Bond Resolution, the following funds and accounts (the "Funds and Accounts") have been established:

- (1) the Revenue Fund;
- (2) the Bond Service Fund, which consists of the Interest Account, the Principal Account, the Parity Contract Obligation Account and the Redemption Account;
- (3) the Reserve Fund (which may also include various subaccounts), which does not secure the Series 2016 Bonds (see "SECURITY AND SOURCES OF PAYMENTS FOR THE BONDS — No Reserve Fund for the Series 2016 Bonds);
- (4) the Subordinated Debt Service Fund;
- (5) the Renewal, Replacement and Improvement Fund;
- (6) the Project Fund;
- (7) the Sewer System Capital Facilities Fees Fund;
- (8) the Water System Capital Facilities Fees Fund;
- (9) the Rate Stabilization Fund;
- (10) the Surplus Fund; and
- (11) the Rebate Fund.

The cash required to be accounted for in each of the Funds and Accounts may be deposited in a single bank account, provided that adequate accounting records are maintained by the City to reflect and control the restricted allocation of the cash on deposit therein for the various purposes of such Funds and Accounts as provided in the Bond Resolution. The designation and establishment of the various Funds and Accounts 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 Utility System for certain purposes to establish certain priorities for application of such revenues and assets as provided in the Bond Resolution. All monies in the Funds and Accounts shall be deemed to be held in trust for the

purposes and used only for the purposes and in the manner provided in the Bond Resolution. The money in all such Funds and Accounts shall be continuously secured in the same manner as state and municipal deposits are authorized to be secured by the laws of the State.

Gross Revenues

All Gross Revenues of the Utility System shall, upon receipt thereof, be deposited by the City in the Revenue Fund. All deposits into such Revenue Fund shall be deemed to be held in trust for the purposes and used only for the purposes and in the manner provided in the Bond Resolution.

All Net Revenues in the Revenue Fund, after payment of Cost of Operation and Maintenance of the Utility System, shall be disposed of monthly, but not later than the 25th day of each month only in the following manner and the following order of priority:

(1) The City shall first deposit into the Bond Service Fund and credit to the following accounts, in the following order (except that payments into the Interest Account and Parity Contract Obligation Account shall be on parity with each other, and the payments into the Principal Account and the Redemption Account shall be on a parity with each other), the following identified sums:

(a) Interest Account: Taking into account actual and anticipated earnings in the Interest Account of the Bond Service Fund within the current Bond Year, such sum as will be sufficient to pay one-sixth (1/6th) of all interest coming due on all Outstanding Bonds on the next interest payment date; provided, however, that monthly deposits of interest, or portions thereof, shall not be required to be made to the extent that money on deposit within such Interest Account is sufficient for such purpose. Any monthly payment out of Net Revenues to be deposited as described above, for the purpose of meeting interest payments for any Series of Bonds, shall be adjusted, as appropriate, to reflect the frequency of interest payment dates applicable to such Series. Moneys in the Interest Account may be used only for the purposes set forth in this paragraph (a).

(b) Parity Contract Obligation Account: Taking into account the actual and anticipated earnings in the Parity Contract Obligation Account in the Bond Service Fund within the current Bond Year, a pro rata estimated amount necessary to build up over time the amount of any Parity Contract Obligation which will next be due and payable or reasonably expected to be due and payable under any Qualified Agreement on the next payment date thereunder; provided, however, that the monthly amount to be so deposited may be adjusted, as appropriate, to reflect the frequency of payment dates thereunder (e.g., if such Parity Contract Obligations are required to be paid semi-annually, the City shall be required to deposit monthly an amount which is estimated to equal one-sixth (1/6th) of the next such payment). Moneys in the Parity Contract Obligations Account may be used only for the purposes set forth in this paragraph (b).

(c) Principal Account: Taking into account actual and anticipated earnings in the Principal Account of the Bond Service Fund within the current Bond Year, such sum as will be sufficient to pay one-twelfth (1/12th) of the principal amount of the Outstanding Bonds which will mature and become due on such annual maturity dates beginning the month which is 12 months prior to the first principal maturity date; provided, however, that monthly deposits for principal, or portions thereof, shall not be required to be made to the extent that money on deposit within such Principal Account is sufficient for such purpose. Any monthly payment out

of Net Revenues to be deposited as described above, for the purpose of meeting principal payments for any Series of Bonds, shall be adjusted, as appropriate, to reflect the frequency of principal payment dates applicable to such Series. Moneys in the Principal Account may be used only for the purposes set forth in this paragraph (c).

(d) Redemption Account: Taking into account actual and anticipated earnings in the Redemption Account of the Bond Service Fund within the current Bond Year, such sum as will be sufficient to pay one-twelfth (1/12th) of any Amortization Installment established for the mandatory redemption of Outstanding Bonds on such annual maturity date beginning the month which is 12 months prior to the first Amortization Installment date; provided, however, that monthly deposits into the Redemption Account, or portions thereof, shall not be required to be made to the extent that money on deposit in the Redemption Account is sufficient for such purpose. Any monthly payment out of Net Revenues to be deposited as described above, for the purpose of meeting Amortization Installments for any Series of Bonds, shall be adjusted, as appropriate, to reflect the frequency of dates established for Amortization Installments applicable to such Series. The moneys in the Redemption Account shall be used solely for the purchase or redemption of the Term Bonds payable therefrom. The City may at any time purchase any of said Term Bonds at prices not greater than the then redemption price of said Term Bonds. If the Term Bonds are not then redeemable prior to maturity, the City may purchase said Term Bonds at prices not greater than the redemption price of such Term Bonds on the next ensuing redemption date. If Term Bonds are so purchased by the City, the City shall credit the account of such purchased Term Bonds against any current Amortization Installment to be paid by the City. If the City shall purchase or call for redemption in any year Term Bonds in excess of the Amortization Installment requirement for such year, such excess of Term Bonds so purchased or redeemed shall be credited in such manner and at such times as the City shall determine. Moneys in the Redemption Account in the Debt Service Fund may be used only for the purposes set forth in this paragraph (d).

(2) To the extent that the amounts on deposit in the Reserve Fund are less than the applicable Reserve Requirement, the City shall next make deposits into the Reserve Fund in the manner described below from moneys remaining in the Revenue Fund. Any withdrawals from the Reserve Fund shall be subsequently restored from the first moneys available in the Revenue Fund, after all required current payments for Cost of Operation and Maintenance as described above and all current applications and allocations to the Bond Service Fund, including all deficiencies for prior payments have been made in full. Notwithstanding the foregoing, in case of withdrawal from the Reserve Fund, in no event shall the City be required to deposit into the Reserve Fund an amount greater than that amount necessary to ensure that the difference between the Reserve Requirement and the amounts on deposit in the Reserve Fund on the date of calculation shall be restored not later than 60 months after the date of such deficiency (assuming equal monthly payments into the Reserve Fund for such 60 month period).

(3) From the moneys remaining in the Revenue Fund, the City shall next deposit into the Subordinated Debt Service Fund an amount required to be paid as provided in the resolution or agreement of the City authorizing such Subordinated Debt, but for no other purposes.

(4) The City shall next apply and deposit monthly from the moneys remaining on deposit in the Revenue Fund into the Renewal, Replacement and Improvement Fund, an amount at least equal to one-twelfth (1/12th) of 5% of the Gross Revenues received during the immediately preceding Fiscal Year. The moneys in the Renewal, Replacement and Improvement Fund shall be used only for the purpose of

paying the cost of extraordinary repairs, extensions, enlargements or additions to, or the replacement of capital assets of the Utility System or emergency repairs thereto. No further deposits shall be required to be made into the Renewal, Replacement and Improvement Fund when there shall be on deposit therein an amount equal to or greater than 1% of the gross book value of the fixed assets of the Utility System pursuant to generally accepted accounting principles, or such other amount as may be determined from time to time by the Consulting Engineers. Funds on hand in the Renewal, Replacement and Improvement Fund may be used to pay current Cost of Operation and Maintenance to the extent moneys on deposit in the Revenue Fund are insufficient for such purposes. The moneys on deposit in such fund may also be used to supplement the Reserve Fund, if necessary, in order to prevent a default in the payment of the principal and interest on the Bonds.

(5) The balance of any moneys remaining in the Revenue Fund after the above described payments have been made shall be deposited into the Surplus Fund and may be used for any lawful purpose of the City; provided, however, that none of such moneys shall be used for any purposes other than those as described above unless all current payments, including any deficiencies for prior payments, have been made in full and unless the City shall have complied fully with all the covenants and provisions of the Bond Resolution.

Capital Facilities Fees

All Sewer System Capital Facilities Fees and Water System Capital Facilities Fees shall be deposited into the Sewer System Capital Fees Fund and Water System Capital Facilities Fees Fund, respectively. On or before the 26th day of each month, all or any portion of the amounts then on deposit in the Sewer System Capital Facilities Fees Fund and Water System Capital Facilities Fees Funds, respectively, shall, on a pro-rata basis, be applied by the City as follows:

(1) Such moneys shall, in the case of a deficiency in the Bond Service Fund, first be applied and allocated to the Bond Service Fund to supplement other Pledged Revenues to be deposited therein or in substitution of other Pledged Revenues to be deposited therein.

(2) Thereafter, all moneys in the Sewer System Capital Facilities Fees Fund and Water System Capital Facilities Fees Funds, respectively, may be applied by the City for any use allowed by law.

The aggregate amount of Capital Facilities Fees applied to pay principal of, redemption premium, if any, and interest on the Series 2016 Bonds in any Bond Year shall never exceed the maximum amount permitted by law.

Rate Stabilization Fund

The City may transfer into the Rate Stabilization Fund such moneys which are on deposit in the Surplus Fund as it deems appropriate. The City may transfer such amount of moneys from the Rate Stabilization Fund to the Revenue Fund as it deems appropriate; provided, however, that on or prior to each principal and interest payment date for the Bonds (in no event earlier than the 25th day of the month next preceding such payment date), moneys in the Rate Stabilization Fund shall be applied for the payment into the Interest Account, the Parity Contract Obligation Account, the Principal Account and the Redemption Account when the moneys therein are insufficient to pay the principal of and interest on the Bonds coming due and to pay any Parity Contract Obligations, but only to the extent moneys transferred

from the Surplus Fund and Renewal, Replacement and Improvement Fund for such purposes, shall be inadequate to fully provide for such insufficiency.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Series 2016 Bonds, together with other legally available funds of the City, are expected to be applied as follows:

Series 2016 Bonds

Sources:

Par Amount of Series 2016 Bonds
Plus: Net Issue Premium/Discount
Plus Other Legally Available Funds
Total

Uses:

Deposit to Escrow Fund
Costs of Issuance⁽¹⁾
Total

⁽¹⁾ Includes Underwriters' discount (which includes fees of Underwriters' counsel), legal, accounting and other fees incurred with respect to the issuance of the Series 2016 Bonds.

[Remainder of page intentionally left blank]

DEBT SERVICE SCHEDULE

The following table sets forth the debt service schedule for the Outstanding Parity Bonds and the Series 2016 Bonds.

Year Ending October 1	Outstanding Parity Bonds ⁽¹⁾	Series 2016 Bonds			Total Debt Service
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2017	\$11,331,990.51				
2018	11,340,088.53				
2019	11,459,213.02				
2020	11,455,052.71				
2021	11,456,142.70				
2022	11,461,605.41				
2023	11,462,518.97				
2024	10,834,407.66				
2025	10,834,964.66				
2026	10,193,275.36				
2027	10,185,650.06				
2028	10,184,076.26				
2029	10,189,641.46				
2030	10,190,980.96				
2031	10,196,126.00				
2032	10,192,811.90				
2033	10,194,107.40				
2034	3,101,750.00				
2035	3,101,500.00				
2036	3,100,750.00				
2037	3,099,250.00				
2038	3,096,750.00				
2039	3,098,000.00				
2040	<u>3,097,500.00</u>				
Total	\$204,858,153.57				

- (1) Does not reflect effects of proposed refunding of the Refunded 2010A Bonds or the anticipated defeasance of the Defeased 2010B Bonds with available funds of the City.

OUTSTANDING UTILITY SYSTEM DEBT

The following is a summary of the outstanding bonds and loans that have been issued by the City and attributable to the Utility System.

<u>Description</u>	<u>Principal Amount Outstanding⁽¹⁾</u>	<u>Security for Payment</u>
Utility System Revenue Bonds, Series 2006 Bond	\$2,806,353	Net Revenues and Capital Facilities Fees
Tax Exempt Utility System Refunding and Improvement Revenue Bonds, Series 2010A ⁽²⁾	44,270,000	Net Revenues and Capital Facilities Fees
Taxable Utility System Refunding Revenue Bonds, Series 2010B ⁽³⁾	6,225,000	Net Revenues and Capital Facilities Fees
Utility System Refunding Revenue Bond, Series 2011	17,004,414	Net Revenues and Capital Facilities Fees
Utility System Refunding Revenue Bonds, Series 2013	61,470,000	Net Revenues and Capital Facilities Fees
State Revolving Fund Loan DW 110301	4,277,591	Subordinated Lien on Net Revenues
State Revolving Fund Loan — WW715090 Sheffield	4,129,273	Assessments
State Revolving Fund Loan — WW715100 Lamplighter	2,074,036	Assessments
State Revolving Fund Loan — WW715040, 715041	3,988,376	Assessments-West Winterberry/Backup Covenant to Budget and Appropriate
State Revolving Fund Loan — WW715050, 715051	3,202,681	Assessments-North Barfield/Backup Covenant to Budget and Appropriate
State Revolving Fund Loan — WW715060, 715061	2,171,337	Assessments-North Marco/Backup Covenant to Budget and Appropriate
State Revolving Fund Loan — WW110710 Mackle Park	3,097,192	Assessments
State Revolving Fund Loan — WW110700 Kendall	3,357,171	Assessments
State Revolving Fund Loan — WW110720 Gulfport	400,315	Assessments
State Revolving Fund Loan — WW110730 E. Winterberry S	1,449,296	Assessments
State Revolving Fund Loan — WW110740 E. Winterberry N	562,599	Assessments
State Revolving Fund Loan — WW110750 Goldenrod	2,914,600	Assessments
State Revolving Fund Loan — WW110760 Copperfield	1,797,948	Assessments
State Revolving Fund Loan — WW110770 Estates	5,383,028	Assessments
Special Assessment Revenue Bond, Series 2008 (Tigertail Assessment Area Project)	1,597,830	Assessments
Special Assessment Revenue Bond, Series 2008 (South Barfield Assessment Area Project)	503,994	Assessments
North Barfield Assessment Bonds, Series 2009	1,320,872	Assessments
North Marco Assessment Bonds, Series 2009	625,089	Assessments
Old Marco Assessment Bonds, Series 2009 (Taxable)	201,560	Assessments
West Winterberry Assessment Bonds, Series 2009	1,823,175	Assessments
Lamplighter Assessment Bonds, Series 2010	1,084,697	Assessments
Sheffield Assessment Bonds, Series 2010	1,443,349	Assessments
Kendall Assessment Bonds, Series 2012	1,206,823	Assessments
Mackle Park Assessment Bonds, Series 2012	1,290,052	Assessments
Special Assessment Revenue Bond, Series 2013 (Gulfport Assessment Area Wastewater Treatment Capacity Improvements)	1,220,000	Assessments
Special Assessment Revenue Bond, Series 2013 (East Winterberry (North) Area Wastewater Treatment Capacity Improvements)	345,000	Assessments
Total Outstanding Bonds and Loans	<u>\$183,243,651</u>	

⁽¹⁾ As of October 2, 2016.

⁽²⁾ The Refunded 2010A Bonds are expected to be refunded with proceeds of the Series 2016 Bonds.

⁽³⁾ The Defeased 2010B Bonds are expected to be legally defeased by the City on the date the Series 2016 Bonds are issued.

Source: City of Marco Island, Florida Finance Department.

THE UTILITY SYSTEM

General

The majority of the City's Utility System was acquired in October, 2003 with the purchase of the Florida Water Services Corporation ("FWS") water and sewer utility system (the "FWS System"). The FWS System included potable water and sewer systems located in the City and Marco Shores (located on the mainland approximately 2.5 miles from the City). FWS's Marco Shores wastewater service area includes the Isle of Capri, another small off island community. At the time of acquisition, these two FWS utility systems were separate systems of FWS with respect to operations, accounting, and the development of rates; however, the two potable water systems were connected by the same water source, which included a reservoir, pumping facility and pipeline. The two systems are presently not interconnected and function independently; however, biological sludge generated at the Marco Shores wastewater plant is taken to the Marco Island plant for dewatering and offsite disposal and reclaimed water produced at the Marco Island reclaimed water production facility (RWPF) is pumped to Marco Shores for irrigation purposes.

Prior to the acquisition of the FWS System, the City owned and operated a sewer collection system that served a portion of the City. The City did not own a potable water system prior to the acquisition of the FWS System. Upon the acquisition of the FWS System, the City began to provide potable water service. All of the developed properties located within the City currently receive potable water service from the Utility System. The City's water service areas include service to customers located inside and outside the City limits. In addition to serving the City, water services are also provided to Marco Shores and bulk potable water is sold to the County for the Goodland Water District, which is owned by the County.

Prior to the acquisition of the FWS System, not all of the City was provided regional sewer service. Significant portions of the City had on-site disposal systems (i.e., septic tanks). Beginning in Fiscal Year 2006, the City initiated a wastewater extension program, referred to by the City as the Septic Tank Replacement Program (STRP), to regionalize the provision of wastewater within the corporate limits of the City. In 2013, the STRP was completed and the City now provides centralized wastewater service to all residents within the City's wastewater service area. The City's sewer service areas include service to customers located inside and outside the City limits, including Marco Shores and Isle of Capri.

WATER SYSTEM

General

The City's potable water supply system is comprised of raw water supply, water treatment, and finished water transmission and distribution facilities (the "Water System"). During the Fiscal Year 2015 the Water System provided service to an average of 8,833 retail and general service accounts and 19,513 corresponding equivalent residential connections ("ERCs") within the Water System service area. With respect to the retail accounts, approximately ninety percent (90%) are classified as individually metered residential with the remaining ten percent (10%) consisting of master metered residential, commercial, and irrigation services. Water supply and treatment are measured in terms of an ERC. An "ERC" for the Water System represents the equivalent usage requirements for an individually metered residential customer and is established as 440 gallons per day ("gpd") of metered water service pursuant to the current policies and regulations as adopted by the City. Since commercial and master metered residential customers can be served by larger sized meters than the standard residential customer, it is useful to

classify commercial accounts and usage in terms of ERCs for a consistent presentation of the total customer base served.

Sources of Water Supply

Raw water is obtained from two sources, fresh surface water derived from Henderson Creek on the mainland which flows into Marco Lakes, and brackish groundwater derived from the Floridan Aquifer system. The surface water source is currently treated by conventional lime softening followed by membrane filtration. The brackish groundwater is treated by a reverse osmosis ("RO") membrane technology and disinfection. To supplement water supply in the dry season, when creek flow is low, Aquifer Storage-Recovery ("ASR") technology is used. In the wet season when water is abundant, surplus water is diverted from Marco Lakes, which is subsequently filtered, and is stored underground in ASR wells. ASR technology allows very large amounts of fresh water to be stored and recovered economically.

Water recovered from the ASR system is conveyed to the lime softening plant, known as the North Water Treatment Plant ("NWTP"). The brackish ground water from brackish supply wells is conveyed to the RO water treatment plant, the South Water Treatment Plant ("SWTP"). Potable water produced by the treatment plants is distributed throughout the City and additional areas in the mainland through a water distribution system that includes storage tanks, pumping stations and water transmission mains of various sizes.

Demand for Potable Water

The City's potable water service area includes all of the incorporated areas of the City and Marco Shores. The City currently has an agreement with the County for the purchase of wholesale potable water to serve Marco Shores service area. The City also has another agreement to sell bulk potable water to the County to distribute to their customers in Goodland and Key Marco..

Water Use Permit

The City is authorized to withdraw surface water from Henderson Creek, either directly from Marco Lakes or indirectly from the ASR wells from the Florida Aquifer. Withdrawals are authorized through a Water Use Permit ("WUP") issued by the South Florida Water Management District ("SFWMD"). The current WUP No. 11-00080-W permits withdrawal from three water sources: surface water from Marco Lakes; injected surface water recovered from ASR wells within the Marco Lakes property; and brackish groundwater withdrawn from water supply wells located in the City. The WUP is in the process of being renewed. The City's hydrogeological consultant is currently responding to a request for information from SFWMD as part of the renewal process. The WUP authorizes a combined annual withdrawal from the two water supply components of 3,395 million gallons ("MG"), equivalent to an annual daily average withdrawal of about 9.3 million gallons per day ("MGD"). The WUP also allocates an additional 1,600 MG of surface water from Marco Lakes to be stored in the ASR system during the rainy season and recovered during the dry season, or as needed. The Utility System is permitted to withdraw up to 1,935 MG directly from Marco Lakes; and up to 1,460 MG from the mid-Hawthorne Aquifer provided that the combined withdrawal from all sources does not exceed 3,395 MG in a single year. Additionally, the maximum month combined consumptive use for direct withdrawal from the two sources shall not exceed 381 MG, equivalent to a 30-day monthly average of 12.70 MGD. Withdrawals from Marco Lakes during the dryer months may be limited due to low-lake and

groundwater table elevations and lack of precipitation, while RO withdrawals from the mid-Hawthorn Aquifer may be limited due to the need to prevent increased salinity of the brackish water wells.

Water recovered from ASR storage can be used to supplement the high seasonal demand when additional capacity is needed. Withdrawal from the ASR Wells could also be used if the maximum monthly withdrawal to meet demand exceeds 381 MG; however, the probability of demand exceeding the 381 MG maximum monthly allocation is relatively low. The peak monthly demand (during the month of March) for all sources in the past year was 283 MG.

Water Treatment Facilities

The City maintains and operates [two] water treatment plants with three sites located in the City: the NWTP, the SWTP and Marco Lakes, which is not a treatment facility but is the source water facility. The two water treatment plants are permitted with the Florida Department of Environmental Protection ("FDEP") under PWS ID Number: 5110183. The NWTP lime softens and filters surface water or ASR recovery from Marco Lakes and the SWTP desalts brackish groundwater using an RO treatment process. The permitted capacity of the NWTP is 6.67 MGD. The permitted capacity of the SWTP is 6.0 MGD. Hence, the total current permitted capacity for potable water production is 12.67 MGD.

North Water Treatment Plant

The NWTP is located at 807 East Elkcarn Circle in the City. The NWTP typically operates near its permitted capacity of 6.67 MGD year-round while the SWTP typically operates from 1 to 3 MGD (higher during peak seasonal demand). Approximately 3.8 MGD of the NWTP production is distributed by local high service pumps to the north side of the City. The remaining production water is transferred to the SWTP for blending with RO permeate to obtain optimal hardness and is distributed to the south end of the City by high service pumps located at the SWTP site.

The NWTP currently incorporates a lime softening reactor-clarifier followed by membrane filtration. Lime and alum are added at the reactor/clarifier to remove color, contaminants, and alkalinity from the source water. The pressurized membrane filters remove residual turbidity from the lime softening process and also provide a barrier to microorganisms. Further disinfection and chloramine residual is provided by metering chlorine and ammonia into the filtered water. Filtered water not distributed in the north distribution system is transferred to finished water storage tanks at the SWTP for additional disinfection contact time, storage, and distribution.

Proposed Improvements to the North Water Treatment Plant

Two membrane filtration pilot skids have been recently installed at the NWTP to determine the optimal membranes to filter un-softened raw surface water. Data from the pilot skids will be used to design a new membrane softening system to replace the existing lime softening system. The new membrane softening system will include two new 1.8 MGD membrane filtration trains, a low pressure RO membrane filtration system and a building to house the low pressured RO membrane system. The existing lime thickener tank, lime sludge press, lime silo and lime clarifier will be demolished, as part of the membrane softening project. A 4.0 MG potable water storage tank, funded with proceeds of a State Revolving Fund ("SRF") Loan, was constructed at the NWTP in 2008.

North Water Treatment Plant Finished Water Storage and Pumping

The 4.0 MG storage tank provides a surplus of finished water to meet daily peak demand, a reserve for fire flow and also provides additional contact time for disinfection by chloramines. Existing finished water (high service) pumping capacity is provided by three pumps with a combined capacity of [9,900] gallons per minute ("gpm").

It is anticipated that peak hourly demand and high service pumping requirements will increase as additional development occurs. When the three 3,300 gpm pumps were installed space was provided for a fourth 3,300 gpm pump at the NWTP as additional development and water demand occurs.

The City has an emergency stand-by power engine driven generator at the NWTP. Standby power secures continuous treatment and water pumping during power outages and is a requirement for publicly-owned water treatment plants in the State.

Water Supply for the North Water Treatment Plant

The surface water facility also known as the Marco Lakes located 9 miles north of the NWTP on the mainland. There is one 250,000 gallon ground storage tank ("GST") for on-site storage of either lake water or ASR recovered water. Currently the ASR system consists of seven ASR wells, each with an injection and recovery capacity of 1.5 MGD per well for 10.5 MGD total recovery capacity. Well pumps sized for nominal 1.5 MGD recovery transfer stored water to the GST. Currently there are two 5,000 gpm (14.4 MGD installed capacity) vertical turbine raw water transfer pumps to divert raw water directly from the lakes to the GST. There are two 6,800 gpm (19.6 MGD installed total capacity) vertical turbine raw water injection pumps that transfer raw water from the lakes to the ASR system and that can also be used to fill the GST. Water from the GST is transferred to the NWTP by five high pressure centrifugal raw water pumps with installed capacity of 22,200 gpm (32 MGD). The firm capacity of the pumps, with the largest pump out of service, is 27.9 MGD. The Marco Lakes system is connected to the NWTP by a 24-inch diameter transmission main that connects to a 16-inch diameter main at the NWTP. The hydraulic restriction of the 16-inch raw water transmission main limits the maximum rate of transfer to about 9 MGD. The existing NWTP is permitted to treat about 7.0 to 7.5 MGD of raw water allowing for losses due to filter backwashing. The existing surface water supply system is more than adequate for supplying the NWTP.

South Water Treatment Plant

The SWTP is located near the center of the southern portion of the City and is the source of water supply for the south end of the City. The south service area receives additional water transferred from the NWTP for blending with RO permeate prior to distribution. Blending is used to provide the desired water quality. Source water is provided by 15 wells located in the central and eastern portion of the City.

The SWTP is an RO facility that desalts brackish groundwater. Pre-treatment is provided by sand separators followed by cartridge filters to remove particulates. Desalting is provided by two-stage RO trains with inter-stage energy recovery. RO permeate is degasified for sulfide removal and disinfected with chloramines before transfer to the finished water storage tanks for blending with treated surface water transferred from the NWTP. Blending provides finished water that is not too soft and corrosive. The SWTP was placed in operation in 1991 and many of the system components are routinely upgraded.

Finished water is stored in two 2.0 MG tanks, one 1.0 MG tank and one 3.0 MG tank providing a total of 8.0 MG of storage at the SWTP.

The SWTP has eight existing high service pumps with a firm capacity of 13,300 gpm (pumping capacity with the largest pump out of service). The existing high service pumping capacity is equivalent to 19 MGD and is adequate for current and future anticipated peak hourly water demand.

South Water Treatment Plant Raw Water Supply

The brackish groundwater for the SWTP is supplied by wells in the mid-Hawthorn Aquifer. The water supply wellfield consists of 15 operating wells. Wells 2, 3, 6 and 9 have been permanently closed due to high salinity in the native water and Wells 5 and 8 have been permanently disconnected from the system. The firm supply capacity of the operating wells with the largest well out of service is 9.00 MGD. To produce 6.0 MGD, a brackish water supply of about 8.0 MGD is needed to feed the RO system with 75% recovered as RO permeate. Therefore, the water supply wellfield currently has adequate production capacity for supplying the SWTP at the maximum design treatment capacity.

The existing WUP allows the City to withdraw up to 1,460 MG annually (4.0 MGD annual average) via the RO wells from the mid-Hawthorn aquifer system. This results in 1,095 MG (3.0 MGD annual average) of finished water at an RO recovery of 75%. The highest monthly withdrawals occur during the dry winter season (when there is a lack of rainfall) when the SWTP operates near its maximum permitted capacity. Combined with the capacity of the NWTP, this is adequate capacity to meet the projected average daily demand in 2017 of 7.44 MGD for the Water System.

Water Transmission and Distribution System

The water distribution system is comprised of major transmission pipelines, which deliver water from the treatment plant to the outlying service areas, and smaller distribution lines that serve the individual connections and provide capacity for local fire protection. The water transmission and distribution system for the City totals approximately 564,000 linear feet ("lft") or 108 miles of pipelines. The Marco Shores service area has approximately 26,300 lft or 5 miles of water piping.

Upgrading the Distribution System

The City installed approximately one mile of new 20" diameter PVC water main along South Barfield Dr. between Winterberry Dr. and Ludlow Rd. The City also installed 64 new fire hydrants so all homes in the City are within 1,000 ft. of a fire hydrant. Other distribution system upgrades performed by the City include the installation of over 6,600 Marco Island and 335 Marco Shores touchpad auto-read water meters, 127 bacterial sample points, 312 automatic flushing devices at dead-end cul-de-sac streets, 680 ft. of 36" diameter ductile iron water main along Peacock Terrace, 30 large diameter water meters, 200 ft. of 20" diameter HDPE water main at the Herbert Savage Bridge, two miles of 10" diameter PVC water main along San Marco Rd. from Barfield Dr. to Vintage Bay, 1,500 ft. of 6" diameter PVC water main along Nassau Ct., 700 ft. of 6" diameter PVC water main along Old Marco Lane and Gayer Way, 300 ft. of 6" PVC diameter water main along Eddington Pl. and 300 ft. of 6" diameter PVC water main along Sheffield Ave. All of these improvements were funded by the City's annual operating and capital improvements budget funded by water and sewer user (customer) billings.

Regulatory Compliance of the Water System

The FDEP, SFWMD and United States Environmental Protection Agency ("USEPA") promulgate various regulations governing operation of the Water System. The FDEP and USEPA regulations primarily deal with the quality of the raw water prior to treatment and the finished water distribution to the public, and methods of treatment. The regulation of consumptive uses of water resources in the City is the responsibility of SFWMD. SFWMD issues water use permits based on the population served and the ability of the water source to provide the quantity and quality of water needed. Water use permits are generally issued for a 10-year period. Permits may be modified at any time by SFWMD, if conditions so warrant. Modifications must be based on a demonstrated request for increased water use. The City's Water System is properly permitted at the State and federal levels. Various monitoring and reporting requirements are associated with the permits. FDEP performs inspections of public drinking water plants on an annual basis, and owners of facilities are expected to maintain the facility in compliance with all existing rules.

Water Conservation

The City instituted programs to reduce potable water consumption. In 2005 the City initiated progressive water rates for water used at single family and multifamily residential units. In 2007, the City set up a computer system that identifies any user that has a monthly increase in water usage of 60% greater than the historical usage for that month. The City takes the initiative to contact those users to identify the cause of the increase and works to reduce consumption.

Fiscal Years 2014 through Fiscal Years 2025 Actual and Projected Water Service Area

<u>Fiscal Year</u>	<u>Average Day Water Demand, MGD</u>	<u>Maximum Day Water Demand, MGD</u>
2014	7.26	10.91
2015	7.47	11.22
2016	7.34	10.89 ⁽¹⁾
2017	7.44	11.33
2019	7.51	11.44
2021	7.58	11.55
2023	7.66	11.67
2025	7.73	11.78
2035 (Build out)	8.09	12.33

⁽¹⁾ For the fiscal year ending September 30, 2016, the Max Day Water Demand through August was 10.89 MGD.

Source: City of Marco Island Water and Sewer Department, Ten Year Water Supply Facility Work Plan, 9/4/13.

SEWER SYSTEM

Sewer Collection

The City's sewer system is comprised of collection, transmission and pumping, wastewater treatment, and effluent disposal, including the distribution of reclaimed water to properties located

within the City (the "Sewer System"). During the Fiscal Year 2015 the Sewer System provided service to an average of 8,116 retail and general service accounts and 17,076 corresponding ERCs within the Sewer System service area. The majority of the water customers now receive sewer service. With respect to the retail accounts, approximately ninety-one percent (91%) are classified as individually metered residential with the remaining nine (7%) consisting of master metered residential, commercial, and irrigation services. Sewer treatment is measured in terms of an ERC. An "ERC" for the Sewer System represents the equivalent usage requirements for an individually metered residential customer and is established as 220 gpd of estimated sewer flow pursuant to the current policies and regulations as adopted by the City.

Septic Tank Replacement Program

The City has completed the process of expanding the regional Sewer System and extending sewer collection service throughout the City. Referred to by the City as the STRP, this multi-year program was implemented by the City to eliminate the use of septic tanks and other on-site disposal systems by the extension of a regional collection system within the corporate limits of the City. The wastewater service has been extended to approximately 5,749 non-sewered properties located within the City service area of which approximately 4,298 or 75% represent developed properties and 1,451 or 25% represent vacant properties. Of the total developed properties that will receive sewer service, approximately 3,855 (91% of the developed properties) have already connected to the Sewer System.

The program began in the Fiscal Year 2006 and consists of 17 assessment areas. The project was completed in May 2013.

Sewer Treatment

The City and Marco Shores treatment systems are comprised of two separate wastewater treatment plants servicing the City and Marco Shores collection systems. The City is served by the Marco Island Reclaimed Water Production Facility ("RWPF"), while Marco Shores is served by a much smaller facility, the Marco Shores Wastewater Treatment Plant ("MSWWTP").

Marco Island Reclaimed Water Production Facility

The RWPF is located off East Elkcarn Circle on the north end of the City, adjacent to the NWTP. The site is constrained by a canal on the east, the NWTP and local developments to the south and west, and Lee County Electric Cooperative and Collier County Sheriffs sub-station to the north. The RWPF was constructed in 1972 with two 1.25 MGD trains, for a total capacity of 2.5 MGD. The treatment process was a variation of the activated sludge process referred to as contact stabilization and achieved secondary treatment. A second 1.0 MGD contact stabilization plant was constructed in 1990 increasing the treatment capacity to 3.5 MGD. In 1991, a Class I deep injection well (IW#1) for effluent disposal was constructed and in 2009, a second Class I deep injection well (IW#2) was constructed. Two reclaimed water storage tanks and a reclaimed water distribution system were added in 1999. In 2010, the wastewater treatment method was changed to the Modified Ludzack-Ettinger (MLE) process, followed by membrane filtration and expanded plant capacity to 4.92 MGD. Waste activated sludge (biological solids) are mechanically thickened, dewatered and landfilled.

Regulatory Compliance of the Sewer System

The RWPF is currently permitted by FDEP permit number FLA014167 to treat up to 4.92 MGD of sewage on a maximum three-month average daily flow basis. The RWPF consists of three drum screens,

four flow equalization basins (one 250,000 gallon and three 500,000 gallon), a biological odor control system, two rotary drum thickeners, and four aerobic sludge holding tanks. Advanced biological sewer treatment is provided by a 3.0 MGD advanced secondary activated sludge plant modified for enhanced nitrogen removal using MLE process, and a newer 3.0 MGD MLE unit, followed by five 1.25 MGD capacity Membrane Bioreactor ("MBR") units, each with six MBR cassettes. The MBR units function in series with the MLE units to provide Class I reliability for the 4.92 MGD expanded plant. Disinfection is provided by two expanded chlorine contacts basins, using a sodium hypochlorite disinfection system. Treated effluent goes to either public access reuse or storage. Effluent storage is provided by two on-site 500,000 gallon public-access quality reclaimed water storage tanks (which allows the effluent to be distributed for irrigation purposes), one 0.44 acre water storage pond, and a 500,000 gallon capacity reclaimed water storage tank at the Marco Shores.

The permit allows effluent disposal into the deep injection wells ("IW") up to a maximum daily flow of 5.76 MGD into IW#1 and for 7.80 MGD into IW#2, as well as operation of a public access quality reuse system up to 2.434 MGD.

The FDEP wastewater operating permit was issued on November 17, 2015 with an effective date of February 2, 2016, and will expire on February 1, 2021.

There are two options for disposal of effluent from the City's RWPF listed below in their order of preference:

(1) Reclaiming the water for reuse as golf course and landscape irrigation water in the City and at Marco Shores. The permitted capacity of the reuse system is 2.434 MGD.

(2) City deep injection wells located at the NWTP. The permitted capacities of the existing deep injection wells are 5.76 MGD and [7.38] MGD, respectively.

Large Users of Reclaimed Water

<u>User Name</u>	<u>Capacity (MGD)</u>	<u>Use</u>
Marco Island Golf Course	0.450	Golf Course Irrigation
Marco Shores Golf Course	0.342	Golf Course Irrigation
Hideaway Beach	<u>0.181</u>	Golf Course & Landscape Irrigation
Total	0.973	

Source: RWPF Permit FLA014167.

The City's reclaimed water system includes three 0.5 MG storage tanks (2 at RWPF and 1 at MSWWTP), three effluent transfer pumps (1,600 gpm each), three high service pumps (1,600 gpm each), and associated distribution pipelines. Effluent is conveyed to/and from the Marco Shores reuse storage and pumping facility via an existing 16-inch effluent main.

The expansion and upgrade of the RWPF from 3.5 to 4.92 MGD provided additional high quality effluent suitable for reuse and has resulted in a reduction in potable water consumption that is currently used prior to the availability of reclaimed water for irrigation. The reclaimed water distribution system was expanded in 2008 through an extension of the reuse piping system to provide reclaimed water to all condominiums south of Winterberry Drive along Collier Boulevard. These properties had historically used an annual average daily flow of 0.48 MGD (0.56 MGD maximum daily) of potable water for

irrigation prior to the availability of reclaimed water. Further expansion of the reclaimed water distribution system is being evaluated.

The reclamation system meets demand for treated sewage and raw water. There are certain times of the year that the reuse system is supplemented with raw water. The raw water comes from the City's raw water facility. The additional flows coming from the STRP, combined with the raw water source help meet the reclamation system demands. Additional sources of reclaimed water will become available when the flows from the MSWWTP are treated at the RWPF.

The table below shows the average daily demand ("ADD") for the Fiscal Years 2014 through 2016 and projected for Fiscal Years 2017 through 2035 and maximum day demand ("MDD") potable water demands and projected for the Fiscal Years 2017 through 2035[**reduced ADD and MDD potable water demands with the projected increase in reclaimed water production associated with the City's operating planning process.**]

Marco Shores Sewer Treatment Plant

The MSWWTP was placed into service in July 2003. The plant uses the Up-flow Sludge Blanket Filtration ("USBF") process, a variation of the activated sludge process. The facility includes two manual bar screens, two anoxic basins, four aeration basins, four up-flow clarifiers, two tertiary filters, two chlorine contact tanks, an effluent pumping station, an aerated sludge holding tank, and small operations building. The plant was originally designed and permitted for an average daily flow of 300,000 gpd. Annual current flows are 100,000 gpd. This plant was designed by the vendor of the process equipment and has experienced difficulties handling normal daily flow peaks that upset the sludge blanket based process concept. Although the facility is well maintained by the City, there are plans to decommission the plant and send the sewage to the RWPF for treatment and disposal.

The MSWWTP operates under FDEP permit number FLA-014174 issued on November 14, 2014 with an effective date of January 1, 2015 and expires on November 13, 2019. The permit allows for treatment of a maximum three-month average daily flow of 0.30 MGD.

The MSWWTP's current method of disposal of treated effluent is to pump the effluent approximately 1.5 miles to a 43 acre site with three, seven acre rapid infiltration basins ("RIBS") with a permitted capacity of 3.5 MGD. This site was originally constructed for the effluent disposal of the Marco Island Wastewater Treatment Plant, which is the reason for the high permitted capacity. Once IW #2 was permitted, the RIBS were removed from the RWPF permit.

[Remainder of page intentionally left blank]

Use of sewer treatment plant effluent for irrigation is preferred over disposal into deep injection wells or RIBS, as this is the most efficient use of this resource and provides additional revenue for the City as reclaimed water is metered and priced for sale. The table below lists the current large users of reclaimed water.

Fiscal Years 2014 through Fiscal Years 2035 Actual and Projected Wastewater Service Area

<u>Fiscal Year</u>	<u>Average Day Wastewater Treatment, MGD</u>	<u>Maximum 3-Month Daily Average, MGD</u>
2014	2.00	2.49
2015	2.04	2.57
2016	2.12	2.70 ⁽¹⁾
2017	2.18	2.84
2019	2.46	3.07
2021	2.65	3.31
2023	2.83	3.54
2025	3.02	11.78
2035 (Build out)	3.95	12.33

⁽¹⁾ For the fiscal year ending September 30, 2016, the Max Day wastewater treatment through August was 4.84 MGD.

Source: City of Marco Island Water and Sewer Department 2015 CAR, 8/2015.

RATES, FEES AND CHARGES

The Water System rates which are currently in effect include: (i) a constant service charge (readiness-to-serve charge) which varies by meter size for residential, commercial, and irrigation classes and is based on a per unit basis for the multi-family class; and (ii) a volumetric flow charge based on metered water consumption which increases as consumption increases in order to promote water conservation (applicable only to the residential class and based on lot size). As part of the consumptive use permitting process, SFWMD requires that utilities located within its boundaries have a water conservation promoting rate structure. This requirement is part of SFWMD's water conservation goals relative to the regulation of raw water withdrawals. SFWMD does not regulate the rates of the Utility System but requires that a conservation promoting pricing structure be in place. The current water rates of the Utility System as adopted by the City currently do employ a water conservation rate structure, which the City believes is consistent with the general water conservation program goals required by SFWMD.

The Sewer System rates are similar in structure to that of the Water System and include: (i) a constant service charge (readiness-to-serve charge) which varies by meter size; and (ii) a volumetric flow charge based on metered water consumption which serves as the basis for sewer use. Furthermore, with respect to the individually metered single-family residential class, the sewer consumption charges include a maximum residential billing threshold of 6,000 gallons per month per unit. All other sewer customers do not have a maximum billing threshold for the determination of the sewer flow (revenue gallons) for the application or billing of the consumption charge.

On August 17, 2009, the City Council created an Ad-Hoc Utility Advisory Committee (the "Committee") to review current and future revenue needs pertaining to operation, maintenance and improvement of the Utility System. The Committee worked with City staff and the City's utility rate consultant, Public Resources Management Group, Inc., to review the operating and capital assumptions used to determine the revenue required to operate, maintain and improve the Utility System through and including the fiscal year ending September 30, 2014. During a specially-called meeting of the City Council held on November 9, 2009, the Committee presented its findings and recommendations concerning future water and wastewater rate increases necessary to address the revenue needs of the Utility System. By roll call vote, City Council unanimously accepted and approved various recommendations of the Committee including (1) increases in water and wastewater rates and the percentages of such increases in subsequent Fiscal Years, (2) incorporation of the rate increases into the rate structure for future City Council approval, and (3) the City's issuance of its Series 2010 Bonds to provide Utility System-related financing including the financing of a portion of the capital improvement projects described in the Utility System's Capital Improvement Program through the fiscal year ending September 30, 2014.

On March 1, 2010, the City Council adopted Resolution No. 10-07 ratifying and confirming City Council's acceptance and approval of the Committee's recommendations concerning water and wastewater rate increases through and including Fiscal Year 2013-14 as set forth below:

**Average Percent Revenue Increase
Marco Island and Marco Shores
Proposed Increases — Effective October 1,
Additional Rate Revenue Adjustment**

<u>Fiscal Year</u>	<u>Rate Adjustment</u>
2010	10.50%
2011	6.00%
2012	6.00%
2013	1.50%

Source: City of Marco Island, Florida Water and Sewer Department.

On September 7, 2011, the City Council by the adoption of Resolution No. 11-20 decided not to consider rate increases for the Fiscal Year which commenced October 1, 2011. The City Council also did not consider rate increases for the Fiscal Years which commenced October 1, 2012 and 2013.

On August 19, 2013, the City Council adopted Resolution No. 13-16 ratifying and confirming its acceptance and approval of recommendations the City's utility rate consultant, Public Resources Management Group, Inc., concerning water and wastewater rate increases through and including Fiscal Year 2018. The City Council determined that such future rate increases are necessary for the operation, maintenance and improvement of the Utility System and to support the incurrence of the Series 2016 Bonds for the Utility System. Accordingly, the City Council expressed its intent to consider such future rate increases during a duly noticed City budget adoption process for each Fiscal Year as set forth below. The City Council's expression of intent does not increase rates and should not be construed as a binding commitment to such increase in rates. In order to increase rates as provided below, subsequent formal action will need to be taken annually, including the provision of notice to rate payers, the holding of a public hearing or hearings and the enactment of an ordinance or ordinances by the City Council, the composition of which will be different than the City Council. For the Fiscal Year 2014, the City approved

a 7% rate increase and for the Fiscal Year 2015, the City approved a 2.10% rate increase. The estimated needed increases in the rates for the System is shown below:

Average Percent Revenue Increase⁽¹⁾

<u>Fiscal Year</u>	<u>Marco Island and Marco Shores Additional Rate Adjustment⁽²⁾</u>
2016	2.10%
2017	2.20%
2018	2.30%

(1) All rate adjustments assumed to become effective with services rendered on October 1st of each Fiscal Year.

(2) Rate adjustments include application of the annual price index adjustment which has historically been annually adopted and applied by the City.

Source: City of Marco Island, Florida Water and Sewer Department.

To the extent that the rate adjustments are not made or are delayed from what is set forth above, it is anticipated that sufficient Net Revenues and/or Capital Facilities Fees (i.e., Impact Fees) will not be generated to be in compliance with the rate covenant described in the Bond Resolution unless utility expenditures are reduced. In addition to the monthly rates for water and sewer service, the City Council has also adopted a series of rate surcharges on the water and sewer rates imposed only in the City service area to finance certain capital costs that were determined by the City Council to benefit the System (such surcharges are not imposed in the Marco Shores service area).

Price Index Rate Adjustment Clause

As a component of the rates for water and sewer service, the City has also adopted a Price Index Rate Adjustment Clause as part of the City's Code of Ordinances. The purpose of this index rate adjustment is to allow the City the ability to adjust the monthly rates for water and sewer service to account for inflationary effects on the cost of daily operations without a formal rate hearing or analysis, thus providing a rate mechanism to generally maintain Net Revenue margins with minor annual rate adjustments for the financial benefit of the System. The application of a rate index to account for such general inflationary cost increases is common in the public utility industry and is also allowed by the Florida Public Service Commission (the "FPSC") which regulates investor-owned utilities. With respect to the Code of Ordinances, the price index rate adjustment shall be an automatic rate adjustment, applied annually effective October 1, of each year to monthly water and sewer rates and is based on the change in the FPSC Deflator Index (the "deflator index"). In the event the deflator index exceeds three percent, the proposed increase in water and sewer rates shall be presented to City Council for approval by resolution.

Rate Comparisons

The table below provides a comparison of the monthly cost of providing water and sewer service for a 5/8-inch by 3/4-inch water meter at various usage levels calculated under the City's current rates. Also included on the comparison are bills calculated under the rates of other neighboring Florida utilities as of the billing month of March 2016. The monthly bills for the various Florida utilities used for the comparison are exclusive of any local taxes. Additionally, for municipal-owned utility systems, such utilities may apply to customers located outside the corporate limits of such municipality a surcharge up

to 50% when compared to the rates for service to customers located within the corporate limits as allowed pursuant to Section 180.191, Florida Statutes. The City currently does not charge an outside-the-City surcharge for any customers served outside the City limits but does have different rates for the Marco Island and Marco Shores systems which reflect the continuation of the rate differentials that were then in effect at the time of the FWS System acquisition. **[The 5/8 by % inch]** meter comparison was prepared since it represents the majority of the City's water and sewer residential customers and the majority of the customers for the other utilities reflected in the comparison. With respect to the municipal utility systems included on the comparison, only the inside-the-City rates are included in the comparison.

The average residential monthly use for the City and Marco Shores service areas are different. Therefore, two different comparisons are summarized below. With respect to the City's service area comparison, an average monthly use of 10,000 gallons was assumed. For the Marco Shores service area comparison, an average monthly usage level of 3,000 gallons was presented. In the comparisons, the System rates produce bills for the City that are higher but are generally comparable in amount when compared to the other neighboring publically-owned utilities.

[Remainder of page intentionally left blank]

Monthly Individually-Metered Residential Service by Service Area

City of Marco Island	Marco Island - Assuming 10,000 Gallons of Monthly Utility Service ⁽¹⁾			Marco Shores – Assuming 3,000 Gallons of Monthly Utility Service ⁽¹⁾		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Marco Island System	\$73.49	\$58.26	\$131.75			
Marco Shores System				\$35.79	\$55.94	\$91.73
Other Florida Utilities:						
Bonita Springs Utilities, Inc.	\$51.89	\$65.48	\$117.37	\$23.15	\$39.58	\$62.73
Charlotte County	73.00	74.52	147.52	36.27	44.14	80.41
City of Belle Glade	60.35	59.26	119.61	23.14	31.26	54.40
City of Cape Coral	59.57	111.47	171.04	29.02	48.19	77.21
City of Fort Myers	81.53	153.30	234.83	23.50	56.84	80.34
City of LaBelle	80.58	39.96	120.54	48.73	27.81	76.54
City of Naples	24.19	58.20	82.39	12.02	31.32	43.34
City of North Port	71.74	88.76	160.50	29.20	46.20	75.40
City of Punta Gorda	47.60	41.55	89.15	23.90	30.84	54.74
City of Sanibel	49.25	58.20	107.45	22.90	58.20	81.10
City of Sarasota	57.16	97.15	154.31	26.86	43.11	69.97
Collier County	54.88	74.23	129.11	28.49	43.85	72.34
FGUA - Golden Gate (Collier County)	90.24	77.27	167.51	45.21	56.21	101.42
FGUA - Lehigh Acres System (Lee County)	72.25	77.03	149.28	31.40	51.08	82.48
FGUA - North Fort Myers System (Lee County)	89.71	66.24	155.95	38.75	41.88	80.63
Hillsborough County	54.82	48.65	103.47	23.33	26.75	50.08
Lee County	48.57	73.10	121.67	22.40	38.00	60.40
Okeechobee Utility Authority	74.86	89.31	164.17	31.74	41.99	73.73
Port Labelle Utility System (Hendry/Glades County)	70.80	47.20	118.00	34.50	25.20	59.70
Sarasota County	48.81	90.29	139.10	23.39	37.51	60.90
Other Florida Utilities' Average	\$63.09	\$74.56	\$137.65	\$28.90	\$41.00	\$69.89

⁽¹⁾ Based on the fiscal year Ended September 30, 2015 City of Marco Island, Florida, Continuing Disclosure Report.

Source: City of Marco Island, Florida Water and Sewer Department.

Ten Largest Customers of Utility System

The following is a summary of the top ten utility customers for the Utility System as of [the fiscal year ended September 30, 2015]:

Water and Sewer Top Ten Utility Customers Total System (Based on Sales Revenue)⁽¹⁾

<u>Account⁽²⁾</u>	<u>Service Class</u>	<u>Type of Service</u>	<u>Total</u>	<u>% of Total System Rate Revenues</u>
Marriott Full Service	Commercial	W & S	\$1,001,975	3.2%
Marco Beach Hilton	Commercial	W & S	333,039	1.1
Collier County	Government	W & S	331,912	1.1
South Seas Condo Association	Multi-family	S	305,764	1.0
Anglers Cove Condo Association	Multi-family	W & S	245,928	0.8
North Marco Utilities*	Government	W & S	201,980	0.6
Shippo's Landing Condo	Multi-family	W & S	175,584	0.6
Marriott Club International	Commercial	W & S	167,303	0.5
Marco Beach Ocean	Commercial	W & S	159,218	0.5
Island Country Club	Commercial	W & S	122,235	0.4
Totals			\$3,044,938	9.6%
Total Water and Sewer Rate Revenues ⁽³⁾			\$31,566,605	100.0%

Service: W=Water; S=Sewer

* Sewer provided by North Marco Utilities (NMU).

(1) Based on information provided by the City and includes both the City and Marco Shores service areas; reflects amounts for the twelve (12) months ended September 30, 2015.

(2) Represents the sum of all meters (accounts) which are considered as service to an individual customer, where applicable.

(3) Amount reflects revenues derived from the application of monthly water and sewer service charges and does not include reclaimed water or other operating revenues.

Source: City of Marco Island, Florida Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015.

Capital Improvement Program

In order to meet future needs based on increases in customer growth and consumption rates and to maintain the Utility System properly, the City has developed a Capital Improvement Program ("CIP") comprising a variety of major additions, extensions, improvements, replacements, rehabilitations, and enhancements to the Water and Sewer Systems. Projects are anticipated to be funded from Net Revenues (based on assumed rate increases set forth above), Capital Facilities Fees, available unencumbered funds on deposit, and other sources. The City reviews its CIP annually and updates such program recognizing changes in cost and priority of the improvements. Accordingly, the total cost of the CIP could be more or less depending on future demand, actual contract awards, and other economic factors.

Based on an analysis of available funds to the City (e.g., Capital Facilities Fees, available capital-related reserves, etc.), and assuming that the recommended rate increases are implemented, the funding sources for the total CIP as identified by the City were assumed as follows:

	Estimated Funding	
	<u>Amount⁽¹⁾</u>	<u>Percent</u>
Operating Reserve Fund	3,254,100	10.02%
Renewal, Replacement and Improvement Fund	20,065,609	61.79%
Additional Future Debt ⁽²⁾	0	0.00%
Water Capital Facilities Fees	5,262,729	16.21%
Capital Reserve Fund/Debt Service Reserve Fund ⁽³⁾	11,663,449	28.98%
Total	<u>\$40,245,887</u>	<u>100.00%</u>

(1) Amounts shown derived from City of Marco Island financial records.

(2) No additional debt to fund the Utility System identified CIP is planned by the City.

(3) As part of the City's plan of finance for the Series 2016 Bonds, the City anticipates the release of a portion of the debt service reserve fund monies applicable to the Series 2010A Bonds which will be applied towards future capital projects to eliminate the need for additional debt.

Source: City of Marco Island, Florida Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015 and Adopted Budget for Fiscal Year 2017.

Historical Operating Results

The historical operating results for the Utility System is presented for the fiscal years ended September 30, 2011 through 2015 (the "Historical Period"). The operating results for the Historical Period were prepared based on financial information compiled and provided by the City and information included in the Comprehensive Annual Financial Reports ("CAFR") of the City for the respective Fiscal Years shown. The historical operating results have been presented in a manner consistent with the requirements of the Bond Resolution relative to the determination of Net Revenues of the Utility System. Therefore, the amounts shown reflect certain differences in the presentation of the financial results when compared to the CAFRs of the City. Specifically, these differences primarily relate to: (i) the determination of the Cost of Operation and Maintenance (i.e., depreciation, amortization and payments in lieu of taxes or franchise fees to the General Fund are not recognized); (ii) **[the development of interest income]** (i.e., does not include earnings on monies on deposit in the Capital Facilities Fees Fund or Project Fund associated with proceeds of bonds issued for the Utility System, if any, which are restricted to such Funds or fair market adjustments as required by the reporting standards of Governmental Accounting Standards Board in order to recognize realized income); and (iii) recognition of other transfers which are not considered as a Cost of Operation and Maintenance (e.g., transfer for payment of Bond Service Requirement).

Utility System Historical Operating Results and Bond Service Coverage Results

Description	Fiscal Year Ended September 30, ⁽¹⁾				
	2011	2012	2013	2014	2015
Gross Revenues	\$29,872,159	\$28,353,936	\$26,917,858	\$30,466,941	\$30,528,535
Total Cost of Operations & Maintenance ⁽²⁾	11,474,484	11,171,326	11,440,467	12,009,412	12,712,074
Net Revenues	18,397,675	17,182,610	15,477,391	18,457,529	17,816,461
Available Capital Facilities Fees ⁽³⁾	218,068	155,906	852,255	658,941	1,273,541
Net Revenues with Capital Facilities Fees	18,615,743	17,338,516	16,329,645	19,116,470	19,090,002
Bond Service requirement (1st Lien Only) ⁽⁴⁾					
Total Bond Service Requirements	9,819,574	10,989,813	10,932,175	10,883,470	11,000,727
Bond Service Coverage (1st Lien Only)					
Net Revenue Basis	1.87	1.56	1.42	1.70	1.62
Minimum Required Coverage	1.10	1.10	1.10	1.10	1.10
OR					
"Net Revenue with Available ⁽⁵⁾					
Capital Facilities Fees Basis"	1.90	1.58	1.49	1.76	1.74
Minimum Required Coverage	1.20	1.20	1.20	1.20	1.20
Bond Service Requirement (1st & 2nd Lien Only) ⁽⁶⁾					
Total Bond Service Requirements ⁽⁷⁾	10,569,165	11,355,400	10,932,175	10,883,470	11,000,727
Bond Service Coverage (1st & 2nd Lien Only)					
Net Revenue Basis	1.74	1.51	1.42	1.70	1.62
Minimum Required Coverage	1.10	1.10	1.10	1.10	1.10
OR					
"Net Revenue with Available ⁽⁵⁾					
Capital Facilities Fees Basis"	1.76	1.53	1.49	1.76	1.74
Minimum Required Coverage	1.20	1.20	1.20	1.20	1.20
Subordinate Debt Service Requirement (3rd Lien)					
Total Subordinate Debt ⁽⁸⁾	174,588	267,064	451,452	1,730,078	347,926
Subordinate Debt Bond Service Coverage (3rd Lien)					
Pledged Revenue Basis ⁽⁹⁾	46.09	22.40	11.96	4.76	23.25
Minimum Required Coverage	1.15	1.15	1.15	1.00	1.00
Total Subordinate Debt Service Requirement ⁽¹⁰⁾					
Total Subordinate Debt Service Requirement	636,521	410,965	515,496	1,730,078	347,926
Total Debt Payments (1st, 2nd & 3rd Lien) ⁽¹¹⁾	10,456,095	11,400,778	11,447,671	12,613,549	11,348,653
Net revenues after Debt Payments					
Less Other Required Transfers ⁽¹²⁾					
Bond Service Reserve Fund	-	-	-	-	-
Renewal, Replacement & Improvement Fund	1,316,609	1,493,608	1,417,697	1,345,893	1,523,347
Total Other Required Transfers	1,316,609	1,493,608	1,417,697	1,345,893	1,523,347
Net Revenues After All Required Transfers					
Without Capital Facilities Fees	6,624,971	4,288,224	2,612,023	4,498,087	4,944,461
Total system Capital Facilities Fees	218,068	155,906	852,255	658,941	1,273,541
Total Amount for Other System Purposes ⁽¹³⁾	\$6,843,039	\$4,444,130	\$3,464,278	\$5,157,028	\$6,218,002

[Footnotes continued on following page]

-
- (1) Amounts derived are based on information reported in the City's Comprehensive Annual Financial Reports for each respective Fiscal Year and other System financial information as provided by the City for such years.
 - (2) Amounts shown do not include depreciation or amortization expenses which are non-cash expense of the Utility System and not considered as a Cost of Operation and Maintenance as delineated in the Bond Resolution.
 - (3) Amounts based on the lesser of Capital Facilities Fees received or the amount of Bond Service that is considered to be expansion-related; in all Fiscal Years the amount of the fees received was less than the expansion-related Bond Service amount.
 - (4) Outstanding Bonds defined as all Bonds that were issued pursuant to the terms and conditions of the Bond Resolution (First Lien Bonds) and includes Outstanding Parity Bonds. The Refunded 2010A Bonds are expected to be refunded through the issuance of the Series 2016 Bonds.
 - (5) Pursuant to the Bond Resolution, the Pledged Revenue Coverage Test is a two-part test that includes the following: Test 1 = Net Revenues must be 110% of the annual Bond Service requirements; or Test 2 = Net Revenues must be 105% of the annual Bond Service requirements and Net Revenues and Capital Facilities Fees (Pledged Revenues) must be 120% of the annual Bond Service Requirement. Since the Test 1 Net Revenue coverage test is shown which has a higher minimum requirement standard than Test 2 and for simplicity sake, only the Pledged Revenue calculation for Test 2 is shown on the summary table.
 - (6) The City has secured subordinate notes (Second Lien Bonds) which contains a rate covenant that recognizes that the term "Bond Service Requirement" shall be deemed to include the debt service on the notes which assumes that all of the principal is drawn as of the date of such loan and is amortized annually on each October 1st over a period of thirty years assuming an interest rate of 4.5% expressed on an equal debt repayment basis. The amounts shown reflect the estimated implied amortization of the notes based on the covenant; the actual payments for the notes reflect interest-only payments which are significantly less than the covenant requirements and the City historically has or anticipates to retire the notes with permanent financing as part of the completion of the STRP project during the Forecast Period.
 - (7) Represents subordinate debt obligations (Second Lien Bonds) incurred by the City to provide interim financing in support of the STRP Program; such amounts are not associated with securing any loans through the SRF Loan Program. Amounts shown separately for coverage requirement purposes due to the different rate covenant requirement of such loans.
 - (8) Amount shown reflects indebtedness associated with State Revolving Fund loans (Third Lien Debt) secured and being paid by the City to fund improvements to the City's Sewer System infrastructure that are secured by the Pledged Revenues of the System during such Fiscal Year; the majority of the FDEP SRF Loans have been secured by assessments pursuant to the STRP program and no longer have a lien on the Pledged Revenues of the System.
 - (9) Coverage test includes Net Revenues received less 110% of the Bond Service Requirement on the First and Second Lien Bonds.
 - (10) Amounts shown reflect the sum of (i) actual loan payments (interest-only expense) made on the Second Lien Bonds as opposed to the implied Bond Service Requirements as defined in the covenants for the respective loan agreement; plus (ii) the actual accrual for the repayment of the SRF Loans, both which are pledged for repayment from the Net Revenues of the System.
 - (11) Amounts reflect actual debt requirements of System and include: (i) required deposits to the Bond Service Fund in accordance with provisions of the Bond Resolution; (ii) Monthly Loan Deposits for loans secured through the SRF Loan Program; and (iii) actual interest expense as invoiced by the lending institutions associated with the lines of credit secured by the City for funding capital improvements to the System that is not payable from the annual assessments associated with the STRP project.
 - (12) Amounts shown reflect other required transfers as required by the Bond Resolution.
 - (13) Assumes that the City annually makes a deposit to the Renewal, Replacement & Improvement Fund equal to the Renewal, Replacement & Improvement Fund Requirement which is an amount equal to 5% of the previous year Gross Revenues for ongoing capital improvement financing.
 - (14) Amounts shown represent funds available for capital expenditures and other expenditure requirements of the System.

Source: City of Marco Island, Florida Finance Department.

ENFORCEABILITY OF REMEDIES

The remedies available to the owners of the Series 2016 Bonds upon an event of default under the Bond Resolution are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically the federal bankruptcy code, the remedies specified by the Bond Resolution, **[the Policy,]** the Series 2016 Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Series 2016 Bonds, including Bond Counsel's approving opinion, will be qualified, as to the enforceability of the remedies provided in the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors enacted before or after such delivery. See APPENDIX B - "FORM OF COMPOSITE BOND RESOLUTION" attached hereto for a description of events of default and remedies.

LITIGATION

There is no pending or, to the knowledge of the City, any threatened litigation against the City of any nature whatsoever which in any way questions or affects the validity of the Series 2016 Bonds, or any proceedings or transactions relating to their issuance, sale, execution, or delivery, or the adoption of the Bond Resolution, or the collection of Net Revenues. Neither the creation, organization or existence, nor the title of the present members of the City Council, or other officers of the City is being contested.

The City experiences claims, litigation, and various legal proceedings which individually are not expected to have a material adverse effect on the operations or financial condition of the City, but may, in the aggregate, have a material impact thereon. In the opinion of the City Attorney, however, the City will either successfully defend such actions or otherwise resolve such matters without any material adverse consequences on the financial condition of the City.

LEGAL MATTERS

Certain legal matters in connection with the authorization, issuance and sale of the Series 2016 Bonds are subject to the approval of Bryant Miller Olive P.A., Tampa, Florida, Bond Counsel, whose approving opinion will be available at the time of delivery of the Series 2016 Bonds.

The proposed form of Bond Counsel opinion is attached hereto as Appendix D and reference is made to such form of opinion for the complete text thereof. The actual legal opinion to be delivered may vary from that text if necessary to reflect facts and law on the date of delivery. The opinion will speak only as of its date, and subsequent distribution of it by recirculation of the Official Statement or otherwise shall create no implication that Bond Counsel has reviewed or expresses any opinion concerning any of the matters referenced in the opinion subsequent to its date.

Bond Counsel has not been engaged to, nor has it undertaken to, review (1) the accuracy, completeness or sufficiency of this Official Statement or any other offering material relating to the Series 2016 Bonds; provided, however, that Bond Counsel will render an opinion to the Underwriters and the City relating to the accuracy of certain statements contained hereunder under the heading "TAX MATTERS" and certain statements which summarize provisions of the Bond Resolution and the Series 2016 Bonds, and (2) the compliance with any federal or state law with regard to the sale or distribution of the Series 2016 Bonds.

Certain legal matters will be passed upon for the City by Weiss Serota Helfman Cole & Bierman, P.L., Fort Lauderdale, Florida, City Attorney and Bryant Miller Olive P.A., Tampa, Florida, Disclosure Counsel. Certain other legal matters will be passed upon for the Underwriters by Moskowitz, Mandell, Salim & Simowitz, P.A., Fort Lauderdale, Florida, counsel to the Underwriters.

TAX MATTERS

General

The Internal Revenue Code of 1986, as amended (the "Code"), establishes certain requirements which must be met subsequent to the issuance of the Series 2016 Bonds in order that interest on the Series 2016 Bonds be and remain excluded from gross income for purposes of federal income taxation. Non-compliance may cause interest on the Series 2016 Bonds to be included in federal gross income retroactive to the date of issuance of the Series 2016 Bonds, regardless of the date on which such non-compliance occurs or is ascertained. These requirements include, but are not limited to, provisions which prescribe yield and other limits within which the proceeds of the Series 2016 Bonds and the other amounts are to be invested and require that certain investment earnings on the foregoing must be rebated on a periodic basis to the Treasury Department of the United States. The City has covenanted in the Bond Resolution to comply with such requirements in order to maintain the exclusion from federal gross income of the interest on the Series 2016 Bonds.

In the opinion of Bond Counsel, assuming compliance with certain covenants, under existing laws, regulations, judicial decisions and rulings, interest on the Series 2016 Bonds is excluded from gross income for purposes of federal income taxation. Interest on the Series 2016 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals or corporations; however, interest on the Series 2016 Bonds may be subject to the federal alternative minimum tax when any Series 2016 Bond is held by a corporation. The federal alternative minimum taxable income of a corporation must be increased by seventy-five percent (75%) of the excess of such corporation's adjusted current earnings over its alternative minimum taxable income (before this adjustment and the alternative tax net operating loss deduction). "Adjusted Current Earnings" will include interest on the Series 2016 Bonds.

Except as described above, Bond Counsel will express no opinion regarding other federal income tax consequences resulting from the ownership of, receipt or accrual of interest on, or disposition of Series 2016 Bonds. Prospective purchasers of Series 2016 Bonds should be aware that the ownership of Series 2016 Bonds may result in collateral federal income tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry Series 2016 Bonds; (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by fifteen percent (15%) of certain items, including interest on the Series 2016 Bonds; (iii) the inclusion of interest on the Series 2016 Bonds in earnings of certain foreign corporations doing business in the United States for purposes of the branch profits tax; (iv) the inclusion of interest on the Series 2016 Bonds in passive income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year; and (v) the inclusion of interest on the Series 2016 Bonds in "modified adjusted gross income" by recipients of certain Social Security and Railroad Retirement benefits for the purposes of determining whether such benefits are included in gross income for federal income tax purposes.

As to questions of fact material to the opinion of Bond Counsel, Bond Counsel will rely upon representations and covenants made by the City in the Bond Resolution, certificates of appropriate officers and certificates of public officials (including certifications as to the use of proceeds of the Series 2016 Bonds and of the property financed or refinanced thereby).

PURCHASE, OWNERSHIP, SALE OR DISPOSITION OF THE SERIES 2016 BONDS AND THE RECEIPT OR ACCRUAL OF THE INTEREST THEREON MAY HAVE ADVERSE FEDERAL TAX CONSEQUENCES FOR CERTAIN INDIVIDUAL AND CORPORATE HOLDERS OF THE SERIES 2016 BONDS, INCLUDING, BUT NOT LIMITED TO, THE CONSEQUENCES DESCRIBED ABOVE. PROSPECTIVE HOLDERS OF THE SERIES 2016 BONDS SHOULD CONSULT WITH THEIR TAX SPECIALISTS FOR INFORMATION IN THAT REGARD.

Information Reporting and Backup Withholding

Interest paid on tax-exempt bonds such as the Series 2016 Bonds is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the Series 2016 Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Series 2016 Bonds, under certain circumstances, to "backup withholding" at the rate specified in the Code with respect to payments on the Series 2016 Bonds and proceeds from the sale of Series 2016 Bonds. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Series 2016 Bonds. This withholding generally applies if the owner of Series 2016 Bonds (i) fails to furnish the payor such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnished the payor an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the payor or such owner's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Series 2016 Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

Other Tax Matters

During recent years, legislative proposals have been introduced in Congress, and in some cases enacted, that altered certain federal tax consequences resulting from the ownership of obligations that are similar to the Series 2016 Bonds. In some cases, these proposals have contained provisions that altered these consequences on a retroactive basis. Such alteration of federal tax consequences may have affected the market value of obligations similar to the Series 2016 Bonds. From time to time, legislative proposals are pending which could have an effect on both the federal tax consequences resulting from ownership of the Series 2016 Bonds and their market value. No assurance can be given that legislative proposals will not be enacted that would apply to, or have an adverse effect upon, the Series 2016 Bonds. For example, in connection with federal deficit reduction, job creation and tax law reform efforts, proposals have been and others are likely to be made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Series 2016 Bonds. There can be no assurance that any such legislation or proposal will be enacted, and if enacted, what form it may take. The introduction or enactment of any such legislative proposals may affect, perhaps significantly, the market price for, or marketability of, the Series 2016 Bonds.

Prospective purchasers of the Series 2016 Bonds should consult their own tax advisors as to the tax consequences of owning the Series 2016 Bonds in their particular state or local jurisdiction and regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

Tax Treatment of Original Issue Discount

Under the Code, the difference between the maturity amount of the Series 2016 Bonds maturing on _____ (collectively, the "Discount Bonds"), and the initial offering price to the public, excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers, at which price a substantial amount of the Discount Bonds of the same maturity and, if applicable, interest rate, was sold is "original issue discount." Original issue discount will accrue over the term of the Discount Bonds at a constant interest rate compounded periodically. A purchaser who acquires the Discount Bonds in the initial offering at a price equal to the initial offering price thereof to the public will be treated as receiving an amount of interest excluded from gross income for federal income tax purposes equal to the original issue discount accruing during the period he or she holds the Discount Bonds, and will increase his or her adjusted basis in the Discount Bonds by the amount of such accruing discount for purposes of determining taxable gain or loss on the sale or disposition of the Discount Bonds. The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of the Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those above. Bondholders of the Discount Bonds should consult their own tax advisors with respect to the precise determination for federal income tax purposes of interest accrued upon sale, redemption or other disposition of the Discount Bonds and with respect to the state and local tax consequences of owning and disposing of the Discount Bonds.

Tax Treatment of Bond Premium

The difference between the principal amount of the Series 2016 Bonds maturing on _____ (collectively, the "Premium Bonds"), and the initial offering price to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of such Premium Bonds of the same maturity and, if applicable, interest rate, was sold constitutes to an initial purchaser amortizable bond premium which is not deductible from gross income for federal income tax purposes. The amount of amortizable bond premium for a taxable year is determined actuarially on a constant interest rate basis over the term of each of the Premium Bonds, which ends on the earlier of the maturity or call date for each of the Premium Bonds which minimizes the yield on such Premium Bonds to the purchaser. For purposes of determining gain or loss on the sale or other disposition of a Premium Bond, an initial purchaser who acquires such obligation in the initial offering is required to decrease such purchaser's adjusted basis in such Premium Bond annually by the amount of amortizable bond premium for the taxable year. The amortization of bond premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining various other tax consequences of owning such Premium Bonds. Bondholders of the Premium Bonds are advised that they should consult with their own tax advisors with respect to the state and local tax consequences of owning such Premium Bonds.

FINANCIAL STATEMENTS

The audited financial statements of the City as of September 30, 2015 and for the Fiscal Year then ended, included in the attached "APPENDIX C – FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015," have been audited by Mauldin & Jenkins, LLC, independent auditors, as stated in their report appearing therein. The consent of the City's auditor to include in this Official Statement the aforementioned report was not requested, and the general purpose financial statements of the City are provided only as publicly available documents. The City's auditor was not requested nor did it perform any procedures with respect to the preparation of this Official Statement or the information presented herein.

The Series 2016 Bonds are payable solely from Net Revenues as provided in the Bond Resolution. See "SECURITY FOR THE BONDS" herein. The audited financial statements are presented for general information purposes only.

INVESTMENT POLICY

The City's investment policy was established by Ordinance No. 02-19 and establishes guidelines as to the type, maturity, composition and risk relating to the City's investment portfolio. Permitted investments pursuant to such investment policy include the following:

1. Direct obligations of the U.S. Treasury: Treasury Bills, Notes and Bonds. Up to 100% of the total cash and investments of the portfolio may be invested in this class of investment.
2. Securities backed by the full faith and credit of the U.S.: Government National Mortgage Association ("GNMA"), GNMA ARMs, GNMA PCs, Small Business Administration ("SBA") loans or pools. Up to 35% of the total cash and investments of the portfolio may be invested in GNMA securities; up to 10% of the total cash and investments of the portfolio may be invested in SBA loans or pools.
3. Securities backed by Federal Agencies: Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), Federal Home Loan Institutions ("FHLB"), Student Loan Marketing Association ("SLMA"), Federal Farm Credit Institutions ("FFCB"), Federal Housing Administration ("FHA"), Step-Ups, Short-Term Floating Rate Notes and other similar instruments issued by above agencies. Up to 75% of the total cash and investments of the portfolio may be invested in this class of investment; however, no more than 50% of the portfolio may be invested with any one agency.
4. Agency-Issued Mortgage-Backed Securities: FNMA, FNMA ARMs, FHLMC, FHLMC ARMs, FNMA or FHLMC Collateralized Mortgage Obligations ("CMOs") or Private Issue CMOs backed by Agency MBS. All CMOs must qualify at purchase as appropriate non-"high risk" investments under proposed or enacted regulatory guidelines and must meet the Federal Financial Institution Examination Council ("FFIEC") test. Up to 35% of the total cash and investments of the portfolio may be invested in this class of securities.
5. Repurchase agreements made in compliance with Florida Statutes: A Master Repurchase Agreement will be executed with each counterparty detailing the requirements of all authorized institutions/dealers involved in repurchase agreement transactions on behalf of the City. Repurchase collateral shall be perfected and delivered to an unaffiliated third-party safekeeping account. Repurchase agreements shall be collateralized at a minimum of 101 percent of the purchase price of the repurchase

agreement. Collateral shall be marked-to-market at least weekly by the Investment Officer or designee. Counterparty to the repurchase agreement will be required to immediately provide additional collateral to cure any deficiency. Collateral must be securities which this policy would allow for direct purchase by the City. Up to 50% of the total cash and investments of the portfolio may be invested in this class of securities.

6. Non-negotiable interest-bearing time certificates of deposit in State or Federal banks or State or Federal savings and loan associations: As permitted and/or prescribed by State or Federal law. Collateral as required by State law shall be held through an agreement with an independent, third-party custodian and any CDs held shall be federally insured. Up to 35% of the total cash and investments of the portfolio may be invested in this class of securities.

7. Negotiable interest-bearing time certificates of deposit issued by institutions whose long-term debt is rated at time of purchase at least "A" or equivalent by S&P's or Moody's Investors Service, Inc. ("Moody's") or who are approved as a Certified Public Depository by the State of Florida: Collateral as required by State law shall be held through an agreement with an independent, third-party custodian and any CDs held shall be federally insured. Up to 35% of the total cash and investments of the portfolio may be invested in this class of securities.

8. Bankers acceptances which are issued by domestic institutions whose long-term debt is rated at time of purchase at least "A" or equivalent by S&P's or Moody's. Up to 25% of the total cash and investments of the portfolio may be invested in this class of securities; however, no more than \$1,000,000 in principal may be invested with any individual institution.

9. Prime commercial paper, which is commercial paper which has received a S&P's rating at time of purchase of at least "A-1" and/or Moody's rating at time of purchase of "Prime-1". Up to 25% of the total cash and investments of the portfolio may be invested in this class of securities; however, no more than \$1,000,000 may be invested with any individual corporation.

10. State and/or local government taxable and tax-exempt debt, general obligation and/or revenue bonds rated at time of purchase at least "A" by S&P's or Moody's. Up to 25% of the total cash and investments of the portfolio may be invested in this class of securities.

11. Dollar denominated money market mutual funds registered with the United States Securities and Exchange Commission. The City will be required to receive a mutual fund prospectus prior to purchasing mutual fund shares. Only mutual funds investing exclusively in short-and intermediate-term instruments are permitted. Up to 25% of the total cash and investments of the portfolio may be invested in this class of securities.

12. Fixed-income mutual funds comprised of only those securities which would be eligible for direct purchase under provisions of the City's investment policy; and, where the average weighted maturity of the portfolio of such fund is no greater than five years. Such funds must be registered with the Securities and Exchange Commission. The City will be required to receive a mutual fund prospectus prior to purchasing shares. Up to 25% of the total cash and investments of the portfolio may be invested in this class of securities.

13. 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. Up to 100% of the total cash and investments of the portfolio may be invested in this class of securities.

UNDERWRITING

The Series 2016 Bonds are being purchased by Merrill Lynch, Pierce, Fenner & Smith Incorporated, on behalf of itself and RBC Capital Markets, LLC and Citigroup Global Markets Inc. (collectively, the "Underwriters") at an aggregate purchase price of \$_____ (equal to the par amount of the Series 2016 Bonds of \$_____ plus/less a premium/discount of \$_____ and less an Underwriters' discount of \$_____). The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Series 2016 Bonds if any Series 2016 Bonds are purchased. The Series 2016 Bonds may be offered and sold to certain dealers (including dealers depositing such Series 2016 Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, the Underwriters and their affiliates may have certain creditor and/or other rights against the City and its affiliates in connection with such activities. In the various course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the City (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the City. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Citigroup Global Markets Inc., an underwriter of the Series 2016 Bonds, has entered into a retail distribution agreement with each of TMC Bonds L.L.C. ("TMC") and UBS Financial Services Inc. ("UBSFS"). Under these distribution agreements, Citigroup Global Markets Inc. may distribute municipal securities to retail investors through the financial advisor network of UBSFS and the electronic primary offering platform of TMC. As part of this arrangement, Citigroup Global Markets Inc. may compensate TMC (and TMC may compensate its electronic platform member firms) and UBSFS for their selling efforts with respect to the Series 2016 Bonds.

RATINGS

[Moody's, S&P and Fitch Ratings, Inc. ("Fitch") are expected to assign their municipal bond ratings of "___" "___" and "___" respectively, to the Series 2016 Bonds with the understanding that upon delivery of the Series 2016 Bonds, the Policy will be issued by the Insurer. In addition, Moody's and Fitch have assigned underlying ratings of "___" and "___" (____ outlook) respectively, without giving any regard to such Policy]. The ratings reflect only the views of said rating agencies and an explanation of the ratings may be obtained only from said rating agencies. There is no assurance that

such ratings will continue for any given period of time or that they will not be lowered or withdrawn entirely by the rating agencies, or any of them, if in their judgment, circumstances so warrant. A downward change in or withdrawal of any of such ratings may have an adverse effect on the market price of the Series 2016 Bonds. An explanation of the significance of the ratings can be received from the rating agencies at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, 23rd Floor, New York, New York 10007, S&P Global Inc., 25 Broadway, New York, New York 10004 and Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of the Series 2016 Bondholders to provide certain financial information and operating data relating to the City and the Series 2016 Bonds in each year the Series 2016 Bonds are Outstanding, and to provide notices of the occurrence of certain enumerated material events. The City has agreed to file annual financial information and operating data and the audited financial statements with each entity authorized and approved by the Securities and Exchange Commission (the "SEC") to act as a repository (each a "Repository") for purposes of complying with Rule 15c2-12 adopted by the SEC under the Securities Exchange Act of 1934 (the "Rule"). Effective July 1, 2009, the sole Repository is the Municipal Securities Rulemaking Board ("MSRB"). The City has also agreed to file notices of certain enumerated material events, when and if they occur, with the Repository.

The specific nature of the financial information, operating data, and of the type of events which trigger a disclosure obligation, and other details of the undertaking are described in "APPENDIX E – FORM OF CONTINUING DISCLOSURE CERTIFICATE" attached hereto. The Continuing Disclosure Agreement shall be executed by the City upon the issuance of the Series 2016 Bonds. These covenants have been made in order to assist the Underwriters in complying with the continuing disclosure requirements of the Rule.

The City has generally provided continuing disclosure information with respect to its existing continuing disclosure obligations in accordance with the Rule during the last five (5) years; provided, however, a review of filings made pursuant to prior agreements indicated that: (i) the City failed to timely file its audited financial statements within 180 days from the end of each Fiscal Year for the fiscal years ended September 30, 2011 2012, 2013 and 2014 and certain operating data for the fiscal year ended September 30, 2011 with respect to the Sales Tax Revenue Bonds, Series 2005, which are no longer outstanding, (ii) the City failed to timely file its audited financial statements by April 30th of each year for the fiscal years ended September 30, 2012 and 2014 with respect to its General Obligation Bonds, Series 2004, which are no longer outstanding, Tax-Exempt Utility System Improvement and Refunding Revenue Bonds, Series 2010A and Taxable Utility System Refunding Revenue Bonds, Series 2010B (iii) the City failed to timely file its audited financial statements by April 30th for the fiscal year ended September 30, 2012 with respect to its Utility System Revenue Bonds, Series 2003, which are no longer outstanding, and (iv) the City failed to timely file its audited financial statements by April 30th for the fiscal year ended September 30, 2014 with respect to its Utility System Refunding Revenue Bonds, Series 2013. Except as described above, in the past five years, the City has complied in all material respects with any prior agreement to provide continuing disclosure information pursuant to the Rule. The City fully anticipates satisfying all future disclosure obligations required pursuant to the Rule. In furtherance of this intention, the City has engaged FSC Continuing Disclosure Services, a Division of Hilltop Securities Inc., as its dissemination agent.

FINANCIAL ADVISOR

Public Financial Management Inc., Orlando, Florida, is serving as Financial Advisor to the City with respect to the issuance and sale of the Series 2016 Bonds. The Financial Advisor has assisted the City in the preparation of this Official Statement and has advised the City in other matters relating to the planning, structuring and issuance of the Series 2016 Bonds. Public Financial Management Inc. will not engage in any underwriting activities with regard to the issuance and sale of the Series 2016 Bonds. The Financial Advisor is not obligated to undertake and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

CONTINGENT FEES

The City has retained Bond Counsel, Disclosure Counsel, the Financial Advisor and the Underwriters with respect to the authorization, sale, execution and delivery of the Series 2016 Bonds. Payment of the fees of such professionals and an Underwriters' discount (including the fees of Underwriters' counsel) is contingent upon the issuance of the Series 2016 Bonds.

DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATIONS

Pursuant to Section 517.051, Florida Statutes, as amended, no person may directly or indirectly offer or sell securities of the City except by an offering circular containing full and fair disclosure of all defaults as to principal or interest on its obligations since December 31, 1975, as provided by rule of the Office of Financial Regulation within the Florida Financial Services Commission (the "FFSC"). Pursuant to administrative rulemaking, the FFSC has required the disclosure of the amounts and types of defaults, any legal proceedings resulting from such defaults, whether a trustee or receiver has been appointed over the assets of the City, and certain additional financial information, unless the City believes in good faith that such information would not be considered material by a reasonable investor. The City is not and has not been in default on any bond issued since December 31, 1975 that would be considered material by a reasonable investor.

The City has not undertaken an independent review or investigation of securities for which it has served as conduit issuer. The City does not believe that any information about any default on such securities is appropriate and would be considered material by a reasonable investor in the Series 2016 Bonds because the City would not have been obligated to pay the debt service on any such securities except from payments made to it by the private companies on whose behalf such securities were issued and no funds of the City would have been pledged or used to pay such securities or the interest thereon.

ACCURACY AND COMPLETENESS OF OFFICIAL STATEMENT

The references, excerpts, and summaries of all documents, statutes, and information concerning the City and certain reports and statistical data referred to herein do not purport to be complete, comprehensive and definitive and each such summary and reference is qualified in its entirety by reference to each such document for full and complete statements of all matters of fact relating to the Series 2016 Bonds, the security for the payment of the Series 2016 Bonds and the rights and obligations of the owners thereof and to each such statute, report or instrument. Copies of such documents may be obtained from the office of the City Clerk, Laura M. Litzan, 50 Bald Eagle Drive Marco Island, Florida 34145 (239) 389-5000.

Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Neither this Official Statement nor any statement that may have been made verbally or in writing is to be construed as a contract with the owners of the Series 2016 Bonds.

The appendices attached hereto are integral parts of this Official Statement and must be read in their entirety together with all foregoing statements.

AUTHORIZATION OF OFFICIAL STATEMENT

The execution and delivery of this Official Statement has been duly authorized and approved by the City. At the time of delivery of the Series 2016 Bonds, the City will furnish a certificate to the effect that nothing has come to its attention which would lead it to believe that the Official Statement (other than information herein related to DTC, **[the Insurer, the Policy,]** the book-entry only system of registration and the information contained under the caption "TAX MATTERS" as to which no opinion shall be expressed), as of its date and as of the date of delivery of the Series 2016 Bonds, contains an untrue statement of a material fact or omits to state a material fact which should be included therein for the purposes for which the Official Statement is intended to be used, or which is necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading.

THE CITY OF MARCO ISLAND, FLORIDA

By: _____
Bob Brown, Chairman

By: _____
Roger T. Hernstadt, City Manager

By: _____
Guillermo A. Polanco, CPA, Finance Director

APPENDIX A

GENERAL INFORMATION REGARDING MARCO ISLAND AND COLLIER COUNTY, FLORIDA

APPENDIX A

GENERAL INFORMATION REGARDING MARCO ISLAND AND COLLIER COUNTY, FLORIDA

General Information

The City of Marco Island (the "City") was incorporated on August 28, 1997 and is located in the southwestern portion of the State of Florida (the "State"), in Collier County (the "County"). The City is a 7.4 square mile island community located at the north edge of the Ten Thousand Islands of the Florida Everglades. The City has a permanent population of approximately 17,000, which grows up to 45,000 in the peak winter season. The region enjoys a climate that is classified as sub-tropical.

The County was established in 1923 by the legislature of the State from portions of Lee and Monroe Counties. Its territorial limits contain approximately 2,026 square miles. In terms of land area, it is the largest county in the State. The County is located on the southwest coast of the Florida peninsula directly west of the Miami-Fort Lauderdale area. The County had a 2015 population of 343,802. The County seat is the City of Naples, Florida, the largest city within the County. Principal industries within the County include wholesale and retail trade, tourism, agriculture, forestry, fishing, cattle ranching and construction.

Governance

The City is governed by a City Council of seven elected council members (the "City Council"). The current members of the City Council and the expiration dates of their terms of office are as follows:

<u>Council Member</u>	<u>Term Expires</u>
Bob Brown, Chairman	November, 2018
Amadeo R. Petricca, Vice-Chairman	November, 2016
Joseph R. Batte	November, 2018
Kenneth E. Honecker	November, 2016
Larry Honig	November, 2016
Victor Rios	November, 2018
Laurence I. Sacher	November, 2016

Population

The City and the County have experienced rapid population growth in recent decades. The following table presents historical population data for the City, County and State for the period 1980, 1990, 2000 and 2006 to 2015:

<u>Year</u>	<u>City of Marco Island</u>	<u>Percentage Change</u>	<u>Collier County</u>	<u>Percentage Change</u>	<u>State of Florida</u>	<u>Percentage Increase</u>
1980	4,679		85,971		9,746,400	
1990	9,493	102.9%	152,099	76.9%	12,937,926	32.7%
2000	14,879	56.7	251,377	65.3	15,982,978	23.5
2006	15,742	0.5	326,881	2.2	18,276,331	2.3
2007	15,825	0.5	333,858	2.1	18,680,367	2.2
2008	16,856	6.5	332,854	-0.3	18,807,219	0.7
2009	16,816	-0.2	333,032	0.1	18,750,483	-0.3
2010	16,413	-2.4	333,554	0.2	18,773,356	0.1
2011	16,443	0.2	321,520	-3.6	18,801,310	0.1
2012	16,521	0.5	328,134	2.1	19,057,542	1.4
2013	16,556	0.2	333,663	1.7	19,259,543	1.1
2014	16,607	0.3	336,783	0.9	19,507,369	1.3
2015	16,728	0.7	343,802	2.1	19,815,183	1.6

Source: City of Marco Island, Florida Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015.

Most of the growth of the County is due to migration. The County's median age of 47.9 is nearly six years older than the State's median age. More than 26% of the County's residents are 65 or older, compared with 19% statewide.

Construction

The City was developed as a planned community of exclusive water-access and waterfront residences with hotels, condominiums, and commercial businesses to support the vitality of the island lifestyle. Originally marketed as a winter retreat for people with permanent homes in the north, the City has evolved over the years into a community of diverse age groups and interests and an increasing number of permanent residents. The business community primarily provides goods and services to the permanent and visitor community.

The City continues to enjoy the results of a planned, platted, and deed restricted community. A full 75% of the single-family building lots are located on man-made canals and bays, affording easy boating access to the Gulf of Mexico and the Ten Thousand Islands forming the western boundary of the Florida Everglades. The community offers public beach access at both ends of the island, an additional beach access for the exclusive use of island residents, and river access between the island and the mainland. Beachfront property is high-density, with multi-family and tourist-oriented accommodations.

**Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year	Population			Income			Florida Unemployment Rate
	City of Marco Island	Collier County	State of Florida	Florida Personal Income (in millions of dollars)	Naples-Marco Island Per Capita Personal Income	Florida Per Capita Personal Income	
2006	15,742	326,881	18,276,331	\$684,382	\$59,895	\$34,919	3.3%
2007	15,825	333,858	18,680,367	722,631	63,276	36,273	4.5
2008	16,856	332,854	18,807,219	720,618	62,559	38,316	7.2
2009	16,816	333,032	18,750,483	704,854	61,807	37,591	11.0
2010	16,413	333,554	18,773,356	740,651	61,308	37,854	10.9
2011	16,443	321,520	18,801,310	764,917	59,985	40,427	9.5
2012	16,521	328,134	19,057,542	773,062	59,264	40,565	8.1
2013	16,556	333,663	19,259,543	810,887	60,391	42,103	6.7
2014	16,607	336,783	19,507,369	811,377	64,872	41,497	5.8
2015	16,728	343,802	19,815,183	850,178	73,869	42,737	5.2

Source: City of Marco Island, Florida Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015.

**Top Ten Employers
Naples-Marco Island
Fiscal Year 2015**

<u>Employer</u>	<u>Business Type</u>	<u>Employees</u>	<u>Rank</u>
Collier County Public Schools	Public Education	5,286	1
NCH Healthcare System	Health Care	3,900	2
Collier County Government (non-sheriff)	Government	1,670	3
Collier County Sheriff	Government	1,379	4
Ritz Carlton, Naples	Hospitality	1,110	5
Garigulo, Inc.	Food Safety	1,110	6
Arthrex, Inc.	Health Care	1,056	7
Hometown Inspection Service	Home Safety	900	8
Publix	Supermarket	800	9
Naples Grande Beach Resort	Hospitality	760	10
Total		<u>17,971</u>	

Source: City of Marco Island, Florida Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015.

The following table shows historical employment within the County in the period from 2006 to 2015:

**COLLIER COUNTY EMPLOYMENT
(2006—2015)**

	Labor			County	State of Florida
	Force	Employment	Unemployment	Unemployment	Unemployment
<u>Year</u>				<u>Rate</u>	<u>Rate</u>
2006	152,162	147,356	4,806	3.2%	3.3
2007	152,288	145,653	6,635	4.4	4.5
2008	150,780	140,604	10,176	6.7	7.2
2009	146,535	129,151	17,384	11.9	11.0
2010	145,190	128,346	16,844	11.6	10.9
2011	148,485	133,216	15,269	10.3	9.5
2012	150,903	138,079	12,824	8.5	8.1
2013	155,651	144,600	11,051	7.1	6.7
2014	160,462	150,870	9,592	6.0	4.8
2015	162,124	153,677	8,447	5.2	4.2

Source: Florida Research and Economic Database, Labor Market Statistics, Local Area Unemployment Statistics Program and City of Marco Island, Florida Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015.

Property Taxes

The following table shows the assessed and taxable value of property within the City for the last ten Fiscal Years:

**Assessed Value of Taxable Property
Last Ten Fiscal Years**

Fiscal	Assessed	Real	Personal	Total Assessed	Percentage	Total
<u>Year</u>	<u>January 1st</u>	<u>Property</u>	<u>Property</u>	<u>Taxable Value</u>	Increase (Decrease) Over Prior <u>Year</u>	Direct <u>Tax Rate</u>
2007	2006	\$11,982,430,855	\$94,191,494	\$12,076,622,349	27.1%	1.318
2008	2007	11,476,813,202	93,768,111	11,570,581,313	(4.2)	1.283
2009	2008	10,401,701,636	84,592,274	10,486,293,910	-9.4	1.477
2010	2009	9,248,174,862	78,795,703	9,326,970,565	(11.1)	1.747
2011	2010	8,191,850,914	79,404,135	8,271,255,049	(11.3)	1.998
2012	2011	7,493,705,720	74,289,395	7,567,995,115	(8.5)	2.077
2013	2012	7,342,959,034	68,248,839	7,411,207,873	(2.1)	2.080
2014	2013	7,478,069,118	70,416,975	7,548,486,093	1.9	2.076
2015	2014	7,900,449,654	70,102,819	7,970,552,473	5.6	2.151
2016	2015	8,550,755,951	69,208,938	8,619,964,889	8.1	2.142

Source: City of Marco Island, Florida Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015.

The following table shows the tax levies and collections within the City for the last ten Fiscal Years:

**Property Tax Levies and Collections'
Last Ten Fiscal Years**

Fiscal Year	Taxes Assessed January 1st	Total Tax Levy	Current Tax Collections	Percent of Current Taxes Collected	Delinquent Tax Collections
2006	2005	\$13,163,819	\$12,713,792	96.6%	\$9,304
2007	2006	16,857,132	16,212,857	96.2	11,693
2008	2007	15,683,488	15,124,912	96.4	27,794
2009	2008	16,787,689	16,276,943	97.0	50,638
2010	2009	16,177,460	15,640,516	96.7	2,387
2011	2010	16,525,140	15,867,796	96.0	14,310
2012	2011	15,717,969	15,180,688	96.6	6,162
2013	2012	15,419,018	14,897,743	96.6	10,619
2014	2013	15,672,922	15,134,335	96.6	45,060
2015	2014	17,141,963	16,581,343	96.7	5,135

Source: City of Marco Island, Florida Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015.

The following table shows largest ten taxpayers within the City as of January 1, 2014:

**Principal Taxpayers
Fiscal Year 2014**

<u>Taxpayer</u>	<u>Property by Type</u>	<u>Taxable Valuation</u>	<u>% of Total Assessed Valuation</u>
Marco Hotel Inc.	Hospitality	\$86,772,703	1.16%
Marco Beach Hotel, Inc.	Hospitality	39,244,222	0.52
Marriott Ownership Resorts Inc.	Hospitality	13,748,146	0.18
BRE Southeast Retail Holdings LLC	Shopping Center	9,263,044	0.12
Talbot Trust	Single Family Residence	9,065,460	0.12
GM Esplanade LLC	Shopping Center	8,546,884	0.11
Wesley C. & Ann S. Bates	Single Family Residence	7,872,766	0.11
Venetian Investments, LLC	Shopping Center	7,484,687	0.10
Gregg Holdings, Inc.	Single Family Residence	7,443,822	0.10
Brian R Williamson Trust	Single Family Residence	7,439,197	0.10
Total		<u>\$196,880,931</u>	2.63%

Source: City of Marco Island, Florida Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015.

The following table contains the property tax rates within the City the last ten Fiscal Years::

Property Tax Rates - Direct and Overlapping Governments
(Per \$1,000 of Assessed Value)
Last Ten Fiscal Years

Fiscal Year Ended	Direct		Overlapping							Total Levy
	City City Operative	City Debt Service	Collier County Operating	Collier School Board	Mosquito Control	South FL Water Mgmt	Water Pollution Control	Big Cypress Basin	Collier County Other	
2007	1.2445	0.0736	3.7290	5.5250	0.0680	0.2840	0.0320	0.2425	0.2500	11.4486
2008	1.2048	0.0785	3.1469	5.3510	0.0635	0.2549	0.0280	0.2265	0.3742	10.7283
2009	1.3917	0.0849	3.2969	4.9090	0.0635	0.2549	0.0293	0.2265	0.2329	10.4896
2010	1.6518	0.0955	3.5645	5.2390	0.0720	0.2549	0.0293	0.2265	0.2500	11.3835
2011	1.8900	0.1079	3.5645	5.6990	0.0826	0.2549	0.0293	0.2265	0.2500	12.1047
2012	1.9592	0.1177	3.5645	5.5270	0.0934	0.1785	0.0293	0.1633	0.2500	11.8829
2013	1.9600	0.1204	3.5645	5.5760	0.1102	0.1757	0.0293	0.1633	0.2500	11.9494
2014	1.9600	0.1163	3.5645	5.6900	0.1050	0.1685	0.0293	0.1593	0.0000	11.7929
2015	2.0466	0.1041	3.5645	5.5800	0.1001	0.1577	0.0293	0.1520	0.0000	11.7343
2016	2.0466	0.0953	3.5645	5.4800	0.0940	0.1459	0.0293	0.1429	0.0000	11.5985

Source: City of Marco Island, Florida Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2015.

Agriculture

Agriculture is a dominant factor in the economy of the County. Rainfall averages about 48 inches annually with most of the precipitation occurring during the late spring and summer. The high yearly rainfall and year-round mild temperature enable agriculture to be a productive sector of the County economy. The agricultural industry represents five percent of the workforce. Farming activities are located approximately 40 miles inland primarily centered around the community of Immokalee. Major crops include tomatoes, peppers, cucumbers, melons and citrus. Beef cattle are also a significant ranching commodity.

Transportation

The County is served by U.S. Highway 41 (otherwise known as the Tamiami Trail) and Interstate 75, which links Naples to the east coast of Florida and intersects U.S. Highway 27, providing access to the Florida Turnpike. Interstate 75 also provides access to the County from the North. Greyhound Bus Lines connects the County to all points within the State.

Air service is available at the Naples Airport owned by the City of Naples and covers an area of approximately 650 acres. The airport has two lighted 5,000 feet hard surfaced runways, each 150 feet wide. Activity at this airport mainly consists of charter flights and general aviation. Air service at the Southwest Florida International Airport near Fort Myers, 35 miles north of Naples, reaches many major cities. In addition, the County owns and operates three public airports: the Marco Island Executive Airport and the Immokalee and Everglades City Airparks.

Educational System

The County school system serves approximately 49,762 students in 48 schools, including five charter schools. The public schools provide a varied adult education program and a special program for pre-school children. There are several private and parochial schools in the County offering classes from kindergarten through the twelfth grade. Florida Southwestern State College's main campus in Fort Myers, with a branch campus in Naples, offers technical training as well as college preparation for students. In August of 2003, Ave Maria University, a private Catholic University located within the County, began admitting students. The University offers bachelor's degrees in biology, classics, economics, history, literature, mathematics, music, philosophy, politics and theology. Pre-professional programs are offered in pre-law, pre-medicine and pre-business. Although not located within the County, Florida Gulf Coast University, the tenth college in the State University System, is operating in Lee County, immediately north of the County. The City has one elementary school, one middle school and one charter middle school within its municipal limits.

Medical Facilities

Naples Community Hospital, a non-profit, private corporation provides health services to the residents of the County. It opened as a 50-bed facility in 1956, financed exclusively by contributions from members of the community. Since 1956, Naples Community Hospital has grown to encompass approximately 422,000 square feet and includes two six-story towers that house Naples Community Hospital's 684 licensed beds and patient care ancillary services and a two-story support services wing located between the two towers. Hospital services are also provided in the Carpenter-Briggs Radiation Therapy Center located across the street from Naples Community Hospital, at the Golden Gate Urgent Care Center located approximately seven miles from Naples Community Hospital, and in several other outpatient facilities that provide urgent care, rehabilitation, wellness and infusion services. The Marco Healthcare Center, located in the City, is one of these outpatient facilities and provides immediate medical care to the City residents. In addition, Physician's Regional operates two hospitals within the County with a total of 201 beds. The Cleveland Clinic operates a hospital in the north portion of the County.

The Collier County Health Department operates in every community in the County under the direction of a licensed physician and with a staff of trained specialists, including public health workers, nurses, sanitarians and clinical psychologists.

Florida Constitutional Limitations and Property Tax Reform

Several constitutional and legislative amendments affecting ad valorem taxes have been approved by voters in the past including the following:

Save Our Homes Amendment. By voter referendum held on November 3, 1992, Article VII, Section 4 of the State Constitution was amended by adding thereto a subsection which, in effect, limits the increases in assessed just value of homestead property to the lesser of (1) three percent of the assessment for the prior year or (2) the percentage change in the Consumer Price Index for all urban consumers, U.S. City Average, all items 1967=100, or successor reports for the preceding calendar year as initially reported by the United States Department of Labor, Bureau of Labor Statistics. Further, the amendment provides that (1) no assessment shall exceed just value, (2) after any change of ownership of homestead property or upon termination of homestead status such property shall be reassessed at just value as of January 1 of

the year following the year of sale or change of status, (3) new homestead property shall be assessed at just value as of January 1 of the year following the establishment of the homestead, and (4) changes, additions, reductions or improvements to homestead shall initially be assessed as provided for by general law, and thereafter as provided in the amendment. This amendment is known as the "Save Our Homes Amendment." The effective date of the amendment was January 5, 1993 and, pursuant to a ruling by the Florida Supreme Court, it began to affect homestead property valuations commencing January 1, 1995, with 1994 assessed values being the base year for determining compliance.

Limitations on State Revenue Amendment. In the 1994 general election, State voters approved an amendment to the State Constitution which is commonly referred to as the "Limitation On State Revenues Amendment." This amendment provides that state revenues collected for any fiscal year shall be limited to state revenues allowed under the amendment for the prior fiscal year plus an adjustment for growth. Growth is defined as an amount equal to the average annual rate of growth in State personal income over the most recent twenty quarters times the State revenues allowed under the amendment for the prior fiscal year. State revenues collected for any fiscal year in excess of this limitation are required to be transferred to a budget stabilization fund until the fund reaches the maximum balance specified in the amendment to the State Constitution, and thereafter is required to be refunded to taxpayers as provided by general law. The limitation on state revenues imposed by the amendment may be increased by the State Legislature, by a two-thirds vote in each house.

The term "state revenues," as used in the amendment, means taxes, fees, licenses, and charges for services imposed by the State Legislature on individuals, businesses, or agencies outside state government. However, the term "state revenues" does not include: (1) revenues that are necessary to meet the requirements set forth in documents authorizing the issuance of bonds by the State; (2) revenues that are used to provide matching funds for the federal Medicaid program with the exception of the revenues used to support the Public Medical Assistance Trust Fund or its successor program and with the exception of State matching funds used to fund elective expansions made after July 1, 1994; (3) proceeds from the State lottery returned as prizes; (4) receipts of the Florida Hurricane Catastrophe Fund; (5) balances carried forward from prior fiscal years; (6) taxes, licenses, fees and charges for services imposed by local, regional, or school district governing bodies, or (7) revenue from taxes, licenses, fees and charges for services required to be imposed by any amendment or revision to the Florida Constitution after July 1, 1994. This amendment took effect on January 1, 1995, and was first applicable to the State's fiscal year 1995-1996.

Millage Rollback Legislation. In 2007, the Florida Legislature adopted Chapter 2007-321, Laws of Florida, a property tax plan which significantly impacted ad valorem tax collections for Florida local governments. One component of the adopted legislation required counties, cities and special districts to rollback their millage rates for the 2007-2008 fiscal year to a level that, with certain adjustments and exceptions, would generate the same level of ad valorem tax revenue as in fiscal year 2006-2007; provided, however, depending upon the relative growth of each local government's own ad valorem tax revenues from 2001 to 2006, such rolled back millage rates were determined after first reducing 2006-2007 ad valorem tax revenues by zero to nine percent (0% to 9%). In addition, the legislation limited how much the aggregate amount of ad valorem tax revenues may increase in future fiscal years. A local government may override certain portions of these requirements by a supermajority, and for certain requirements, a unanimous vote of its governing body.

Constitutional Amendments Related to Ad Valorem Exemptions. On January 29, 2008, in a special election held in conjunction with the State's presidential primary, the requisite number of voters

approved amendments to the Florida Constitution exempting certain portions of a property's assessed value from taxation. These amendments were effective for the 2008 tax year (fiscal year 2008-2009 for local governments). The following is a brief summary of certain important provisions contained in such amendments:

1. Provides for an additional exemption for the assessed value of homestead property between \$50,000 and \$75,000, thus doubling the existing homestead exemption for property with an assessed value equal to or greater than \$75,000.

2. Permits owners of homestead property to transfer their Save Our Homes Amendment benefit (up to \$500,000) to a new homestead property purchased within two years of the sale of their previous homestead property to which such benefit applied if the just value of the new homestead is greater than or is equal to the just value of the prior homestead. If the just value of the new homestead is less than the just value of the prior homestead, then owners of homestead property may transfer a proportional amount of their Save Our Homes Amendment benefit, such proportional amount equaling the just value of the new homestead divided by the just value of the prior homestead multiplied by the assessed value of the prior homestead. As discussed above, the Save Our Homes Amendment generally limits annual increases in ad valorem tax assessments for those properties with homestead exemptions to the lesser of three percent (3%) or the annual rate of inflation.

3. Exempts from ad valorem taxation \$25,000 of the assessed value of property subject to tangible personal property tax.

4. Limits increases in the assessed value of non-homestead property to 10% per year, subject to certain adjustments. The cap on increases would be in effect for a 10-year period, subject to extension by an affirmative vote of electors.

Over the last few years, the Save Our Homes Amendment assessment cap and portability provisions described above have been subject to legal challenge. The plaintiffs in such cases have argued that the Save Our Homes Amendment assessment cap constitutes an unlawful residency requirement for tax benefits on substantially similar property in violation of the equal protection provisions of the Florida Constitution and the Privileges and Immunities Clause of the Fourteenth Amendment to the United States Constitution. The plaintiffs also argued that the portability provision simply extends the unconstitutionality of the tax shelters granted to long-term homeowners by the Save Our Homes Amendment. The courts in each case have rejected such constitutional arguments and upheld the constitutionality of such provisions; however, there is no assurance that any future challenges to such provisions will not be successful.

In addition to the legislative activity described above, the constitutionally mandated Florida Taxation and Budget Reform Commission (required to be convened every 20 years) (the "TBRC") completed its meetings on April 25, 2008 and placed several constitutional amendments on the November 4, 2008 General Election ballot. Three of such amendments were approved by the voters of Florida, which, among other things, do the following: (a) allow the Florida Legislature, by general law, to exempt from assessed value of residential homes, improvements made to protect property from wind damage and installation of a new renewable energy source device; (b) assess specified working waterfront properties based on current use rather than highest and best use; (c) provide a property tax exemption for (i) real property that is perpetually used for conservation (began in 2010), and (ii) land not

perpetually encumbered, require the Florida Legislature to provide classification and assessment of land use for conservation purposes solely on the basis of character or use.

Exemption for Deployed Military Personnel. In the November 2010 General Election voters approved a constitutional amendment which provides an additional homestead exemption for deployed military personnel. The exemption equals the percentage of days during the prior calendar year that the military homeowner was deployed outside of the United States in support of military operations designated by the Legislature. This constitutional amendment took effect on January 1, 2011. In March of 2016, HB 7023 was approved by the Governor, which updated the military operations specified for eligibility under this exemption. The bill also extended the application deadline for qualifying service members.

Other Proposals Affecting Ad Valorem Taxation. During the Florida Legislature's 2011 Regular Session, it passed Senate Joint Resolution 592 ("SJR 592"). SJR 592 allows totally or partially disabled veterans who were not Florida residents at the time of entering military service to qualify for the combat-related disabled veteran's ad valorem tax discount on homestead property. The amendment took effect on January 1, 2013.

During the Florida Legislature's 2012 Regular Session, it passed House Joint Resolution 93 ("HJR 93"). HJR 93 allows the Florida Legislature to provide ad valorem tax relief to the surviving spouse of a veteran who died from service-connected causes while on active duty as a member of the United States Armed Forces and to the surviving spouse of a first responder who died in the line of duty. The amount of tax relief, to be defined by general law, can equal the total amount or a portion of the ad valorem tax otherwise owed on the homestead property. The amendment took effect on January 1, 2013.

Also during the Florida Legislature's 2012 Regular Session, it passed House Joint Resolution 169 ("HJR 169") allowing the Florida Legislature by general law to permit counties and municipalities, by ordinance, to grant an additional homestead tax exemption equal to the assessed value of homestead property to certain low income seniors. To be eligible for the additional homestead exemption the county or municipality must have granted the exemption by ordinance; the property must have a just value of less than \$250,000; the owner must have title to the property and maintained his or her permanent residence thereon for at least 25 years; the owner must be age 65 years or older; and the owner's annual household income must be less than \$20,000. The additional homestead tax exemption authorized by HJR 169 would not apply to school property taxes. This bill was approved as an amendment to the Florida Constitution by the voters on November 6, 2012.

During the Florida Legislature's 2013 Regular Session, it passed Senate Bill 1830 ("SB 1830"), which was signed into law by the Governor and creates a number of changes affecting ad valorem taxation and which became effective July 1, 2013. First, SB 1830 provides long-term lessees the ability to retain their homestead exemption and related assessment limitations and exemptions in certain instances and extends the time for property owners to appeal value adjustment board decisions on transfers of assessment limitations to conform with general court filing timeframes. Second, SB 1830 inserts the term "algaculture" in the definition of "agricultural purpose" and inserts the terms "aquacultural crops" in the provision specifying the valuation of certain annual agricultural crops, nonbearing fruit trees and nursery stock. Third, SB 1830 allows for an automatic renewal for assessment reductions related to certain additions to homestead properties used as living quarters for a parent or grandparent and aligns related appeal and penalty provisions to those for other homestead exemptions. Fourth, SB 1830 deletes a statutory requirement that the owner of the property must reside upon the property to qualify for a

homestead exemption. Fifth, SB 1830 clarifies the property tax exemptions counties and cities may provide for certain low income persons age 65 and older. Sixth, SB 1830 removes a residency requirement that a senior disabled veteran must have been a Florida resident at the time they entered the service to qualify for certain property tax exemptions. Seventh, SB 1830 repeals the ability for certain limited liability partnerships to qualify for the affordable housing property tax exemption. Eighth, SB 1830 exempts property used exclusively for educational purposes when the entities that own the property and the educational facility are owned by the same natural persons.

During the Florida Legislature's 2013 Regular Session, the Florida Legislature passed House Bill 277 ("HB 277"), which was signed into law by the Governor. HB 277 provides that certain renewable energy devices are exempt from being considered when calculating the assessed value of residential property. HB 277 only applies to devices installed on or after January 1, 2013. HB 277 took effect on July 1, 2013. The 2016 Florida Legislature passed Joint Resolution 193 (CS/HJR 193), which proposes an amendment to the Florida Constitution to authorize the Legislature, by general law, to exempt the assessed value of solar devices or renewable energy source devices subject to tangible personal property tax from ad valorem taxation, and to prohibit the consideration of the installation of a solar device or a renewable energy source device in determining the assessed value of real property for the purpose of ad valorem taxation, with a designated effective date of January 1, 2018 and an expiration date of December 31, 2037. This CS/HJR 193 is tied to House Bill CS/195, approved by the Governor on March 25, 2016, setting a special election to be held August 30, 2016, submitting to the electors of Florida for approval or rejection the amendment as proposed.

Also during the Florida Legislature's 2013 Regular Session, the Florida Legislature passed House Bill 1193 ("HB 1193"), which was signed into law by the Governor. HB 1193 eliminated three ways in which the property appraiser had authority to reclassify agricultural land as non-agricultural land. Additionally, HB 1193 relieves the value adjustment board of the authority to review the property appraisers. HB 1193 is effective immediately and will apply retroactively to January 1, 2013.

At present, the impact of SB 7830, HB 277 and HB 1193 on the City's finances cannot be accurately ascertained.

During the 2016 Regular Session, another Joint Resolution (CS/HJR 1009) passed, proposing an amendment to the Florida Constitution to grant a full or partial property tax exemption on homestead property to first responders who are totally and permanently disabled as a result of an injury or injuries sustained in the line of duty. If the amendment to the constitution is approved by 60% of the voters in the 2016 general election, the proposed effective date is January 1, 2017.

The 2016 Legislature further passed an amendment in Joint Resolution 275 (CS/HJR 275), clarifying the calculation for use in determining the just value for purposes of homestead tax exemption for certain senior, long-term, low-income residents. If approved by 60% of the voters in the 2016 general election, the proposed amendment will take effect on January 1, 2017, and operates retroactively to January 1, 2013, for persons who received the exemption prior to January 1, 2017. The CS/HJR 275 is tied to House Bill 277, approved by the Governor on March 25, 2016, which states essentially the same intent and purpose, and has the same effective date of CS/HJR 275.

Legislative Proposals Relating to Ad Valorem Taxation. During recent years, various other legislative proposals and constitutional amendments relating to ad valorem taxation and revenue limitation have been introduced in the State legislature. Many of these proposals provide for new or

increased exemptions to ad valorem taxation, limit increases in assessed valuation of certain types of property or otherwise restrict the ability of local governments in the State to levy ad valorem taxes at recent, historical levels. There can be no assurance that similar or additional legislation or other proposals will not be introduced or enacted in the future that would, or might apply to, or have a material adverse effect upon, the City's finances.

Florida Retirement System

The information relating to the Florida Retirement System ("FRS") contained herein has been obtained from the FRS Pension Plan and Other State Administered Systems Comprehensive Annual Financial Reports available at www.dms.myflorida.com/workforce_operations/retirement/publications/annual_reports and the Florida Comprehensive Annual Financial Reports available at www.myfloridacfo.com/division/aa/Reports/. No representation is made by the City as to the accuracy or adequacy of such information or that there has not been any material adverse change in such information subsequent to the date of such information.

The Marco Island Independent Fire Protection District (the "District") provided fire and rescue services to the community prior to incorporation in 1997. Employees hired by the District prior to December 31, 1995, participated in the pension plan provided by the FRS. These "old hire" employees were allowed to continue membership in the FRS both after the incorporation of the City and the establishment of the City of Marco Island Firefighters' Pension Plan

The FRS is a cost-sharing multiple-employer public-employee retirement system with two primary plans – the FRS defined benefit pension plan (the "FRS Pension Plan") and the FRS defined contribution plan (the "FRS Investment Plan"). The FRS Pension Plan was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees ("FRS Pension Plan").

Florida Retirement System Pension Plan

Membership. FRS membership is compulsory for all employees filling a regularly established position in a state agency, county agency, state university, state community college, or district school board. Participation by cities, municipalities, special districts, charter schools, and metropolitan planning organizations, although optional, is generally irrevocable after election to participate is made. Members hired into certain positions may be eligible to withdraw from the FRS altogether or elect to participate in the non-integrated optional retirement programs in lieu of the FRS except faculty of a medical college in a state university who must participate in the State University System Optional Retirement Program.

There are five general classes of membership, as follows:

- *Regular Class* - Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* - Members in senior management level positions in state and local governments as well as assistant state attorneys, assistant statewide prosecutors, assistant public defenders, assistant attorneys general, deputy court administrators, and assistant capital collateral representatives. Members of the Elected Officers' Class ("EOC") may elect to withdraw from the FRS or participate in the SMSC in lieu of the EOC.

- *Special Risk Class* - Members who are employed as law enforcement officers, firefighters, firefighter trainers, fire prevention officers, state fixed-wing pilots for aerial firefighting surveillance, correctional officers, emergency medical technicians, paramedics, community-based correctional probation officers, youth custody officers (from July 1, 2001 through June 30, 2014), certain health-care related positions within state forensic or correctional facilities, or specified forensic employees of a medical examiner's office or a law enforcement agency, and meet the criteria to qualify for this class.
- *Special Risk Administrative Support Class* - Former Special Risk Class members who are transferred or reassigned to nonspecial risk law enforcement, firefighting, emergency medical care, or correctional administrative support positions within an FRS special risk-employing agency.
- *Elected Officers' Class (EOC)* - Members who are elected state and county officers and the elected officers of cities and special districts that choose to place their elected officials in this class.

Beginning July 1, 2001, through June 30, 2011, the FRS Pension Plan provided for vesting of benefits after six years of creditable service for members initially enrolled during this period. Members not actively working in a position covered by the FRS Pension Plan on July 1, 2001, must return to covered employment for up to one work year to be eligible to vest with less service than was required under the law in effect before July 1, 2001. Members initially enrolled on or after July 1, 2001, through June 30, 2011, vest after six years of service. Members initially enrolled on or after July 1, 2011, vest after eight years of creditable service. Members are eligible for normal retirement when they have met the requirements listed below. Early retirement may be taken any time after vesting within 20 years of normal retirement age; however, there is a 5% benefit reduction for each year prior to the normal retirement age.

- *Regular Class, SMSC, and EOC Members* – For members initially enrolled in the FRS Pension Plan before July 1, 2011, six or more years of creditable service and age 62, or the age after completing six years of creditable service if after age 62. Thirty years of creditable service regardless of age before age 62. For members initially enrolled in the FRS Pension Plan on or after July 1, 2011, eight or more years of creditable service and age 65, or the age after completing eight years of creditable service if after age 65. Thirty-three years of creditable service regardless of age before age 65.

- *Special Risk Class and Special Risk Administrative Support Class Members* – For members initially enrolled in the FRS Pension Plan before July 1, 2011, six or more years of Special Risk Class service and age 55, or the age after completing six years of Special Risk Class service if after age 55. Twenty-five years of special risk service regardless of age before age 55. A total of 25 years of service including special risk service and up to four years of active duty wartime service and age 52. Without six years of Special Risk Class service, members of the Special Risk Administrative Support Class must meet the requirements of the Regular Class. For members initially enrolled in the FRS Pension Plan on or after July 1, 2011, eight or more years of Special Risk Class service and age 60, or the age after completing eight years of Special Risk Class service if after age 60. Thirty years of special risk service regardless of age before age 60. Without eight years of Special Risk Class service, members of the Special Risk Administrative Support Class must meet the requirements of the Regular Class.

Benefits. Benefits under the FRS Pension Plan are computed on the basis of age, average final compensation, creditable years of service, and accrual value by membership class. Members are also eligible for in-line-of-duty or regular disability and survivors' benefits. Pension benefits of retirees and annuitants are increased each July 1 by a cost-of-living adjustment. If the member is initially enrolled in

the FRS Pension Plan before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. FRS Pension Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

The Deferred Retirement Option Program ("DROP") became effective July 1, 1998, subject to provisions of Section 121.091(13), Florida Statutes. FRS Pension Plan members who reach normal retirement are eligible to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the DROP for a maximum of 60 months. Authorized instructional personnel may participate in the DROP for up to 36 additional months beyond their initial 60-month participation period. Monthly retirement benefits remain in the FRS Trust Fund during DROP participation and accrue interest. As of June 30, 2015, the FRS Trust Fund projected \$3,119,220,735 in accumulated benefits and interest for 34,829 current and prior participants in the DROP.

Administration. The Department of Management Services, Division of Retirement administers the FRS Pension Plan. The State Board of Administration (the "SBA") invests the assets of the Pension Plan held in the FRS Trust Fund. Costs of administering the FRS Pension Plan are funded from earnings on investments of the FRS Trust Fund. Reporting of the FRS Pension Plan is on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Contributions. All participating employers must comply with statutory contribution requirements. Section 121.031(3), Florida Statutes, requires an annual actuarial valuation of the FRS Pension Plan, which is provided to the Legislature as guidance for funding decisions. Employer and employee contribution rates are established in Section 121.71, Florida Statutes. Employer contribution rates under the uniform rate structure (a blending of both the FRS Pension Plan and Investment Plan rates) are recommended by the actuary but set by the Legislature. Statutes require that any unfunded actuarial liability ("UAL") be amortized within 30 plan years. Pursuant to Section 121.031(3)(f), Florida Statutes, any surplus amounts available to offset total retirement system costs are to be amortized over a 10-year rolling period on a level-dollar basis. The balance of legally required reserves for all defined benefit pension plans at June 30, 2015, was \$148,454,681,903. These funds were reserved to provide for total current and future benefits, refunds, and administration of the FRS Pension Plan.

Effective July 1, 2011, both employees and employers of the FRS are required to make contributions to establish service credit for work performed in a regularly established position. Effective July 1, 2002, the Florida Legislature established a uniform contribution rate system for the FRS, covering both the FRS Pension Plan and the FRS Investment Plan. The uniform rates for Fiscal Year 2014-15 are as follows:

Membership Class	Employee Contribution Rate	Employer Contribution Rate ⁽¹⁾	Total Contribution Rate
Regular	3.00%	6.07%	9.07%
Special Risk	3.00	18.52	21.52
Special Risk Administrative Support	3.00	40.77	43.77
Elected Officers – Judges	3.00	31.87	34.87
Elected Officers - Legislators/Attorneys/Cabinet	3.00	44.96	47.96
Elected Officers - County	3.00	41.94	44.94
Senior Management Service	3.00	19.84	22.84
Deferred Retirement Option Program	N/A	11.02	11.02

⁽¹⁾ These rates include the normal cost and unfunded actuarial liability contributions but do not include the 1.26% contribution for the HIS and the fee of 0.04% for administration of the FRS Investment Plan and provision of educational tools for both plans.

Source: Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015.

The contributions of the City are established and may be amended by the State Legislature. The City's contributions, including employee contributions, to the FRS Pension Plan totaled \$116,054 for the Fiscal Year ended September 30, 2015.

[Remainder of page intentionally left blank]

Pension Amounts for the FRS Pension Plan.

Schedule of Changes in Net Pension Liability and Related Ratios⁽¹⁾
(in thousands)

Total Pension Liability	June 30, 2014	June 30, 2015
Service cost	\$2,256,738	\$2,114,047
Interest on total pension liability	11,489,921	11,721,563
Effect of plan changes	0	0
Effect of economic/demographic (gains) or losses	(448,818)	1,620,863
Effect of assumption changes or inputs	1,256,045	0
Benefit payments	(8,714,251)	(10,201,501)
Net change in total pension liability	5,839,635	5,254,972
 Total pension liability, beginning	 150,276,128	 156,115,763
Total pension liability, ending (a)	\$156,115,763	\$161,370,735
 Fiduciary Net Position		
Employer contributions	\$2,190,424	\$2,438,085
Member contributions	682,507	698,304
Investment income net of investment expenses	22,812,286	5,523,287
Benefit payments	(8,714,250)	(10,201,500)
Administrative expenses	(18,352)	(18,074)
Net change in plan fiduciary net position	16,952,615	(1,559,898)
 Fiduciary net position, beginning	 133,061,677	 150,014,292
Fiduciary net position, ending (b)	\$150,014,292	\$148,454,394
 Net pension liability, ending = (a) – (b)	 \$6,101,471	 \$12,916,341
 Fiduciary net position as a % of total pension liability	 96.09%	 92.00%
 Covered payroll ⁽²⁾	 \$24,723,565	 \$32,726,034
 Net pension liability as a % of covered payroll	 24.68%	 39.47%

⁽¹⁾ This schedule will fill in to a ten-year schedule as results for new fiscal years are calculated.

⁽²⁾ For June 30, 2014, covered payroll shown includes defined benefit plan actives and members in DROP, but excludes the payroll for FRS Invest Plan members and payroll on which only UAL rates are charged. For June 30, 2015, and later, covered payroll shown includes the payroll for FRS Investment Plan members and payroll on which only UAL rates are charged.

Source: Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015.

Actuarial Methods and Assumptions for the FRS Pension Plan. The total pension liability was determined by an actuarial valuation as of the valuation date of July 1, 2015, calculated based on the discount rate and actuarial assumptions below:

	June 30, 2014	June 30, 2015
Discount rate	7.65%	7.65%
Long-term expected rate of return, net of investment expense	7.65%	7.65%
Bond Buyer General Obligation 20-Bond Municipal Bond Index	N/A	N/A

Source: Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015.

The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees in the determining the projected depletion date. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

The actuarial assumptions used to determine the total pension liability as of June 30, 2015, were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

Valuation Date	July 1, 2015
Measurement Date	June 30, 2015
Asset Valuation Method	Fair Market Value
Inflation	2.60%
Salary increase including inflation	3.25%
Mortality	Generational RP-2000 with Projection Scale BB
Actuarial cost method	Individual Entry Age Normal

Source: Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015.

Sensitivity Analysis for the FRS Pension Plan. The following presents the net pension liability of the FRS, calculated using the discount rate of 7.65%, as well as what the FRS's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate.

	1% Decrease 6.65%	Current Discount Rate 7.65%	1% Increase 8.65%
Total pension liability	\$181,923,555,126	\$161,370,735,088	\$144,267,412,898
Fiduciary net position	148,454,393,902	148,454,393,902	148,454,393,902
Net pension liability	\$33,469,161,224	\$12,916,341,186	\$4,186,981,004

Source: Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015.

Retiree Health Insurance Subsidy

The Retiree Health Insurance Subsidy ("HIS") Program is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Division of Retirement within the Department of Management Services. For the fiscal year ended June 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by \$5. The payments are at least \$30 but not more than \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

The HIS Program is funded by required contributions from FRS participating employers as set by the Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2015, the contribution rate was 1.26% of payroll pursuant to Section 112.363, F.S. The State contributed 100% of its statutorily required contributions for the current and preceding two years. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, the legislature may reduce or cancel HIS payments.

[Remainder of page intentionally left blank]

Pension Amounts for the HIS.

Schedule of Changes in Net Pension Liability and Related Ratios⁽¹⁾
(in thousands)

Total Pension Liability	June 30, 2014	June 30, 2015
Service cost	\$190,371	\$217,519
Interest on total pension liability	409,907	405,441
Effect of plan changes	0	0
Effect of economic/demographic (gains) or losses	0	0
Effect of assumption changes or inputs	386,383	607,698
Benefit payments	(407,276)	(425,086)
Net change in total pension liability	579,385	805,572
 Total pension liability, beginning	 8,864,244	 9,443,629
Total pension liability, ending (a)	\$9,443,629	\$10,249,201
 Fiduciary Net Position		
Employer contributions	\$342,566	\$382,454
Member contributions	0	0
Investment income net of investment expenses	219	208
Benefit payments	(407,275)	(425,085)
Administrative expenses	(54)	(188)
Net change in plan fiduciary net position	(64,544)	(42,611)
 Fiduciary net position, beginning	 157,929	 93,385
Fiduciary net position, ending (b)	93,385	50,774
 Net pension liability, ending = (a) – (b)	 \$9,350,244	 10,198,427
 Fiduciary net position as a % of total pension liability	 0.99%	 0.50%
 Covered payroll	 29,676,340	 30,340,449
 Net pension liability as a % of covered payroll	 31.51%	 33.61%

⁽¹⁾ This schedule will fill in to a ten-year schedule as results for new fiscal years are calculated.

Source: Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015.

Actuarial Methods and Assumptions for the HIS. The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below, and then was projected to the measurement date. Any significant changes during this period have been reflected as prescribed by GASB 67. The same demographic and economic assumptions that were used in the Florida Retirement System Actuarial Valuation as of July 1, 2014 ("funding valuation") were used for the HIS program, unless otherwise noted. In a given membership

class and tier, the same assumptions for both FRS Investment Plan members and for FRS Pension Plan members were used.

	June 30, 2014	June 30, 2015
Discount rate	4.29%	3.80%
Long-term expected rate of return, net of investment expense	N/A	N/A
Bond Buyer General Obligation 20-Bond Municipal Bond Index	4.29%	3.80%

Source: Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015.

In general, the discount rate for calculating the total pension liability under GASB 67 is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. In September 2014, the Actuarial Assumptions Conference adopted the Bond Buyer General Obligation 20-Bond Municipal Bond Index as the applicable municipal bond index. The discount rate used in the 2014 valuation was updated from 4.29% to 3.80%, reflecting the change in the Bond Buyer General Obligation 20- Bond Municipal Bond Index as of June 30, 2015.

The actuarial assumptions used to determine the total pension liability as of June 30, 2015, were based on the results of an actuarial experience study for the period July 1, 2008 - June 30, 2013.

Valuation Date	July 1, 2014
Measurement Date	June 30, 2015
Asset Valuation Method	Fair Market Value
Discount rate (municipal bond rate)	3.80%
Inflation	2.60%
Salary increase including inflation	3.25%
Mortality	Generational RP-2000 with Projection Scale BB
Actuarial cost method	Individual Entry Age

Source: Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015.

[Remainder of page intentionally left blank]

Sensitivity Analysis for the HIS. The following presents the net pension liability of the HIS, calculated using the discount rate of 3.80%, as well as what the HIS's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.80%) or one percentage point higher (4.80%) than the current rate.

	1% Decrease 2.80%	Current Discount Rate 3.80%	1% Increase 4.80%
Total pension liability	\$11,671,407,115	\$10,249,201,290	\$9,063,295,120
Fiduciary net position	<u>50,774,315</u>	<u>50,774,315</u>	<u>50,774,315</u>
Net pension liability	\$11,620,632,800	\$10,198,426,975	\$9,012,520,805

Source: Florida Retirement System Pension Plan and Other State Administered Systems Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2015.

FRS Investment Plan

The State Board of Administration administers the defined contribution plan officially titled the FRS Investment Plan. The Florida Legislature establishes and amends the benefit terms of the plan. Retirement benefits are based upon the value of the member's account upon retirement. The FRS Investment Plan provides vesting after one year of service regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the years of service required for vesting under the Pension Plan (including the service credit represented by the transferred funds) is required to be vested for these funds and the earnings on the funds. The employer pays a contribution as a percentage of salary that is deposited into the individual member's account. Effective July 1, 2011, there is a mandatory employee contribution of 3.00%. The FRS Investment Plan member directs the investment from the options offered under the plan. Costs of administering the plan, including the FRS Financial Guidance Program, are funded through an employer assessment of 0.04% of payroll and by forfeited benefits of plan members. After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the FRS Investment Plan, receive a lump-sum distribution, or leave the funds invested for future distribution. Disability coverage is provided; the employer pays an employer contribution to fund the disability benefit which is deposited in the FRS Trust Fund. The member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the FRS Investment Plan and rely upon that account balance for retirement income.

Firefighters' Pension Plan

The City administers a single-employer, defined benefit pension plan (the "Firefighters' Plan") that covers all fulltime firefighters hired after January 1, 1996. The Firefighters' Plan was created by Ordinance of the City Council which grants the authority to establish and amend the benefit terms to the Board of Trustees, subject to City Council approval. Management of the Firefighters' Plan is vested in the Board of Trustees, which consists of five members, two of whom are current or retired members of the Firefighters' Plan, one is a City resident, one is a City employee, and one of whom is appointed by the City Council from nonmembers of the Firefighters' Plan. The Firefighters' Plan does not prepare separate financial statements and is included as part of the pension trust funds in the City's financial reporting entity since it is not legally separate from the City.

As of October 1, 2014, (date of the latest annual actuarial valuation), employee membership data related to the Firefighters' Plan were:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	1
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	0
Active Plan Members	<u>29</u>
	30

The Firefighters' Plan provides retirement benefits, deferred allowances, and death and disability benefits. A participant may retire after reaching the age of 55, with six or more years of service, or after accumulating twenty-five years of service with the City, regardless of age. Retired employees or their beneficiaries are entitled to pension payments for the longer of ten years or the retirees' remaining life equal to 3% of their final five-year average compensation times the number of years of credited service. The final five-year average compensation is the average annual compensation of the five highest years within the last ten years of service.

Compensation includes overtime, but excludes lump-sum payments of unused leave. Maximum annual pension payments to retirees are the lesser of \$90,000 or 100% of the average aggregate compensation for the three consecutive calendar years during which the firefighter was an active member and had his/her highest aggregate compensation. An additional supplemental benefit is also payable in the monthly amount of \$3 multiplied by credited service. Early retirement is available at age 50, with six years of credited service, with the benefit reduced by 3% per year for each year early. Delayed retirement is permitted, with the benefit calculated the same as the normal retirement benefit, but based on credited service and average final compensation as of the actual retirement date.

Participants are not vested until they reach six years of service, at which time they become 100% vested. Terminated non-vested employees receive refunds of their accumulated member contribution only. Terminated vested employees receive their vested accrued benefit payable at early (after reduction) or normal retirement.

Pension provisions include disability benefits, whereby a disabled employee is entitled to receive the greater of the normal retirement benefits or a percentage of the five-year average annual compensation (42% if service incurred or 25% if non-service incurred). Pension provisions also include death benefits, whereby the surviving spouse is entitled to receive the vested pension benefit over ten years. Firefighters' Plan amendments are initiated by the Pension Board, and adopted by City Ordinance, after the required public hearings. The cost of administering the Firefighters' Plan is financed by contributions made to the Firefighters' Plan.

Benefit terms provide for a 3% annual cost-of-living adjustment to each member's retirement allowance subsequent to the member's retirement date.

The City Ordinance grants the Board of Trustees authority to establish and amend the contribution requirements of the City and active plan members. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. For the

year ended September 30, 2015, the active member contribution rate was 1%, which the City contributes based on the collective bargaining agreement, and the City's contribution rate was 40.84%. The State of Florida contributes casualty insurance premium taxes pursuant to Chapter 185, Florida Statutes, and the City contributes the required remaining balance, as determined by the actuary. The City recognized these on-behalf payments from the State as revenues and expenditures in the governmental fund financial statements.

The City makes periodic contributions totaling 100% of the actuarially determined amount (after state contributions) annually to the Firefighters' Plan. An actuarial valuation of the Firefighters' Plan is to be completed at least once every two years. Contributions for the Fiscal Year ended September 30, 2015, were based on actuarial computations performed for 2015, in the actuarial report dated October 1, 2013.

The components of the net pension liability of the City at September 30, 2015 for the Firefighters' Plan, were as follows:

Total pension liability	\$11,956,880
Plan fiduciary net position	<u>11,078,100</u>
City's net pension liability	\$878,780
Firefighters' Plan fiduciary net position as a percentage of the total pension liability	92.65%

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements (attached hereto as APPENDIX C) presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

The total pension liability was determined by an actuarial valuation as of September 30, 2014, with update procedures performed by the actuary to roll forward to the total pension liability measured as of September 30, 2014. The following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	7.5% to 13.0% based on service, including inflation
Investment rate of return	7.0 %, net of pension plan investment expense, including inflation
Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate.	

The actuarial assumptions used in the September 30, 2014, valuation were based on the results of an actuarial experience study for the period October 1, 2013 – September 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target

asset allocation as of September 30, 2014, are: Domestic Equity Securities – 7.80%, International Equity Securities – 7.70%, and Fixed Income Securities – 2.3%.

The discount rate used to measure the total pension liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The discount rate of 7.00 percent was the single rate which, when applied to all projected benefit payments, resulted in the same present value of benefit payments when the above discussed calculations are combined.

The changes in the components of the net pension liability of the City for the Fiscal Year ended September 30, 2015, were as follows:

	Firefighters' Plan		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 9/30/14	\$10,155,126	\$9,281,733	\$873,393
Changes for the year:			
Service cost	715,385	-	715,385
Interest	775,313	-	775,313
Differences between expected and actual experience	(99,739)	-	(99,739)
Assumption Changes	-	-	-
Contributions - employer (from city)	-	714,633	(714,633)
Contributions - employer (from state)	-	507,798	(507,798)
Contributions - employee	-	17,499	(17,499)
Net investment income	-	614,545	(614,545)
Benefit payments, including refunds of employee contributions	(23,556)	(23,556)	-
Administrative expense	-	(34,552)	34,552
Other changes	434,351	-	434,351
Net changes	1,801,754	1,796,367	5,387
Balances at 9/30/15	\$11,956,880	\$11,078,100	\$878,780

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements (attached hereto as APPENDIX C) presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

The following presents the net pension liability of the City, calculated using the discount rate of 7.00%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
City's net pension liability	\$2,269,581	\$878,780	\$(241,770)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as September 30, 2014 and the current sharing pattern of costs between employer and employee.

For the year ended September 30, 2015, the City recognized pension expense of \$1,256,826 for the Firefighters' Plan. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$-	\$90,672
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	60,763	-
City contributions subsequent to the measurement date	2,150,021	-
Total	<u>\$2,210,784</u>	<u>\$90,672</u>

City contributions subsequent to the measurement date of \$2,150,021 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the Fiscal Year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year <u>Ended September 30</u>	
2016	\$(5,982)
2017	(5,982)
2018	(5,982)
2019	(5,982)
2020	<u>(5,981)</u>
Total	<u>\$(29,909)</u>

Police Officers' Pension Plan

In 2005, the City established and currently administers a single-employer, defined benefit pension plan (the "Police Officers' Plan") that covers all full-time sworn police officers. The Police Officers' Plan was created by Ordinance of the City Council which grants the authority to establish and amend the benefit terms to the Board of Trustees, subject to City Council approval. Management of the Police Officers' Plan is vested in the Board of Trustees, which consists of five members, two of whom are current or retired members of the Police Officers' Plan, one is a City resident, one is a City employee, and one of whom is appointed by the City Council from non-members of the Police Officers' Plan. The Police Officers' Plan does not prepare separate financial statements and is included as part of the pension trust fund in the City's financial reporting entity since it is not legally separate.

At September 30, 2015, Police Officers' Plan membership consisted of the following:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	9
Inactive Plan Members Entitled to But Not Yet Receiving Benefits	14
Active Plan Members	<u>33</u>
	56

The Police Officers' Plan provides retirement benefits, deferred allowances, and death and disability benefits. A participant may retire after reaching the age of 55, with six or more years of service, or accumulating twenty-five years of service with the City, regardless of age.

Retired employees or their beneficiaries are entitled to pension payments for the longer of ten years or the retirees' remaining life equal to 3% of their final five-year average compensation times the number of years of credited service. The final five-year average compensation is the average annual compensation of the five highest years within the last ten years of service.

Compensation includes overtime of up to 300 hours annually and lump-sum payments of unused leave, but excludes pay for special duty or extra-details. An additional supplemental benefit is also payable in the monthly amount of \$3, multiplied by credited service. Early retirement is available at age 50, with six years of credited service, with the benefit reduced by 3% per year for each year early.

Participants are not vested until they reach six years of service, at which time they become 100% vested. Terminated non-vested employees receive refunds of their accumulated member contribution only. Terminated vested employees receive their vested accrued benefit payable at normal retirement.

Pension provisions include disability benefits, whereby a disabled employee is entitled to receive the greater of the normal retirement benefits or a percentage of the five-year average annual compensation (42% if service incurred or 25% if non-service incurred, provided the employee has at least 8 years of credited service). Pension provisions also include death benefits, whereby the surviving spouse is entitled to receive the vested pension benefit over ten years. Plan amendments are initiated by the Pension Board, and adopted by City Ordinance, after the required public hearings. The cost of administering the Plan is financed by contributions made to the Police Officers' Plan.

Benefit terms provide for a 3% annual cost-of-living adjustment to each member's retirement allowance subsequent to the member's retirement date.

The City Ordinance grants the Board of Trustees authority to establish and amend the contribution requirements of the City and active plan members. The Board establishes rates based on an

actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. For the year ended September 30, 2015, the active member contribution rate was 0.5%, which the City contributes based on the collective bargaining agreement, and the City's contribution rate was 31.67%. The State of Florida contributes casualty insurance premium taxes pursuant to Chapter 185, Florida Statutes, and the City contributes the required remaining balance, as determined by the actuary. The City recognized these on-behalf payments from the State as revenues and expenditures in the governmental fund financial statements.

The City makes periodic contributions totaling 100% of the actuarially determined amount (after state contributions) annually to the Police Officers' Plan. An actuarial valuation of the Police Officers' Plan is to be completed at least once every two years. Contributions for the Fiscal Year ended September 30, 2015, were based on actuarial computations performed for 2015, in the actuarial report dated October 1, 2013.

The components of the net pension liability of the City at September 30, 2015 for the Police Officers' Plan, were as follows:

Total pension liability	\$9,530,334
Police Officers' Plan fiduciary net position	<u>7,359,317</u>
City's net pension liability	<u>\$2,171,017</u>
Plan fiduciary net position as a percentage of the total pension liability	77.22%

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

The total pension liability was determined by an actuarial valuation as of October 1, 2014 with update procedures performed by the actuary to roll forward to the total pension liability measured as of September 30, 2015. The following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	6.0% on average, including inflation
Investment rate of return	7.5 %, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the October, 1 2014 valuation were based on the results of an actuarial experience study for the period October 1, 2013 – September 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2015 are: Domestic Equity Securities – 7.7%, International Equity Securities, – 7.7% and Fixed Income Securities – 2.4%.

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to projected benefit payments to determine the total pension liability.

The changes in the components of the net pension liability of the City for the year ended September 30, 2015 for the Police Officers' Plan, were as follows:

	Total Pension Liability (a)	Police Officers' Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 9/30/14	\$8,468,936	\$6,174,896	\$2,294,040
Changes for the year:			
Service cost	570,609	-	570,609
Interest	671,200	-	671,200
Differences between expected and actual experience	-	-	-
Assumption Changes	-	-	-
Contributions - employer (from city)	-	687,863	(687,863)
Contributions - employer (from state)	-	145,004	(145,004)
Contributions - employee	-	26,544	(26,544)
Net investment income	-	542,433	(542,433)
Benefit payments, including refunds of employee contributions	(180,411)	(181,990)	1,579
Administrative expense	-	(35,433)	35,433
Other changes	-	-	-
Net changes	1,061,398	1,184,421	(123,023)
Balances at 9/30/15	\$9,530,334	\$7,359,317	\$2,171,017

The required schedule of changes in the City's net pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about whether the value of plan assets is increasing or decreasing over time relative to the total pension liability.

The following presents the net pension liability of the City, calculated using the discount rate of 7.5 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's net pension liability	\$3,721,610	\$2,171,017	\$1,092,365

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of September 30, 2015 and the current sharing pattern of costs between employer and employee.

For the Fiscal Year ended September 30, 2015, the City recognized pension expense of \$554,138. At September 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$-	\$-
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	42,807
City contributions subsequent to the measurement date	<u>1,660,969</u>	<u>-</u>
Total	\$1,660,969	\$42,807

City contributions subsequent to the measurement date of \$1,499,693 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the Fiscal Year ending September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year</u> <u>Ended September 30</u>	
2016	\$(10,702)
2017	(10,702)
2018	(10,702)
2019	(10,701)
Total	(42,807)

City Employee Pension Fund

The City is a single employer that contributes to a defined contribution pension plan created in accordance with Internal Revenue Code 401(a). The City's 401A Plan is available to all employees not covered under the Firefighters' or Police Officers' Pension Plans or the FRS. The City has contracted with ICMA or VALIC for the plan administration.

For employees hired by the City as part of its acquisition of the Water System from Florida Utility, Inc., the City contributes 5% of annual covered payroll plus a match up to 4% of any employee's voluntary contribution. For all other employees, the City contributes 5% of annual covered payroll, and employees do not contribute. Employer contributions for fiscal years ended September 30, 2015, 2014, and 2013 were \$368,410, \$359,678, and \$356,530, respectively. Employee contributions for Fiscal Years ended September 30, 2015, 2014, and 2013 were \$105,614, \$120,234, and \$114,863, respectively. Plan provision and contribution requirements are established and may be amended by the City Manager.

Other Post-Employment Benefits ("OPEB")

During Fiscal Year 2009, the City implemented GASB No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions, for certain postemployment health care benefits provided by the City. The requirements of this Statement were implemented prospectively, with the actuarially determined liability at the October 1, 2009 date of transition being amortized over 30 years. As of October 1, 2014, the City has an actuarially determined liability of \$1,520,759. Accordingly, for financial reporting purposes, this liability for the postemployment health care benefits liability is not reported in the financial statements for the City. The Plan does not prepare separate financial statements.

The City administers a single-employer defined benefit healthcare plan that provides medical, dental and vision coverage to retirees as well as their eligible spouses. Benefits are provided through the City's group health insurance plan, which covers both active and retired members. All City employees, with the exception of firefighters and sworn police officers, may retire after reaching the age of 55 with five or more years of service. Firefighters and sworn police officers may retire at age 55 with 6 years of service or upon accumulating twenty-five years of service with the City, regardless of age. Service-incurred disabled employees retire immediately; while non-service incurred disabled employees retire upon completion of 8 years of service.

Number of Covered Participants:

Actives	193
Retirees	9
Eligible spouses	<u>4</u>
Total	206

For all retired employees, the employee contributes 100% of the active premium rate and may also purchase spouse coverage at the active premium rate. The City does not contribute any amount. Plan provisions and contribution requirements are established and may be amended by the City Manager. The post-retirement medical and dental benefits are currently funded on a pay-as-you go basis (i.e., the City funds on a cash basis as benefits are paid). No assets have been segregated and restricted to provide

postretirement benefits. No trust or agency fund has been established for the plan. Benefits are generally liquidated by the general and enterprise funds.

The City's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following tables shows the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	Utilities	All Other Employees
Valuation Date	10/1/2014	10/1/2014
Applicable for Fiscal Year Ending	9/30/2015	9/30/2015
Annual Required Contribution	\$61,020	\$184,915
Interest on Net OPEB Obligation	9,399	24,782
Adjustment to Annual Required Contribution	(14,236)	(37,237)
Annual OPEB Cost/(Expense)	56,183	172,460
Net Contributions Made	(18,328)	(96,229)
Increase/(Decrease) in Net OPEB Obligation	37,855	76,231
Net OPEB Obligation- Beginning of Year	234,986	619,555
Net OPEB Obligation- End of Year	\$272,841	\$695,786

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for Fiscal Year 2013, 2014, and 2015 were as follows:

Utilities Employees:

<u>Fiscal</u> <u>Year Ending</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
9/30/2015	\$56,183	32.6%	\$272,841
9/30/2014	78,819	60.1	234,986
9/30/2013	78,739	57.5	203,560

All Other Employees:

<u>Fiscal</u> <u>Year Ending</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
9/30/2015	\$172,460	55.8%	\$695,786
9/30/2014	241,700	49.5	619,555
9/30/2013	241,541	48.2	497,440

The schedule below shows the balance of the actuarial accrued liability (AAL), part of which was unfunded as of September 30, 2015:

Utilities Employees:

<u>Actuarial</u> <u>Valuation Date</u>	<u>Actuarial Value</u> <u>of Assets</u> <u>(a)</u>	<u>Accrued</u> <u>Liability (AAL)</u> <u>Unit Credit</u> <u>(b)</u>	<u>Unfunded AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as % of</u> <u>Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
10/1/2014	0	\$259,744	\$259,744	0.0%	\$3,613,640	7.2%
10/1/2013	0	N/A	N/A	N/A	N/A	N/A
10/1/2012	0	423,549	423,549	0.0%	3,788,822	11.2%

All Other Employees:

<u>Actuarial</u> <u>Valuation Date</u>	<u>Actuarial Value</u> <u>of Assets</u> <u>(a)</u>	<u>Accrued</u> <u>Liability (AAL)</u> <u>Unit Credit</u> <u>(b)</u>	<u>Unfunded AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as % of</u> <u>Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
10/1/2014	0	\$1,261,015	\$1,261,015	0.0%	\$7,247,329	17.4%
10/1/2013	0	N/A	N/A	N/A	N/A	N/A
10/1/2012	0	1,624,742	1,624,742	0.0%	7,264,008	22.4%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions by the City are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The actuarial cost method used in the valuation to determine the Actuarial Accrued Liability (AAL) and the Actuarial Required Contribution (ARC) is the entry age normal (level percentage of pay). The actuarial assumptions included: (a) 4% funding interest rate; (b) pre-Medicaid and post-Medicaid healthcare inflation of 8.0%; (decreasing .75% each year to fiscal 2019, then decreasing 0.5% to the ultimate rate of 4.5% in fiscal 2020); (c) payroll growth/inflation of 0%; and (d) salary inflation of 6% per year. The actuarial accrued liability is being amortized as a level percentage of payrolls over thirty years (closed amortization basis).

Projections of benefits are based on the substantive plan (the Plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

APPENDIX B

FORM OF COMPOSITE BOND RESOLUTION

APPENDIX C

**FINANCIAL STATEMENTS OF THE CITY
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2015**

APPENDIX D

PROPOSED FORM OF OPINION OF BOND COUNSEL

APPENDIX E

FORM OF CONTINUING DISCLOSURE CERTIFICATE

EXHIBIT C

**FORM OF
REGISTRAR AND PAYING AGENT AGREEMENT**

REGISTRAR AND PAYING AGENT AGREEMENT

THIS REGISTRAR AND PAYING AGENT AGREEMENT (the "Agreement"), dated October 1, 2016, by and between the CITY OF MARCO ISLAND, FLORIDA (the "Issuer") and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, having its designated corporate trust office in Jacksonville, Florida as Registrar and Paying Agent (the "Bank");

WITNESSETH:

WHEREAS, the Issuer, by the Resolution (as hereinafter defined), has designated the Bank as Registrar and Paying Agent for its \$_____ City of Marco Island, Florida Utility System Refunding Revenue Bonds, Series 2016 (the "Bonds"); and

WHEREAS, the Issuer and the Bank desire to set forth the Bank's duties as Registrar and Paying Agent and the compensation to be paid the Bank for its services.

NOW, THEREFORE, it is agreed by the parties hereto as follows:

Section 1. Duties. The Bank agrees to serve as Registrar and Paying Agent for the Bonds and to perform the duties of Registrar and Paying Agent as specified in or contemplated by Resolution No. 03-55 duly adopted by the City Council of the Issuer on September 29, 2003, as amended and supplemented from time to time, and as particularly amended by Resolution No. 05-71 duly adopted by the City Council of the Issuer on October 17, 2005 and as particularly supplemented by Resolution No. 16-__ duly adopted by the City Council of the Issuer on October 17, 2016 (collectively, the "Resolution").

Section 2. Deposit of Funds. The Issuer shall deposit or cause to be deposited by 2:00 p.m. on the business day prior to payment date with the Bank sufficient funds from the funds pledged for the payment of the Bonds under the Resolution to pay when due and payable the principal of and interest on the Bonds.

Section 3. Use of Funds; Canceled Bonds. The Bank shall use the funds received from the Issuer pursuant to Section 2 of this Agreement to pay the principal of and interest on the Bonds in accordance with the Resolution. The Bank shall dispose of canceled Bonds in accordance with its document retention policies.

Section 4. Statements. The Bank shall confirm to the Issuer upon request all transactions effected by the Bank pursuant to this Agreement.

Section 5. Obligation to Act. The Bank shall be obligated to act only in accordance with the Resolution and any written instructions received in accordance therewith; provided,

however, that the Bank is authorized hereby to comply with any orders, judgments or decrees of any court with or without jurisdiction and shall not be liable as a result of its compliance with the same.

Section 6. Reliance by Bank. The Bank may rely absolutely upon the genuineness and authorization of the signature and purported signature of any party upon any instruction, notice, release, request, affidavit or other document delivered to it pursuant of the Resolution.

Section 7. Counsel; Limited Liability. The Bank may consult with counsel of its own choice and shall have sole and complete authorization and protection for any action taken or suffered by it under the Resolution in good faith and in accordance with the opinion of such counsel. The Bank shall otherwise not be liable for any mistakes of fact or errors of judgment, or for any acts or omissions of any kind unless caused by its willful misconduct or gross negligence.

Section 8. Fees and Expenses. In consideration of the services rendered by the Bank as Registrar and Paying Agent, the Issuer agrees to and shall pay to the Bank its proper fees and all expenses, charges, attorneys' fees and other disbursements incurred by it or its attorneys, agents and employees in and about the performance of its powers and duties as Registrar and Paying Agent, as set forth in the attached Exhibit A. The Bank shall not be obligated to allow and credit interest upon any moneys in respect of principal or interest due in respect of the Bonds, which it shall at any time receive under any of the provisions of the Resolution or this Agreement.

Section 9. Furnishing Information; Authorization. The Bank shall, at all times, when requested to do so by the Issuer in writing, furnish full and complete information pertaining to its functions as the Registrar and Paying Agent with regard to the Bonds, and shall without further authorization, execute all necessary and proper deposit slips, checks, certificates and other documents with reference thereto.

Section 10. Cancellation; Termination. Either of the parties hereto, at its option, may cancel this Agreement after giving thirty (30) days written notice to the other party of its intention to cancel, and this Agreement may be canceled at any time by mutual consent of the parties hereto. This Agreement shall terminate without further action upon final payment of the Bonds and the interest appertaining thereto.

Section 11. Surrender of Funds; Registration Records; Notification of Bondholders. In the event of a cancellation of this Agreement, the Issuer shall deliver any proper and necessary releases to the Bank upon demand and the Bank shall, upon demand, pay over the funds on deposit with the Bank as Registrar and Paying Agent in connection with the Bonds and surrender all registration books and related records, and the Issuer may appoint and name a successor to act as Registrar and Paying Agent for the Bonds. The Issuer shall, in such event, notify all holders of the Bonds of the appointment and name of the successor, by providing

notice by mail, postage prepaid, to all Bondholders at their addresses as they appear on the registration books of the Registrar and Paying Agent for the Bonds.

Section 12. Nonassignability. This Agreement shall not be assigned by either party without the written consent of the other party.

Section 13. Modification. No modification of this Agreement shall be valid unless made by a written agreement, executed and approved by the parties hereto.

Section 14. Severability. Should any action or part of any section of this Agreement be declared void, invalid or unenforceable by any court of law for any reason, such determination shall not render void, invalid or unenforceable any other section or other part of any section of this Agreement.

Section 15. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Florida.

Section 16. Merger or Consolidation of the Bank. Any corporation into which the Bank may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Bank shall be a party, shall be the successor Registrar and Paying Agent under this Agreement, without the execution or filing of any paper or any further act on the part of the parties hereto.

Section 17. Reliance on Documents; Indemnification.

(a) The Bank may conclusively rely, as to the truth of the statements and correctness of the opinions expressed therein, on certificates or opinions furnished by or on behalf of the Issuer to the Bank.

(b) To the extent permitted by applicable law, the Bank shall not be liable for any error of judgment or any act or steps taken or permitted to be taken in good faith, or for any mistake in law or fact, or for anything it may do or refrain from doing in connection herewith, except for its own willful misconduct or gross negligence.

(c) No provisions of this Agreement shall require the Bank to expend or risk its own funds or otherwise incur any financial liability for performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity satisfactory to it against such risks or liability is not assured to it.

(d) The Bank may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, certificate, note, security, or other paper or document believed by it to

be genuine and to have been signed or presented by the proper party or parties. Without limiting the generality of the foregoing statement, the Bank need not examine the ownership of any Bonds, but is protected in acting upon receipt of Bonds containing an endorsement or instruction of transfer or power of transfer which appears on its face to be signed by the owner or an attorney-in-fact of the owner. The Bank shall not be bound to make any investigation into the facts or matters stated in a resolution, certificate, statement, instrument, opinion, report, notice, direction, consent, order, certificate, note, security paper or document supplied by Issuer.

(e) The Bank may exercise any of the powers hereunder and perform any duties hereunder either directly or by or through agents or attorneys of the Bank.

(f) Any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted hereby to be given or furnished to the Issuer or the Bank shall be mailed or delivered to the Issuer at 50 Bald Eagle Dr., Marco Island, FL 34145, attention Finance Director, or to the Bank at Wells Fargo Bank, National Association, 600 South 4th Street, 6th Floor, Minneapolis, Minnesota 55415, Attention: Corporate Trust.

(g) To the extent permitted by law, the Issuer agrees to indemnify the Bank (including its directors, officers and employees) for, and hold it harmless against, any loss, liability or expense incurred without gross negligence or willful misconduct on its part arising out of or in connection with its acceptance or administration of its duties hereunder, including the cost and expense (including its counsel fees) of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties under this Agreement. The foregoing indemnities in this paragraph shall survive the resignation or removal of the Bank from its duties as Paying Agent and Registrar and the termination of this Agreement.

Section 18. Force Majeure. In no event shall the Bank be liable for any failure or delay in the performance of its obligations hereunder because of circumstances beyond the Bank's control, including, but not limited to, acts of God, flood, war (whether declared or undeclared), terrorism, fire, riot, strikes or work stoppages for any reason, embargo, government action, including any laws, ordinances, regulations or the like which restrict or prohibit the providing of the services contemplated by this Agreement, inability to obtain material, equipment or interruption of communications or computer facilities, or the failure of equipment or interruption of communications or computer facilities, and other causes beyond the Bank's control whether or not the same class or kind as specifically named above.

Section 19. Counterparts. This Agreement may be executed in several counterparts, all of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers and their official seals to be hereunto affixed and attested as of the date first above written.

ATTEST

CITY OF MARCO ISLAND, FLORIDA

Laura M. Litzan, City Clerk

Bob Brown, Chairman

Approved as to Form:

Alan L. Gabriel, City Attorney

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Registrar and Paying
Agent

By: _____

Name: _____

Title: _____

EXHIBIT A

Fee for services as Registrar and Paying Agent will be \$1,000 payable annually on each October 1.

Out-of-pocket expenses will be reimbursed at cost.

EXHIBIT D

**FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Marco Island, Florida (the "Issuer") in connection with the issuance of its \$_____ Utility System Refunding Revenue Bonds, Series 2016 (the "Bonds"). The Bonds are being issued pursuant to Resolution No. 03-55, adopted by the City Council of the City (the "City Council") on September 29, 2003, as amended and supplemented, as particularly amended by Resolution No. 05-71 adopted by the City Council on October 17, 2005, as particularly supplemented by Resolution No. ____ adopted by the City Council on _____, 2016 (collectively, the "Resolution").

SECTION 1. PURPOSE OF THE DISCLOSURE CERTIFICATE. This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the holders and Beneficial Owners (defined below) of the Bonds and in order to assist the Participating Underwriters in complying with the continuing disclosure requirements of the Rule (defined below).

SECTION 2. DEFINITIONS. In addition to the definitions set forth in the Resolution which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined herein, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

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

"Dissemination Agent" shall mean initially FSC Continuing Disclosure Services, a Division of Hilltop Securities Inc., or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Issuer a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access web portal of the MSRB, located at <http://www.emma.msrb.org>.

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

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

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

"Participating Underwriters" shall mean the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each entity authorized and approved by the Securities and Exchange Commission from time to time to act as a repository for purposes of complying with the Rule. As of the date hereof, the Repository recognized by the Securities and Exchange Commission for such purpose is the MSRB, which currently accepts continuing disclosure submissions through EMMA.

"Rule" shall mean the continuing disclosure requirements of Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of Florida.

SECTION 3. PROVISION OF ANNUAL REPORTS.

(a) The Issuer shall, or shall cause the Dissemination Agent to, by not later than April 30th following the end of the prior Fiscal Year, beginning with the 2015-2016 Fiscal Year, provide to any Repository, in electronic format as prescribed by such Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date provided, further, in such event unaudited financial statements are required to be delivered as part of the Annual Report in accordance with Section 4(a) below. If the Issuer's Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) Not later than fifteen (15) Business Days prior to the date set forth in (a) above, the Issuer shall provide the Annual Report to the Dissemination Agent (if other than the Issuer). If the Issuer is unable to provide to any Repository an Annual Report as required in subsection (a), the Issuer (or the Dissemination Agent, if other than the Issuer) shall send a notice to any Repository, in electronic format as prescribed by such Repository in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of any Repository;

(ii) if the Dissemination Agent is other than the Issuer, file a report with the Issuer certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing any Repository to which it was provided; and

SECTION 4. CONTENT OF ANNUAL REPORTS. The Issuer's Annual Report shall contain or include by reference the following:

(a) the audited financial statements of the Issuer for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the Issuer's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement dated _____, 2016 (the "Official Statement"), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available; and

(b) updates of historical financial information and operating data set forth in the tables contained in the Official Statement under the captions:

- (i) Outstanding Utility System Debt;
- (ii) Rates, Fees and Charges;
- (iii) Rate Comparisons;
- (iv) Ten Largest Customers of the Water and Sewer System; and
- (v) Bond Service Coverage (included in the table entitled System Historical Operating Results and Bond Service Coverage Results).

The information provided under Section 4(b) may be included by specific reference to documents, including official statements of debt issues of the Issuer or related public entities, which are available to the public on the Repository's Internet Web site or filed with the Securities and Exchange Commission.

The Issuer reserves the right to modify from time to time the specific types of information provided in its Annual Report or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the Issuer; provided that the Issuer agrees that any such modification will be done in a manner consistent with the Rule.

SECTION 5. REPORTING OF SIGNIFICANT EVENTS.

(a) Pursuant to the provisions of this Section 5, the Issuer shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds. Such notice shall be given in a timely manner not in excess of ten (10) business days after the occurrence of the event, with the exception of the event described in number 15 below, which notice shall be given in a timely manner:

- 1. principal and interest payment delinquencies;
- 2. non-payment related defaults, if material;
- 3. unscheduled draws on debt service reserves reflecting financial difficulties;
- 4. unscheduled draws on credit enhancements reflecting financial difficulties;
- 5. substitution of credit or liquidity providers, or their failure to perform;

6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. modifications to rights of the holders of the Bonds, if material;
8. Bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution, or sale of property securing repayment of the Bonds, if material;
11. ratings changes;
12. an Event of Bankruptcy or similar event of an Obligated Person;
13. the consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
14. appointment of a successor or additional trustee or the change of name of a trustee, if material; and
15. notice of any failure on the part of the Issuer to meet the requirements of Section 3 hereof.

(b) The notice required to be given in paragraph 5(a) above shall be filed with any Repository, in electronic format as prescribed by such Repository.

SECTION 6. IDENTIFYING INFORMATION. In accordance with the Rule, all disclosure filings submitted pursuant to this Disclosure Certificate to any Repository must be accompanied by identifying information as prescribed by the Repository. Such information may include, but not be limited to:

- (a) the category of information being provided;
- (b) the period covered by any annual financial information, financial statement or other financial information or operation data;
- (c) the issues or specific securities to which such documents are related (including CUSIPs, issuer name, state, issue description/securities name, dated date, maturity date, and/or coupon rate);
- (d) the name of any Obligated Person other than the Issuer;
- (e) the name and date of the document being submitted; and
- (f) contact information for the submitter.

SECTION 7. TERMINATION OF REPORTING OBLIGATION. The Issuer's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds, so long as there is no remaining liability of the Issuer, or if the Rule is repealed or no longer in effect. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 8. DISSEMINATION AGENT. The Issuer may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Issuer pursuant to this Disclosure Certificate. The initial Dissemination Agent shall be FSC Continuing Disclosure Services, a Division of Hilltop Securities Inc.

SECTION 9. AMENDMENT; WAIVER. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of the Issuer, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the holders or Beneficial Owners of the Bonds in the same manner as provided in the Resolution for amendments to the Resolution with the consent of holders or Beneficial Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or Beneficial Owners of the Bonds.

Notwithstanding the foregoing, the Issuer shall have the right to adopt amendments to this Disclosure Certificate necessary to comply with modifications to and interpretations of the provisions of the Rule as announced by the Securities and Exchange Commission from time to time.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the Issuer shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 10. ADDITIONAL INFORMATION. Nothing in this Disclosure Certificate shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the Issuer chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the Issuer shall have no obligation under this Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 11. DEFAULT. The continuing disclosure obligations of the Issuer set forth herein constitute a contract with the holders and Beneficial Owner of the Bonds. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate, any holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Issuer to comply with its obligations under this Disclosure Certificate; provided, however, the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with the provisions of this Disclosure Certificate shall be an action to compel performance. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution.

SECTION 12. DUTIES, IMMUNITIES AND LIABILITIES OF DISSEMINATION AGENT. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Issuer agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

[Remainder of page intentionally left blank]

SECTION 13. BENEFICIARIES. This Disclosure Certificate shall inure solely to the benefit of the Issuer, the Dissemination Agent, the Participating Underwriters and holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Dated as of _____, 2016

CITY OF MARCO ISLAND, FLORIDA

By: _____
Chairman

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer: City of Marco Island, Florida

Name of Bond Issue: Utility System Refunding Revenue Bonds, Series 2016

Date of Issuance: _____, 2016

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with respect to the above-named Bonds as required by Sections 3(a) and 4(b) of the Continuing Disclosure Certificate dated as of _____, 2016. The Issuer anticipates that the Annual Report will be filed by _____.

Dated: _____

CITY OF MARCO ISLAND, FLORIDA

By: _____

Name: _____

Title: _____

EXHIBIT E

**FORM OF
ESCROW DEPOSIT AGREEMENT**

ESCROW DEPOSIT AGREEMENT

THIS ESCROW DEPOSIT AGREEMENT, dated as of _____, 2016 by and between the CITY OF MARCO ISLAND, FLORIDA (the "Issuer"), and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Escrow Agent, and its successors and assigns (the "Escrow Agent");

WITNESSETH:

WHEREAS, the Issuer previously issued its Tax-Exempt Utility System Improvement and Refunding Revenue Bonds, Series 2010A, which remains Outstanding prior to the execution and delivery of this Escrow Deposit Agreement (the "Series 2010A Bonds") and its Taxable Utility System Refunding Revenue Bonds, Series 2010B which remains Outstanding prior to execution and delivery of this Escrow Deposit Agreement (the "Series 2010B Bonds"); and

WHEREAS, the Issuer now desires to advance refund and defease all the Series 2010A Bonds which mature after October 1, 2020 (the "Defeased 2010A Bonds") and cash defease the Series 2010B Bonds which mature after October 1, 2020 (the "Defeased 2010B Bonds," and together with the Defeased 2010A Bonds, the "Defeased Bonds"); and

WHEREAS, the execution of this Escrow Deposit Agreement and full performance of the provisions hereof shall defease and discharge the Issuer's obligations relating to the Defeased Bonds; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the Issuer and the Escrow Agent agree as follows:

SECTION 1. Definitions. As used herein, the following terms mean:

(a) "Acquired Obligations" shall have the meaning ascribed thereto in the Bond Resolution.

(b) "Agreement" shall mean this Escrow Deposit Agreement.

(c) "Bonds" shall mean the \$_____ City of Marco Island, Florida Utility System Refunding Revenue Bonds, Series 2016.

(d) "Bond Counsel" shall mean Bryant Miller Olive P.A., or any other law firm nationally-recognized in the area of public finance.

(e) "Bond Resolution" shall mean Resolution No. 03-55 adopted by the Issuer on September 29, 2003, as amended and supplemented from time to time.

- (f) "Defeased Bonds" shall have the meaning ascribed above.
- (g) "Defeased 2010A Bonds" shall have the meaning ascribed above.
- (h) "Defeased 2010B Bonds" shall have the meaning ascribed above.
- (i) "2010A Escrow Account" shall mean the account hereby created and entitled 2010A Escrow Account established and held by the Escrow Agent pursuant to this Agreement in which cash and investments will be held for payment of the principal, interest, and redemption premium, if any, on the Defeased 2010A Bonds.
- (j) "2010B Escrow Account" shall mean the account hereby created and entitled 2010B Escrow Account established and held by the Escrow Agent pursuant to this Agreement in which cash and investments will be held for payment of the principal, interest, and redemption premium, if any, on the Defeased 2010B Bonds.
- (k) "Issuer" shall mean the City of Marco Island, Florida, and its successors and assigns.
- (l) "Total Debt Service for the Defeased 2010A Bonds" shall mean the sum of the principal of, redemption premium, if any, and interest remaining unpaid with respect to the Defeased 2010A Bonds in accordance with Schedule A attached hereto taking into account that the Defeased 2010A Bonds have been called for early redemption on October 1, 2020, pursuant to Section 14 of the Bond Resolution.
- (m) "Total Debt Service for the Defeased 2010B Bonds" shall mean the sum of the principal of, redemption premium, if any, and interest remaining unpaid with respect to the Defeased 2010B Bonds in accordance with Schedule A attached hereto taking into account that the Defeased 2010B Bonds have been called for early redemption on October 1, 2020, pursuant to Section 14 of the Bond Resolution.

SECTION 2. Deposit of Funds. The Issuer hereby deposits \$_____ with the Escrow Agent for deposit into the 2010A Escrow Account, in immediately available funds, which funds the Escrow Agent acknowledges receipt of, to be held in irrevocable escrow by the Escrow Agent separate and apart from other funds of the Escrow Agent and applied solely as provided in this Agreement. An amount equal to \$_____ of such funds are being derived from proceeds of the Bonds. An amount equal to \$_____ of such funds are being derived from the Bond Service Fund and the [Reserve Fund] (as such terms are defined in the Bond Resolution). The Issuer represents that the uninvested cash deposited to the 2010A Escrow Account together with the principal and interest on the Acquired Obligations on deposit therein (i) is at least equal to the Total Debt Service for the Defeased 2010A Bonds as of the date of such deposit, and (ii) is sufficient to pay principal, interest and redemption premium, if any, on the

Defeased 2010A Bonds as they become due and payable in accordance with Schedule A attached hereto.

The Issuer hereby deposits \$_____ with the Escrow Agent for deposit into the 2010B Escrow Account, in immediately available funds, which funds the Escrow Agent acknowledges receipt of, to be held in irrevocable escrow by the Escrow Agent separate and apart from other funds of the Escrow Agent and applied solely as provided in this Agreement. All of such funds are being derived from other legally available moneys of the Issuer. The Issuer represents that the uninvested cash deposited to the 2010B Escrow Account together with the principal and interest on the Acquired Obligations on deposit therein (i) is at least equal to the Total Debt Service for the Defeased 2010B Bonds as of the date of such deposit, and (ii) is sufficient to pay principal, interest and redemption premium, if any, on the Defeased 2010B Bonds as they become due and payable in accordance with Schedule A attached hereto.

SECTION 3. Use and Investment of Funds. The Escrow Agent acknowledges receipt of the sum described in the first paragraph of Section 2 and agrees:

(a) to hold the funds and investments purchased pursuant to this Agreement in irrevocable escrow during the term of this Agreement for the sole benefit of the holders of the Defeased 2010A Bonds;

(b) to immediately invest \$_____ of such funds derived from the proceeds of the Series 2010A Bonds, and other legally available funds of the Issuer, in the Acquired Obligations set forth on Schedule C attached hereto and to hold such securities and \$_____ of such funds in cash held uninvested in accordance with the terms of this Agreement;

(c) in the event the securities described on Schedule C cannot be purchased, substitute securities may be purchased with the consent of the Issuer but only upon receipt of verification from an independent certified public accountant that the Acquired Obligations, the interest to be earned thereon, and the cash deposited in the 2010A Escrow Account will not be less than the Total Debt Service for the Defeased 2010A Bonds, and only upon receipt of an opinion of Bond Counsel that such securities constitute Acquired Obligations for purposes of this Agreement; and

(d) there will be no investment or reinvestment of funds except as set forth in this Section 3 and except as set forth in Section 5.

The Escrow Agent acknowledges receipt of the sum described in the second paragraph of Section 2 and agrees:

(a) to hold the funds and investments purchased pursuant to this Agreement in irrevocable escrow during the term of this Agreement for the sole benefit of the holders of the Defeased 2010B Bonds;

(b) to immediately invest \$_____ of such funds derived from the proceeds of the Series 2010B Bonds, and other legally available funds of the Issuer, in the Acquired Obligations set forth on Schedule C attached hereto and to hold such securities and \$_____ of such funds in cash held uninvested in accordance with the terms of this Agreement;

(c) in the event the securities described on Schedule C cannot be purchased, substitute securities may be purchased with the consent of the Issuer but only upon receipt of verification from an independent certified public accountant that the Acquired Obligations, the interest to be earned thereon, and the cash deposited in the 2010B Escrow Account will not be less than the Total Debt Service for the Defeased 2010B Bonds, and only upon receipt of an opinion of Bond Counsel that such securities constitute Acquired Obligations for purposes of this Agreement; and

(d) there will be no investment or reinvestment of funds except as set forth in this Section 3 and except as set forth in Section 5.

SECTION 4. Payment of Defeased Bonds and Expenses.

(a) Defeased 2010A Bonds and Defeased 2010B Bonds. On the dates and in the amounts set forth on Schedule A, the Escrow Agent shall transfer to Wells Fargo Bank, National Association, as Paying Agent for the Defeased 2010A Bonds (the "Paying Agent"), in immediately available funds solely from amounts available in the 2010A Escrow Account, a sum sufficient to pay the principal of, interest on and redemption premium, if applicable, on the Defeased 2010A Bonds, as shown on Schedule A. Not less than thirty (30) days prior to such redemption date, the Issuer hereby directs Wells Fargo Bank, National Association, in its capacity as Registrar for the Defeased 2010A Bonds, to mail a notice of the redemption of the Defeased 2010A Bonds to each holder thereof in accordance with the requirements of Section 14 of the Bond Resolution. The Issuer hereby directs Wells Fargo Bank, National Association, as Registrar for the Defeased 2010A Bonds, to mail a notice of defeasance to each holder of the Defeased 2010A Bonds.

On the dates and in the amounts set forth on Schedule A, the Escrow Agent shall transfer to Wells Fargo Bank, National Association, as Paying Agent for the Defeased 2010B Bonds (the "Paying Agent"), in immediately available funds solely from amounts available in the 2010B Escrow Account, a sum sufficient to pay the principal of, interest on and redemption premium, if applicable, on the Defeased 2010B Bonds, as shown on Schedule A. Not less than thirty (30) days prior to such redemption date, the Issuer hereby directs Wells Fargo Bank, National Association, in its capacity as Registrar for the Defeased 2010B Bonds, to mail a notice of the redemption of the Defeased 2010B Bonds to each holder thereof in accordance with the requirements of Section 14 of the Bond Resolution. The Issuer hereby directs Wells Fargo Bank, National Association, as Registrar for the Defeased 2010B Bonds, to mail a notice of defeasance to each holder of the Defeased 2010B Bonds.

(b) Expenses. The Issuer shall pay the fees and expenses of the Escrow Agent as set forth on Schedule B attached hereto.

(c) Surplus. After making the payments from the 2010A Escrow Account described in Subsection 4(a) above, the Escrow Agent shall retain in the 2010A Escrow Account any remaining cash in the 2010A Escrow Account in excess of the Total Debt Service for the Defeased 2010A Bonds until the termination of this Agreement pursuant to the terms of Section 13 hereof, and shall then pay any remaining funds to the Issuer to be used for any lawful purpose.

After making the payments from the 2010B Escrow Account described in Subsection 4(a) above, the Escrow Agent shall retain in the 2010B Escrow Account any remaining cash in the 2010B Escrow Account in excess of the Total Debt Service for the Defeased 2010B Bonds until the termination of this Agreement pursuant to the terms of Section 13 hereof, and shall then pay any remaining funds to the Issuer to be used for any lawful purpose.

(d) Priority of Payments. The holders of the Defeased 2010A Bonds shall have an express first priority security interest in the funds in the 2010A Escrow Account until such funds are used and applied as provided in this Agreement. The holders of the Defeased 2010B Bonds shall have an express first priority security interest in the funds in the 2010B Escrow Account until such funds are used and applied as provided in this Agreement.

SECTION 5. Future Investment.

(a) Except as provided in Section 3 and in this Section 5, the Escrow Agent shall have no power or duty to invest any funds held under this Agreement.

(b) At the written direction of the Issuer and upon compliance with the conditions hereinafter stated, the Escrow Agent shall invest cash in Acquired Obligations. The Issuer will not request the Escrow Agent to exercise any of the powers described in the preceding sentence in any manner which will cause interest on the Bonds to be included in the gross income of the holders thereof for purposes of federal income taxation. The transactions may be effected only if (i) an independent certified public accountant selected by the Issuer shall certify or opine in writing to the Issuer and the Escrow Agent that Acquired Obligations, interest to be earned thereon, and cash remaining on hand after the transactions are completed will, assuming no reinvestment or any earnings, be not less than the Total Debt Service for the Defeased 2010A Bonds or the Total Debt Service for the Defeased 2010B Bonds, as applicable, and that investment in such Acquired Obligations will not postpone the anticipated transfer of moneys from the 2010A Escrow Account or the 2010B Escrow Account, as applicable, to the Paying Agent pursuant to Section 4(a) hereof, and (ii) the Escrow Agent shall receive an opinion from nationally recognized bond counsel acceptable to the Issuer to the effect that the transactions, in and by themselves, will not cause interest on such Bonds or the Defeased 2010A Bonds to be

included in the gross income of the holders thereof for purposes of federal income taxation and such substitution is in compliance with this Agreement. Subsection 4(c) above notwithstanding, cash in excess of the Total Debt Service for the Defeased 2010A Bonds or the Total Debt Service for the Defeased 2010B Bonds, as applicable, caused by investment in Acquired Obligations shall, as soon as practical, be paid to the Issuer. Notwithstanding any provision of this Agreement to the contrary, no forward purchase agreement relating to the future reinvestment of cash held hereunder shall be executed unless the following condition is met: to the extent either Moody's Investors Service, Inc., Fitch Ratings, and/or S&P Global Ratings Inc. have an outstanding rating on the Defeased 2010A Bonds or Defeased 2010B Bonds, at least one of such rating agencies must give written confirmation that it will not lower or withdraw the rating as a result of the Issuer's execution of such forward purchase agreement. In the event of any inconsistency between the terms and conditions of such forward purchase agreement and this Agreement, the terms and conditions of this Agreement shall control.

SECTION 6. Redemption or Acceleration of Maturity. The Issuer will not accelerate the maturity of, or exercise any option to redeem before maturity, any Defeased Bonds, except as set forth on Schedule A attached hereto.

SECTION 7. Responsibilities of Escrow Agent. The Escrow Agent and its respective successors, assigns, agents and servants shall not be held to any personal liability whatsoever, in tort, contract, or otherwise, in connection with the execution and delivery of this Agreement, the establishment of the 2010A Escrow Account and the 2010B Escrow Account, the acceptance of the funds deposited therein, the purchase of Acquired Obligations, the retention of Acquired Obligations or the proceeds thereof or for any payment, transfer or other application of moneys or securities by the Escrow Agent in accordance with the provisions of this Agreement or by reason of any non-negligent or non-willful act, omission or error of the Escrow Agent made in good faith in the conduct of its duties. The Escrow Agent shall, however, be responsible for its gross negligent or willful failure to comply with its duties required hereunder, and its gross negligent or willful acts, omissions or errors hereunder. The duties and obligations of the Escrow Agent shall be determined solely by the express provisions of this Agreement and no implied duties or covenants shall be read into this Agreement against the Escrow Agent. The Escrow Agent may consult with counsel, who may or may not be counsel to the Issuer, at the Issuer's expense, and in reliance upon the opinion of such counsel, shall have full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith in accordance therewith. Whenever the Escrow Agent shall deem it necessary or desirable that a matter be proved or established prior to taking, suffering or omitting any action under this Agreement, such matter may be deemed to be conclusively established by a certificate signed by an authorized officer of the Issuer.

The Escrow Agent may act through its agents and attorneys appointed with due care, and shall not be responsible for any willful misconduct or gross negligence on the part of any such person so appointed. Any payment obligation of the Escrow Agent hereunder shall be paid from, and is limited to funds available under this Agreement; the Escrow Agent shall not

be required to expend its own funds for the performance of its duties hereunder. Notwithstanding any provision herein to the contrary, in no event shall the Escrow Agent be liable for special, indirect or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Escrow Agent has been advised of the likelihood of such loss or damage and regardless of the form of action. The Escrow Agent shall not be responsible or liable for any failure or delay in the performance of its obligation under this Agreement arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including, without limitation, acts of God; earthquakes; fire; flood; hurricanes or other storms; wars; terrorism; similar military disturbances; sabotage; epidemic; pandemic; riots; interruptions; loss or malfunctions of utilities, computer (hardware or software) or communications services; accidents; labor disputes; acts of civil or military authority or governmental action; it being understood that the Escrow Agent shall use commercially reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as reasonably practicable under the circumstances.

SECTION 8. Indemnification of Escrow Agent. From and at all times after the date of this Agreement, Issuer shall, to the fullest extent permitted by law, without waiving its sovereign immunity nor the limits of its liability beyond the amount set forth in Section 768.28, Florida Statutes, regardless of whether such obligations arise in tort, contract, statutes, strict liability, negligence, product liability or otherwise, defend, indemnify and hold harmless Escrow Agent and each director, officer, employee, attorney, agent and affiliate of Escrow Agent (collectively, the "Indemnified Parties") against any and all actions, claims (whether or not valid), losses, damages, liabilities, costs and expenses of any kind or nature whatsoever (including without limitation reasonable attorneys' fees, costs and expenses) incurred by or asserted against any of the Indemnified Parties from and after the date hereof, whether direct, indirect or consequential, as a result of or arising from or in any way relating to any claim, demand, suit, action or proceeding (including any inquiry or investigation) by any person, whether threatened or initiated, asserting a claim for any legal or equitable remedy against any person under any statute or regulation, including, but not limited to, any federal or state securities laws, or under any common law or equitable cause or otherwise, arising from or in connection with the negotiation, preparation, execution, performance or failure of performance of this Agreement or any transactions contemplated herein, whether or not any such Indemnified Party is a party to any such action, proceeding, suit or the target of any such inquiry or investigation; *provided, however*, that no Indemnified Party shall have the right to be indemnified hereunder for any liability finally determined by a court of competent jurisdiction, subject to no further appeal, to have resulted solely from the gross negligence or willful misconduct of such Indemnified Party. Each Indemnified Party shall, in its sole discretion, have the right to select and employ separate counsel with respect to any action or claim brought or asserted against it, and the reasonable fees of such counsel shall be paid upon demand by the Issuer. The obligations of Issuer under this Section 8 shall survive any termination of this Agreement and the resignation or removal of Escrow Agent.

SECTION 9. Resignation of Escrow Agent. The Escrow Agent may resign and thereby become discharged from the duties and obligations hereby created, by notice in writing given to the Issuer, any rating agency then providing a rating on either the Defeased Bonds or the Bonds, and the Paying Agent for the Defeased Bonds not less than sixty (60) days before such resignation shall take effect. Such resignation shall not take effect until the appointment of a new Escrow Agent hereunder.

SECTION 10. Removal of Escrow Agent.

(a) The Escrow Agent may be removed at any time by an instrument or concurrent instruments in writing, executed by the holders of not less than fifty-one percentum (51%) in aggregate principal amount of the Defeased Bonds then outstanding, such instruments to be filed with the Issuer, and notice in writing given by such holders to all holders of the Bonds and published by the Issuer once in a newspaper of general circulation in the territorial limits of the Issuer, and in a daily newspaper or financial journal of general circulation in the City of New York, New York, not less than sixty (60) days before such removal is to take effect as stated in said instrument or instruments. A photographic copy of any instrument filed with the Issuer under the provisions of this paragraph shall be delivered by the Issuer to the Escrow Agent.

(b) The Escrow Agent may also be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provisions of this Agreement with respect to the duties and obligations of the Escrow Agent by any court of competent jurisdiction upon the application of the Issuer or the holders of not less than five percentum (5%) in aggregate principal amount of the Bonds then outstanding, or the holders of not less than five percentum (5%) in aggregate principal amount of the Defeased Bonds then outstanding.

(c) The Escrow Agent may not be removed until a successor Escrow Agent has been appointed in the manner set forth herein.

SECTION 11. Successor Escrow Agent.

(a) If, at any time hereafter, the Escrow Agent shall resign, be removed, be dissolved or otherwise become incapable of acting, or shall be taken over by any governmental official, agency, department or board, the position of Escrow Agent shall thereupon become vacant. If the position of Escrow Agent shall become vacant for any of the foregoing reasons or for any other reason, the Issuer shall immediately appoint an Escrow Agent to fill such vacancy and, upon such appointment, all assets held hereunder shall be transferred to such successor. The Issuer shall either (i) publish notice of any such appointment made by it once in each week for four (4) successive weeks in a newspaper of general circulation published in the territorial limits of the Issuer and in a daily newspaper or financial journal of general circulation in the City of New York, New York, or (ii) mail a notice of any such appointment made by it to the holders of the Defeased Bonds within thirty (30) days after such appointment.

(b) At any time within one year after such vacancy shall have occurred, the holders of a majority in principal amount of the Bonds then outstanding or a majority in principal amount of the Defeased Bonds then outstanding, by an instrument or concurrent instruments in writing, executed by either group of such Bondholders and filed with the governing body of the Issuer, may appoint a successor Escrow Agent, which shall supersede any Escrow Agent theretofore appointed by the Issuer. Photographic copies of each such instrument shall be delivered promptly by the Issuer, to the predecessor Escrow Agent and to the Escrow Agent so appointed by such Bondholders. In the case of conflicting appointments made by such Bondholders under this paragraph, the first effective appointment made during the one year period shall govern.

(c) If no appointment of a successor Escrow Agent shall be made pursuant to the foregoing provisions of this Section, the holder of any Defeased Bonds then outstanding, or any retiring Escrow Agent, may apply to any court of competent jurisdiction to appoint a successor Escrow Agent. Such court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Escrow Agent.

(d) Any corporation or association into which the Escrow Agent may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become successor Escrow Agent hereunder and vested with all the trust, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any parties hereto, anything herein to the contrary notwithstanding, provided such successor shall have reported total capital and surplus in excess of \$15,000,000, provided that such successor Escrow Agent assumes in writing all the trust, duties and responsibilities of the Escrow Agent hereunder.

SECTION 12. Payment to Escrow Agent. The Escrow Agent hereby acknowledges that it has agreed to accept compensation under this Agreement pursuant to the terms of Schedule B attached hereto for services to be performed by the Escrow Agent pursuant to this Agreement. The Escrow Agent shall not be compensated from amounts on deposit in the 2010A Escrow Account or the 2010B Escrow Account, and the Escrow Agent shall have no lien or claim against funds in the 2010A Escrow Account or the 2010B Escrow Account for payment of obligations due it under this Section.

SECTION 13. Term. This Agreement shall commence upon its execution and delivery and shall terminate when the Defeased Bonds have been paid and discharged in accordance with the proceedings authorizing the Defeased Bonds, except as provided in Section 7.

SECTION 14. Severability. If any one or more of the covenants or agreements provided in this Agreement on the part of the Issuer or the Escrow Agent to be performed should be determined by a court of competent jurisdiction to be contrary to law, notice of such event shall be sent to the municipal bond insurer(s) for the Defeased Bonds, if any, as well as Moody's Investors Service, Inc., Fitch Ratings and S&P Global Ratings Inc. (but only to the extent such agencies have a rating outstanding on any of the Defeased Bonds), and while such covenant or agreements herein contained shall be null and void, they shall in no way affect the validity of the remaining provisions of this Agreement.

SECTION 15. Amendments to this Agreement. This Agreement is made for the benefit of the Issuer and the holders from time to time of the Defeased Bonds and it shall not be repealed, revoked, altered or amended in whole or in part without the written consent of all holders of Defeased Bonds, the Escrow Agent and the Issuer; provided, however, that the Issuer and the Escrow Agent may, without the consent of, or notice to, such holders, enter into such agreements supplemental to this Agreement as shall not adversely affect the rights of such holders and as shall not be inconsistent with the terms and provisions of this Agreement, for any one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission in this Agreement;
- (b) to grant to, or confer upon, the Escrow Agent, for the benefit of the holders of the Defeased Bonds any additional rights, remedies, powers or authority that may lawfully be granted to, or conferred upon, such holders or the Escrow Agent; and
- (c) to subject to this Agreement additional funds, securities or properties.

The Escrow Agent shall, at its option, be entitled to request, at the Issuer's expense, and rely exclusively upon an opinion of nationally recognized attorneys on the subject of municipal bonds acceptable to the Issuer with respect to compliance with this Section, including the extent, if any, to which any change, modification, addition or elimination affects the rights of the holders of the Defeased Bonds, or that any instrument executed hereunder complies with the conditions and provisions of this Section. Prior written notice of such amendments, together with proposed copies of such amendments, shall be provided to Moody's Investors Service, Inc., Fitch Ratings, and S&P Global Ratings Inc. (but only to the extent such agencies have a rating outstanding on any of the Defeased Bonds).

SECTION 16. Counterparts. This Agreement may be executed in several counterparts, all or any of which shall be regarded for all purposes as one original and shall constitute and be but one and the same instrument.

SECTION 17. Governing Law. This Agreement shall be governed by and construed under the laws of the State of Florida.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their duly authorized officers and their corporate seals to be hereunto affixed and attested as of the date first above written.

ATTEST

CITY OF MARCO ISLAND, FLORIDA

Laura M. Litzan, City Clerk

Bob Brown, Chairman

Approved as to Form:

Alan L. Gabriel, City Attorney

[Signature page to Escrow Deposit Agreement between
City of Marco Island, Florida and Wells Fargo Bank, National Association]

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Escrow Agent

By: _____

Name: Maureen Vachuska

Title: Assistant Vice President

[Signature page to Escrow Deposit Agreement between
City of Marco Island, Florida and Wells Fargo Bank, National Association]

TOTAL DEBT SERVICE
FOR THE DEFEASED 2010A BONDS

TOTAL DEBT SERVICE
FOR THE DEFEASED 2010B BONDS

<u>Date</u>	<u>Redeemed Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
TOTAL			

SCHEDULE B

EXPENSES TO BE PAID TO ESCROW AGENT

Fee for services as Escrow Agent will be \$1,000 payable annually on each October 1.

Out-of-pocket expenses will be reimbursed at cost.

SCHEDULE C

SCHEDULE OF ACQUIRED OBLIGATIONS
TO BE PURCHASED ON _____, 2016
FOR DEPOSIT IN THE 2010A ESCROW ACCOUNT

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Type</u>
----------------------	-------------------------	----------------------	-------------

SCHEDULE OF ACQUIRED OBLIGATIONS
TO BE PURCHASED ON _____, 2016
FOR DEPOSIT IN THE 2010B ESCROW ACCOUNT

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Type</u>
----------------------	-------------------------	----------------------	-------------