AMERICA'S FIRST SETTLEMENT | THE CRADLE OF NAVAL AVIATION | THE UPSIDE OF FLORIDA

# REPORT TO BONDHOLDERS

## FOR THE YEAR ENDING SEPTEMBER 30, 2016

City of Pensacola, Florida • Ashton J. Hayward, Mayor

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# Introduction

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

Included in the Report is background information about the City and its services, key staff, demographics and finances; particularly as such finances relate to revenues that have been pledged to support debt service requirements on outstanding bonds. In addition, the Report includes details about each outstanding bond issue for which the City has a legal obligation to report, including information regarding economically, but not legally, defeased bond issues. All of the information presented is as of the close of our most recent fiscal year, September 30, 2016, unless the information is specifically noted as of a different date.

The City has contracted with Digital Assurance Certification, LLC (DAC Bond) to provide compliance reporting for the municipal securities industry. The Report to Bondholders and Comprehensive Annual Financial Report (CAFR) is submitted annually through DAC Bond to the Electronic Municipal Market Access (EMMA) System of the Municipal Securities Rulemaking Board (MSRB). This provides a central location where investors can obtain municipal bond information free.

The CAFR is the City's official financial document and should be read in conjunction with this document. An electronic copy of the Report and CAFR can be accessed on the City's web site (www.cityofpensacola.com), under Government, Department Listing, Financial Services, Annual Financial Reports. Any request for financial information must be submitted in writing. If it is determined that the requested information should be available to the "market" and is not included in one of these documents the response will be provided through a filing with EMMA and the requestor will be so notified.

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

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

## MAJOR HIGHLIGHTS

### *Pension Issues*

The American Federation of State County and Municipal Employees (AFSCME) union agreed to the change in the General Pension and Retirement Plan with a new three year union contract effective October 1, 2012. The changes consisted of increasing the average final compensation calculation from 2 years to 5 years, reducing the benefit multiplier from 2.1% to 1.75%, reducing the Cost of Living Adjustment for new retirees from 1.5% per year to 1% per year with new participants in the Deferred Retirement Option Program (DROP) not receiving a Cost of Living Adjustment while participating in DROP. Based on current estimates, these changes will result in a reduction of $680,000 per year in the City's required contributions and decrease the Unfunded Actuarial Accrued Liability by $5.78 million. In exchange for the reduced benefits, the City agreed to a 5% pay increase effective October 1, 2012; a 3% pay increase effective October 1, 2013; and a 2% pay increase effective October 1, 2014. The AFSCME union negotiated a new contract effective October 1, 2015 with a 1% pay increase effective October 1, 2015, 1.25% pay increase effective October 1, 2016 and 2.25% pay increase effective October 1, 2017.

The City and the three police unions entered into agreements to close the Police Officers' Retirement Fund participants effective January 1, 2013. Police Officers hired on or after January 2, 2013 became participants in the Florida Retirement System (FRS). Current officers were given an opportunity to remain in the Police Officers' Retirement Fund or join the FRS. Also in the agreements were several reductions in benefits for officers with less than twenty (20) years of service. The vesting period for those participating in the Police Officers' Retirement Fund increased from ten (10) years to twelve (12) years, the average final compensation changed from two (2) years to five (5) years, the cost of living adjustment was reduced from 3% to 2% after ten (10) years of retirement, and pensionable income is calculated on base pay with no overtime. The DROP interest rate reduced to 1.3% effective January 1, 2013 for new participants in DROP and they will not receive a cost of living adjustment while participating in DROP. These changes resulted in a reduction in the Unfunded Actuarial Accrued Liability to the Police Officers' Retirement Fund of approximately $5.6 million and reduce the City's required contribution by approximately $743,000. In exchange for the reduced benefits, the City agreed to a 3% pay increase effective October 1, 2012; a 5% pay increase effective October 1, 2013; and a 5.5% pay increase effective October 1, 2014 for the Sergeants and Police Officers. Additionally, the Lieutenants pay will be 10% higher than the highest paid Sergeant base pay. The Lieutenants also received a bonus upon ratification of their contract and the pay ranges increased. The City is currently in negotiations for the next union agreement. Effective October 1, 2016, members of the Police Officers' bargaining unit received a 3% pay increase. Sergeants and Lieutenants received bonuses for fiscal years 2016 and 2017.

The City and International Firefighters' Association (IFFA) entered into an agreement to make the following changes to the Firefighter's Relief and Pension Plan Special Act which became effective June 10, 2015. The agreement reduced several benefits for firefighters with less than twenty (20) years of service. The average final compensation changed from two (2) years to last five (5) years, the cost of living adjustment was reduce from 3% to 2% for the employees hired before June 10, 2015 with less than twenty (20) years of service and 0% for those hired on or after June 10, 2015. Also, pensionable income is calculated on base pay with a maximum of 300 hours overtime per year for those employees vested, a maximum of 200 hours overtime per year for those employees not vested and no overtime for those employees hired on or after June 10, 2015. The DROP interest rate was reduce to 1.3% effective June 10, 2015 for new participants in DROP and they will not receive a cost of living adjustment while participating in DROP. A participant hired after June 10, 2015 has a spousal benefit in the same manner that spousal benefits are available to the Florida Retirement System (FRS) participants. These changes resulted in a reduction in the Unfunded Actuarial Accrued Liability to the Firefighters' Relief and Pension Plan of approximately $3.69 million. In exchange for the reduced benefits, the City agreed to a pay increase for those not participating in DROP based on a schedule provided in the contract effective October 1, 2014; a 2% pay increase effective October 1, 2015 for those not participating in DROP; and a 3% pay increase effective October 1, 2016 for those not participating in DROP. In addition, all union members not participating in DROP received a one-time $1,500 bonus upon ratification of the contract while DROP participants received a $1,500 bonus effective October 1, 2015 and October 1, 2016, respectively.

***Build America Bonds – Effects of Sequestration***

The City's Series 2009B Redevelopment Bonds (as described herein; See "General Government – Covenant to Budget and Appropriate" and "Community Redevelopment Agency (CRA)") are "Build America Bonds". The American Recovery and Reinvestment Act of 2009 authorized issuers to issue taxable bonds known as "Build America Bonds" or "BABs" to finance capital expenditures for which issuers could issue tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds (the "Federal Direct Payments"). The subsidy for the Series 2009B Redevelopment Bonds is paid to the City. The receipt of the Federal Direct Payments is subject to certain requirements, including the filing of a form with the Internal Revenue Service prior to each interest payment date.

On March 1, 2013, as required by the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, the President signed an executive order reducing the budgetary authority in accounts subject to sequester, in accordance with the report issued by the Office of Management and Budget. The order requires that the budget authority for all accounts in the domestic mandatory spending category, which includes payments to issuers of direct-pay bonds, including Build America Bonds, be reduced for federal fiscal year 2016. Payments made on September 6, 2016 in the amount of $455,859.42, were reduced 6.8 percent from the original subsidy of $489,119.55. The September 6, 2016 payment was used towards the October 1, 2016 debt service payment on the City's Series 2009B Redevelopment Bonds.

The Tax-Exempt Bond office of the Internal Revenue Service has issued guidance on the effect of the sequester on direct pay bonds for fiscal year 2017. Payments made to issuers on or after October 1, 2016, through and including September 30, 2017, will be reduced approximately 6.9 percent, unless Congressional action changes the reduction percentage. This would result in a reduction of approximately $67,500 to the City of Pensacola during that time frame. Upon filing of the required reports to the IRS, the City will receive correspondence concerning the reduction. There could be additional sequester orders for future fiscal years through and including fiscal year 2024.

Notwithstanding the reduction in receipt of federal direct payments, the City is obligated to pay the principal and interest on the Series 2009B Redevelopment Bonds from certain non-ad valorem revenues pursuant to a Covenant to Budget and Appropriate, as described herein. Accordingly, the City does not expect the sequester to affect the receipt by bondholders of their principal and interest payments.

***Bond Ratings***

On October 16, 2009 Standard & Poor's Ratings Services ("Standard & Poor's") affirmed its "AA" on the City's Issuer Credit Rating and on September 23, 2015 Fitch Ratings ("Fitch") affirmed an implied general obligation rating for the City of "AA+".

Also, on October 16, 2009 Standard & Poor's assigned a long-term rating of "AA-" and on September 23, 2015 Fitch affirmed a long-term rating of "AA" on the City's Redevelopment Revenue Bonds, Series 2009A and Series 2009B (the "Series 2009 Redevelopment Bonds").

On July 27, 2016 Standard & Poor's affirmed a long-term rating of "BBB", on September 22, 2016 Fitch affirmed a rating of "BBB-"and on December 23, 2015 Moody's Investors Service, Inc. ("Moody's") affirmed a long-term rating of "Baa1" on the City's Airport Revenue Bonds. Outlook is positive with respect to the Standard & Poor's rating and stable with respect to the Moody's and Fitch ratings.

The City was a participant and the only borrower pursuant to Participant Loan Agreements with the City of Gulf Breeze, Florida ("Gulf Breeze"), executed and delivered in connection with the City's Capital Improvement Revenue Bonds, Series 2010A-1 and Series 2010A-2 (collectively, the "2010A Loan Agreements") and the City's Gas System Revenue Bonds, Series 2010B-1 and Series 2010B-2 (collectively, the "2010B Loan Agreements"). Gulf Breeze issued its Capital Funding Revenue Bonds, Series 2010A and Series 2010B (the "Gulf Breeze Bonds") to fund the 2010A Loan Program ("2010A Program") and the 2010B Loan Program ("2010B Program" and together with the 2010A Program, the "Gulf Breeze 2010 Loan Program"), respectively. As the City is the only borrower from the Gulf Breeze 2010 Loan Program, Moody's assigned an underlying rating of "Aa3" to both series of the Gulf Breeze Bonds based upon the City's pledge of the Local Option Sales Tax (also referred to in this report as the "Infrastructure Sales Tax" all as more fully described herein) to repayment of the obligations under the 2010A Loan Agreements and based on the City's pledge of net revenues of the Gas System to repayment of its obligations under the 2010B Loan Agreements.

The fluctuations of the financial market and downgrades or potential downgrades of bond insurers' ratings have had no material effect on principal and interest payments made by the City, or the City's underlying bond ratings. All required principal and interest payments have been remitted timely and in full.

***Additional Information***

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

**Chief Financial Officer**
**City of Pensacola**
**222 West Main Street**
**Pensacola, Florida 32502**
**(850) 435-1817 phone**
**(850) 435-1700 fax**
**www.cityofpensacola.com**

## FINANCIAL SERVICES DEPARTMENT

RICHARD BARKER, JR.
Chief Financial Officer

ACCOUNTING STAFF

LAURA PICKLAP, CPA
Accounting Services Manager

LAKIA MCNEAL, CPA
Accountant

## EXTERNAL PROFESSIONALS

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City Financial Advisor

BRYANT MILLER OLIVE, P.A.
City Bond Counsel

LOCKE LORD LLP
City Disclosure Counsel

MAULDIN & JENKINS
City Auditors

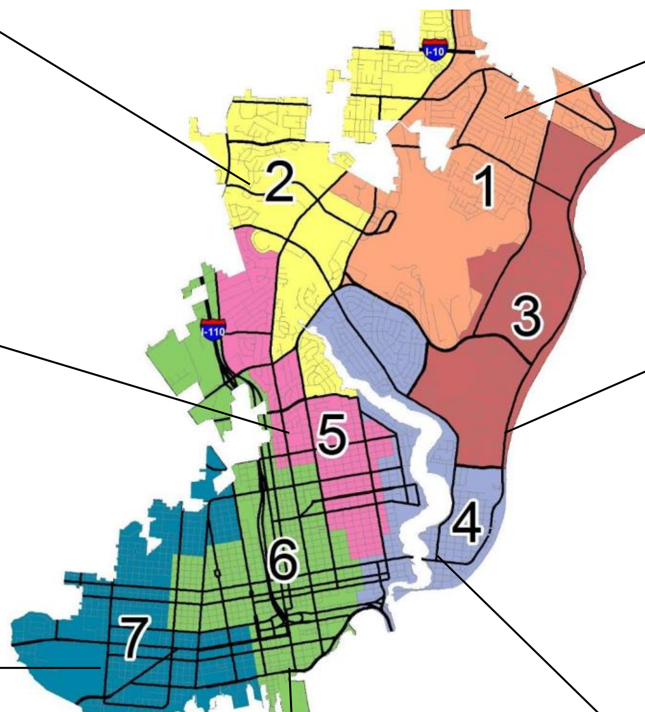
# CITY OF PENSACOLA, FLORIDA
## LISTING OF ELECTED AND APPOINTED OFFICIALS

## ELECTED OFFICIALS
## FISCAL YEAR 2016 MAYOR & CITY COUNCIL

Ashton J. Hayward, III
Mayor

Sherri F. Myers
District 2

P. C. Wu, Ph.D.
District 1




Gerald Wingate
District 5

Andy Terhaar
District 3

Jewel Cannada-Wynn
District 7

Larry B. Johnson
District 4

Brian Spencer
Council Vice President
District 6

Charles Bare
Council President
At-Large

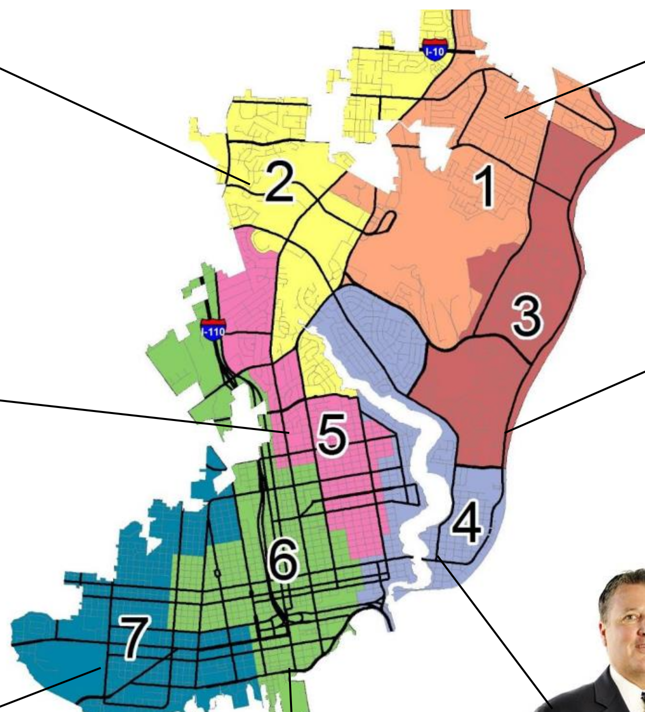
# CITY OF PENSACOLA, FLORIDA
## LISTING OF ELECTED AND APPOINTED OFFICIALS

## ELECTED OFFICIALS
## FY 2017 MAYOR & CITY COUNCIL

Ashton J. Hayward, III
Mayor

Sherri F. Myers
District 2

P. C. Wu, Ph.D.
District 1




Gerald Wingate
Council Vice President
District 5

Andy Terhaar
District 3

Jewel Cannada-Wynn
District 7

Larry B. Johnson
District 4

Brian Spencer
Council President
District 6

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# GENERAL INFORMATION CONCERNING THE CITY OF PENSACOLA

The City of Pensacola was incorporated in 1931 as a municipal corporation of the State of Florida. The City Council adopted a new charter on November 24, 2009 following voter approval. The new charter instituted a Mayor-Council form of government. Under the charter, the Council constitutes the governing body of the City with all legislative powers of the City vested therein, consisting of nine Council Members, one to be elected from each of the seven election districts of the City, and two Council members to be elected at large. On June 11, 2013, voters approved amendments to the City Charter that eliminated the two at-large City Council seats, upon the completion of the current terms, which will reduce the number of City Council members from nine to seven by November 2016. After the November 2014 and November 2016 elections, both of the at large seats were eliminated which reduced the current total Council members elected to seven. The Mayor, elected at large, is not a member of Council and does not have voting power but has veto power over all ordinances and resolutions except those relating to emergencies, quasi-judicial proceedings and charter amendments. A veto may be overridden only by an affirmative vote of at least five Council members. Every ten years a Charter Review Commission will be established to review the City's charter. Under the charter, the Mayor serves as the executive head of the City and appoints a City Administrator to assist in managing daily operations, and with consent of the City Council, appoints the City Attorney, the City Clerk, and the department heads.

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

## CITY'S MANAGMENT

Biographies for the Mayor, City Administrator, Chief Financial Officer, and City Attorney are as follows:

***Ashton J. Hayward, III, Mayor.*** Ashton Hayward was elected Mayor of Pensacola in 2010, after the City passed a new charter forming a "strong mayor" form of government in 2009. Hayward is a native of Pensacola, attended local schools, and graduated from Florida State University. Prior to his election as mayor, Hayward worked in New York City for the AT&T Corporation and the Financial Times. In 2003, Hayward returned to Pensacola with his wife, An, and started a real estate firm, which he managed until taking office in 2011.

As mayor, Hayward manages a staff of more than 750 employees, a budget of nearly $200 million, and works with members of the City Council to set policy and the City budget. In addition to managerial and policy duties, the mayor also serves in an unofficial capacity in guiding local economic development initiatives, leading legislative advocacy efforts to state and federal elected officials and agencies, and ceremonial duties throughout the region.

***Richard Barker, Jr., CGFM, Chief Financial Officer.*** Mr. Barker is a native of Pensacola and received his Bachelor's degree in accounting from the University of West Florida. He has worked in the City's finance department since 1980. In 1998, he was appointed as the Director of Finance. In 2011, the Mayor appointed him to serve as the Chief Financial Officer. He also serves as Plan Administrator for the City's three defined benefit plans and five deferred compensation plans. He is an active member of the Government Finance Officers Association (GFOA), the Florida GFOA and the Association of Governmental Accountants (AGA). Mr. Barker served as Interim City Administrator from August 14, 2014 through March 29, 2015.

***Eric Olson, City Administrator.*** Eric Olson retired from the Navy and returned to Pensacola in 2011. He began his military career as a Naval Aviator and was later designated a Foreign Area Officer. In that capacity he specialized in European political-military affairs and strategic planning. Prior to joining the staff at City Hall he worked for the Pensacola-based expert witness search firm, IMS Expert Services, and for Pensacola Habitat for Humanity as the Veterans' Programs Coordinator. He has been an active volunteer with several area non-profit agencies and is currently a patient support volunteer and outreach ambassador for Covenant Hospice. Mr. Olson served as Assistant City Administrator from August 14, 2014 through March 29, 2015 and was appointed City Administrator on March 30, 2015.

Mr. Olson is a 1985 distinguished graduate of the US Naval Academy. He received a Master's in International Public Policy from The Paul H. Nitze School of Advanced International Studies and completed two years of additional post-graduate work as an Olmsted Scholar at the University of Leipzig, Germany. He has varying levels of proficiency in French, German and Estonian. Eric and his wife Neicy have one son, Yahn, a 2013 Pensacola High School graduate.

***Lysia H. Bowling, City Attorney.*** Lysia H. Bowling holds double majors in political science and Latin American studies from Yale University, as well as a Juris Doctorate from the University of Virginia School of Law. She is licensed to practice law in both the State of Florida and the State of Texas. Ms. Bowling previously served as the City Attorney for the City of San Angelo, Texas, and the City of Harlingen, Texas. She was also an Assistant State Attorney for Florida's Eleventh Judicial Circuit, Assistant City Attorney and Police Legal Advisor for the City of Miami, Florida, Police Legal Advisor and City Prosecutor for the City of Temple, Texas, Chief Prosecutor for the City of Austin, Texas, and has served as an Assistant Attorney General for the Texas Attorney General and has served with several additional Texas state agencies, including the Texas Comptroller of Public Accounts, the Texas General Land Office, and the Texas Department of Insurance. On March 12, 2015, City Council provided its consent to the Mayor's appointment of Lysia H. Bowling as City Attorney.

## GENERAL GOVERNMENT OPERATIONS

***Fire.*** The City Fire Department is a comprehensive fire protection agency, operating under the direction of the Fire Chief, who is appointed by the Mayor. The primary mission of the department is to provide a range of programs designed to protect the lives and property of inhabitants from adverse effects of fires, sudden medical emergencies, or exposure to dangerous conditions created by man or nature. The department, with 115 budgeted positions, serves the entire population within the city limits. Under Mutual Aid Agreements with Escambia County, the United States (US) Navy and the US Coast Guard, the department responds to emergencies and furnishes mutual aid to areas outside the city limits, if requested. The department maintains fire suppression staffing twenty-four hours a day, seven days a week through use of a three-platoon system. The City currently has six fire stations, with one station located at the International Airport as an Aircraft Rescue/Fire Fighting Facility. From these six stations, the department staffs six engines, two ladder trucks, two air/crash rescue fire vehicles and a fireboat. The department also serves as a regional testing and training center for the Florida Bureau of Fire Standards and Training. The department provides fire code enforcement inspection and plans review services to business and commercial occupancies and life safety education to the public.

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

***Police.*** The Pensacola Police Department is a full-service law enforcement agency operating under direction of the Chief of Police, who is appointed by the Mayor. Approximately 150 sworn officers and fifty-four non-sworn personnel are employed by the department, which is responsible for law enforcement within corporate city limits and works closely with local, state and federal law enforcement agencies.

The mission of the department is to provide professional, efficient and courteous service to the public. Officers shall strive to improve the quality of life by enforcing laws in a fair and impartial manner while encouraging a spirit of cooperation and mutual trust with the public. Officers and support staff shall have respect for the dignity and rights of all people. The department is divided into four major divisions: Office of the Chief, Uniform Patrol, Criminal Investigations and Administration, Technology & Service Division (ATSD).

***Public Works and Facilities.*** The Public Works and Facilities (PW&F) Department's mission is to provide courteous and quality service, while maintaining the city's infrastructure, including public facilities, streets, sidewalks, stormwater systems, street lighting, and traffic control devices. The department includes staff specialized in road and building maintenance and engineers who are responsible for the implementation of City capital construction projects including design, permitting and construction of roadways, stormwater drainage projects, sidewalk projects, waterfront projects and new building facilities.

Facilities maintenance is responsible for maintaining the majority of City-owned buildings and includes; interior and exterior building (structural) repairs when needed, all painting, electrical, plumbing repairs, and the monitoring of all building HVAC systems. This includes everything from City Hall to the ten resource centers located throughout the City. Street maintenance includes maintaining 110 traffic control signals, 1,280 street lights and various roadside signs, pavement maintenance and street sweeping. The department maintains 332 miles of City roadways (including residential and downtown areas) and fifty-seven miles of State of Florida roadways and bridges within the City. Street sweeper activities sweep approximately 23,400 miles of roadway per year. Between stormwater and street sweeping operations the City removes approximately 3,500 tons of debris annually before it impacts the environment. Funding for the department is obtained through a combination of the Stormwater Utility Fund and General Fund revenue. The PW&F Capital Improvement programs and projects are funded from the Local Option Gas Tax, Local Option Sales Tax, and the Stormwater Capital Projects Fund.

In addition to facility and street maintenance, the department is responsible for all stormwater related activities of the City, including the National Pollutant Discharge Elimination System (NPDES) permit compliance. Stormwater maintenance addresses stormwater problems related to both flooding and water quality issues. This entails the ongoing maintenance of forty-nine retention ponds, eighty-three various stormwater treatment units, eighteen drainage ditches, over 3,644 drainage inlets, fourteen major stormwater outfalls and five pumping stations. Several significant stormwater projects were completed that provided enhanced treatment and flooding abatement in numerous areas of the City. Major capital stormwater projects included the installation of a new stormwater vault on Bayou Boulevard at Carpenter Creek, rehabbing the Coyle Street storm sewer system, revamping a three acre stormwater pond on Scenic Hwy at Langley Ave and constructing two slope stabilization projects in Baywoods Gully.

***Parks and Recreation.*** The mission of the Parks & Recreation Department is to improve and promote the quality of life for all citizens and visitors of Pensacola by protecting the heritage of our parks while providing a wide range of recreational, social, and educational opportunities. Parks and Recreation offers the residents of the Pensacola a wide range of recreational, social, and educational opportunities. The department maintains ten resource centers which offer programs designed for all ages; from the Gull Point resource center offering classes starting at age three to the Bayview Senior resource center open to citizens age fifty and older. These ten resource centers also provide free access to reading, audio visual materials and internet through the use of public computers.

In addition to resource centers, the department maintains ninety-three parks covering 592 acres of landscaped area, some which have playing and practice fields for various outdoor sports programs. Located within the City parks there are sixty playgrounds and twenty-six outdoor basketball courts. The City Parks Division also has two Dog Parks; Roger Scott and Bayview. The City's tree crew maintains and enhances the trees on City Right of Way's and in City parks. Their efforts ensure the City of Pensacola remains listed as a Tree City USA. The City's neighborhood park development program is enhanced by working with various community groups in planting flowering trees, installing playground equipment, improving playing fields, and maintaining the street-scape program in the downtown area. The Parks Division provides direct maintenance to the Community Maritime Park Amphitheater and park areas including landscaping and lawn care.

The department is also responsible for the operations of two City pools, a golf course and a tennis center. The Cecil T. Hunter Pool and Roger Scott Pool are open seven days a week to the public starting Memorial Day weekend through Labor Day weekend. The pools offer water slides, zero depth entry, spray features as well as locker rooms and showers. The Osceola Municipal Golf Course is the City's eighteen-hole, par seventy, renovated golf course with Tifton hybrid Bermuda greens and fairways, driving range, full service Pro Shop, automated irrigation system, electric golf carts, pull carts, restaurant and lounge. Approximately thirty thousand rounds of golf are played annually. The facility is open seven days a week from dawn to dusk and is closed only on Christmas Day. The Roger Scott Tennis Center features eighteen hard surface courts and ten clay courts with lights and bleachers, hitting wall, Pro Shop, patio area, and concessions. It is the largest tennis facility in Pensacola, Florida and offers endless opportunities for players of all ages and levels. This tennis center has received the USTA Florida Member Organization of the Year award in 2007 and 2015. The facility is open seven days a week.

***Other City Services.*** In addition to the services described above, and elsewhere in this Report, the City provides other municipal services to its citizens such as federally funded low and moderate income housing, code enforcement, planning, inspections, neighborhood revitalization services and various municipally provided recreational services. The City also owns and operates through contract with the Saenger Management Group, the Pensacola Saenger Theatre.

**BUDGET**

The City annually adopts an Operating Budget and a Capital Improvement Plan. The City utilizes a target budgeting concept in developing its annual operating budget. Under this concept, each department or cost center is initially allocated a dollar total to meet all operating costs except capital and non-capital assets. Development of individual department budgets within the target is at the discretion of the departments. Departments must identify program objectives to be accomplished within their target allocations. Additional amounts above that target can be requested based on identified needs. For each of the last consecutive twenty-six fiscal years, the City's operating budget has received the Government Finance Officers' Association's "Distinguished Budget Presentation Award." The City adopted a Balanced Budget through September 2017.

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

## DEBT ADMINISTRATION

The current outstanding general government debt service obligations are paid from the CRA Debt Service Fund, for the CRA debt service obligations, the LOST Fund, for the LOST debt service obligations and the LOGT Debt Service Fund for the LOGT debt service obligations. The long term liability portion of the obligations is recorded in the General Long-Term Debt Account Group. Specific revenues pledged for debt obligations include such sources as Communications Service Tax, Local Option Gasoline Tax, Infrastructure Sales Tax and Tax Increment Revenues. The City has no general obligation debt. The City paid a total of \$3,695,000 in principal and \$3,592,467 in interest for all general government debt transactions during the fiscal year 2016. The City has adopted a Debt Incurrence and Administration Policy which is included as Appendix A.

## CASH MANAGEMENT

Available cash from all funds is pooled and currently deposited in collateralized money market accounts and certificates of deposit. Interest earned is allocated to the different funds based on their equity share. In fiscal year 2016 combined unrestricted interest income for all Governmental, Expendable Trust, and Proprietary funds was \$2,241,432. The City has adopted a formal Investment Policy which is included as Appendix B.

## LOCATION AND CLIMATE

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

## BUSINESS AND ECONOMIC ENVIRONMENT

The City is located in the Pensacola Metropolitan Statistical Area (MSA) and the Pensacola Mobile Designated Marketing Area (DMA). The Pensacola MSA comprises Escambia County (661 Square miles) and Santa Rosa County (1,024 square miles). The area is proud of its number one employer, the U.S. Navy; however, tourism, health care and education make up the majority of its workforce and economy. Tourism is the area’s third largest sector, behind military and health care, and has become a year-round business. While the majority of tourism, business and economic activity is not within the city limits of Pensacola, the City benefits substantially from the tourism, economic and business activity within the MSA.

***Military.*** The Pensacola MSA has an advantage in the caliber and economic strength generated by its military bases. Known since 1914 as the "Cradle of Naval Aviation," the area supports the Naval Air Station (NAS) Pensacola, Bronson Field, Saufley Field, Corry Station and the Naval Hospital. These four bases support training of thousands of US Navy, Marine Corps, Coast Guard, and Air Force personnel. Pensacola is also home to the Blue Angels, the Navy's world famous flight demonstration team, as well as the National Naval Aviation Museum which is the world's largest naval aviation museum and one of the most-visited museums in the State of Florida. Historic and one-of-a-kind aircraft are displayed both inside the Museum's nearly 300,000 square feet of exhibit space and outside on its 37-acre grounds. In addition, the National Flight Academy (NFA) located at NAS is a premier Science Technology, Engineering and Math (STEM) education center in which middle and high school students learn the necessary STEM tools to succeed.

In 1914, NAS Pensacola consisted of nine officers, twenty-three mechanics and eight airplanes. Today, NAS Pensacola is the home of 125 tenant commands located on board its 8,423 acres. In 1971, NAS Pensacola became the headquarters for Naval Education & Training Command (NETC), one of the largest Navy shore commands. NETC is responsible for the training and education of all Navy and Marine Corps personnel worldwide.

The Pensacola Naval Complex in Escambia County employs more than 16,000 military and 7,400 civilian personnel. In 2015, Enterprise Florida in partnership with CareerSource Florida released a Florida Defense Fact book which showed military impact in Escambia and surrounding Counties. The fact book is updated every couple of years. Statistics from the handbook are as follows:

**Military Employment in Northwest Florida**

| County | Military Station(s) | Total Personnel |
|---|---|---|
| Escambia | NAS Pensacola, Corry Station, and Saufley Field | 63,293 |
| Okaloosa | Eglin and Hurlburt | 71,780 |
| Santa Rosa | NAS Whiting Field | 13,369 |
| Bay | NAS Panama City, and Tyndall AFB | 22,561 |
| Total | | 171,003 |

Source: FL Military Economic Impact Analysis 2015

**Military Impact in Escambia County**
(In millions)

| | |
|---|---|
| County Economic Impact (Gross Regional Product) | $7,184.1 |
| Employment (number of jobs) | 63,293 |
| Sales Activity | $4,547.2 |
| Consumption | $2,977.1 |
| Capital Investment | $708.6 |

Source: FL Military Economic Impact Analysis 2015

***Tourism.*** Tourism has played a vital role as a source for economic activity in the Pensacola MSA. While the Southeastern cities of the United States account for the largest demographic of visitors in the Pensacola region, Pensacola also sees many visitors from the surrounding areas such as Ft. Walton, Destin and New Orleans who make day trips to Pensacola Beach. The Pensacola area has a considerable number of facilities that support recreation and leisure activities including a small amusement park, a water park, golf courses, marinas, museums, a zoo, and sports complexes. Pensacola's main attraction is its sugar white sand beach along the Gulf of Mexico. The 2017 Trip Advisor Travelers' Choice® Beaches Awards included Pensacola Beach as one of the country's top twenty-five beaches. Pensacola Beach has been ranked among the best in the country by Trip Advisor, Dr. Beach and the Travel Channel. Already known for some of the best diving spots, including the world's largest artificial reef, the USS Oriskany, the Pensacola Bay Area is also home to five of the twelve trails along the Florida Panhandle Shipwreck Trail developed by the Florida's Department of State's Underwater Archaeology Team. Palafox Street, which runs through the heart of downtown Pensacola, was named one of the 2013 "10 Great Streets in America" by the American Planning Association (APA). Palafox Street plays host to a variety of unique local restaurants, chic boutiques, trendy bars and plentiful art galleries.

The Pensacola's Blue Wahoos, the Double-A affiliate baseball team to the Cincinnati Reds, hosted its inaugural season in 2012 at the newly constructed multi-use stadium in the 32-acre Vince J. Whibbs, Sr. Community Maritime Park. The Blue Wahoos have received numerous awards including being ranked twelfth overall by Stadium Journey in the Top 100 Stadium Experiences of 2015 which reviews more than 2,000 stadiums annually. Other attractions are the Gulf Island National Seashore (which includes Fort Pickens, a historic U.S. military fort) and the National Museum of Naval Aviation with its IMAX Theater.

The Pensacola Bay Area Citizen and Visitors Bureau reported fiscal year 2016 to be another record year for tourism generating $9.9 million in Escambia County Tourist Development Tax collections, an 8.6 percent increase from the previous year. The Tourist Development Tax is a four percent tax on the total payment received for the rental or lease of living quarters and accommodations in a hotel, motel, rooming house, mobile home park, recreational vehicle park, condominium, apartment, multiple-unit structure, mobile home, trailer, single-family home, or any other sleeping accommodations that are rented for a period of six months or less.

***Government.*** As of calendar year 2015 (the most recent information available), government's share of employment in the Pensacola MSA is approximately 18.58 percent. Government's employment share in Escambia County was 17.80 percent while its share in Florida was 14.13 percent. Government's large share of employment in the Pensacola MSA is accounted for by the relatively large presence of the military in the region.

## EMPLOYMENT

The Pensacola MSA is a diversified trade, service, and manufacturing center with total civilian employment of 214,749 during calendar year 2016.

**Pensacola MSA Employment/Unemployment Statistics**
(In thousands)

| | **2011** | **2012** | **2013** | **2014** | **2015** | **2016 (a)** |
|---|---|---|---|---|---|---|
| Civilian Labor Force | 211.39 | 210.31 | 211.32 | 215.18 | 213.18 | 214.75 |
| Total Employment | 190.17 | 192.75 | 196.48 | 202.20 | 201.92 | 204.36 |
| Unemployed | 21.22 | 17.56 | 14.84 | 12.98 | 11.26 | 10.39 |
| Unemployment Rate (percent) | 10.0 | 8.3 | 7.0 | 6.0 | 5.3 | 4.8 |

Source: Florida Department of Labor and Employment Securities – http://freida.labormarketinfo.com
(a) Includes preliminary numbers for December 2016.

**Ten Largest Employers and Manufacturers**
**Pensacola MSA**

| **Rank** | **Employer** | **Principal Business** | **No. of Employees** |
|---|---|---|---|
| 1 | Local Government | Government Services | 15,700 |
| 2 | Federal Government | Government Services | 6,800 |
| 3 | State Government | Government Services | 6,400 |
| 4 | Baptist Health Care | Health Care Services | 5,571 |
| 5 | Navy Federal Credit Union | Financial Service Center | 5,325 |
| 6 | Sacred Hearth Health System | Health Care Services | 4,820 |
| 7 | Gulf Power Company | Electric Utility | 1,774 |
| 8 | West Florida Healthcare | Health Care Services | 1,200 |
| 9 | Ascend (formerly Solutia, Inc) | Manufacturing | 830 |
| 10 | West Telemarketing | Telemarketing | 800 |

Source: City fiscal year 2016 CAFR, Statistical section.
(a) The number of employees as reported for the Federal Government only includes civilian employees

## TRANSPORTATION

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

Interconnecting bus line service is available from the City to most of the nation and a bus transit service is operated by Escambia County Area Transit for the county area as well. Two rail lines serve the City and the surrounding area with scheduled freight service. The City has deepwater port facilities and is located on the inter-coastal waterway that allows barge service along the entire Gulf Coast. The Pensacola International Airport is conveniently located near the center of the City with air service provided by mainline air carriers and regional affiliates. Refer to the Pensacola International Airport section of the Report for more details.

## RECREATION AND CULTURAL ACTIVITIES

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

Recreational amenities include one public and numerous private golf courses, private yacht clubs, multiple marinas, several tennis clubs, public and private boat ramps, fishing piers, a private zoo, a paced stock car racetrack, dog racing, a baseball stadium which hosts a double-A baseball team, national monuments and the Gulf Island National Seashore. The national seashore area covers sixteen miles of Santa Rosa Island and includes thousands of acres of seashore and dunes and thirty-five miles of beachfront.

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

**EDUCATION**

Escambia County uses the County Unit System of education, operating under the supervision of the State of Florida. The School System is administered by the Escambia County School Board. The Escambia County School District, which serves over 40,000 students, is the twentieth largest school district in Florida. All high schools in the County are fully accredited by the Southern Association of Colleges and Secondary Schools. The District's average pupil/teacher ratio is approximately 13.24:1. A significant number of secondary school students attend private institutions including Pensacola Christian School, Catholic schools and Creative Learning Center.

The University of West Florida was established in 1963 and classes began in 1967. The University is a public Four-Year III Institution with the Carnegie Classification of Doctoral/Research. The University is Level V (of VI) accredited by Southern Association of Colleges and Schools. Graduate and undergraduate degree programs are offered in many disciplines including electrical engineering, education, business, computer science and marine biology with the current enrollment of 10,082 undergraduate and 2,920 graduate or unclassified. The University of West Florida was named a Best Southeastern College by the Princeton Review for the fourteenth consecutive year. The award was based on surveys that evaluated universities on the accessibility of professors, to the number of hours professors spend studying outside of the classroom to the quality of food on campus.

Pensacola State College was officially opened in September 1948 and provides programs in technical, vocational and adult education. Founded as Pensacola Junior College, upon the Florida State Board of Education's and Southern Association of Colleges and Schools (SACS) Commission on College's approval of two workforce baccalaureate degree programs, the college's name changed to Pensacola State College in July of 2010. The college has grown into a comprehensive multi-campus institution providing college credit courses to more than 26,000 students annually.

Pensacola is also home to a number of private sector educational institutions including Pensacola Christian College which enrolls over 4,000 full time students annually from all fifty states and approximately fifty foreign countries.

**UTILITY SERVICES**

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

## POPULATION AND PER CAPITA INCOME

***Population.*** The population of the Pensacola MSA according to the 2010 Census was 448,991. Population for the Pensacola MSA is forecasted to grow to 533,900 by 2025. The population growth for the Pensacola MSA per the 2010 Census represents a nine percent increase from the 2000 census population of 412,153, with most of the growth in Santa Rosa County.

| HISTORICAL AND FORECAST POPULATION<br>Pensacola MSA, State of Florida and United States 1980-2025 | | | | | |
|---|---|---|---|---|---|
| | **Escambia** | **Santa Rosa** | **Pensacola MSA** | **Florida** | **United States** |
| **HISTORICAL** | | | | | |
| 1980 | 233,794 | 55,988 | 289,782 | 9,746,324 | 226,545,805 |
| 1990 | 263,302 | 82,165 | 345,467 | 12,937,926 | 248,709,873 |
| 2000 | 294,410 | 117,743 | 412,153 | 15,982,378 | 281,421,906 |
| 2010 | 297,619 | 151,372 | 448,991 | 18,801,310 | 308,745,538 |
| 2016 | 312,972 | 169,864 | 482,836 | 20,308,123 | 323,846,483 |
| **FORECAST** | | | | | |
| 2020 | 336,600 | 172,900 | 509,500 | 23,406,525 | 334,123,000 |
| 2025 | 347,600 | 186,300 | 533,900 | 25,912,458 | 346,655,000 |

Source: University of West Florida HAAS center and census.gov.

| City of Pensacola Population | | | | |
|---|---|---|---|---|
| **1980** | **1990** | **2000** | **2010** | **2016** |
| 57,794 | 58,906 | 56,255 | 51,923 (a) | 54,594 |

Source: City fiscal year 2016 CAFR, Statistical section.
Note: The City is a municipality located within Escambia County.
(a) Decrease in population numbers are based on the 2010 United States Census.

| Income per Capita 2016 | | | | | |
|---|---|---|---|---|---|
| | **City** | **Escambia** | **Santa Rosa** | **Florida** | **United States** |
| 2016 | $ 30,000 | $ 24,882 | $ 28,709 | $ 27,819 | $ 30,249 |

Source: University of West Florida HAAS center.
Note: Escambia and Santa Rosa Counties make up Pensacola MSA and the City is a municipality located within Escambia County.

| Age and Gender Distribution for Population 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Location** | **Male** | **Female** | **0-14** | **15-24** | **25-34** | **35-44** | **45-54** | **55+** | **Median Age** |
| City of Pensacola | 47.4% | 52.6% | 15.6% | 12.1% | 14.4% | 10.7% | 13.5% | 33.7% | 43 |
| Escambia County | 49.9 | 50.1 | 17.5 | 16.4 | 14.0 | 10.7 | 12.7 | 28.7 | 37 |
| Santa Rosa County | 51.1 | 48.9 | 18.5 | 12.6 | 13.6 | 12.9 | 15.1 | 27.4 | 39 |
| Florida | 48.9 | 51.1 | 16.9 | 12.5 | 12.7 | 12.2 | 13.8 | 32.0 | 42 |
| United States | 49.2 | 50.8 | 19.1 | 13.8 | 13.7 | 12.7 | 13.6 | 27.1 | 38 |

Source: UWF Haas Center
Note: Escambia and Santa Rosa Counties make up Pensacola MSA and the City is a municipality located within Escambia County.

## TOTAL RETAIL SALES

The following table sets forth the trend in total retail sales in Escambia County for calendar years 2012 through 2016 (a):

| Total Retail Sales (In thousands) | | | | | |
|---|---|---|---|---|---|
| | **2012** | **2013** | **2014** | **2015** | **2016** (b) |
| Escambia Co. | $8,783,069 | $9,025,015 | $9,759,815 | $9,662,701 | $10,297,563 |

Source: Florida Department of Revenue (DOR), Tax Revenue Office; (http://myflorida.com/dor);
(a) The numbers presented in the table will continue to change as DOR audits are completed.
(b) Includes preliminary numbers for December 2016.

## HOUSING

The following table reflects the median sales price of existing single-family homes for the Pensacola MSA for the years 2012 through 2016:

| Median Sales Price of Existing Single Family Homes (In thousands) | | | | |
|---|---|---|---|---|
| **2012** | **2013** | **2014** | **2015** | **2016** |
| $135.9 | $152.4 | $150.8 | $159.9 | $169.4 |

Source: National Association of Realtors

The following table provides the number of new privately owned housing units authorized and related value for the Pensacola MSA for the years 2012 through 2016:

| Privately Owned Housing Units Authorized and Related Value (In thousands) | | | | | | |
|---|---|---|---|---|---|---|
| **Year** | **1 Unit** | **2 or more Units** | **Total** | **1 Unit** | **2 or more Units** | **Total** |
| 2012 | 1,460 | 34 | 1,494 | $ 224,521 | $ 2,074 | $ 226,595 |
| 2013 | 1,865 | 266 | 2,131 | $ 272,401 | $ 15,906 | $ 288,307 |
| 2014 | 1,637 | 188 | 1,825 | $ 261,749 | $ 785 | $ 262,534 |
| 2015 | 2,017 | 617 | 2,634 | $ 324,803 | $ 53,738 | $ 378,541 |
| 2016 (a) | 2,402 | 505 | 2,907 | $ 440,164 | $ 37,041 | $ 477,205 |

Source: U.S. Census Bureau
(a) 2016 numbers are preliminary

Information on the number of foreclosures in Escambia County and Santa Rosa County (the Pensacola MSA) previously supplied by the University of West Florida HAAS Center is no longer available.

## BONDED INDEBTEDNESS

The following table shows the bonded indebtedness of the City and the principal amount outstanding on September 30, 2016.

| **Self-Supporting Revenue Debt** | | **Principal** |
|---|---|---|
| Airport Taxable Customer Facility Charges Revenue Note, Series 2008, due 12/31/18 | $ | 8,800,000 |
| Airport Revenue Bonds, Series 2008 (AMT), due 10/1/38 (a) | | 32,170,000 |
| Airport Revenue Note, Series 2010, due 10/1/18 | | 3,760,000 |
| Gas System Revenue Bonds, Series 2010B-1&2, due 10/1/17 | | 3,380,000 |
| Gas System Revenue Note, Series 2011, due 10/1/21 | | 3,130,000 |
| Airport Revenue Note, Series 2012, due 10/1/27 | | 6,300,000 |
| Airport Refunding Revenue Note, Series 2015, due 10/1/27 | | 12,465,000 |
| Total Self-Supporting Revenue Debt: | | 70,005,000 |
| **Non-Self Supporting Revenue Debt** (b) | | |
| Redevelopment Revenue Bonds, Series 2009, due 4/1/2040 | | 43,360,000 |
| Capital Improvement Revenue Bonds, Series 2010A-1&2, due 10/1/17 | | 6,660,000 |
| Local Option Gas Tax Revenue Bond, Series 2016, due 12/31/26 | | 14,314,000 |
| Total Non-Self Supporting Revenue Debt: | | 64,334,000 |
| **Total Bonded Indebtedness:** | $ | 134,339,000 |

(a) A portion of these Bonds ($26,025,000) is payable from Passenger Facility Charge (PFC) revenues.
(b) Does not include Capital Leases of $6,500,953

## CITY'S DEBT LIMIT

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

(Remainder of page is intentionally left blank.)

## OVERLAPPING DEBT

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident - therefore responsible for repaying the debt of each overlapping government. All debt issued by Emerald Coast Utilities Authority is self-supporting; therefore, it is not included in the schedule below.

The following table shows the overlapping debt of those governments that coincide, at least in part, with the geographic boundaries of the City and the principal amount outstanding on September 30, 2016 *(dollars in thousands)*.

| Governmental Unit | Debt Outstanding | Estimated Percentage Applicable | Estimated Share of Direct and Overlapping Debt |
|---|---|---|---|
| **Other Debt** | | | |
| Escambia County | | | |
| Sales Tax Revenue Bonds | $ 67,790 | 17.3400% | $ 11,755 |
| Tourism Development Revenue Bonds | 3,754 | 17.3400% | 651 |
| Capital Improvement Bonds/Notes | 31,792 | 17.3400% | 5,513 |
| Escambia County School District | | | |
| State Board of Education Bonds | 1,997 | 17.3400% | 346 |
| Sales Tax Revenue Bonds | 51,910 | 17.3400% | 9,001 |
| Certificates of Participation | 25,330 | 17.3400% | 4,392 |
| Subtotal, overlapping debt | | | 31,658 |
| **City direct debt bonds/notes** | | | 64,164 |
| **City direct debt capital leases** | | | 6,501 |
| **Total direct and overlapping debt** | | | $ 102,323 |

Source: City of Pensacola Comprehensive Annual Financial Report.

Notes:
Estimated percentages for Escambia County and Escambia County School District is obtained by dividing the city's population by the county's population.

City direct debt bonds/notes includes $269,418 of unamortized discounts and unamortized premiums of $99,190. Total City direct debt bonds/notes excluding these items totals $64,334,000.

## BONDED DEBT TO TOTAL GENERAL EXPENDITURES

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

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

| Fiscal Year | Principal | Interest | Total Debt Service (2) | General Operating Expenditures (2) | Ratio of Debt Service to General Operating Expenditures |
|---|---|---|---|---|---|
| 2007 | $ 3,250,760 | $ 869,914 | $ 4,120,674 | $ 75,777,269 (3) | 5.44 |
| 2008 | 3,372,006 | 707,627 | 4,079,633 | 72,325,588 | 5.64 |
| 2009 | 2,850,209 | 558,267 | 3,408,476 | 70,969,063 | 4.80 |
| 2010 | 3,231,188 | 513,132 | 3,744,320 | 73,441,591 | 5.10 |
| 2011 | 3,354,959 | 362,980 | 3,717,939 | 72,694,609 | 5.11 |
| 2012 | 3,504,241 | 2,306,928 | 5,811,169 (4) | 76,954,239 | 7.55 |
| 2013 | 4,189,053 | 2,165,403 | 6,354,456 (5) | 77,025,210 | 8.25 |
| 2014 | 560,000 | 2,141,749 | 2,701,749 (6) | 72,276,078 | 3.74 |
| 2015 | 580,000 | 2,112,365 | 2,692,365 | 79,647,479 (7) | 3.38 |
| 2016 | 605,000 | 2,087,208 | 2,692,208 | 76,289,719 | 3.53 |

Source: City fiscal year 2016 CAFR

(1) The City has no general obligation debt. Financings are secured by a pledge of specific revenues not derived from ad valorem taxation. This schedule does not include defeased debt.

(2) Includes General, Special Revenue, and Debt Service Funds. Total debt service excludes debt paid with capitalized interest and federal subsidies as well as debt paid from the Local Option Sales Tax Capital Fund and CMPA Construction Fund. General operating expenditures exclude capital outlay expenditures.

(3) Includes expenditures of $1,129,136 related to Hurricanes Ivan, Dennis, and Katrina.

(4) Includes first year of interest payments on the Series 2009 Redevelopment Bonds which were not previously covered by capitalized interest.

(5) Includes first year of principal payments on the Series 2009 Redevelopment Bonds.

(6) Decrease due to the payoff off the Sales & Excise Tax Refunding Revenue Bonds, Series 2004 and Redevelopment Refunding Revenue Note, Series 2004 in fiscal year 2013.

(7) Increase in general operating expenditures can be attributed to the following: $3,692,295 increase in spending of State and Federal Funds, $1,344,594 increase in general fund spending on public safety and $989,669 increase in spending due to City's claims against BP for the BP Deep Horizon Oil Spill in 2010.

## PROSPECTIVE FINANCINGS

The City does anticipate issuing new governmental debt in the succeeding year. The City has determined that the need exists to incur debt to expend funds in order to finance the designing, planning, acquiring, installing, constructing, reconstructing, renovating, and equipping of certain capital projects eligible to be financed from the Infrastructure Sales Tax commencing on January 1, 2018. On February 11, 2016, City Council adopted Resolution 01-16 which established their intent to reimburse capital expenditures incurred in connection with various capital projects with proceeds of a future tax-exempt financing. The Resolution does not commit the City to a borrowing. In addition, staff is reviewing options for financing various capital projects eligible to be financed from the Tax Increment Revenues of the Westside Tax Increment Financing District.

## ASSESSED AND APPRAISED VALUES

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

| Fiscal Year | Real Taxable Value (1) (2) | Real Property Appraised Value (1) (3) | Personal Taxable Value (1) | Personal Property Appraised Value (1) (2) | Central Taxable Value (1) | Central Property Appraised Value (1) (2) | Total Taxable Value (1) | Total Appraised Value (1) (2) | Ratio of Total Taxable to Total Appraised Value |
|---|---|---|---|---|---|---|---|---|---|
| 2007 | $ 2,250,050 | $ 3,652,079 | $ 365,246 | $ 433,775 | $ 4,842 | $ 4,842 | $ 2,620,138 | $ 4,090,696 | 0.64 |
| 2008 | 2,834,420 | 4,713,764 | 400,810 | 534,628 | 4,517 | 4,517 | 3,239,747 | 5,252,909 | 0.62 |
| 2009 | 2,954,401 | 4,760,528 | 408,203 | 537,581 | 5,113 | 5,113 | 3,367,717 | 5,303,222 | 0.64 |
| 2010 | 2,782,691 | 4,749,243 | 400,151 | 568,137 | 7,384 | 7,608 | 3,190,226 | 5,324,988 | 0.60 |
| 2011 | 2,704,175 | 4,557,110 | 385,667 | 569,930 | 5,838 | 6,093 | 3,095,680 | 5,133,133 | 0.60 |
| 2012 | 2,636,586 | 4,435,062 | 376,692 | 555,898 | 4,514 | 4,731 | 3,017,792 | 4,995,691 | 0.60 |
| 2013 | 2,541,840 | 4,147,699 | 360,314 | 517,535 | 5,068 | 5,277 | 2,907,222 | 4,670,511 | 0.62 |
| 2014 | 2,579,976 | 4,223,889 | 356,553 | 552,382 | 5,282 | 5,581 | 2,941,811 | 4,781,852 | 0.62 |
| 2015 | 2,718,534 | 4,491,889 | 348,893 | 539,821 | 5,366 | 5,683 | 3,072,793 | 5,037,393 | 0.61 |
| 2016 | 2,816,968 | 4,729,675 | 364,698 | 561,229 | 5,318 | 5,628 | 3,186,984 | 5,296,532 | 0.60 |

Source: Escambia County Property Appraiser’s Office
(1) In thousands. Estimates provided by the Escambia County Property Appraiser's Office.
(2) A dollar amount assigned to the total real estate on the tax roll for the purpose of equalizing the burden of taxation.
(3) An opinion of an appraiser, which is based upon an interpretation of facts and beliefs into an estimate of value, as of a stated date.

The fiscal year 2010 through 2013 data, as released by the Escambia County Property Appraiser’s Office, reflect slight decreases in appraised values due to the stagnant housing market.

## PENSION FUNDS

GASB Statement No. 68, Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27, was implemented during fiscal year 2015. This statement replaces the requirements of Statements No. 27 and No. 50 as they related to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 ushers in two substantial changes. The first is that each government that offers defined pension benefits to its employees will be required to report on the face of its financial statements the unfunded pension obligation (the “Net Pension Liability”). In the past, the Net Pension Liability was shown in the notes to the financial statements only. Based on GASB 68 requirements the City’s September 30, 2016 net pension liability is $46,614,651 for the General Pension and Retirement Plan, $17,439,205 for the Firefighters’ Relief and Pension Plan and $48,444,716 for the Police Officers’ Retirement Fund. The second change is described below under the “FLORIDA RETIREMENT SYSTEM”.

For funding purposes, the City’s required contributions are based on "level percentage" basis for the Fire pension and a “level dollar” basis for the General and Police pension. See also: MAJOR HIGHLIGHTS – Pension Issues.

## FLORIDA RETIREMENT SYSTEM

The City closed the General Pension and Retirement Plan on June 18, 2007 requiring non-public safety, full-time employees hired thereafter to join the Florida Retirement System (FRS). Existing non-public safety, full-time employees were given the option to remain in the retirement plan in which they currently participate or join the FRS. As of March 18, 2013, the Police Officers' Retirement Fund is closed to new participants, requiring all new police officers to join the FRS.

The second substantial change ushered in by GASB Statement 68 is that each local government participating in a defined benefit cost-sharing multiple-employer pension plan, such as the Florida Retirement System (FRS), will be required to report on the face of its financial statements their proportionate share of the "collective" Net Pension Liability. In the past, governments did not directly report information about their proportionate share of these pension obligations. Instead, governments only reported a liability to the extent that they failed to make their required contributions. Based on GASB 68 requirements, the City's September 30, 2016 proportionate share of the FRS "collective" Net Pension Liability is $15,283,974.

Information concerning the FRS may be obtained from the FRS Annual Reports and the Florida Comprehensive Annual Financial Reports available at:
http://www.dms.myflorida.com/workforce_operations/retirement/publications/annual_reports and www.Myfloridacfo.com/division/aa/Reports.

## OTHER POST EMPLOYMENT BENEFIT PROGRAM

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

The City hired a certified actuarial firm to calculate the City's OPEB liability. As disclosed in Note IV of the fiscal year 2016 CAFR, the calculation, based on 2015 data, produced an unfunded obligation of $23,934,988 and an annual required contribution (ARC) of $896,425. The ARC is reported on the proprietary fund financial statements as a salaries and employee benefits expense and is allocated as a functional expense of the governmental activities on the Statement of Activities. The ARC is reported as a net OPEB long-term liability on the respective statements and because the City does not intend to fund the ARC, the net OPEB liability will continue to grow each year.

# GENERAL GOVERNMENT

## INTRODUCTION

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

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

## REVENUES

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

| **Revenue Source** | **FISCAL YEAR 2012** | **FISCAL YEAR 2013** | **FISCAL YEAR 2014** | **FISCAL YEAR 2015** | **FISCAL YEAR 2016** |
|---|---|---|---|---|---|
| Capital Improvement Revenue Bonds, Series 2010A | | | | | |
| Local Option Sales Tax (one cent) | $ 6,401,758 | $ 6,665,836 | $ 7,015,227 | $ 7,337,154 | $ 7,662,504 |
| Local Option Gas Tax Revenue Bond, Series 2016 | | | | | |
| Local Option Gasoline Tax (six cent) | N/A | N/A | N/A | N/A | $ 1,462,265 |

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## COVENANT TO BUDGET AND APPROPRIATE

The Series 2009 Redevelopment Bonds are secured by a covenant by the City to appropriate in its annual budget in each fiscal year, by amendment if necessary, non-ad valorem revenues of the City as described in the applicable authorizing resolutions (a "Covenant to Budget and Appropriate"). A five-year summary of non-ad valorem revenues follows:

| Revenue Source | FISCAL YEAR 2012 | FISCAL YEAR 2013 | FISCAL YEAR 2014 | FISCAL YEAR 2015 | FISCAL YEAR 2016 |
|---|---|---|---|---|---|
| Local Government Half Cent Sales Tax | $ 3,715,814 | $ 3,844,693 | $ 4,053,658 | $ 4,192,433 | $ 4,358,783 |
| Franchise Fees | | | | | |
| Electric | 5,504,301 | 5,152,478 | 5,792,684 (b) | 6,110,497 | 5,887,235 |
| Gas, Water, Sewer | 2,269,875 | 2,366,078 | 2,502,912 (b) | 2,455,477 | 2,402,474 |
| Public Service Taxes | | | | | |
| Electric, Gas, Water | 6,466,283 | 6,620,967 | 7,400,241 (b) | 7,754,602 | 7,696,370 |
| Communications Services Tax | 3,600,306 | 3,468,827 | 3,115,591 (c) | 3,026,561 | 3,013,059 |
| State Shared Revenues | 2,245,133 | 2,257,090 | 2,272,710 | 2,297,485 | 2,302,497 |
| Funds Transfers | | | | | |
| Transfer from Gas System | 8,000,000 | 8,000,000 | 8,000,000 | 8,000,000 | 8,000,000 |
| Other | 6,059,571 (a) | 2,476,228 | 2,525,508 | 2,719,013 | 2,559,554 |
| **Total** | **$ 37,861,283** | **$ 34,186,361** | **$ 35,663,304** | **$ 36,556,068** | **$ 36,219,972** |

(a) The increase in other revenues in fiscal year 2012 is related to the sale of City-owned property in the amount of $3,495,507.
(b) The increase in Franchise Fees and Public Service Taxes is related to increased natural gas and electric sales.
(c) The decrease in Communications Services Tax can be attributed to recent legislative changes. Prepaid calling arrangement sales previously subject to the Communications Services Tax are now subject only to the sales tax. See herein "COMMUNICATIONS SERVICES TAX".

Refer to "Community Redevelopment Agency" section for a more complete description of the Series 2009 Redevelopment Bonds. As noted elsewhere, the Series 2009 Redevelopment Bonds are secured by a Covenant to Budget and Appropriate, Tax Increment Revenues and, with respect to the Series 2009B Redevelopment Bonds, Federal Direct Payments. The City used bond proceeds to leverage a New Markets Tax Credits (NMTC) transaction for the Maritime Park Project. The underlying NMTC transaction loans have a priority claim on Tax Increment Revenues. Accordingly, the holders of the Series 2009 Redevelopment Bonds have been advised to view the City's Covenant to Budget and Appropriate as the primary security for the portion of the Series 2009 Redevelopment Bonds utilized for the leverage loan, although Tax Increment Revenues remain a source of payment for the Series 2009 Redevelopment Bonds.

## HISTORICAL DEBT SERVICE COVERAGE

The following table compares the Maximum Debt Service Requirement on all non-self-supporting debt of the City payable from the non-ad valorem revenues and Tax Increment Revenues to the actual non-ad valorem revenues and Tax Increment Revenues received over a five-year period:

| Fiscal Year | Maximum Debt Service Requirement (a) | Non-Ad Valorem Revenues | Tax Increment Revenues | Total Available Revenues | Coverage | Coverage Without Tax Increment Revenues |
|---|---|---|---|---|---|---|
| 2012 | $ 7,654,456 (b) | $ 37,861,283 | $ 3,953,997 | $ 41,815,280 | 5.4629 | 4.9463 |
| 2013 | 4,343,671 (c) | 34,186,361 | 3,788,221 | 37,974,582 | 8.7425 | 7.8704 |
| 2014 | 4,343,671 (c) | 35,663,306 | 3,787,966 | 39,451,272 | 9.0825 | 8.2104 |
| 2015 | 4,343,671 (c) | 36,556,068 | 4,075,806 | 40,631,874 | 9.3543 | 8.4159 |
| 2016 | 4,343,671 (c) | 36,219,972 | 4,427,771 | 40,647,743 | 9.3579 | 8.3386 |

(a) Maximum Debt Service Requirement occurs in fiscal year 2027.

(b) Maximum Debt Service Requirement in 2012 includes the Redevelopment Revenue Note, Sales & Excise Tax Refunding Revenue Bonds, Series 2004, the Series 2009 Redevelopment Bonds and the Interlocal Agreement with the Emerald Coast Utilities Authority; all other obligations were refinanced by the Capital Improvement Revenue Bonds, Series 2010A-1 and Series 2010A-2 Bonds, or renegotiated to change the pledged source of payment. See Main Street Wastewater Treatment Plant under the Community Redevelopment Agency section for a more detailed explanation of the Interlocal Agreement with the Emerald Coast Utilities Authority.

(c) Maximum Debt Service Requirement in 2013 through 2016 includes the Series 2009 Redevelopment Bonds and the Interlocal Agreement with the Emerald Coast Utilities Authority. The Redevelopment Revenue Note and the Sales & Excise Tax Refunding Revenue Bonds, Series 2004 were paid off in fiscal year 2013.

In respect of obligations for which the City has covenanted to budget and appropriate from non-ad valorem revenues, payment from such non-ad valorem revenues is subject to the budgeting and payment for other services and programs which are for essential public purposes affecting the health, welfare and safety of the inhabitants of the City or which are legally mandated by applicable law and for payment of debt secured by an express lien on non-ad valorem revenues sources.

## THE LOCAL GOVERNMENT HALF-CENT SALES TAX

Pursuant to Chapter 212 of the Florida Statutes, the State is authorized to levy and collect a sales tax on, among other things, the sales price of each item or article of tangible personal property sold at retail in the State, subject to certain exceptions and dealer allowances as set forth in Chapter 212. Currently, the sales tax in the State is six percent, having been increased from five percent in February 1988 and from four percent in 1982. Chapter 218, Part VI, Florida Statutes (the "Sales Tax Act"), was added in 1982 and provides that money remitted to the State by a sales tax dealer located within a county and transferred to the Local Government Half-Cent Sales Tax Clearing Trust Fund in the State Treasury (the "Trust Fund") is earmarked for distribution to the governing body of that county and of each municipality within the county pursuant to a distribution formula. Chapter 212, Florida Statutes, provides that after various enumerated distributions, 8.9744% of the remaining proceeds from the amount remitted by a sales tax dealer in a participating county are to be transferred to the Trust Fund. Such monies are referred to in Chapter 218, Part VI, as the Local Government Half-Cent Sales Tax. The Local

Government Half-Cent Sales Tax is distributed from the Trust Fund on a monthly basis to participating units of local government. Chapter 218, Part VI, permits the City to pledge its shares of the Local Government Half-Cent Sales Tax for the payment of principal and interest on debt issued to finance any capital project.

As initially enacted, Chapter 218, part VI, Florida Statutes provided that the Local Government Half-Cent Sales Tax was to be computed based upon one-half of the then newly effective 5th cent of the State sales tax. In 1985, the law was amended to provide that 9.697% of the proceeds of the sales tax remitted by a sales tax dealer located within the county were to be deposited in the Trust Fund. This percentage was amended in 1987 for the State's fiscal year ending June 30, 1988 to 9.846%; for fiscal years 1989-1991 to 9.888%, fiscal years 1992-1993 at 9.664%, fiscal years 1994-2003 to 9.653%, fiscal year 2004 to 8.715, fiscal year 2005-2013 to 8.814%, fiscal year 2014 to 8.8854% and for fiscal year 2015-2016 to 8.9744%.

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

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

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

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

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

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

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

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

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

For purposes of foregoing formula, "population" is based upon the latest official State estimate of population certified prior to the beginning of the local government fiscal year. Should any unincorporated area of the County become incorporated as a municipality, the share of the Local Government Half-Cent Sales Tax received by the County and the City would be reduced. During the fiscal year ended September 30, 2016 amounts received from the Local Government Half-Cent Sales Tax equaled $4,358,783.

**LOCAL OPTION FUEL TAX (Local Option Gasoline Tax - six cent)**

Section 206.41, Florida Statutes, authorizes local governments to impose a tax of six cents on every gallon of motor fuel sold in a county to finance transportation expenditures as defined in Section 336.025, Florida Statues (herein, the Local Option Gasoline Tax or “LOGT”).

The LOGT may be authorized by an ordinance adopted by a majority vote of the county’s governing body or voter approval in a countywide referendum. On August 14, 1986, the Board of County Commissioners of Escambia County enacted Ordinance No. 86-24 which authorized the County to levy the LOGT for a period of ten years commencing September 1, 1986 and concluding August 31, 1996. On June 6, 1995, the Board of County Commissioners enacted Ordinance No. 95-8 which extended the LOGT for a period of ten additional years commencing September 1, 1996 and concluding August 31, 2006. On March 17, 2005, the Board of County Commissioners enacted Ordinance No. 2005-7 which extended the LOGT for a period of ten additional years commencing September 1, 2006 and concluding August 31, 2016. On July 23, 2015, the Board of County Commissioners enacted Ordinance No. 2015-26 which extended the LOGT for a period of ten additional years and four months commencing September 1, 2016 and concluding December 31, 2026.

The LOGT proceeds are distributed by the Department of Revenue (DOR) according to the distribution factors determined at the local level by interlocal agreement between the county and municipalities within the county's boundaries. If no interlocal agreement has been established, then a local government's distribution is based on the transportation expenditures of that local government for the immediately preceding five fiscal years as a proportion of the sum total of such expenditures for the respective county and all municipalities within the county. These proportions are recalculated every ten years based on the transportation expenditures of the immediately preceding five years. The amounts distributed to the county government and each municipality cannot be reduced below the amount necessary for the payment of principal and interest and reserves for principal and interest as required under the covenants of any bond resolution outstanding on the recalculation date.

On July 14, 2016 Escambia County adopted Resolution 16-93 which set the City's LOGT distribution at 6.99 percent, down from 18.22 percent. As provided in section 336.025(5)(b), Florida Statues, the City exercised its right to file an appeal with the State of Florida Administration Commission. Until a resolution can be obtained, beginning with the September 1, 2016 distribution, all LOGT distributions for the parties involved will be held in trust with the Escambia County Clerk of the Circuit Court. The contemplated settlement agreement between the City and the County sets the City's distribution percentage at 15.15 percent, based on transportation expenditures as defined on section 366, Florida Statutes. However, at the date of this report, the settlement agreement has not been finalized nor has the higher percentage, or any withheld taxes, been released from escrow.

The DOR has the responsibility to administer, collect, and enforce all surtaxes, including the LOGT. The proceeds of each county's Surtax collections are transferred to the Local Option Fuel Tax Fund. DOR is the authorized collection agency and retains three percent of the total revenue generated for all counties levying a surtax. The amount deducted for administrative costs is required to be used only for those costs directly attributable to the fuel tax. The total administrative costs are to be prorated among those counties levying the fuel tax according to the following formula: Two-thirds of the amount deducted shall be based on the county's proportional share of the number of dealers who are registered for purposes of Chapter 212, Florida Statues, on June 30 of the preceding state fiscal year, and one-third of the amount deducted shall be based on the county's share of the total amount of the tax collected during the preceding state fiscal year.

Pursuant to Section 206.43, Florida Statutes, vendors are required to remit fuel tax receipts by the twentieth day of the month immediately following the month of collection. No statute prescribes a deadline for remitting fuel tax proceeds to the local governing bodies. However, according to the accounting division of DOR, DOR consistently remits the fuel tax proceeds to such local governing bodies by the twenty-fifth day of the month immediately following the month of receipt by DOR. During the fiscal year ended September 30, 2016 amounts received from the Local Option Gasoline Tax equaled $1,462,265.

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

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

On January 28, 1992, the Board of County Commissioners of the County enacted Ordinance No. 92-10 which authorized the County to levy throughout the County a one percent Surtax for a period of seven years commencing June 1, 1992 and concluding May 31, 1999. On December 17, 1996, the County’s Board of County Commissioners enacted Ordinance No. 96-50 which extended the one percent Surtax for a period of eight additional years commencing June 1, 1999 and concluding May 31, 2007 (the one percent Surtax as enacted and extended is herein referred to in this report as the “Infrastructure Sales Tax” or the “Local Option Sales Tax” or “LOST”). The levy of the Infrastructure Sales Tax was approved by a special referendum of the County’s electorate on March 10, 1992 and the levy of the above-described extension of the Infrastructure Sales Tax was approved by a special referendum of the County’s electorate on May 13, 1997. Since then, two additional extensions of the Infrastructure Sales Tax have been approved. On March 13, 2006, by referendum, commencing January 1, 2007 and concluding December 31, 2017 and on November 4, 2014, by referendum, commencing January 1, 2018 and concluding December 31, 2028. The County provided that distribution of the proceeds of the Infrastructure Sales Tax to the incorporated municipalities of the County would be controlled by the formula set forth in Section 218.62, Florida Statues. The formula for distribution of the Infrastructure Sales Tax is the same as that of the Sales Tax. See formula under the section of this Report to Bondholders entitled “The Sales Tax”.

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

Pursuant to Section 212.15, Florida Statutes, vendors are required to remit sales tax receipts by the twentieth day of the month immediately following the month of collection. No statute prescribes a deadline for remitting Surtax proceeds to the local governing bodies. However, according to the accounting division of DOR, DOR consistently remits the Surtax proceeds to such local governing bodies by the twenty-fifth day of the month immediately following the month of receipt by DOR. During the fiscal year ended September 30, 2016 amounts received from the Local Option Sales Tax equaled $7,662,504.

**GULF POWER COMPANY FRANCHISE FEES**

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

On December 20, 1979, the City Council passed Ordinance No. 61-79 and Ordinance No. 62-79, effective December 26, 1979 (as further amended by Ordinance No. 7-94 enacted January 27, 1994), granting Gulf Power a thirty-year franchise. Though the thirty-year franchise has expired, Gulf Power continues to operate under the existing agreement. Among its provisions, the expired franchise agreement provided that Gulf Power would pay to the City within thirty days after the first day of each month a franchise fee determined by ordinance of the City based upon a percentage of Gulf Power’s revenue from the furnishing of electric service to customers served under all of its rate schedules within the corporate limits of the City collected during the preceding month. The City has covenanted in the resolution authorizing the issuance of bonds payable in part from such franchise fees not to grant any exemptions from payment of the franchise fee. The current percentage of revenues paid as a franchise fee is six percent. During the fiscal year ended September 30, 2016, the franchise fees received from Gulf Power amounted to $5,887,235.

**EMERALD COAST UTILITIES AUTHORITY FRANCHISE FEES**

The franchise fees pledged to the City's outstanding bonds consist of fees collected through the conveyance by the City to the Emerald Coast Utilities Authority, formerly known as the Escambia County Utilities Authority (within this section, the “Authority”) of its franchise to operate and maintain a water and sewer system serving the inhabitants of the City (the "ECUA Franchise"). Under Ordinance Nos. 32-70, 57-81, 58-81, 33-84 and 45-91 enacted by the City Council, respectively, on June 15, 1970, December 21, 1981, December 21, 1981, August 9, 1984, and September 26, 1991 (collectively, the "ECUA Franchise Ordinance"), the City has imposed franchise fees on the Authority which, since October 1, 1991 have been equal to six percent of the Authority's annual revenues from the furnishing of water and sewer utility service to customers within the corporate limits of the City. The fees are due and payable on a monthly basis. Under Ordinance No. 57-81, the City and the Authority may negotiate changes to the above percentage at intervals of no less than one (1) year, except that the percentage shall not be increased beyond the percentage permitted by law. The ECUA Franchise granted to the Authority pursuant to the ECUA Franchise Ordinance is for an indefinite term, except as may be otherwise required by the Authority Act (as hereinafter defined) and other provisions of applicable law. The City has covenanted in the Resolution that so long as any Bonds are outstanding it will take all action legally available to it to insure its receipt of the franchise fees. During the fiscal year ended September 30, 2016 the franchise fees received from the Authority amounted to $1,540,558.

The Authority was created in 1981 by Chapter 81-376, Laws of Florida, as subsequently amended, the "Authority Act" as a local governmental body, corporate and politic, for the purpose of acquiring, constructing, financing, owning, managing, providing, promoting, improving, expanding, maintaining, operating, regulating, franchising, and otherwise having plenary authority with respect to certain utility systems within the territorial limits of Escambia County, Florida. Such utility systems include water and sewer utility systems throughout Escambia County. Chapter 84-427, Laws of Florida, amended Chapter 81-376, Laws of Florida, to expressly authorize the City Council of the City to impose a franchise fee upon the Authority.

**PENSACOLA ENERGY (PE) FRANCHISE FEE**

On June 15, 1970, the City enacted an ordinance granting Pensacola Energy (PE), a department of the City, a franchise to operate and maintain a gas utility system serving the inhabitants of the City. Collection of the gas franchise fee was approved through budget Ordinance No. 33-68 on August 28, 1968 which allowed for franchise fee collections to begin in fiscal year 1969. Under Ordinance Nos. 32-70, 27-88 and 46-91 enacted by the City Council, respectively, on June 15, 1970, July 14, 1998 and September 26, 1991 (collectively, the "PE Franchise Ordinance"), the City has imposed franchise fees on PE which, since September 26, 1991, have been equal to six percent of the annual revenues from the furnishing of natural gas service to customers served within the City's corporate limits. The fees are due and payable on a monthly basis. During the fiscal year ended September 30, 2016 the franchise fees received from PE amounted to $861,917.

**PUBLIC SERVICE TAXES**

On May 16, 1932, as authorized by Section 166.231, Florida Statutes, the City enacted an ordinance levying taxes currently designated as Public Service Taxes (formerly known as Utilities Services Taxes), on each and every sale in the City of electricity, metered or bottled gas (natural or manufactured), water and local telephone service. Under Ordinance Nos. 16-32, 40-35, 50-35, 01-38, 09-38, 27-39, 30-46, 28-87, 37-97and 56-07 enacted by the City Council, respectively, on May 16, 1938, August 20, 1935, December 5, 1936, February 7, 1938, May 23, 1938, August 25, 1939, October 8, 1946, August 27, 1987, January 28, 1998 and December 18, 2007 (collectively, the "Public Service Tax Ordinance"), the City has levied Public Service Taxes, on each and every purchase in the City of electricity, metered or bottled gas, water and local telephone service which, since October 8, 1946, has been equal to the amount of ten percent of the charge made by the seller of such service and since August 27, 1987 every purchase in the City of fuel oil in the amount of four cents per gallon. During the fiscal year ended September 30, 2016 the Public Service Taxes amounted to $7,696,370.

**COMMUNICATIONS SERVICES TAX**

On January 29, 1998, as authorized by Section 166.231(9)(a)2, Florida Statutes, the City Council passed Ordinance No. 1-98 electing to change from a ten percent Public Service Tax on local reoccurring telephone service to the seven percent broad based Telecommunications Tax. Ordinance No. 1-98 commenced on July 1, 1998. The City elected to terminate the Telecommunications Tax and commence the Communications Services Tax effective on and after October 1, 2001.

Beginning October 2001, the State of Florida, implemented a tax simplification plan, which authorized the City to collect a new Communications Services Tax. The tax combines the sales tax on communications services, the municipal public service tax on telecommunications services, local franchise fees on cable and telecommunications companies and provides a permit fee option for local governments. The new structure is an attempt to simplify the way taxes are collected and distributed, and are also intended to capture emerging technologies. In May 2014, Legislature passed Chapter 2014-38, Laws of Florida, which amended and revised the definition of “prepaid calling arrangement” to clarify the services included under that definition. As a result of this change, prepaid calling arrangement sales previously subject to the Communications Services Tax are now subject only to the sales tax. Under Chapter 2014-38, Laws of Florida, this new definition was applied retroactively to June 1, 2014. To the extent there is a deficiency in the available amount of Infrastructure Sales Tax Revenues, the Communications Services Tax is pledged to cure such deficiencies as it relates to the Capital Improvement Revenue Bonds, Series 2010A-1 and Series 2010A-2. The City's tax rate at implementation was 5.50% effective one year until October 1, 2002, and the current rate is 5.22%. The collections for fiscal year ended September 30, 2016 were $3,013,059.

**STATE SHARED REVENUES**

Pursuant to Chapter 218, Part II, Florida Statutes, the Florida Revenue Sharing Act of 1972 establishes an allocation to ensure a minimum level of revenue parity across units of local government. An allocation formula is used to distribute 1.3409 percent of sales and use tax collections and the net collections from the one-cent municipal fuel tax among qualifying municipalities. The state revenue sharing calculation formerly included both the eleven-cent cigarette tax and the two-cent cigarette tax; however, effective July 1, 2000 the State revised the state revenue sharing calculation to exclude the cigarette taxes and replace that revenue stream with additional sales tax revenues. State revenue sharing collections for sales and use tax and fuel tax for fiscal year ended September 30, 2016 were $1,756,231 and $546,266, respectively.

**FUNDS TRANSFER FROM GAS SYTEM**

As established by the City Council's Financial Planning and Administration Policy, a transfer from PE to the General Fund is reviewed each year. Long-term, the budgeted transfer should not be more than fifteen percent of budgeted PE revenues. The transfer from PE for fiscal year ended September 30, 2016 was $8.0 million.

**OTHER REVENUE SOURCES**

The other revenue sources subject to the Covenant to Budget and Appropriate include various permits, liquid petroleum gas tax, various rebates, miscellaneous parks and recreation revenues, fines and forfeits, interest income, sale of assets and donations.

**DEBT MANAGEMENT**

***Issuance of the Capital Improvement Revenue Bonds, Series 2010A-1 and Series 2010A-2.*** On August 10, 2010 the City entered into two Loan Agreements (the "Series 2010A Loan Agreements") with the City of Gulf Breeze, Florida ("Gulf Breeze") whereby Gulf Breeze loaned to the City from proceeds of its 2010A Program, $5,910,000 (the "Series 2010A-1 Loan") to refinance its Capital Improvement Revenue Bond, Series 2000A (the "Series 2000A Bonds") and $12,280,000 (the "Series 2010A-2 Loan") to refinance its Capital Improvement Revenue Bond, Series 2000B (the "Series 2000B Bond" and together with the Series 2000A Bond, the "Series 2000 Participant Bonds"). Pursuant to the respective Series 2010A Loan Agreement, the City issued its Capital Improvement Revenue Bonds, Series 2010A-1 (the "Series 2010A-1 Bonds"), in the aggregate principal amount of $5,910,000 to evidence its obligation to repay the Series 2010A-1 Loan and its Capital Improvement Revenue Bonds, Series 2010A-2 (the "Series 2010A-2 Bonds" and together with the Series 2010A-1 Bonds, the "Series 2010A Bonds"), in the aggregate principal amount of $12,280,000 to evidence its obligation to repay the Series 2010A-2 Loan. The Series 2010A Bonds bear interest at fixed rates with a final maturity of October 1, 2017. The Series 2010A Bonds are secured by a first and prior, *pari-passu* lien upon the Pledged Revenues consisting primarily of the City's Infrastructure Sales Tax (as indicated above, the Infrastructure Sales Tax is also known as the Local Option Sales Tax or "LOST"). The Series 2000 Participant Bonds were variable rate bonds outstanding in an aggregate principal amount of $20,000,000. The refunding allowed the City to replace the variable rate obligations with fixed rate obligations.

***Issuance of the Redevelopment Revenue Bonds, Series 2009A and Series 2009B.*** Refer to "Community Redevelopment Agency" section for a more complete description of the Series 2009 Redevelopment Bonds. As noted elsewhere, the Series 2009 Redevelopment Bonds are secured by a Covenant to Budget and Appropriate, Tax Increment Revenues and, with respect to the Series 2009B Redevelopment Bonds, Federal Direct Payments. The City used bond proceeds to leverage a New Markets Tax Credits (NMTC) transaction for the Maritime Park Project. The underlying NMTC transaction loans have a priority claim on Tax Increment Revenues. Accordingly, the holders of the Series 2009 Redevelopment Bonds have been advised to view the City's Covenant to Budget and Appropriate as the primary security for the portion of the Series 2009 Redevelopment Bonds utilized for the leverage loan, although Tax Increment Revenues remain a source of payment for the Series 2009 Redevelopment Bonds.

***Issuance of the Local Option Gas Tax Revenue Bond, Series 2016.*** On July 25, 2016 the City issued its $14,314,000 Local Option Gas Tax Revenue Bond, Series 2016 (the "2016 LOGT Bond") pursuant to a loan agreement between the City and Raymond James Capital Funding, Inc. The 2016 LOGT Bond was issued for the purpose of financing the cost of the acquisition and construction of capital improvements to the road system of the City and the costs of issuance related to the borrowing. The 2016 LOGT Bond matures on December 31, 2026 and has a fixed interest rate of 1.83%. The 2016 LOGT Bond is secured by certain Pledged Revenues consisting primarily of the Local Option Gasoline Tax (LOGT) revenues. To the extent that the LOGT revenues in any fiscal year are insufficient to pay debt service, the loan is furthered secured by a covenant to budget and appropriate certain non-ad valorem revenues of the City.

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## HISTORICAL DEBT SERVICE COVERAGE

The following tables show historical debt service coverage for the Series 2010A Bonds and the 2016 LOGT Bond as of September 30, 2016. The Series 2010A Bonds are secured by a pledge of the Infrastructure Sales Tax and to the extent of any deficiency in the available amount of Infrastructure Sales Tax Revenues, the Communications Services Tax. The Series 2016 Bond is secured by the pledge of Local Option Gasoline Tax (LOGT) and to the extent of any deficiency in the available amount of LOGT, the loan is furthered secured by a covenant to budget and appropriate from the certain non-ad valorem revenues of the City.

## DEBT SERVICE COVERAGE – CAPITAL IMPROVEMENT REVENUE BONDS, SERIES 2010A-1 AND SERIES 2010A-2

| | FISCAL YEAR 2012 | FISCAL YEAR 2013 | FISCAL YEAR 2014 | FISCAL YEAR 2015 | FISCAL YEAR 2016 |
|---|---|---|---|---|---|
| Infrastructure Sales Tax | $6,401,758 | $6,665,836 | $7,015,227 | $7,337,154 | $7,662,504 |
| Total Maximum Bond Service Requirement | 3,516,653 | 3,515,025 | 3,515,025 | 3,510,506 | 3,503,172 |
| Ratio of Total Infrastructure Sales Tax to Maximum Bond Service Requirement on Series 2010A Bonds | 1.82 | 1.90 | 2.00 | 2.09 | 2.19 |

## DEBT SERVICE COVERAGE – LOCAL OPTION GAS TAX REVENUE BOND, SERIES 2016

| | FISCAL YEAR 2012 | FISCAL YEAR 2013 | FISCAL YEAR 2014 | FISCAL YEAR 2015 | FISCAL YEAR 2016 |
|---|---|---|---|---|---|
| Local Option Gasoline Tax | N/A | N/A | N/A | N/A | $1,462,265 |
| Total Maximum Bond Service Requirement | N/A | N/A | N/A | N/A | 1,538,156 |
| Ratio of Total Local Option Gasoline Tax to Maximum Bond Service Requirement on 2016 LOGT Bond | N/A | N/A | N/A | N/A | 0.95 (a) |

(a) See "LOCAL OPTION FUEL TAX" herein for an explanation of the shortfall in coverage and "DEBT MANAGEMENT" above for the resolution of any revenue shortfalls.

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## CITY OF PENSACOLA, FLORIDA *
## $5,910,000 CAPITAL IMPROVEMENT REVENUE BONDS, SERIES 2010A-1
## AND
## $12,280,000 CAPITAL IMPROVEMENT REVENUE BONDS, SERIES 2010A-2

Dated: August 10, 2010

**PURPOSE:**

* The City entered into two loan agreements with the City of Gulf Breeze, Florida pursuant to which Gulf Breeze loaned to the City proceeds of its Capital Funding Revenue Bonds, Series 2010A (2010A Loan Program – Loans to City of Pensacola, Florida). The Series 2010A-1 Bond was issued by the City to refinance its Capital Improvement Revenue Bond, Series 2000A. The Series 2010A-2 Bond was issued by the City to refinance the Capital Improvement Revenue Bond, Subordinate Series 2000B. The Series 2000 Participant Bonds were variable rate obligations. The refunding allowed the City to replace the variable rate obligations with fixed rate obligations.

**SECURITY:**

The Series 2010A Bonds are limited obligations of the City payable solely from Pledged Revenues which consist primarily of the City's Infrastructure Sales Tax and, to the extent of any deficiency in the available amount of Infrastructure Sales Tax Revenues, the Communications Services Tax.

**AGENTS:**

**Trustee –** US Bank National Association, Orlando, Florida

**Bond Counsel –** McGuire Woods LLP, Jacksonville, Florida

**Insurance –** None on the Series 2010A Bonds

**ISSUED AS:**

Series 2010A-1 Bonds: $5,910,000 serial bonds due October 1, 2017.

Series 2010A-2 Bonds: $12,280,000 serial bonds due October 1, 2017.

**RATINGS:**

None.

**REDEMPTION:**

The Series 2010A Bonds are not subject to optional or mandatory redemption prior to their respective stated dates of maturity.

**OUTSTANDING PARITY BONDS**:

None.

## CITY OF PENSACOLA, FLORIDA
## $5,910,000 CAPITAL IMPROVEMENT REVENUE BONDS, SERIES 2010A-1

### SUMMARY OF DEBT SERVICE REQUIREMENTS

| Fiscal Year | Coupon Rate | Coupon Rate (w/ Fees) | Principal Payment | Interest Payment | Fee Payment | Subtotal Int & Fee | Total Fiscal Year |
|---|---|---|---|---|---|---|---|
| 2017 | 5.000% | 5.125% | $ 1,055,000.00 | $ 81,875.00 | $ 2,046.88 | $ 83,921.88 | $ 1,138,921.88 |
| 2018 | 5.000% | 5.125% | 1,110,000.00 | 27,750.00 | 693.75 | 28,443.75 | 1,138,443.75 |
| | | | $ 2,165,000.00 | $ 109,625.00 | $ 2,740.63 | $ 112,365.63 | $ 2,277,365.63 |

## CITY OF PENSACOLA, FLORIDA
## $12,280,000 CAPITAL IMPROVEMENT REVENUE BONDS, SERIES 2010A-2

### SUMMARY OF DEBT SERVICE REQUIREMENTS

| Fiscal Year | Coupon Rate | Coupon Rate (w/ Fees) | Principal Payment | Interest Payment | Fee Payment | Subtotal Int & Fee | Total Fiscal Year |
|---|---|---|---|---|---|---|---|
| 2017 | 5.000% | 5.125% | $ 2,190,000.00 | $ 170,000.00 | $ 4,250.01 | $ 174,250.01 | $ 2,364,250.01 |
| 2018 | 5.000% | 5.125% | 2,305,000.00 | 57,625.00 | 1,440.63 | 59,065.63 | 2,364,065.63 |
| | | | $ 4,495,000.00 | $ 227,625.00 | $ 5,690.64 | $ 233,315.64 | $ 4,728,315.64 |

## CITY OF PENSACOLA, FLORIDA
## $14,314,000 LOCAL OPTION GAS TAX REVENUE BOND, SERIES 2016

Dated: July 25, 2016

**PURPOSE:**

The Local Option Gas Tax Revenue Bond, Series 2016 was issued to provide funds for the primary purpose of financing the cost of capital improvements to the road system of the City of Pensacola and the costs of issuance related to the 2016 LOGT Bond.

**SECURITY:**

The 2016 LOGT Bond is a limited obligation of the City payable solely from Pledged Revenues which consist primarily of the City's Local Option Gasoline Tax. To the extent receipts of the Pledged Revenues are insufficient in any fiscal year to pay debt service on the 2016 LOGT Bond, the City covenants to budget and appropriate sufficient non-ad valorem revenues to cure such deficiency.

**AGENTS:**

**Holder –** Raymond James Capital Funding, Inc.

**Bond Counsel –** Bryant Miller Olive P.A., Orlando, Florida

**Insurance –** None

**ISSUED AS:**

$14,314,000 Bond due December 31, 2026, with principal installments commencing on December 31, 2016.

**RATINGS:**

None.

**REDEMPTION:**

The 2016 LOGT Bond is not subject to optional or mandatory redemption prior to the respective stated dates of maturity.

**OUTSTANDING PARITY BONDS**:

None.

## CITY OF PENSACOLA, FLORIDA
## $14,314,000 LOCAL OPTION GAS TAX REVENUE BOND, SERIES 2016

### SUMMARY OF DEBT SERVICE REQUIREMENTS

| Fiscal Year | Coupon Rate | Principal Payment | Interest Payment | Total Fiscal Year |
|---|---|---|---|---|
| 2017 | 1.830% | $ 271,000.00 | $ 242,003.47 | $ 513,003.47 |
| 2018 | 1.830% | 1,293,000.00 | 245,155.95 | 1,538,155.95 |
| 2019 | 1.830% | 1,316,000.00 | 221,283.60 | 1,537,283.60 |
| 2020 | 1.830% | 1,340,000.00 | 196,981.20 | 1,536,981.20 |
| 2021 | 1.830% | 1,365,000.00 | 172,230.45 | 1,537,230.45 |
| 2022 | 1.830% | 1,390,000.00 | 147,022.20 | 1,537,022.20 |
| 2023 | 1.830% | 1,415,000.00 | 121,356.45 | 1,536,356.45 |
| 2024 | 1.830% | 1,441,000.00 | 95,224.05 | 1,536,224.05 |
| 2025 | 1.830% | 1,467,000.00 | 68,615.85 | 1,535,615.85 |
| 2026 | 1.830% | 1,494,000.00 | 41,522.70 | 1,535,522.70 |
| 2027 | 1.830% | 1,522,000.00 | 13,926.30 | 1,535,926.30 |
| | | $ 14,314,000.00 | $ 1,565,322.22 | $ 15,879,322.22 |

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## OTHER GENERAL GOVERNMENTAL OBLIGATIONS - CAPITAL LEASES

### INTRODUCTION

Other City obligations not associated with the Community Redevelopment Agency consists of several capital leases.

### PROSPECTIVE FINANCINGS

The City does not anticipate issuing any new capital leases in the succeeding year.

### DEBT MANAGEMENT

***Capital Lease, Series 2012.*** On October 24, 2012 the City entered into a Capital Lease, Series 2012 in the principal amount of $192,253.41 (the "Series 2012 Capital Lease") with Dell Financial Services (the "Lessor"). The Series 2012 Capital Lease was issued to provide funds for the primary purpose of financing information technology software including networking infrastructure and system wide data backup. The City's obligation to make lease payments and to pay any other amounts payable under the Series 2012 Capital Lease is unsecured and constitutes a current obligation, subject to annual appropriations, payable only to the extent permitted by law and exclusively from legally available funds and shall not be construed to be an indebtedness within the meaning of any applicable constitutional or statutory limitation or requirement. In the event the funds appropriated by the City in any fiscal year for lease payments are insufficient, the Series 2012 Capital Lease shall terminate on the last day of the fiscal year for which appropriations were received without penalty or expense to the City of any kind whatsoever, except as to the portions of lease payments or other amounts agreed upon for which funds shall have been appropriated and budgeted or are otherwise available. In the event of such termination, the Lessor may request by written notice that the City promptly deliver the equipment to the Lessor or its assignee. Due to a special lease to own option offered by the Lessor, the City is able to finance the purchase over five years for the same amount it would have cost to pay for the equipment in full as the imputed interest rate of 4.13% is offset by a lease equipment discount equal to the interest amount.

***Capital Lease, Series 2015.*** On June 25, 2015 the City entered into an Equipment Lease-Purchase Agreement in the principal amount of $6,460,954 (the "Series 2015 Capital Lease") with Motorola Solutions, Inc. (the "Lessor"). The Series 2015 Capital Lease was entered into for the primary purpose of financing Public Safety Radio System Upgrade to a Project 25 (P25) Standards Digital Radio Solution. The City's obligation to make lease payments and to pay any other amounts payable under the Series 2015 Capital Lease is unsecured and constitutes a current obligation payable, subject to annual appropriations, only to the extent permitted by law and exclusively from legally available funds and shall not be construed to be an indebtedness within the meaning of any applicable constitutional or statutory limitation or requirement. In the event the funds appropriated by the City in any fiscal year for lease payments are insufficient, the Series 2015 Capital Lease shall terminate on the last day of the fiscal year for which appropriations were received without penalty or expense to the City of any kind whatsoever, except as to the portions of lease payments or other amounts agreed upon for which funds shall have been appropriated and budgeted or are otherwise available. In the event of such termination, the Lessor may request by written notice that the City promptly deliver the equipment to Lessor or its assignee.

## CITY OF PENSACOLA, FLORIDA
## $192,253.41 CAPITAL LEASE, SERIES 2012

Dated: October 24, 2012

**PURPOSE:**

The capital lease was entered into for the primary purpose of financing information technology software including networking infrastructure and system wide data backup.

**SECURITY:**

The City's obligation to make Lease Payments and to pay any other amounts payable under the Series 2015 Capital Lease is unsecured and constitutes a current obligation payable, subject to annual appropriations, only to the extent permitted by law and exclusively from legally available funds and shall not be construed to be an indebtedness within the meaning of any applicable constitutional or statutory limitation or requirement. The terms of the lease allows the City to cancel the lease and return the equipment in the event that funds are not appropriated to pay the lease payments.

**AGENTS:**

**Lessor –** Dell Financial Services

**Bond Counsel –** N/A

**Insurance –** None

**ISSUED AS:**

$192,253.41 capital lease due February 1, 2017, with principal installments commencing on February 1, 2013.

**RATINGS:**

None.

**CALL PROVISIONS:**

None.

## CITY OF PENSACOLA, FLORIDA
## $192,253.41 CAPITAL LEASE, SERIES 2012

### SUMMARY OF DEBT SERVICE REQUIREMENTS

| Fiscal Year | Coupon Rate | Principal Payment | Interest Payment | Total Fiscal Year |
|---|---|---|---|---|
| 2017 | 4.130% | $ 39,999.33 | $ 1,681.62 | $ 41,680.95 |
| | | $ 39,999.33 | $ 1,681.62 | $ 41,680.95 |

## CITY OF PENSACOLA, FLORIDA
## $6,460,954 CAPITAL LEASE, SERIES 2015

Dated: June 25, 2015

**PURPOSE:**

The Series 2015 Capital Lease was entered into for the primary purpose of financing Public Safety Radio System Upgrade to a Project 25 (P25) Standards Digital Radio Solution.

**SECURITY:**

The City's obligation to make Lease Payments and to pay any other amounts payable under the Series 2015 Capital Lease is unsecured and constitutes a current obligation payable, subject to annual appropriations, only to the extent permitted by law and exclusively from legally available funds and shall not be construed to be an indebtedness within the meaning of any applicable constitutional or statutory limitation or requirement.

**AGENTS:**

**Lessor –** Motorola Solutions, Inc.

**Bond Counsel –** Bryant Miller Olive P.A., Tampa, Florida

**Insurance –** None

**ISSUED AS:**

$6,460,954 capital lease due June 1, 2021, with principal installments commencing on June 1, 2018.

**RATINGS:**

None.

**PURCHASE OPTION:**

Upon thirty (30) days prior written notice from the City to the Lessor, and *provided* that no Event of Default has occurred and is continuing, or no event, which with notice or lapse of time, or both could become an Event of Default, then exists, the City has the right to purchase the Equipment on the Lease Payment Dates set forth in the Series 2015 Capital Lease by paying to Lessor, on such date, the Lease Payment then due together with the Balance Payment amount set forth therein. Upon satisfaction by the City of such purchase conditions, Lessor will transfer any and all of its right, title and interest in the Equipment to the City as is, without warranty, express or implied, except that the Equipment is free and clear of any liens created by Lessor.

## CITY OF PENSACOLA, FLORIDA
## $6,460,954 CAPITAL LEASE, SERIES 2015

### SUMMARY OF DEBT SERVICE REQUIREMENTS

| Fiscal Year | Coupon Rate | Principal Payment | Interest Payment | Total Fiscal Year |
|---|---|---|---|---|
| 2017 | 2.910% | $ - | $ 188,013.76 | $ 188,013.76 |
| 2018 | 2.910% | 1,546,418.29 | 188,013.76 | 1,734,432.05 |
| 2019 | 2.910% | 1,591,419.07 | 143,012.99 | 1,734,432.06 |
| 2020 | 2.910% | 1,637,729.36 | 96,702.69 | 1,734,432.05 |
| 2021 | 2.910% | 1,685,387.28 | 49,044.77 | 1,734,432.05 |
| | | $ 6,460,954.00 | $ 664,787.97 | $ 7,125,741.97 |

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## COMMUNITY REDEVELOPMENT AGENCY (CRA)

### INTRODUCTION

On September 25, 1980, the City Council made the determination that a blighted area existed in the City, and that there was a need for a redevelopment agency to implement the revitalization of this blighted area. Based on this determination, the City Council declared itself the Community Redevelopment Agency (CRA) pursuant to the provisions of Chapter 163, Part III, Florida Statutes. This action, adopted by Resolution No. 55-80 and amended by Resolution 22-10, also outlined the rights, powers, duties, privileges and immunities invested in the City Council acting as the CRA. The CRA as an agency exists until dissolved by action of the City Council. With the new form of City government effective January 10, 2011, the Mayor is no longer a part of the Council. However, the CRA and the City executed an Interlocal Agreement to provide the Mayor with executive authority and supervision over the daily operations of the CRA.

### MANAGEMENT

The CRA's daily operations are managed by City staff per the Interlocal Agreement between the CRA and the City.

### THE REDEVELOPMENT AREA

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

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

Since the establishment of the Redevelopment Area in 1980, significant growth in both private and public development activities has occurred. Over 445 major projects (over $100,000 each in permitted value) have been applied for during this time period through private investment, public investment, and a combination of public/private partnerships. A variety of current and past public projects are detailed in the "Community Redevelopment Agency Projects and Activities" section of this report. The public investment in these projects totals more than

$96 million and the private investment in these projects totals more than $410 million. The value of taxable real property in the Urban Core Community Redevelopment Area has increased from $87,926,570 in calendar year 1983 to $496,004,898 in calendar year 2015 (fiscal year 2016). The Urban Core Community Redevelopment Area is approximately 17.61% of the City's calendar year 2015 real property taxable valuation of $2,816,968,194 and represents approximately 8.6% of the City's land area.

**TAX INCREMENT REVENUES**

Pursuant to Chapter 163, Part III, Florida Statutes, the City is authorized to establish a redevelopment trust fund (the "Redevelopment Trust Fund") to be used to finance any community redevelopment it undertakes pursuant to the Community Redevelopment Plan. The Redevelopment Trust Fund was established by Ordinance No. 13-84, dated March 8, 1984, which provided for annual appropriations to the fund by each taxing authority, as described in the Redevelopment Act whose jurisdiction includes the Redevelopment Area, excluding school districts, water management districts and other taxing entities (none of which entities currently levy taxes within the Urban Core Community Redevelopment Area) enumerated in Section 163.387(l) (c), Florida Statutes. The amount of funds appropriated by each taxing authority is equal to ninety-five percent of the difference between the amount of ad valorem real property taxes levied, exclusive of debt service millage, by the taxing authority each year within the Urban Core Community Redevelopment Area and the amount which would have been produced by the same levy on the assessed value of taxable real property in the Redevelopment Area for calendar year 1983 (the "Tax Increment"). The base year for calculation of the Tax Increment is 1983. Currently, the taxing authorities appropriating to the Redevelopment Trust Fund are the City, Escambia County, and the City Downtown Improvement Board (DIB). Statutory requirement of each taxing authority to appropriate increment revenues to the Fund is defined in Florida Statutes Section 163.387 (2)(a) and the statutory obligation of a taxing authority to make the required payments to a community redevelopment trust fund continues for so long as a community redevelopment agency has indebtedness outstanding pledging tax increment revenues to the payment thereof, but not to exceed thirty years from the date tax increment revenues were first deposited into the redevelopment trust fund or thirty years after the date the redevelopment plan is subsequently amended and in no event later than sixty years after the Fiscal Year in which the redevelopment plan was initially approved or adopted. Thus, the sunset date for the tax increment revenues being paid into the City's Redevelopment Trust Fund is in Fiscal Year 2044. Additionally, the obligation of the governing body which established a community redevelopment agency to fund the community redevelopment trust fund annually continues until all loans, advances and indebtedness, if any, and interest thereon, of a community redevelopment agency incurred as a result of redevelopment in a community redevelopment area have been paid.

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

## INCREMENTAL PROPERTY VALUES OF TAXING AUTHORITIES

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

| Calendar Year | Fiscal Year | Escambia County | City of Pensacola | Downtown Improvement Board (DIB) |
|---|---|---|---|---|
| 2011 | 2012 | $ 353,836,007 | $ 353,836,007 | $ 88,069,553 |
| 2012 | 2013 | 339,013,630 | 339,013,630 | 84,306,428 |
| 2013 | 2014 | 349,610,292 | 349,610,292 | 87,241,643 |
| 2014 | 2015 | 375,281,442 | 375,281,442 | 98,751,473 |
| 2015 | 2016 | 408,078,328 | 408,078,328 | 105,154,557 |

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

In 2010, voters approved a state-wide tax exemption for deployed or active-duty military personnel which would have become effective in the calendar year 2011 tax roll. This legislative initiative as well as the national downturn in real estate values account for decreases through fiscal year 2012. Additionally, the City reduced its millage rate by 0.25 mills in fiscal year 2012 which would have become effective in the calendar year 2012 tax roll.

## CERTIFIED MILLAGE OF TAXING AUTHORITIES

| Fiscal Year | Escambia County | City of Pensacola | Downtown Improvement Board |
|---|---|---|---|
| 2012 | .0069755 | .0042895 | .002000 |
| 2013 | .0069755 | .0042895 | .002000 |
| 2014 | .0066165 | .0042895 | .002000 |
| 2015 | .0066165 | .0042895 | .002000 |
| 2016 | .0066165 | .0042895 | .002000 |

Source: Escambia County Tax Collector's Office

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

## TAX INCREMENT REVENUE COLLECTIONS

The following table shows the actual amount of Tax Increment Revenues collected by the Taxing Authorities and remitted to the CRA for the past five fiscal years. The revenue decreases shown through fiscal year 2013 are a result of the national downturn in real estate values, increased tax exemptions discussed previously and reduced millage rates by the City. With the increased taxable property values in fiscal year 2014, the CRA should have seen an increase of approximately 3.14% or $118,980. While the amount of the Tax Increment Revenues collected from the City of Pensacola and DIB increased, the overall collections decreased. This is due to the reduction of the Escambia County Millage rate in order to compensate for the addition of an Escambia County Library Municipal Service Taxing Unit (MSTU) of .3590 mils. Escambia County reduced its millage rate in order to keep the overall tax rate on the public relatively the same (6.9755 mils). MSTUs are not in the calculation of Tax Increment Revenues.

| Fiscal Year | Escambia County | City of Pensacola | Downtown Improvement Board | Total | Percent Increase/ (Decrease) |
|---|---|---|---|---|---|
| 2012 (1) | $ 2,344,774 | $ 1,441,891 | $ 167,332 | $ 3,953,997 | -2.68% |
| 2013 (2) | 2,246,550 | 1,381,489 | 160,182 | 3,788,221 | -4.19% |
| 2014 (3) | 2,197,537 | 1,424,671 | 165,759 | 3,787,967 | -0.01% |
| 2015 (4) | 2,358,897 | 1,529,281 | 187,628 | 4,075,806 | 7.60% |
| 2016 (4) | 2,565,048 | 1,662,929 | 199,794 | 4,427,771 | 8.64% |

Source: City Financial Services Department

(1) The decrease in Tax Increment Revenue collections is a result of the property tax reform in Florida (millage rate reductions) and lower valuation due to property tax reform coupled with the economic downturn.

(2) The decrease in Tax Increment Revenue collections is a result of millage rate reductions.

(3) The decrease in Escambia County Tax Increment Revenue collections is a result of a millage rate reduction. Increases in Tax Increment Revenue collections for the City of Pensacola and DIB are a result of increases in taxable property values.

(4) The increases in Tax Increment Revenue collections are a result of increases in taxable property values.

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## HIGHEST TAXPAYERS BY PARCEL IN THE CITY AND REDEVELOPMENT AREA

The following charts list the five parcels located in the City with the highest taxable values and the top five parcels within the Urban Core Community Redevelopment Area with the highest taxable values as shown on the calendar year 2015 (fiscal year 2016) Escambia County real property tax roll and the percentages of total City and Urban Core Community Redevelopment Area real property values represented thereby:

### CITY OF PENSACOLA

| Taxpayer | Real Property Taxable Value | Percentage of Total City Real Property Taxable Value |
|---|---|---|
| Simon Debartolo Group (Cordova Mall) | $34,073,294 | 1.21% |
| Gulf Power Company | 26,017,599 | 0.92% |
| Sacred Heart Health System | 13,391,275 | 0.48% |
| Cole Mt. Pensacola Cordova FL, LLC | 12,595,192 | 0.45% |
| Wal-Mart Stores East Inc. | 11,789,552 | 0.42% |

Source: Escambia County Property Appraiser's Office

### COMMUNITY REDEVELOPMENT AREA

| Taxpayer | Real Property Taxable Value | Percentage of Redevelopment Area Real Property Taxable Values |
|---|---|---|
| Gulf Power Company | $26,017,599 | 5.25% |
| Holi Corp (Crowne Plaza Hotel) | 11,391,653 | 2.30% |
| One Pensacola Plaza | 9,697,962 | 1.96% |
| Keating Development Co. (City of Pensacola Lease - U.S. Courthouse) | 9,441,784 | 1.90% |
| GNL Pensacola, LLC (SunTrust) | 7,579,687 | 1.53% |

Source: Escambia County Property Appraiser's Office

## PROJECTS AND ACTIVITIES

***Comprehensive Update to CRA Master Plan.*** With the significant positive changes within and adjacent to the CRA underway, the CRA completed a master plan (the "Plan") in fiscal year 2010. The Plan update was the most comprehensive update since the 1989 Urban Core Redevelopment Plan, and is critical in leveraging funding resources and stimulating economic growth. This Plan, as required by Section 163.360, Florida Statutes, includes the overall goals for redevelopment in the area, as well as identifying the types of projects planned for the area in the short term (2-5 years) as well as longer terms (5-15 years) for more significant progress.

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

The Urban Core Community Redevelopment Area Plan 2010 was adopted by City Council in January 2010 and now serves as the CRA's guiding document for annual budgeting and focus of activity. The Plan incorporates previous site specific plans and includes critical areas for future public and private development including nine (9) city blocks formerly occupied by the Emerald Coast Utilities Authority Wastewater Treatment Plant and the City owned "Bruce Beach" area (approximately five (5) acres of waterfront.) In addition to a number of public capital projects identified as catalysts for further private investment, the Plan also identifies strategies for regulatory and zoning amendments, incentives, and residential development.

Since the adoption of the 2010 Urban Core Community Redevelopment Area Plan in January 2010, the following goals/projects have been accomplished or are in the works.

***One-way Street Conversions.*** North Baylen, Spring and Palafox Streets were successfully converted to two-way traffic from one-way traffic in 2012 as identified in the Plan. The return of two-way streets has increased the vehicular traffic and visibility to this critical retail corridor and will positively impact the ability to market available space to local and regional retailers.

***Main Street Reconstruction.*** The City completed the Main Street improvements in the downtown area in 2012, resulting in an attractive, pedestrian friendly gateway to downtown. Improvements included narrow to one lane with a center median, wide promenade to accommodate pedestrians and bicyclists, street trees with wide landscape strips and pedestrian scaled lighting, paved crosswalks at key intersections and underground utilities.

***Special Events.*** The series of special events introduced in 2008 to enliven public spaces and help stimulate additional economic activity in downtown retail shops and hospitality venues. The most significant of these events was launched in December 2008 for New Year's Eve, the Pensacola Pelican Drop™ New Year's Celebration. In 2011, the Pensacola Pelican Drop™ New Year's Celebration was transferred to the Downtown Improvement Board through a CRA Interlocal agreement. While no longer hosted by the CRA, the event continues to be successful.

***Plaza de Luna / Palafox Pier.*** Completion of the concession and restroom facility in 2009 and ongoing events in the park has greatly enhanced the park's use and activity along the waterfront and has supported visiting ships docked at the park. This increase in activity has been further enhanced with the restaurant operating in the vacant space adjacent to the park. In addition a new restaurant called DeLuna's Chat and Chew moved into the concession building at Plaza DeLuna and opened for business in February 2014.

***Main Street Wastewater Treatment Plant.*** In March 2007, the CRA approved an amendment to the Plan and assisted in the funding of the relocation of the Main Street Wastewater Treatment Plant. The City committed to the Emerald Coast Utilities Authority ("ECUA") $19.5 million for the project and agreed to budget and appropriate franchise fees received from the ECUA and the beverage license tax revenues for the project. The obligation was recorded in fiscal year 2012 upon project completion. Annual installments to the ECUA of $1.3 million began in fiscal year 2013 and will extend through fiscal year 2027. Related to this transaction, the City entered in an agreement with the CRA wherein the annual installments to the ECUA will be paid from Tax Increment Revenues and any shortfall paid by the City will be reimbursed by the CRA when funds are available. There has been no shortfall to date.

The 19-acre facility has been demolished, creating a substantial opportunity for redevelopment in the waterfront area of downtown Pensacola. The disposition and development of this site is vital to continue development and investment in the City's core and waterfront areas. In November 2014, the ECUA board of directors voted unanimously to approve the sale of a 19-acre parcel of land on Main Street, the former site of its downtown wastewater treatment facility, to Quint Studer Properties.

***Community Maritime Park Project.*** The City completed the public space improvements on the 27-acre waterfront parcel on Pensacola Bay in the downtown area in 2012. On September 5, 2006, a voter referendum approved the mixed-use project which currently includes three waterfront parks (Plaza DeVilliers, South Park, and Spring Street Park), a multi-use athletic stadium, amphitheater, public promenade, and parcels available for private development. A separate non-profit entity called Community Maritime Park Associates (CMPA) was established to promote and oversee the development as well as manage the long-term operation and maintenance of the park. On December 21, 2009, the City issued the Series 2009 Redevelopment Bonds to fund the construction of the public improvements. On May 27, 2010 the City used proceeds of $39.8 million to leverage a New Markets Tax Credit (NMTC) transaction which provided an additional $12 million in funding.

With the completion of the Vince Whibbs, Sr. Community Maritime Park in June 2012, approximately 12.4 acres of land became available for private development. In August 2012, City Council approved the first land lease at the Community Maritime Park with Maritime Place, LLC, for the development of a 77,000 square foot commercial building constructed at a cost to the tenant of $16 million. The lease generates approximately $100,000 in rental fees to the City. Construction of the private development, Maritime Place, was completed in 2014. In June, 2013, the second lease for private development was executed. Maritime One was completed in October 2015. Maritime One is a 27,000 square foot, $4 million mixed use building. Maritime One is significant in that it includes a residential component. The lease generates approximately $46,000 in annual rental fees to the City. In addition to the annual lease fees received by the City, development of these sites resulted in increased ad valorem property tax revenues to the CRA. As of the date of this report, several parcels remain available for future development.

The multi-use stadium is home to the Pensacola Blue Wahoos, an AA minor league team affiliated with the Cincinnati Reds. With consistently sold-out games, downtown Pensacola saw a significant economic impact due to the thousands of visitors who patronized downtown businesses and restaurants in conjunction with the baseball games.

***Bay Ferry.*** In 2013, Gulf Islands National Seashore was awarded BP early restoration money to implement a new ferry service between Fort Pickens and Pensacola. To assist with the ferry landing, the City applied for a US Department of Transportation Eastern Federal Lands Highway Division (EFLHD) Federal Access Land Program (FLAP) grant and was selected for funding on August 5, 2014. Utilizing the EFLHD grant, the City expects to construct dock and supporting facilities at the north end of Commendencia Slip in downtown Pensacola. It is anticipated that construction will be complete in 2017. The Pensacola Bay ferry system is expected to be operational in the spring of 2018 and ferry service sites will include Fort Pickens, Pensacola Beach and Downtown Pensacola.

***Bruce Beach.*** In May 2014, the City executed a lease agreement with the Florida Fish and Wildlife Conservation Commission (FWC) for the property commonly known as “Bruce Beach” for the purpose of developing the Gulf Coast Marine Fisheries Hatchery/Enhancement Center. FWC plans to construct a state-of-the art saltwater fish hatchery for the production of sport-fish species on the site along with a filtration marsh that will recycle nutrients from the hatchery and serve as a nursery for wetland plant species to support ongoing regional coastal habitat restoration efforts. The venue will provide for public education and outreach related to marine conservation as well as research opportunities for governmental, university and non-profit partners. As of October 21016, the design phase of the project is sixty percent complete. Construction is planned to begin during the fall of 2017.

***Downtown Technology Park and Admiral Mason Stormwater Park***. In November 2011, the City completed a $1.6 million stormwater retention facility at the site of the Admiral Mason Stormwater Park, funded through the annual stormwater capital program. The project supports the development of adjacent vacant sites at densities expected to be high enough to compete in a critical financial market. The retention aspect of the park was designed to be an asset to the area by creating an active pond and park setting with walking paths, lighting, landscaping, benches and spray features. The stormwater retention further supports the 9.2 acre Downtown Technology Park. The facility is a partnership between Escambia County, the City and the Pensacola-Escambia Promotion and Development Commission (PEDC) to prepare shovel ready development sites for new and expanding technology related companies. The $2 million infrastructure project at the Technology Park was completed in 2011. In August 2013, the City Council and the CRA voted to amend the PEDC Interlocal Agreement related to the development of the Downtown Technology Park. The amendment loosened restrictions on the types of businesses that could be developed at the Downtown Technology Park. In February of 2014, the Pensacola Industrial Development Corporation, which owns the Technology Park, entered into a Memorandum of Understanding with Space Florida for Project Expanse, the first multi-tenant office building encompassing approximately 70,000 to 85,000 square feet of space. Project Expanse will serve as a hub for attraction and growth of high tech and aerospace industry companies. Requests for Proposals for building design and engineering services were conducted by Space Florida in fall of 2014 and Caldwell Associates Architects was subsequently selected. In March 2016 the proposal was accepted by the Gateway Review Board. Upon full build out, Project Expanse is expected to accommodate approximately 300 new high-wage jobs. The Pensacola Technology Park will accommodate multiple companies and has the capacity to support 1.6 million square feet of Class A office. The PEDC is continuing to aggressively market the technology site as a regional facility. Full development of the surrounding parcels and planned improvements would generate tax revenue and support the urban design context seen throughout the downtown.

***Land Development.*** In October 2013, the City Council approved an amendment to the City's Land Development Code to reduce the requirements for off-street parking. While reductions to the parking requirements were made city-wide, within the CRA, an additional reduction was provided. The intent of the new regulations is to encourage redevelopment of existing parking lots and also to allow for better utilization of sites.

**DEBT MANAGEMENT**

The CRA is a blended component unit of the City, and the obligations for repayment of the loans and the bonds of the CRA are expected to be payable solely from Tax Increment Revenues. However, there is a Covenant to Budget and Appropriate from non-ad valorem revenues in support of the obligations described below.

***Issuance of the Redevelopment Revenue Bonds, Series 2009A and Series 2009B.*** On December 21, 2009 the City issued its Redevelopment Revenue Bonds, Series 2009A in the aggregate principal amount of $6,715,000 (the "Series 2009A Redevelopment Bonds") and Series 2009B in an aggregate principal amount of $38,925,000 (the "Series 2009B Redevelopment Bonds" and together with the Series 2009A Redevelopment Bonds, the "Series 2009 Redevelopment Bonds"). The Series 2009 Redevelopment Bonds were issued for the purpose of financing the Maritime Park Project.

Pursuant to the authorizing resolution, when issued, payment of the Series 2009 Redevelopment Bonds was secured by Tax Increment Revenues of the CRA and a Covenant to Budget and Appropriate from non-ad valorem revenues. The Series 2009B Redevelopment Bonds are further secured by Federal Direct Payments (as defined and described below).

New Market Tax Credits. On May 27, 2010, the City used $39,813,626 of bond proceeds from the Series 2009 Redevelopment Bonds to leverage a New Market Tax Credits (NMTC) transaction for the Maritime Park Project. Capital Trust Agency-Community Development Entity, LLC (CTA–CDE) and two other NMTC allocatees offered, and US Bank purchased, $56 million NMTC authority for use in the construction of the Maritime Park Project. The tax credits were monetized yielding additional financial benefit of approximately $12 million for the Project. With this transaction, the holders of the City's Series 2009 Redevelopment Bonds were advised to view the City's Covenant to Budget and Appropriate from non-ad valorem revenues as the primary security for the Series 2009 Redevelopment Bonds, because the payments required under the NMTC transaction have a priority on Tax Increment Revenues under a separate agreement between the City, the CRA and Community Maritime Park Associates, Inc. (CMPA), a not-for-profit corporation and instrumentality of the City charged with the responsibility to oversee the development and management of the project, which was completed in 2012.

In connection with the 2009 Redevelopment Bonds, the City entered into a "put and call" agreement with U.S. Bancorp Community Development Corporation ("USBCDC"), the owner of 100% of the CTA Investment Fund. In September 2014, USBCDC made a permitted assignment of its interest in the CTA Investment Fund to a USBCDC managed affiliate, CMPA (the "Flip

Fund”). The agreement allows the Flip Fund to “put” its interest in the CTA Investment Fund to the City of Pensacola. If the Flip Fund exercises this option the City will pay a purchase price of $1,000, plus any transfer or closing costs. In the event the “put” is not exercised, the City can exercise a “call” option to purchase the ownership interest in an amount equal to the fair value of the interest. The first opportunity to exercise the “put and call” option will occur in fiscal year 2017.

In this NMTC transaction, the City acted as both the leveraged lender and the Disbursement Agent for the leveraged loan and NMTC proceeds. On July 31, 2014 CTA–CDE took over the roll from the City as the Disbursement Agent for the NMTC proceeds. CMPA is the recipient of funds for the construction and management of the project and is the ultimate borrower. As a lender to the transaction, the City receives a monthly interest payment indirectly from CMPA’s receipts of tax increment revenue from the CRA. Those payments are filtered from CMPA through the investor and are ultimately made by the investor to the City to repay the leveraged loan, subject to the conditions of the arrangement for the NMTC investment. The leveraged loan payments are equal to CMPA’s receipts of tax increment revenue from the CRA, less loan service fees.

Federal Direct Payments. The Series 2009B Redevelopment Bonds were issued as Federally Taxable Build America Bonds (BABs). The American Recovery and Reinvestment Act of 2009 authorized issuers to issue taxable bonds known as “Build America Bonds” or “BABs” to finance capital expenditures for which issuers could issue tax-exempt bonds and to elect to receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on such taxable bonds (the “Federal Direct Payments”). The Federal Direct Payments for the Series 2009B Redevelopment Bonds are paid to the City. The receipt of the Federal Direct Payments is subject to certain requirements, including the filing of a form with the Internal Revenue Service prior to each interest payment date.

On March 1, 2013, as required by the Budget Control Act of 2011 and the American Taxpayer Relief Act of 2012, the President signed an executive order reducing the budgetary authority in accounts subject to sequester, in accordance with the report issued by the Office of Management and Budget. The order requires that the budget authority for all accounts in the domestic mandatory spending category, which includes payments to issuers of direct-pay bonds, including Build America Bonds, be reduced for federal fiscal year 2016. The order does not affect payments for future years, although under the Budget Control Act of 2011 there could be additional sequester orders for future fiscal years through and including fiscal year 2024.

The Tax-Exempt Bond office of the Internal Revenue Service has issued guidance on the effect of the sequester on direct pay bonds for fiscal year 2017. Payments made to issuers on or after October 1, 2016, through and including September 30, 2017, will be reduced approximately 6.9 percent, unless Congressional action changes the reduction percentage. Upon filing of the required reports to the IRS, the City will receive correspondence concerning the reduction.

Notwithstanding the reduction in receipt of Federal Direct Payments, the City is obligated to pay the principal and interest on the Series 2009B Redevelopment Bonds from certain non-ad valorem revenues pursuant to the Covenant to Budget and Appropriate. Accordingly, the City does not expect the sequester to affect the receipt by bondholders of the timely payment of principal and interest.

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**$45,640,000**
**CITY OF PENSACOLA, FLORIDA**

**$6,715,000**
**REDEVELOPMENT REVENUE BONDS**
**SERIES 2009A**

**$38,925,000**
**REDEVELOPMENT REVENUE BONDS**
**SERIES 2009B**
**(Federally Taxable – Build America Bonds – Direct Payment)**

Dated: December 21, 2009

**PURPOSE:**

The 2009 Redevelopment Bonds were issued to provide funds to finance the costs of the 2009 Project, including capitalized interest. The 2009 Project consists of the public recreation, exhibition, entertainment and exposition facilities and public infrastructure portions of the Vince Whibbs Sr. Community Maritime Park and other improvements in the Redevelopment Area.

**SECURITY:**

The 2009 Redevelopment Bonds are secured by a Covenant to Budget and Appropriate, Tax Increment Revenues and, with respect to the 2009B Redevelopment Bonds, Federal Direct Payments. The City used $39,813,626 of bond proceeds to leverage a New Markets Tax Credits (NMTC) transaction for the Maritime Park Project. The underlying NMTC transaction loans have a priority claim on Tax Increment Revenues. Accordingly, the holders of the 2009 Redevelopment Bonds have been advised to view the City's Covenant to Budget and Appropriate as the primary security for the portion of the 2009 Redevelopment Bonds utilized for the leverage loan, although Tax Increment Revenues remain a source of payment for the 2009 Redevelopment Bonds.

**AGENTS:**

**Registrar –** TD Bank, National Association, Jacksonville, Florida

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

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

**ISSUED AS:**

$6,715,000 Bonds due 4/1/2013 through 4/1/2020, $5,235,000 Term Bonds due 4/1/2024, $15,890,000 Term Bonds due 4/1/2033 and $17,800,000 Term Bonds due 4/1/2040.

**RATINGS:**

**Fitch** – AA outlook stable

**Standard & Poor's –** AA outlook stable

**REDEMPTION:**

The 2009A Redevelopment Bonds are not redeemable prior to their maturity.

The 2009B Redevelopment Bonds are subject to redemption:

**Mandatory Redemption**

Term Bonds Due April 1, 2024

| Year | Amount |
|---|---|
| 2021 | $1,225,000 |
| 2022 | 1,280,000 |
| 2023 | 1,335,000 |
| 2024 (maturity) | 1,395,000 |

Term Bonds Due April 1, 2033

| Year | Amount |
|---|---|
| 2025 | $1,455,000 |
| 2026 | 1,525,000 |
| 2027 | 1,600,000 |
| 2028 | 1,675,000 |
| 2029 | 1,755,000 |
| 2030 | 1,835,000 |
| 2031 | 1,920,000 |
| 2032 | 2,015,000 |
| 2033 (maturity) | 2,110,000 |

Term Bonds Due April 1, 2040

| Year | Amount |
|---|---|
| 2034 | $2,205,000 |
| 2035 | 2,310,000 |
| 2036 | 2,420,000 |
| 2037 | 2,535,000 |
| 2038 | 2,650,000 |
| 2039 | 2,775,000 |
| 2040 (maturity) | 2,905,000 |

**Optional Redemption**

2009B Redevelopment Bonds are subject to redemption on or after April 1, 2020 at a redemption price of 100%.

**OUTSTANDING PARITY BONDS**:

None.

**$45,640,000**
**CITY OF PENSACOLA, FLORIDA**

**$6,715,000**
**REDEVELOPMENT REVENUE BONDS**
**SERIES 2009A**

**$38,925,000**
**REDEVELOPMENT REVENUE BONDS**
**SERIES 2009B**
**(Federally Taxable – Build America Bonds – Direct Payment)**

## SUMMARY OF DEBT SERVICE REQUIREMENTS

**REDEVELOPMENT REVENUE BONDS, SERIES 2009**

| | | | Redevelopment Revenue Bonds 2009A | | Redevelopment Revenue Bonds 2009B | | |
|---|---|---|---|---|---|---|---|
| Fiscal Year | Coupon Date | Coupon Rate | Principal Payment | Interest Payment | Principal Payment | Interest Payment | Total P & I |
| 2017 | 10/1/2016 | 4.000% | $ 1,045,000.00 | $ 180,337.50 | $ - | $ 2,794,968.86 | $ 4,020,306.36 |
| 2018 | 10/1/2017 | 4.000% | 1,085,000.00 | 138,537.50 | - | 2,794,968.86 | 4,018,506.36 |
| 2019 | 10/1/2018 | 4.000% | 1,130,000.00 | 95,137.50 | - | 2,794,968.86 | 4,020,106.36 |
| 2020 | 10/1/2019 | 4.250% | 1,175,000.00 | 49,937.50 | - | 2,794,968.86 | 4,019,906.36 |
| 2021 | 10/1/2020 | 6.829% | - | - | 1,225,000.00 | 2,794,968.86 | 4,019,968.86 |
| 2022 | 10/1/2021 | 6.829% | - | - | 1,280,000.00 | 2,711,313.60 | 3,991,313.60 |
| 2023 | 10/1/2022 | 6.829% | - | - | 1,335,000.00 | 2,623,902.40 | 3,958,902.40 |
| 2024 | 10/1/2023 | 6.829% | - | - | 1,395,000.00 | 2,532,735.26 | 3,927,735.26 |
| 2025 | 10/1/2024 | 7.263% | - | - | 1,455,000.00 | 2,437,470.70 | 3,892,470.70 |
| 2026 | 10/1/2025 | 7.263% | - | - | 1,525,000.00 | 2,331,794.06 | 3,856,794.06 |
| 2027 | 10/1/2026 | 7.263% | - | - | 1,600,000.00 | 2,221,033.30 | 3,821,033.30 |
| 2028 | 10/1/2027 | 7.263% | - | - | 1,675,000.00 | 2,104,825.30 | 3,779,825.30 |
| 2029 | 10/1/2028 | 7.263% | - | - | 1,755,000.00 | 1,983,170.06 | 3,738,170.06 |
| 2030 | 10/1/2029 | 7.263% | - | - | 1,835,000.00 | 1,855,704.40 | 3,690,704.40 |
| 2031 | 10/1/2030 | 7.263% | - | - | 1,920,000.00 | 1,722,428.36 | 3,642,428.36 |
| 2032 | 10/1/2031 | 7.263% | - | - | 2,015,000.00 | 1,582,978.76 | 3,597,978.76 |
| 2033 | 10/1/2032 | 7.263% | - | - | 2,110,000.00 | 1,436,629.30 | 3,546,629.30 |
| 2034 | 10/1/2033 | 7.210% | - | - | 2,205,000.00 | 1,283,380.00 | 3,488,380.00 |
| 2035 | 10/1/2034 | 7.210% | - | - | 2,310,000.00 | 1,124,399.50 | 3,434,399.50 |
| 2036 | 10/1/2035 | 7.210% | - | - | 2,420,000.00 | 957,848.50 | 3,377,848.50 |
| 2037 | 10/1/2036 | 7.210% | - | - | 2,535,000.00 | 783,366.50 | 3,318,366.50 |
| 2038 | 10/1/2037 | 7.210% | - | - | 2,650,000.00 | 600,593.00 | 3,250,593.00 |
| 2039 | 10/1/2038 | 7.210% | - | - | 2,775,000.00 | 409,528.00 | 3,184,528.00 |
| 2040 | 10/1/2039 | 7.210% | - | - | 2,905,000.00 | 209,450.50 | 3,114,450.50 |
| | | | $ 4,435,000.00 | $ 463,950.00 | $ 38,925,000.00 | $ 44,887,395.80 | $ 88,711,345.80 |

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## PENSACOLA ENERGY

### INTRODUCTION

Pensacola Energy ("PE" or the "System") (formerly Energy Services of Pensacola) became a City-owned utility on April 27, 1948, upon purchase from Gulf Power Company. The System supplies natural gas to over 43,000 customers in a service area located throughout Escambia County. The Escambia County Board of County Commissioners granted the City a gas service franchise encompassing urbanized and developing portions of Southern Escambia County in 1959. The exclusive gas service franchise agreement was reaffirmed when the Commissioners voted to extend its term through March 1, 2045 with a renewal option for an additional fifty years. In January 1993, the City purchased the natural gas system owned and operated by the Emerald Coast Utilities Authority (then, the Escambia County Utilities Authority) which significantly expanded the service area. In July, 2013, the City of Pensacola sold a portion of the franchise to service Pensacola Beach to the City of Gulf Breeze, and Escambia County released and transferred those natural gas rights.

### ORGANIZATION AND MANAGEMENT

The System is one of four enterprise operations owned and operated by the City. The elected City Council sets policy guidelines and charges the Mayor with the general direction of all departments. The System is administered by the Pensacola Energy Director. On January 10, 2011, the City's charter changed the form of government and with that the Mayor has executive authority and supervision over all departments of the City. The Mayor is charged with the oversight of Pensacola Energy (PE) and all other departments of the City. Following are biographies of key senior managers.

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

***Dena L. Faessel, Administrator of Operations.*** Mrs. Faessel received her Bachelor of Arts degree and her Master's in Business Administration from the University of West Florida in 1978 and 1988, respectively. She joined PE in March of 2001 in a newly created Business Development position with responsibility to develop new business opportunities in order to increase PE's customer base and/or increase gas sales. She has over thirty-seven years of utility industry experience, fifteen of which have been with PE. In January, 2013, Mrs. Faessel was promoted to Administrator of Operations, in charge of marketing, engineering and field activities, as well as budget analysis and gas acquisition. She is charged with preparing PE's annual budget and coordinating the development of the compressed natural gas market segment as well as improve staff efficiencies through the evaluation and implementation of special projects. Ms. Faessel is a member of the Florida Natural Gas Association and the American Public Gas Association.

***Donna Nickerson, Budget & Systems Administrator.*** Mrs. Nickerson received her Associate of Arts degree from Pensacola Junior College in 1990. She joined the City in August 1981 and PE in September of 1982 and has over thirty-five years of utility experience. In 2003 she was promoted to Measurement Services Manager, then Operations Support Manager in October 2006 and was promoted to her current position as Systems and Budget Administrator in August 2016. She is responsible for budget preparation and analysis, rates, and oversees various activities including customer service, billing, warehouse, purchasing, IT and payroll functions.

***Darryl Singleton, Gas Operations Superintendent*** Mr. Singleton received his Bachelor of Science degree in Management Information Systems from the University of West Florida in 1990. He joined PE in 1996, and has worked in all areas of operation during his time with PE. Mr. Singleton is responsible for overseeing all field operational activities and staff for the System as well as coordinating all contract labor used for support. Mr. Singleton is a member of the Florida Natural Gas Association and the American Public Gas Association.

***Diane Moore, Gas Distribution Engineer.*** Mrs. Moore received her Bachelor of Science degree in Electrical Engineering from the Georgia Institute of Technology in 1990. Prior to joining PE she worked for Champion International Corporation as a controls system engineer for 9 years developing and maintaining mill process control systems. She is also co-owner of Southern Home & Construction, Inc. She joined PE in September 2015 and is responsible for distribution system engineering and corrosion services. Mrs. Moore is a member of the National Association of Corrosion engineers (NACE) and has completed the first level of certification in the NACE Cathodic Protection Program. She is also a Registered Gas Distribution Professional.

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

***John P. Madden, Customer Service Manager.*** Mr. Madden received his Bachelor of Arts degree in Business Management from DeSales University, Center Valley, Pennsylvania in 1986. Mr. Madden joined the City in 2001. He is an Accredited ACH Professional and implemented PE's universal e-payment agreements and remote deposit procedures. His duties include overseeing activities and staff at PE's Customer Service Center and Collections activities.

## CUSTOMERS

The customers of PE fall into five major categories: Residential, Commercial, Municipal, Interruptible and Transportation. The largest classification is residential with 40,600 customers.

### Historical Customer Connections

The following table shows the historical number of customer connections for the five fiscal years ending September 30, 2016.

| Total Customer Connections | | | |
|---|---|---|---|
| **Fiscal Year** | **In City** | **Outside City** | **Total** |
| 2012 | 16,119 | 41,450 | 57,569 |
| 2013 | 16,178 | 41,596 | 57,774 |
| 2014 | 16,214 | 41,686 | 57,900 |
| 2015 | 16,192 | 41,631 | 57,823 |
| 2016 (a) | 15,853 | 40,788 | 56,641 |

(a) 2016 customer connections decreased as PE started a multi-year project to cut and cap customer gas lines that have been dormant for five years or more.

**2016 Ten Largest Customers**

| Customer | MCF's | Revenue |
|---|---|---|
| Armstrong World Industries* | 574,391 | $ 181,707.18 |
| West Fraser, Inc. | 463,260 | 1,443,873.72 |
| US Navy | 320,357 | 1,737,323.49 |
| Arizona Chemical, Inc. | 167,678 | 627,066.31 |
| Sacred Heart Hospital | 98,169 | 644,780.84 |
| Gelman Sciences Inc | 83,631 | 528,555.11 |
| Emerald Coast Utilities Authority | 80,202 | 444,966.84 |
| West Florida Hospital | 67,362 | 501,470.80 |
| Pensacola Christian College | 64,052 | 423,217.12 |
| University of West Florida* | 60,452 | 49,554.48 |
| TOTAL | 1,979,554 | $ 6,582,515.89 |

Source: Pensacola Energy
Note: * Transportation only customers.

## MARKETING

The City maintains an aggressive program to promote the use of natural gas for residential, commercial and industrial customers. The residential market penetration success rate increased slightly over the prior year while the number of natural gas burner tips remained relatively flat. The number of new permits pulled decreased by twelve percent over prior year. The City also continue to see increases in the commercial sector primarily in the restaurant and entertainment segments. The new home building market continues to grow with new subdivisions starts increasing county-wide along with a number of new builders coming into our market. Because of the continued growth, creative and strategic advertising campaigns remain a critical part of our overall success. The focus of these campaigns target consumer awareness of natural gas appliances along with the promotion of energy conservation incentives. Consumer education is also a critical component of marketing as The City strives to provide the benefits of natural gas appliances by offering educational programs to various civic groups, community organizations, elementary and middle schools, and the general public. New gas appliance products and technology are introduced to consumers through advertising, Home Expo Shows and also by encouraging local vendors to stock and promote the new lines. The natural gas tankless water heater continues to grow in popularity and the PE incentives have accelerated the growth of this product. PE also promotes natural gas cooking through its television show, Coastal Cooking, which airs weekly cooking shows featuring local chefs and restaurants.

## BILLING

PE mails bills to customers approximately every thirty days. There are twenty billing cycles per month. Unless payment is received within twenty-one days, it is considered delinquent. The past due balance, if unpaid, appears on the next bill which will also include a collection bill message and a late charge of 1-1/2 percent per month. If payment is not received by the cut-off date, service is cut for non-payment. Before service is reconnected, payment of the past due amount or an acceptable payment arrangement must be made plus a reconnect fee of $70.00 plus tax is required. In fiscal year 2016, the City cut-off less than 4.49% of its customer base due to non-payment.

**Fiscal Year 2016 Gas Billings**

| Classification | Percentage | Amount |
|---|---|---|
| Residential | 49.23% | $ 21,152,749.48 |
| Commercial | 31.24% | 13,425,914.71 |
| Industrial | 7.60% | 3,265,282.34 |
| Municipal | 0.69% | 295,684.10 |
| Other Billings | 11.24% | 4,831,281.54 |
| TOTAL | 100.00% | $ 42,970,912.17 |

| Pensacola Energy<br>Billings and Collections | | | | | |
|---|---|---|---|---|---|
| **Period Ended** | **Total Billed** | **Total Collected** | **Paid -30 Days** | **Paid -90 Days** | **Paid 90+ Days** |
| 9/30/2016 | $ 42,970,912 | $ 40,692,410 | $ 38,535,713 | $ 1,464,927 | $ 691,770 |

**GAS RATE**

All rate changes are approved by ordinance of the City Council. The System currently has fifteen rate schedules for gas service and gas transportation contracts for seven customers. Separate schedules are offered for residential and commercial service, each with a distinct schedule for service within and outside the limits of the City. These schedules are of the single-block structure. PE offers two rate schedules for interruptible contract service, depending upon daily volume. PE offers two flexible large volume interruptible industrial contract service rates which provide the ability to negotiate a suitable rate with customers based on alternate fuel cost options. The System has approximately 43,000 regular gas service customers and seventeen interruptible gas service customers. PE also provides services to other governmental agencies under a separate rate schedule and provides compressed natural gas at three fueling facilities located throughout the Escambia County area.

On December 10, 2012, City Council approved an agreement for the transfer of Pensacola Energy’s exclusive franchise area on Pensacola Beach to the City of Gulf Breeze for a total sum of $470,000. The County's official action reaffirmed the City of Pensacola's exclusive franchise rights for the remainder of Escambia County, excluding the area served by the Town of Century.

Gas costs constitute the major component of PE’s operation and maintenance costs. PE’s rates are designed to recover full purchased gas costs plus distribution system costs and other expenditures as approved by City Council as well as maintain sufficient reserves. The present rates became effective October 1, 2015.

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

## Current Schedule of Rates and Charges

## As Provided by Ordinance

| Service Classification | Minimum Fee | Per MCF Charge |
|---|---|---|
| Residential (within City) | $ 9.21 | $7.73 |
| Residential (outside City) | 10.29 | 9.56 |
| Commercial (within City) | 16.31 | 7.73 |
| Commercial (outside City) | 18.52 | 9.56 |
| Municipal | 20.85 | 3.01 |
| Street or Outdoor Lighting | 10.85 | - |

| | Minimum Quantity | Rate |
|---|---|---|
| GAF – Almost Firm Service | 75 MCF/Day | Negotiable plus transportation rate plus $0.92 local transportation plus $0.07 margin |
| GIT – Flexible Gas Transportation Service | Negotiable | Negotiable |

| | Minimum Quantity | Per MCF Charge |
|---|---|---|
| Interruptible Industrial Contract Service, Small | 25 MCF/Day | $2.05 |
| Interruptible Industrial Contract Service, Large | 250 MCF/Day | $1.05 |

| | Minimum Quantity | Rate |
|---|---|---|
| Interruptible Industrial Flexible Contract Service | 500 MCF/Day | Negotiable |
| Interruptible Transportation Flexible Contract Service | 100-500 MCF/Day | Spot cost of gas plus transportation rate plus $0.92 local transportation plus $0.07 margin |
| Gas Transportation Service | 200 MMBTU/Day | Negotiable plus transportation rate plus $.0475 per MMBTU |
| Gas Purchased Transportation Service | 200 MMBTU/Day | $1.92 per Negotiable plus transportation rate plus $0.07 margin |
| Government Transportation Service | 250 MMBTU/Day | Cost of Gas plus $0.70 per MMBTU |
| Compressed Natural Gas Service | Negotiable | Negotiable |

All fuel costs are reflected in the Purchase Gas Adjustment.

In September 2011, the City Council approved an Infrastructure Recovery Clause that began fiscal year 2012. This clause allows for a mitigation and replacement program to replace bare steel and cast iron pipelines and to protect sections of pipe that can be isolated and put under cathodic protection to extend useful life. This is a long term effort to improve the System and comply with federal and state requirements. Expenditures in the current year are recovered through rates in the subsequent year.

## GAS SUPPLY

The System has an assured source of natural gas supply. A long term natural gas supply contract was entered into with British Petroleum (BP) North America. All of the gas demands up to 57,484 MMBtu per day are supplied by BP. This contract had an additional term of three years and a stated expiration date of April 1, 2016; however, the contract will continue on a yearly basis thereafter, unless cancelled by either party upon not less than 90-day notice immediately prior to the beginning of the next contract year.

A second contract exists for the transportation of natural gas with Gulf South Pipeline Company based out of Houston, Texas. A No Notice Service (NNS) Agreement was entered into due to FERC Order 636 originally passed in 1994. The NNS Agreement provides firm gas transportation as well as firm storage capacity. This agreement assures the City that it will have pipeline capacity to meet the System's maximum daily quantity (MDQ) of 57,484 MMBtu(s) per day. These gas quantity requirements shall be delivered at a minimum delivery pressure of 110 psig (pounds per square inch gauge) to the City. The current NNS contract with Gulf South is effective through March 31, 2018. A Firm Transportation Service (FTS) Agreement was originally entered into September 25, 2012 and provides a different level of firm gas transportation. The FTS Agreement provides 3,000 MMBtu(s) per day. The current FTS contract with Gulf South is effective through March 31, 2018.

## HISTORICAL GAS PURCHASES AND SALES

The following table displays the historical gas purchases and sales by the System for the five fiscal years ending September 30, 2016.

| Fiscal Year | Regular Gas Purchases (MCF) | Interruptible Gas Purchases (MCF) | Total Gas Purchases (MCF) | Regular Gas Sales (MCF) | Interruptible Gas Sales (MCF) | Total Gas Sales (MCF) | Unaccounted For Gas (1) (MCF) |
|---|---|---|---|---|---|---|---|
| 2012 | 2,316,916 (2) | 1,068,207 | 3,385,123 | 2,171,866 | 1,068,207 | 3,240,073 | 145,050 |
| 2013 | 2,872,886 (3) | 1,159,418 | 4,032,304 | 2,737,242 | 1,159,418 | 3,896,660 | 135,644 |
| 2014 | 3,204,875 | 1,330,097 | 4,534,972 | 2,992,302 | 1,330,097 | 4,322,399 | 212,573 (4) |
| 2015 | 2,963,172 (2) | 1,376,705 | 4,339,877 | 2,797,638 | 1,376,705 | 4,174,343 | 165,535 |
| 2016 | 2,646,889 (2) | 1,477,917 | 4,124,806 | 2,480,462 | 1,477,917 | 3,958,379 | 166,427 |

Source: Pensacola Energy.

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

(2) The decline in regular gas purchases was a direct reflection of the warmer than normal winters experienced in fiscal years 2012, 2015 and 2016.

(3) The increase in 2013 regular gas purchases is from securing new industrial customers.

(4) The increase in 2014 unaccounted for gas was due to infrastructure damage caused by flooding in the area which resulted in gas losses to the System.

## RATES, FEES AND CHARGES

The pricing mechanism of interstate natural gas has changed. Gulf South recently settled a rate case before the Federal Energy Regulatory Commission (FERC). The current rate, effective April 1, 2016, is as follows:

NNS Transportation Charge - $12.16 per MMBTU
FTS Transportation Charge - $10.275 per MMBTU
Commodity Month Charge - Index minus $.14

## PROSPECTIVE FINANCINGS

On November 30, 2016, the City issued its $15,000,000 Gas System Revenue Note, Series 2016 ("2016 Gas System Note"). The 2016 Gas System Note was issued for the primary purpose of financing and/or reimbursing the cost of the design, permitting, acquisition, construction, rehabilitation and equipping of certain capital improvements to the system. The 2016 Gas System Note has a fixed interest rate of 1.97% and matures on October 1, 2026. The 2016 Gas System Note is secured by a first and prior, pari-passu lien upon the Pledged Revenues consisting primarily of the Net Revenues of the System, as further described and defined in the authorizing resolution (the "Gas System Pledged Revenues") on a parity with the Series 2010B Gas System Revenue Bonds and Series 2011 Gas System Revenue Note (defined below).

Pensacola Energy does not anticipate issuing any additional new debt for capital improvement in the succeeding year.

## DEBT MANAGEMENT

Pensacola Energy is operated as a separate enterprise of the City and the obligations for repayment of the loans and the bonds of the System are expected to be payable solely from net revenues derived from the operation of the System.

***Issuance of the Gas System Revenue Bonds, Series 2010B.*** On August 10, 2010 the City entered into two Loan Agreements (the "2010B Loan Agreements") with Gulf Breeze whereby Gulf Breeze loaned to the City from proceeds of its 2010B Participant Loan Program, $5,345,000 (the "Series 2010B-1 Loan") to refinance its Gas System Revenue Bond, Series 2008 (the "Series 2008 Bond") and $6,910,000 (the "Series 2010B-2 Loan") to refinance its Gas System Revenue Bonds, Series 1999 (the "Series 1999 Bonds"). Pursuant to the respective 2010B Loan Agreement, the City issued its Gas System Revenue Bonds, Series 2010B-1 (the "Series 2010B-1 Bonds"), in the aggregate principal amount of $5,345,000 to evidence its obligation to repay the Series 2010B-1 Loan and its Gas System Revenue Bonds, Series 2010B-2 (the "Series 2010B-2 Bonds" and together with the Series 2010B-1 Bonds, the "2010B Gas System Bonds"), in the aggregate principal amount of $6,910,000 to evidence its obligation to repay the Series 2010B-2 Loan. The 2010B Gas System Bonds are fixed rate with a final maturity of October 1, 2017. The 2010B Gas System Bonds are secured by a first and prior, *pari-passu* lien upon the Pledged Revenues consisting primarily of the Net Revenues of the System, as further described and defined in the authorizing resolution (the "Gas System Pledged

Revenues"), on a parity with the Series 2011 Gas System Revenue Note (defined below) and the 2016 Gas System Note.

***Issuance of the Gas System Revenue Note, Series 2011.*** On December 16, 2011, the City issued its $5,000,000 Gas System Revenue Note, Series 2011 (the "2011 Gas System Note"). The 2011 Gas System Note was issued to provide funds for the primary purpose of (i) financing the 2011 Project described in the authorizing resolution as including the purchase of five (5) compressed natural gas refuse trucks and the acquisition, construction and rehabilitation of capital improvements to the System and (ii) paying certain costs of issuance of the 2011 Gas System Note. The 2011 Gas System Note was placed with Hancock Bank. The 2011 Gas System Note is a fixed rate of 2.09% with a final maturity of October 1, 2021. The 2011 Gas System Note is secured by a first and prior, *pari-passu* lien upon the Gas System Pledged Revenues on a parity with the Series 2010B Gas System Revenue Bonds and the 2016 Gas System Note.

## HISTORICAL DEBT SERVICE COVERAGE

| Fiscal Year | Operating Revenues | Total Operating Expenses (b) | Total Net Revenues | Maximum Annual Debt Service (a) | Debt Service Coverage |
|---|---|---|---|---|---|
| 2012 | $ 37,222,394 | $ 24,470,462 | $12,751,932 | $ 2,318,641 | 5.500 |
| 2013 | 43,211,874 | 27,939,220 (c) | 15,272,654 | 2,318,641 | 6.587 |
| 2014 | 49,488,935 | 33,175,940 (d) | 16,312,995 | 2,318,641 | 7.036 |
| 2015 | 45,783,309 | 29,947,279 (e) | 15,836,030 | 2,318,641 | 6.830 |
| 2016 | 43,642,642 | 30,450,299 (f) | 13,192,343 | 2,318,641 | 5.690 |

(a) Maximum annual debt service occurs in fiscal year 2017.
(b) Operating expenses are net of depreciation expenses.
(c) 2013 operating expenses increased 14%, primarily due to increased natural gas sales.
(d) 2014 operating expenses increased 19%, primarily due to increased natural gas sales and natural gas prices.
(e) 2015 operating expenses decreased 7.3%, primarily due to decreased natural gas prices.
(f) 2016 operating expenses decreased 1.7%. While the cost of natural gas decreased by $2,208,069 other operating expenses increased by $2,711,089, the majority of which was related to a multi-year project to cut and cap dormant gas lines older than five years

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# CITY OF PENSACOLA, FLORIDA *
# $5,345,000 GAS SYSTEM REVENUE BONDS, SERIES 2010B-1
# AND
# $6,910,000 GAS SYSTEM REVENUE BONDS, SERIES 2010B-2

Dated: August 10, 2010

**PURPOSE:**

* The City of Gulf Breeze, Florida issued its Capital Funding Revenue Bonds, Series 2010B (2010B Loan Program – Loans to City of Pensacola, Florida) for the purpose of loaning the proceeds to the City pursuant to the 2010B Loan Agreements. The Series 2010B-1 Bonds were issued by the City to refinance its Gas System Revenue Bond, Series 2008. The Series 2010B-2 Bonds were issued by the City to refinance the Gas System Revenue Bonds, Series 1999. The refunding of the Series 2008 Bond allowed the City to replace the variable rate obligation with a fixed rate obligation. The refunding of the Series 1999 Bonds resulted in net present value savings to the City.

**SECURITY:**

The Series 2010B Gas System Bonds are limited obligations of the City payable solely from Gas System Pledged Revenues, on a parity with the 2011 Gas System Note and the 2016 Gas System Note (herein defined).

**AGENTS:**

**Trustee –** US Bank National Association, Orlando, Florida

**Bond Counsel –** McGuireWoods LLP, Jacksonville, Florida

**Insurance –** None for the Series 2010B Gas System Bonds

**ISSUED AS:**

Series 2010B-1 Bonds: $5,345,000 serial bonds due 10/1/17

Series 2010B-2 Bonds: $6,910,000 serial bonds due 10/1/17

**RATINGS:**

None.

**REDEMPTION:**

The Series 2010B Gas System Bonds are not subject to optional or mandatory redemption prior to their respective stated dates of maturity.

**OUTSTANDING PARITY BONDS**:

The lien upon the Pledged Revenues is on parity with the 2011 Gas System Note and the 2016 Gas System Note.

## CITY OF PENSACOLA, FLORIDA
## $5,345,000 GAS SYSTEM REVENUE BONDS, SERIES 2010B-1

### SUMMARY OF DEBT SERVICE REQUIREMENTS

| Fiscal Year | Coupon Rate | Coupon Rate (w/ Fees) | Principal Payment | Interest Payment | Fee Payment | Subtotal Int & Fee | Total Fiscal Year |
|---|---|---|---|---|---|---|---|
| 2017 | 4.000% | 4.125% | $ 725,000.00 | $ 44,700.00 | $ 1,396.88 | $ 46,096.88 | $ 771,096.88 |
| 2018 | 4.000% | 4.125% | 755,000.00 | 15,100.00 | 471.88 | 15,571.88 | 770,571.88 |
| | | | $1,480,000.00 | $ 59,800.00 | $ 1,868.76 | $ 61,668.76 | $1,541,668.76 |

## CITY OF PENSACOLA, FLORIDA
## $6,910,000 GAS SYSTEM REVENUE BONDS, SERIES 2010B-2

### SUMMARY OF DEBT SERVICE REQUIREMENTS

| Fiscal Year | Coupon Rate | Principal Payment | Interest Payment | Fee Payment | Subtotal Int & Fee | Total Fiscal Year |
|---|---|---|---|---|---|---|
| 2017 | 4.000% | $ 935,000.00 | $ 57,300.00 | $ - | $ 57,300.00 | $ 992,300.00 |
| 2018 | 4.000% | 965,000.00 | 19,300.00 | - | 19,300.00 | 984,300.00 |
| | | $ 1,900,000.00 | $ 76,600.00 | $ - | $ 76,600.00 | $ 1,976,600.00 |

## CITY OF PENSACOLA, FLORIDA
## $5,000,000 GAS SYSTEM REVENUE NOTE, SERIES 2011

Dated: December 16, 2011

**PURPOSE:**

The 2011 Gas System Note was issued to provide funds for the primary purpose of (i) financing the 2011 Project described in the authorizing resolution as including the purchase of five (5) compressed natural gas refuse trucks and the acquisition, construction and rehabilitation of capital improvements to the System and (ii) paying certain costs of issuance of the 2011 Gas System Note.

**SECURITY:**

The 2011 Gas System Note is a limited obligation of the City payable solely from Gas System Pledged Revenues, on a parity with the Series 2010B Gas System Bonds and the 2016 Gas System Note.

**AGENTS:**

**Holder –** Hancock Bank

**Bond Counsel –** McGuireWoods LLP, Jacksonville, Florida

**Insurance –** None

**ISSUED AS:**

$5,000,000 Note due October 1, 2021, with principal installments commencing on October 1, 2012.

**RATINGS:**

None.

**ALL PROVISIONS:**

**Optional Redemption**

The 2011 Gas System Note may be prepaid in whole on any date or in part on any principal installment due date at a price equal to the principal amount prepaid plus accrued interest to the date of the prepayment with 10 days prior written notice to the Bank. Partial prepayment must be in multiples of $1,000 and applied in inverse order of principal installments due.

**OUTSTANDING PARITY BONDS:**

The lien upon the Pledged Revenues is on parity with the Series 2010B Gas System Bonds and the 2016 Gas System Note.

**CITY OF PENSACOLA, FLORIDA**
**$5,000,000 GAS SYSTEM REVENUE NOTE, SERIES 2011**

## SUMMARY OF DEBT SERVICE REQUIREMENTS

| Fiscal Year | Coupon Rate | Principal Payment | Interest Payment | Total Fiscal Year |
|---|---|---|---|---|
| 2017 | 2.090% | $ 495,000.00 | $ 60,244.25 | $ 555,244.25 |
| 2018 | 2.090% | 505,000.00 | 49,794.25 | 554,794.25 |
| 2019 | 2.090% | 516,000.00 | 39,124.80 | 555,124.80 |
| 2020 | 2.090% | 527,000.00 | 28,225.45 | 555,225.45 |
| 2021 | 2.090% | 538,000.00 | 17,096.20 | 555,096.20 |
| 2022 | 2.090% | 549,000.00 | 5,737.05 | 554,737.05 |
| | | $ 3,130,000.00 | $ 200,222.00 | $ 3,330,222.00 |

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## PENSACOLA INTERNATIONAL AIRPORT

### INTRODUCTION

The City owns and operates the Pensacola International Airport. The geographic area served by the Airport is a function of its proximity to other air carrier airports and the amount of commercial service available relative to other airports. Two other nearby airports offer service in the region; Mobile Regional Airport and Destin-Ft. Walton Beach Airport (Fort Walton Beach / Eglin Air Force Base). The primary Airport service region consists of Escambia and Santa Rosa counties located in northwestern Florida and Baldwin and Escambia County in southeastern Alabama. Escambia County, Florida accounts for about fourty-three percent of the population of the primary Airport service region and includes the City. The population densities for the four counties underline the importance of this region. The secondary region served by the Airport is defined by the location of (and the airline services provided at) other commercial service air carrier airports. Based on the Airport's overnight automobile parking lot inventory, Baldwin County, Alabama ranks first, with Escambia and Santa Rosa Counties, Florida ranking second in counties for automobile parked in the Airport parking facility.

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

The FAA classifies the Airport as a small air traffic hub airport. A small hub is defined as a community that enplanes between 0.05% and 0.25% of all passengers enplaned on certificated route air carriers in all services in the fifty states, District of Columbia, and other designated territorial possessions of the United States. According to the U.S. Department of Transportation data, the Airport was ranked 98$^{th}$ based on second quarter calendar year 2016's Top Busiest Airports in the United States.

### ORGANIZATION AND MANAGEMENT

The Airport is one of four enterprise operations owned and operated by the City. The elected City Council sets policy guidelines and charges the Mayor with the general direction of all departments. The Mayor is charged with the oversight of Pensacola International Airport and all other departments of the City. The Airport is administered by the Airport Director. Following is the biography of the Airport Director.

***Daniel Flynn, C.M., Airport Director***. Mr. Flynn earned a Bachelor of Science degree in Aviation Management from Auburn University in 1988, a Master of Business Administration degree from the University of West Florida in 1991, and is a Certified Member of the American Association of Airport Executives. Mr. Flynn has been with the Airport since August 1989 serving in a variety of positions including Assistant Airport Director of Operations from May 2010 through July 2014, filling the Airport Director position since August 2014.

## DESCRIPTION OF THE AIRPORT

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

Air Carrier Terminal. The terminal area includes the passenger terminal building with twelve gates and ten loading bridges, an air carrier apron large enough to accommodate ten jet aircraft with an adjacent over-night aircraft parking apron that will accommodate up to four regional jets, associated taxiway system, a public parking garage and surface lots, rental car parking and service areas, an airport maintenance area, an aircraft firefighting facility, a fuel farm and various FAA facilities/equipment. Included in the terminal building are operational areas for the air carriers, ticket counters, in-line baggage screening system, waiting areas, a baggage claim area, restaurants, cocktail lounge, restrooms, rental car counters, and gift shops.

Airport Concessions. Airport concessions consist primarily of the food and beverage concession, terminal advertising, automobile rentals, the news/gift concession, and automated teller machines. Public automobile parking is operated under a management contract. The public parking garage contains 963 spaces for the general public and 342 spaces for rental car customers. There is an additional 830 spaces available for the general public in the primary surface lot and 1,003 spaces available for the general public in the two economy lots combined. Automobile rental services are provided by ten on-airport rental car brands: Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National, Payless, Thrifty, and Zipcar.

General Aviation Facilities. General aviation facilities are operated by one fixed-base operator; Pensacola Aviation Center. The general aviation facility consists of aprons, taxiways, roads, and parking facilities. The Airport has forty-three T-Hangars to accommodate general aviation aircraft at the Airport. Approximately 103 general aviation aircraft are based at the Airport. Tenants on the corporate ramp include PNS Navy Flying Club, Heliworks, Skywarrior Inc. and Resicum.

Heliworks. A helicopter parking and maintenance facility is located adjacent to the main terminal building. Services include ramp space for helicopter parking and maintenance. Due to increased business activity, Heliworks has expanded its operations by leasing the space formerly occupied by Southern Company north of the terminal.

Sandspur Hotel and Retail Development. Construction of the 127-room Hyatt Place Hotel was completed in April 2013. The Airport receives percentage rent from the hotel activity. Four other parcels within the Sandspur lease area are also available for development. One parcel is currently under sublease and in the final stages of construction with an estimated completion in the summer of 2017. The remaining three are being aggressively marketed. When completely subleased or within five years of the lease date, the Airport will receive ground rent from the five remaining parcels. The Airport expects to receive a minimum of $420,000 per year in new non-airline revenue from this development.

## AIRLINE AND MARKET SHARES

The following table presents the airline shares of enplaned passengers and landed weight at the Airport for fiscal years 2012 through 2016.

**Share of Enplaned Passengers**
**(For Fiscal Years Ended September 30)**

| Airline | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| AirTran Airways (3) | 13.50% | 13.00% | 1.20% | 0.00% | 0.00% |
| Delta | 41.30% | 44.30% | 43.30% | 43.30% | 44.10% |
| Southwest Airlines (3) | 0% | 0% | 12.80% | 13.80% | 14.60% |
| Charters | 0.01% | 0.05% | 0.10% | 0.10% | 0.20% |
| Total Mainline | 54.81% | 57.35% | 57.40% | 57.20% | 58.90% |
| Regional | 45.19% | 42.65% | 42.60% | 42.80% | 41.10% |
| TOTAL | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

**Share of Landed Weight**
**(For Fiscal Years Ended September 30)**

| Airline | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| AirTran Airways (3) | 12.36% | 11.97% | 1.08% | 0.00% | 0.00% |
| Delta | 37.36% | 38.64% | 37.40% | 38.20% | 38.44% |
| Southwest Airlines (3) | 0.00% | 0.00% | 9.28% | 13.80% | 14.03% |
| UPS (2) | 8.15% | 9.40% | 9.28% | 9.20% | 9.56% |
| Charter | 0.00% | 1.00% | 2.37% | 0.10% | 0.01% |
| Total Mainline | 57.87% | 61.01% | 59.41% | 61.30% | 62.04% |
| Regionals (1) | 42.13% | 38.99% | 40.59% | 38.70% | 37.96% |
| TOTAL | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

(1) Regional airlines for fiscal year 2016 include American Eagle, Delta Connection, Silver Airways, Skywest, United Express, and US Airways Express (including Air Wisconsin, MESA, PSA, and Republic Airlines).
(2) UPS is a cargo airline with operations beginning October 2011 (including Ameriflight and Martinaire Aviation).
(3) Southwest Airlines officially replaced AirTran Airways in November 2013 after completing its acquisition of the airline in 2011.

## ENPLANED PASSENGERS AT THE AIRPORT

The ten year period from 2007 through 2016 has seen an overall decrease in total passenger traffic of about 0.52 percent, with passenger traffic decreasing in 2008 and 2009 during the global recession. Since 2009, however, total passenger traffic has increase twelve percent.

Beginning in 2010, domestic seat capacity finally began to grow along with the U.S. economy. Many small hub airports saw a reduction of seat capacity with the reduction of regional jet equipment. Today, Pensacola International Airport is served by five airlines (American, Delta, Silver Airways, Southwest, and United) providing non-stop service to ten year-round and seven seasonal airport markets during the first half of 2017.

In the first half of 2017, American Airlines will add daily, year-round service to Ronald Reagan Washington National Airport and Southwest Airlines will add seasonal daily service to Kansas City, and seasonal weekend service to Dallas Love, Austin, St. Louis, and Denver. In addition, Southwest's seasonal Saturday service to Chicago Midway will return in 2017 along with seasonal daily service to Chicago O'Hare with United.

In the past few years, the trend in aircraft serving PNS has positively impacted the product offerings of the airlines with Delta operating all mainline service in 2016, along with United up-gauging its services from small regional jets to two class regional jets on service to Houston.

| Historical Enplaned Passengers/Annual Growth in Domestic Scheduled Enplanments | | |
|---|---|---|
| **Fiscal Year** | **Enplanements** | **Airport Growth (%)** |
| 2007 | 835,121 | 2.90 |
| 2008 | 814,279 | (2.50) |
| 2009 | 700,662 | (13.90) |
| 2010 | 719,648 | 2.70 |
| 2011 | 780,621 | 8.47 |
| 2012 | 756,229 | (3.13) |
| 2013 | 758,158 | 0.26 |
| 2014 | 774,003 | 2.09 |
| 2015 | 797,854 | 3.08 |
| 2016 | 802,260 | 0.55 |

Source: Pensacola International Airport records.

The table below further breaks out the number of enplaned passengers at the Airport for Mainline and Regional airlines for fiscal years 2007 through 2016.

| Historical Airline Traffic | | | |
|---|---|---|---|
| Enplaned Passengers | | | |
| **Fiscal Year** | **Mainline (1)** | **Regional (2)** | **Total** |
| 2007 | 393,124 | 441,997 | 835,121 |
| 2008 | 409,030 | 405,249 | 814,279 |
| 2009 | 350,575 | 350,087 | 700,662 |
| 2010 | 363,232 | 356,416 | 719,648 |
| 2011 | 414,397 | 366,224 | 780,621 |
| 2012 | 414,853 | 341,376 | 756,229 |
| 2013 | 433,519 | 324,639 | 758,158 |
| 2014 | 444,056 | 329,947 | 774,003 |
| 2015 | 455,708 | 342,146 | 797,854 |
| 2016 | 471,286 | 330,974 | 802,260 |

Source: Pensacola International Airport records.
(1) Fiscal year 2016 includes Southwest, Delta, and Charter.
(2) Fiscal year 2016 includes American Eagle, Delta Connection, Silver Airways, Skywest, United Express, and US Airways Express (Air Wisconsin, Mesa, PSA, and Republic Airlines).

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**Airline Market Share of Enplaned Passengers**
**(For Fiscal Years Ending September 30)**

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| ***Passenger Airlines*** | | | | | |
| *Major/national and Charter* | | | | | |
| Delta Air Lines | 41.3 % | 44.3 % | 43.3 % | 43.3 % | 44.1 % |
| Southwest Airlines (e) | 0.0 | 0.0 | 12.8 | 13.8 | 14.6 |
| AirTran Airways (e) | 13.5 | 13.0 | 1.2 | 0.0 | 0.0 |
| Charters | 0.1 | 0.05 | 0.10 | 0.10 | 0.20 |
| *Subtotal* | 54.9 | 57.35 | 57.40 | 57.20 | 58.90 |
| *Regional/commuter* | | | | | |
| Delta Connection (a) | 4.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| American Eagle | 15.9 | 16.5 | 17.7 | 11.6 | 3.7 |
| United/Continental Express/ Continental Connection (b) | 3.4 | 8.1 | 0.0 | 0.0 | 0.0 |
| Silver Airways (b) | 0.0 | 0.0 | 4.7 | 4.2 | 3.8 |
| US Airways Express (c) | 10.4 | 11.4 | 10.8 | 17.2 | 23.6 |
| United Express (d) | 11.4 | 6.6 | 9.4 | 9.8 | 10.0 |
| *Subtotal* | 45.1 | 42.6 | 42.6 | 42.8 | 41.1 |
| ***Total Passenger Airlines*** | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| ***Airline Groups*** | | | | | |
| Delta Air Lines | 45.3 % | 44.3 % | 43.3 % | 43.3 % | 44.1 % |
| AirTran Airways (e) | 13.5 | 13.0 | 1.2 | 0.0 | 0.0 |
| American Eagle | 15.9 | 16.5 | 17.7 | 11.6 | 3.7 |
| Continental Express (b) | 3.4 | 8.1 | 0.0 | 0.0 | 0.0 |
| US Airways | 10.4 | 11.4 | 9.4 | 17.2 | 23.6 |
| Southwest Airlines (e) | 0.0 | 0.0 | 12.8 | 13.8 | 14.6 |
| United Express | 11.4 | 6.6 | 10.8 | 9.8 | 10.0 |
| Silver Airways (b) | 0.0 | 0.0 | 4.7 | 4.2 | 3.8 |
| Other | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 |
| ***Total Airline Groups*** | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % |

Source: Airport records.
(a) Operated by ASA and Pinnacle (fiscal years 2010 - 2012).
(b) Operated by ExpressJet Airlines and Gulfstream International Airlines (fiscal years 2005 - 2011), Silver Airways (fiscal year 2012 - 2013).
(c) Operated by Air Wisconsin (fiscal years 2011 - 2016), Mesa Airlines (fiscal years 2011 - 2016), Pacific Southwest Airlines (fiscal years 2011 - 2016), and Republic Airlines (fiscal year 2011 & 2015 - 2016).
(d) Operated by ASA, ExpressJet, and Skywest.
(e) Southwest Airlines officially replaced AirTran Airways in November 2013 after completing its acquisition of the airline in 2011.

The history of air carrier traffic shows the fluctuations caused by economic recession and changes in carrier service. From 2007 to 2016, U.S. airlines have cut 1.6 million domestic flights from the country's airports, resulting a loss of 31 million seats (Source: InterVistas Consulting, Inc. analysis of Innovata airline schedules via Diio). Regional flying accounts for seventy-eight percent and ninnty-four percent of the reduction in overall operation and seats, respectively, while mainline operation are down 7.3 percent in 2016 verses 2006 (Source: InterVistas Consulting, Inc. analysis of Innovata airline schedules via Diio). The total seats offered in mainline service is virtually unchanged, indicating the trend of migration to larger equipment. While there were ten major airlines in 2000, now there are only the big four: Delta Air Lines, American Airlines, Southwest Airlines, and United Airlines.

For Pensacola, in the spring and summer season of 2016 select air carriers up-gauged equipment which resulted in increased mainline passenger traffic. In fiscal year 2016, 470,997 passengers departed on mainline carriers compared to 455,327 in fiscal year 2015, representing a 3.4 percent increase in mainline enplaned passengers. In fiscal year 2016, 330,974 passengers departed on regional carriers compared to 342,023 in fiscal year 2015, a decrease of 3.2 percent. At the Airport in fiscal year 2016, the capacity trend saw increased mainline capacity, which had an impact on the number of passengers traveling on regional carriers. The trend toward increased mainline capacity is anticipated to continue in fiscal year 2017 with the addition of new seasonal mainline service by Southwest Airlines.

In Pensacola, United and American serve the market through regional affiliates. Silver Airways provides intra-Florida service to the market. Delta and Southwest provide mainline service to the market.

In past years, the Airport's activity was affected by weak financial performance in the airline industry, a series of airline bankruptcies, and changing airline business models. The Airport grew during these challenging times, demonstrating the resilience and strength of the market. Pensacola's large origin-destination passenger base reflects the real strength of the Pensacola region's economy. During fiscal year 2016, 1.6 million total (inbound and outbound) passengers utilized the Airport.

For fiscal year 2016, the average load factor remained strong at eighty-three percent.

## CARGO AIRLINE SERVICE

The Airport is served by United Parcel Service, Inc. (UPS) the world's largest package delivery company and a provider of supply chain management solutions. UPS bases one A-300 aircraft at the Airport and operates five departures per week.

## AIRLINE INFORMATION

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

**FORECASTED AIR TRAFFIC**

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

- 2016-2018 — one and one half (1.5%) percent growth per year in enplaned passengers

The Airport projects that it will be back to the fiscal year 2007 enplaned passenger level over the next few years. This projection is based upon the changes in capacity of existing airlines, adjustments to markets served and the anticipated impact of new service by Southwest Airlines.

**KEY FACTORS AFFECTING FUTURE AIRLINE TRAFFIC**

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

- Growth in population and economy of the Airport Service Region
- Economic conditions
- Aviation security concerns
- Airline service and routes
- Airline fares and competition
- Financial health of the airline industry
- Availability and price of aviation fuel
- Airline consolidations and mergers
- Capacity of the national air traffic control and airport systems –the absence of substantial government shut downs or prolonged periods of compromised air traffic control
- Capacity provided at the Airport
- World Health Organization Epidemic Alerts

## ORIGINATION AND DESTINATION MARKETS

The Airport primarily serves passengers originating in or destined to arrive in Pensacola. The following table presents the Airport's top origination and destination markets for fiscal year 2016.

**Domestic Origin-Destination Passengers, Revenue, & Average Fares**
**Ended September 30, 2016**

| Rank | Market Name | Total Passengers | Percentage of Total Passengers | Total Revenue | Average Fare |
|---|---|---|---|---|---|
| 1 | Washington, DC Area | 91,196 | 6.40% | $17,548,256 | $192 |
| 2 | Chicago Area | 71,764 | 5.04% | $12,369,700 | $172 |
| 3 | Dallas Area | 68,408 | 4.80% | $12,455,405 | $182 |
| 4 | South Florida | 67,493 | 4.74% | $12,179,441 | $180 |
| 5 | Nashville, TN | 63,471 | 4.45% | $6,158,862 | $97 |
| 6 | New York City | 53,387 | 3.75% | $11,360,063 | $213 |
| 7 | Houston Area | 49,901 | 3.50% | $8,959,599 | $180 |
| 8 | Los Angeles Area | 44,514 | 3.12% | $10,963,163 | $246 |
| 9 | Atlanta | 38,001 | 2.67% | $7,519,261 | $198 |
| 10 | Denver | 37,995 | 2.67% | $7,611,327 | $200 |
| | All Other Markets | 838,576 | 58.86% | $185,126,838 | $221 |
| **All Domestic Markets** | | **1,424,706** | **100.00%** | **$292,251,915** | **$205** |

Source: US DOT DB1B database, YE3q 2016, via Diio.

## CAPITAL IMPROVEMENTS

Airport Improvements. In fiscal year 2016, the City completed the following projects:

- Air Commerce Park – Acquisition and Demolition
- Vegetative Barrier – Stormwater Pond
- LNVR Replacement (Security System)
- Loop Road Lighting Upgrades
- Stormwater Pond Rehabilitation
- Replacement of airfield sign panels
- Purchase of two potable water cabinets
- Exit Lane Automation

Air Commence Park Development. The Airport’s 2000 Master Plan identified 65 acres of property adjacent to the northwest quadrant of the Airport for future land acquisition and the development of an air commerce park.

The Airport started the Commerce Park Land Acquisition project in 2004. To date, City Council has approved the purchase of eighty-nine residential and twenty-four commercial parcels. A multi-year FDOT grant is in place that will fund seventy-five percent of the cost of a majority of the acquisitions. This FDOT grant contains a provision that requires the Airport to repay FDOT twenty-five percent of the amount drawn within ten years. Within the last supplemental agreement associated with this grant, the FDOT authorized the Airport to use as an in-kind contribution its prior capital purchases of property to off-set the twenty-five percent repayment provision.

**PROSPECTIVE FINANCINGS**

Pensacola International Airport does not anticipate issuing any new debt for capital improvement in the succeeding year.

As discussed below, the Airport Taxable Customer Facility Charges Revenue Note, Series 2015 (the "2015 Modified Note") for the rental car service facilities matures on December 31, 2018. Prior to the maturity of the 2015 Modified Note, the City intends to refinance the outstanding principal.

**DEBT MANAGEMENT**

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

***Issuance of the Airport Taxable Customer Facility Charges Revenue Note.*** On February 4, 2008, the City issued its $19,000,000 Airport Taxable Customer Facility Charges Revenue Note, Series 2008 ("Airport Taxable Note") for the purpose of financing the construction and equipping of a rental car service center to serve the Airport. On September 23, 2010, the Airport Taxable Note was cancelled and a modified note (the "2010 Modified Note") was re-issued by the City. Simultaneously with the issuance of the 2010 Modified Note, the City paid to Bank of America, the holder of the Airport Taxable Note, the amount of $3,047,177, reducing the outstanding principal amount of the 2010 Modified Note to $14,800,000. On June 27, 2012, the 2010 Modified Note was cancelled and a new modified note (the "2012 Modified Note") was re-issued by the City. Simultaneously with the issuance of the 2012 Modified Note, the City paid to Bank of America the amount of $3,000,000, reducing the outstanding principal amount of the 2012 Modified Note to $11,800,000. On September 25, 2015, the 2012 Modified Note was cancelled and the 2015 Modified Note was issued by the City. Simultaneously with the issuance of the 2015 Modified Note, the City paid to Bank of America the amount of $3,000,000, reducing the outstanding principal amount of the 2015 Modified Note to $8,800,000. The 2015 Modified Note matures on December 31, 2018. Prior to maturity of the 2015 Modified Note, depending on market conditions the City will seek to refinance the outstanding principal on a fixed rate basis over a term of 20 to 25 years. The Airport completed the Rental Car Service Facility Area in June 2009.

***Issuance of the Airport Revenue Bonds, Series 2008.*** On August 14, 2008, the City issued its $35,780,000 Airport Revenue Bonds, Series 2008 (the "2008 Airport Bonds"). The 2008 Airport Bonds were issued to provide funds for the primary purpose of (i) financing the 2008 Project described in the authorizing resolution as including a terminal expansion project, an aircraft apron expansion project, the construction of a 550-stall automobile parking lot, and the preparation of plans and specifications for the airport parking structure's expansion and (ii) retiring all of the outstanding principal amount of the City's Airport Improvement Revenue Bond, Series 2006A and Airport Improvement Revenue Bond, Subordinate Series 2006B. The lien upon and pledge of the Net Revenues of the Airport Facilities (as more fully described and defined in the authorizing resolution, the "Pledged Funds") to secure repayment of the 2008 Airport Bonds is on a parity with the lien securing the City's outstanding the 2010 Airport Note, 2012 Airport Note and the 2015 Airport Note, each as defined below.

***Issuance of the Airport Revenue Note, Series 2010 (AMT).*** On September 29, 2010, the City issued its $12,310,000 Airport Revenue Note, Series 2010 (AMT) (the "2010 Airport Note") and applied the proceeds, together with surplus monies held in the Debt Service Reserve Fund, to refund all of its remaining outstanding Airport Revenue Bonds, Series 1997B (AMT), outstanding in the aggregate principal amount of $2,625,000 and Airport Revenue Refunding Bonds, Series 1998A (AMT), outstanding in the aggregate principal amount of $9,875,000 (collectively, the "Refunded 1997A/1998B Airport Bonds"). The 2010 Airport Note was placed with Compass Mortgage Corporation. The 2010 Airport Note matures on October 1, 2018. As more fully described herein, simultaneously with the issuance of the 2010 Airport Note, the City entered into the Swap Agreement, as defined herein, whereby the City pays a synthetic fixed interest rate of 2.39%. Refunding the Refunded 1997A/1998B Airport Bonds resulted in net present value savings to the City based on the synthetic fixed interest rate. The lien upon and pledge of the Pledged Funds to secure repayment of the 2010 Airport Note is on a parity with the lien securing the City's outstanding 2008 Airport Bonds, 2012 Airport Note and the 2015 Airport Note.

***Issuance of the Airport Revenue Note, Series 2012.*** On September 28, 2012, the City issued its $6,300,000 Airport Revenue Note, Series 2012 (the "2012 Airport Note") was issued to provide funds for the primary purpose of (i) financing the 2012 Project described in the authorizing resolution as including the acquisition, construction and rehabilitation of capital improvements to the Airport Facilities, more particularly the Airport Parking Facilities and (ii) to pay certain costs of issuance of the 2012 Airport Note. The 2012 Airport Note has a fixed interest rate until October 1, 2017 of 2.50% and a variable rate thereafter and matures on October 1, 2027. The 2012 Airport Note was placed with Coastal Bank and Trust, a division of Synovus bank. The lien upon and pledge of the Pledged Funds to secure repayment of the 2012 Airport Note is on a parity with the lien securing the City's outstanding 2008 Airport Bonds, 2010 Airport Note and the 2015 Airport Note.

***Issuance of the Airport Refunding Revenue Note, Series 2015.*** On October 16, 2015, the City issued its $12,465,000 Airport Refunding Revenue Note, Series 2015 ("2015 Airport Note"). The 2015 Airport Note was issued for the primary purpose of financing the cost of refunding $13,345,000 in remaining outstanding principal amount of the City's $15,145,000 Airport Refunding Revenue Bonds, Series 2005A (Non-AMT) ("2005A Airport Bonds"). While the outstanding par amount of the bonds was $13,345,000; the loan amount was reduced by $880,000 through a release of a portion of the required Debt Service Reserve netting a borrowing amount of $12,465,000. The refunding of the 2005A Airport Bonds was undertaken by the City in order to realize a significant present value interest cost savings. The 2015 Airport Note has a fixed interest rate of 2.50% and matures on October 1, 2027. The lien upon and pledge of the Pledged Funds to secure repayment of the 2015 Airport Note is on a parity with the lien securing the City's outstanding 2008 Airport Bonds, the 2010 Airport Note and the 2012 Airport Note.

***Issuance of the Taxable Airport Facilities Grant Anticipation Note, Series 2016.*** On September 23, 2016 the City issued its $6,299,600 Taxable Airport Facilities Grant Anticipation Note, Series 2016 ("2016 Grant Anticipation Note") pursuant to a Loan Agreement dated as of September 23, 2016, between the City and Compass Bank (the "2016 Loan Agreement"). The 2016 Grant Anticipation Note was issued for the purpose of financing a portion of the cost of the construction of a hanger and related facilities at the Pensacola International Airport in anticipation of the receipt of proceeds of a grant from the Florida Department of Transportation. The 2016 Grant Anticipation Note matures on October 1, 2019 and has a floating rate equal to LIBOR plus 178 basis points as more fully described in the 2016 Loan Agreement. Pursuant to the SWAP Agreement (as defined in the 2016 Loan Agreement), the City entered into a variable to fixed interest rate swap transaction with Compass Bank, providing a synthetic fixed interest rate to the City of 3.01%. The payment of principal and interest on the 2016 Grant Anticipation Note and all obligations of the City under the SWAP Agreement are payable solely by a first priority lien upon and pledge of the Pledged Funds which consist primarily of the Grant Proceeds. Pursuant to the 2016 Loan Agreement, the City may draw principal during the Draw-Down Period which commenced on January 1, 2017, and shall end on January 1, 2018. As of September 30, 2016, no funds had been drawn-down under the 2016 Loan Agreement.

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## DEBT SERVICE COVERAGE – GENERAL AIRPORT REVENUE BONDS

A five year history of general airport revenue debt service coverage (in thousands) is as follows:

| Fiscal Year | Airport Revenues | Expenses: Total | Expenses: Less Grant | Expenses: Operating/ Maintenance (a) | Net Revenue |
|---|---|---|---|---|---|
| 2012 | $ 16,188 | $ 12,687 | $ 33 | $ 12,654 | $ 3,534 |
| 2013 | 16,788 | 12,037 | 12 | 12,025 | 4,763 |
| 2014 | 16,793 | 11,491 | - | 11,491 | 5,302 |
| 2015 | 18,796 | 11,090 | 221 | 10,869 | 7,927 |
| 2016 | 19,479 | 12,759 | - | 12,759 | 6,720 |

Source: City fiscal year 2016 CAFR

(a) Operating expenses are net of depreciation expense. CFC operating expenses for 2011 were included in the debt service coverage for the General Airport Revenue Bonds in the amount of $852,000.

Continued from table above:

| Fiscal Year | Debt Service: Principal | Debt Service: Interest | Coverage before Transfer | Capital Fund Transfer (b) | Coverage after Transfer |
|---|---|---|---|---|---|
| 2012 | $ 1,980 | $ 1,284 | 1.08 | $ 2,459 | 1.84 |
| 2013 | 2,040 | 1,310 | 1.42 | 678 | 1.62 |
| 2014 | 2,080 | 1,333 | 1.55 | 858 | 1.80 |
| 2015 | 2,145 | 1,277 | 2.32 | 1,246 | 2.68 |
| 2016 | 2,180 | 1,082 | 2.06 | 2,407 | 2.80 |

Source: City fiscal year 2016 CAFR

(b) The capital fund transfer is a prepaid revenue amount which is comprised of the prior year's coverage plus non-obligated capital improvements and any excess operating funds.

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**PASSENGER FACILITY CHARGE (PFC)**

The Aviation Safety and Capacity Expansion Act of 1990 (ASCEA) enabled public agencies that enplane at least 2,500 passengers annually the ability to levy a facility charge of $1, $2, or $3 per passenger. The revenues are to be used for airport planning and development projects approved by the Federal Aviation Administration (FAA). The Federal Aviation Act of 1994, the Federal Aviation Reauthorization Act of 1996, and the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century made significant modifications to the Statute. Most significantly the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century granted PFC collection authority and allowed public agencies to apply to the FAA to increase the PFC level to $4 or $4.50. In March of 2002 the City Council approved an amendment to the PFC to impose a $4.50 passenger facility charge. FAA approved the amendment and collection of the $4.50 PFC began in January 2003. The FAA Modernization and Reform Act of 2012 has continued the federal cap on PFCs at $4.50 and commissioned a study of alternative means of collecting PFCs in the future. The charge is assessed by airlines on all qualified revenue-paying enplaning passengers at the Pensacola International Airport.

**Passenger Facility Charge Revenues**
**(for the Fiscal Year ending September 30,)**

| | **2016** |
|---|---|
| Enplaned Passengers | 802,260 |
| Percent of PFC Eligible Passengers | 89% |
| PFC Eligible Enplaned Passengers | 708,604 |
| PFC Level | $ 4.50 |
| less: Airline Collection Fee | (0.11) |
| Net PFC Level | 4.39 |
| ***PFC Collections (not including interest)*** | $ 3,110,772 |
| Cummulative PFC Collections - Application No. 05-07-C-02-PNS | $ 26,431,221 |
| **PFC Cash Flow** | |
| PFC Fund Beginning Balance | $ 4,164,642 |
| Deposits: | |
| PFC Collections | 3,110,772 |
| Allowance - PFC Interest Earnings | 16,000 |
| *Total Annual PFC Revenues* | 3,126,772 |
| Annual Use of PFC Revenue: | |
| PFC Reimbursement from FAA Grant | 0 |
| Pay-as-you-go | 366,377 |
| Debt Service: | |
| 2008 Series - PFC Eligible Portion | 2,122,363 |
| ***PFC Fund Ending Balance*** | $ 4,802,675 |

## DEBT SERVICE COVERAGE – ON PASSENGER FACILITY CHARGE (PFC) SUPPORTED PORTION OF GARBS

A five year history of PFC debt service coverage (in thousands) is as follows:

| Fiscal Year | Passenger Facility Charge (a) | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|
| 2012 | $ 3,003 | $ 440 | $ 1,698 | 1.40 |
| 2013 | 2,958 | 460 | 1,675 | 1.39 |
| 2014 | 3,025 | 485 | 1,652 | 1.42 |
| 2015 | 3,104 | 510 | 1,627 | 1.45 |
| 2016 | 3,127 | 535 | 1,600 | 1.46 |

Source: City fiscal year 2016 CAFR
(a) Includes revenues and interest earnings.

Coverage shown on the debt service on the Passenger Facility Charge eligible portion of the 2008 Airport Bonds is shown for illustrative purposes. Debt service funded from Passenger Facility Charge revenue is not included in the calculation of the Rate Maintenance Requirement which results in a 1.00 times coverage on debt service funded from Passenger Facility Charge revenue. The Master Airport Revenue Bond Resolution, which should be read in its entirety, more fully describes the Rate Maintenance Covenant.

## RENTAL CAR CUSTOMER FACILITY CHARGE (CFC)

In October 1997, the City Council approved and adopted an ordinance imposing a charge on a transactional basis of each on-airport vehicle rental; a Customer Facility Charge (CFC). The CFC was established to fund a ratable portion of the debt service and maintenance and operating expense associated with the Airport's parking garage.

In January 2008, the City Council approved and adopted Ordinance Number 09-08. The ordinance amended the rental car ordinance and provided for the necessary language to increase the collection of CFCs to allow for funding of the construction of the new Rental Car Service Facilities at the Airport. Each rental car company is responsible for the collection and remittance of the combination of CFCs which funds the first floor of the parking garage and rental car service facilities. In fiscal year 2008, CFC revenue began trending downward as a result of a declining volume of rental car Contract Days (the basis for calculating CFC payments). The decline in Contract Days was attributable to declining enplanements at the Airport and increased rental rates charged by the rental car companies resulting in lower rental car demand. To compensate for the lower volume of Contract Days, the City increased the daily CFC rate from $3.60 to $4.25 effective July 1, 2009. The Airport also completed its Rental Car Concession bid process in 2009 which resulted in all eight major rental car brands (Alamo, Avis, Budget, Dollar, Enterprise, Hertz, National, and Thrifty) being awarded on-airport rental car concession agreements. All agreements were extended for a period of five years, expiring on July 31, 2019.

A five year history of CFC revenues (in thousands) is as follows:

| | FISCAL YEAR 2012 | FISCAL YEAR 2013 | FISCAL YEAR 2014 | FISCAL YEAR 2015 | FISCAL YEAR 2016 |
|---|---|---|---|---|---|
| CFC - 1st Floor Parking Garage | $971 | $835 | $845 | $830 | $845 |
| CFC - Rental Car Service Facility (a) | $1,809 | $1,944 | $2,128 | $2,424 | $2,415 |
| **Total** | **$2,780** | **$2,779** | **$2,973** | **$3,254** | **$3,260** |

Source: City Financial Records
(a) The Rental Car Service Facility CFC was effective December 2006.

## DEBT SERVICE COVERAGE – CUSTOMER FACILITY CHARGE REVENUE NOTE

In 2008, the City issued its $19.0 million Airport Taxable CFC Revenue Note to Bank of America, N.A., which was modified in 2010, 2012 and 2015. Coverage shown on the debt service on the Note with Bank of America is shown for illustrative purposes. The Note does not include a rate maintenance covenant requiring a defined level of coverage. A five year history of CFC debt service coverage (in thousands) is as follows:

| Fiscal Year | Customer Facility Charge | Less: Operating Expense (a) | Net Available Revenue | Debt Service Principal | Debt Service Interest | Coverage |
|---|---|---|---|---|---|---|
| 2012 | $ 1,809 | $ 886 | $ 923 | $ - | $ 145 | 6.37 |
| 2013 | 1,944 | 662 | 1,282 | - | 114 | 11.25 |
| 2014 | 2,128 | 741 | 1,387 | - | 109 | 12.72 |
| 2015 | 2,424 | 720 | 1,704 | - | 118 | 14.44 |
| 2016 | 2,415 | 640 | 1,775 | - | 94 | 18.88 |

Source: City fiscal year 2016 CAFR
(a) CFC operating expenses for 2011 were included in the debt service coverage for the General Airport Revenue Bonds in the amount of $852,000.
(b) Excludes debt payments which were paid with reserves.

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

Dated: August 14, 2008

**PURPOSE:**

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

**SECURITY:**

The 2008 Airport Bonds are secured by the pledge of Net Airport Revenues, monies in the funds established under the Bond Resolution (except Capital and Rebate Fund), and net proceeds of insurance on Airport Facilities (collectively, the "Pledged Funds"). In addition, the City has established a Debt Service Reserve Fund (the "Reserve Fund") securing the 2008 Airport Bonds, the 2010 Airport Note and the 2015 Airport Note. Under the resolution authorizing obligations secured by the Pledged Funds (the "Bond Resolution"), PFC Revenues do not constitute Airport Revenues and the City is not required to deposit any particular amount of PFCs in any year into the Bond Fund. Pursuant to the resolution authorizing the 2008 Airport Bonds, PFC Revenues which are deposited into the Bond Fund constitute Pledged Funds and shall be irrevocably committed to the payment of the Debt Service Requirement on those 2008 Airport Bonds eligible to be paid from the PFC Revenues. Approximately 81% of the 2008 Airport Bonds are qualified for funding by PFC Revenues. Portions of the Annual Debt Service Requirement on the 2008 Airport Bonds that are not paid with PFC Revenues will be paid with Net Airport Revenues.

**AGENTS:**

**Registrar** – TD Bank, National Association, Jacksonville, Florida

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

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

**ISSUED AS:**

$5,800,000 Serial Bonds due 10/01/2009 through 10/01/2018, $10,670,000 Term Bond due 10/01/2028 and $19,310,000 Term Bond due 10/01/2038.

**RATINGS:**

**Moody's** – Baa1 outlook stable

**Standard & Poor's** – BBB outlook negative

**Fitch** – BBB outlook stable

**CALL PROVISIONS:**

**Mandatory Redemption**

Term Bonds Due October 1, 2028

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

Term Bonds Due October 1, 2038

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

**Optional Redemption**

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

| Redemption Dates | Redemption Price |
|---|---|
| Oct. 1, 2018 and thereafter | 100% |

**OUTSTANDING PARITY BONDS:**

The lien upon the Pledged Funds is on parity with the 2010 Airport Note, the 2012 Airport Note and the 2015 Airport Note.

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

### SUMMARY OF DEBT SERVICE REQUIREMENTS

| FISCAL YEAR | INTEREST RATE (a) | GARB (2008A) | | PFC (2008B) | | TOTALS |
|---|---|---|---|---|---|---|
| | | Principal | Interest | Principal | Interest | P&I |
| 2017 | 5.25/5.00% | $ 135,000 | $ 371,231 | $ 560,000 | $ 1,572,663 | $ 2,638,894 |
| 2018 | 5.00/5.50% | 140,000 | 364,188 | 590,000 | 1,543,213 | 2,637,400 |
| 2019 | 5.50/6.00% | 145,000 | 356,700 | 620,000 | 1,511,413 | 2,633,113 |
| 2020 | 6.00% | 155,000 | 348,063 | 655,000 | 1,474,713 | 2,632,775 |
| 2021 | 6.00% | 165,000 | 338,463 | 695,000 | 1,434,213 | 2,632,675 |
| 2022 | 6.00% | 175,000 | 328,263 | 735,000 | 1,391,313 | 2,629,575 |
| 2023 | 6.00% | 185,000 | 317,463 | 780,000 | 1,345,863 | 2,628,325 |
| 2024 | 6.00% | 195,000 | 306,063 | 825,000 | 1,297,713 | 2,623,775 |
| 2025 | 6.00% | 205,000 | 294,063 | 875,000 | 1,246,713 | 2,620,775 |
| 2026 | 6.00% | 220,000 | 281,313 | 930,000 | 1,192,563 | 2,623,875 |
| 2027 | 6.00% | 235,000 | 267,663 | 985,000 | 1,135,113 | 2,622,775 |
| 2028 | 6.00% | 245,000 | 253,263 | 1,045,000 | 1,074,213 | 2,617,475 |
| 2029 | 6.00/6.25% | 260,000 | 238,113 | 1,105,000 | 1,009,713 | 2,612,825 |
| 2030 | 6.25% | 275,000 | 221,719 | 1,170,000 | 940,000 | 2,606,719 |
| 2031 | 6.25% | 295,000 | 203,906 | 1,245,000 | 864,531 | 2,608,438 |
| 2032 | 6.25% | 310,000 | 185,000 | 1,325,000 | 784,219 | 2,604,219 |
| 2033 | 6.25% | 330,000 | 165,000 | 1,405,000 | 698,906 | 2,598,906 |
| 2034 | 6.25% | 350,000 | 143,750 | 1,495,000 | 608,281 | 2,597,031 |
| 2035 | 6.25% | 375,000 | 121,094 | 1,585,000 | 512,031 | 2,593,125 |
| 2036 | 6.25% | 400,000 | 96,875 | 1,685,000 | 409,844 | 2,591,719 |
| 2037 | 6.25% | 425,000 | 71,094 | 1,790,000 | 301,250 | 2,587,344 |
| 2038 | 6.25% | 450,000 | 43,750 | 1,905,000 | 185,781 | 2,584,531 |
| 2039 | 6.25% | 475,000 | 14,844 | 2,020,000 | 63,125 | 2,572,969 |
| Totals | | $ 6,145,000 | $ 5,331,875 | $ 26,025,000 | $ 22,597,381 | $ 60,099,256 |

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

## $8,800,000
## CITY OF PENSACOLA, FLORIDA
## AIRPORT TAXABLE CUSTOMER FACILITY CHARGES
## REVENUE NOTE

Dated: September 25, 2015 (as modified)

**PURPOSE:**

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

**SECURITY:**

The Airport Taxable CFC Note is secured by the pledge of certain Service Site Area Customer Facility Charges, the Service Site Area Ground Rent and the Facilities Rent each levied pursuant to a Rental Car Charge Ordinance of the City and certain amounts in or required to be transferred to the Rental Car Account and a Subordinate Securities Fund of Net Airport Revenues under the Bond Resolution, all as described in a Loan Agreement between the Bank and the City dated as of February 4, 2008, as modified on September 25, 2015 (the "Loan Agreement").

**AGENTS:**

**Holder** – Bank of America, N.A

**Bond Counsel** – Original Issuance: Lott & Associates, P.L.; Modified Notes (2010 and 2012): McGuireWoods LLP; Modified Note (2015) Bryant Miller Olive P.A.

**ISSUED AS:**

$19,000,000 Note as originally issued was subject to mandatory payment on February 1, 2011, or any third anniversary thereafter if extended by the Bank. As of September 25, 2015, the Airport Taxable CFC Note was modified to $8,800,000 and extended to December 31, 2018.

**RATINGS:**

None.

**CALL PROVISIONS:**

**Optional Redemption**

The Airport Taxable CFC Note may be prepaid in whole or in part on the first Business Day of each month with 3 days prior written notice to the Bank without penalty.

**OUTSTANDING PARITY BONDS:**

None.

**$8,800,000**
**CITY OF PENSACOLA, FLORIDA**
**AIRPORT TAXABLE CUSTOMER FACILITY CHARGES**
**REVENUE NOTE**

## SUMMARY OF DEBT SERVICE REQUIREMENTS

On September 25, 2015, the Airport Taxable Note issued in 2008 and modified on September 23, 2010 and again on June 27, 2012 was cancelled and a new modified note (the "2015 Modified Note") was re-issued by the City. Simultaneously with the issuance of the 2015 Modified Note, the City paid to Bank of America, the holder of the Airport Taxable Note, the amount of $3,000,000, further reducing the outstanding principal amount of the 2015 Modified Note to $8,800,000. The 2015 Modified Note matures on December 31, 2018, and continues to bear a variable interest rate equal to the 30 Day LIBOR plus 0.75% per annum with interest payments due monthly.

**$12,310,000**
**CITY OF PENSACOLA, FLORIDA**
**AIRPORT REVENUE NOTE, SERIES 2010 (AMT)**

Dated: September 29, 2010

**PURPOSE:**

The 2010 Airport Note was issued for the purpose of refunding the Airport Revenue Bonds, Series 1997B (AMT) and Airport Revenue Refunding Bonds, Series 1998A (AMT).

**SECURITY:**

The 2010 Airport Note is secured by the Pledged Funds (as more fully described above with respect to the 2008 Airport Bonds). In addition, the City has established a Reserve Fund for payment of the outstanding 2008 Airport Bonds, the 2010 Airport Note and the 2015 Airport Note when other funds are insufficient therefor.

**AGENTS:**

**Holder –** Compass Mortgage Corporation

Interest on the Note is 98 basis points plus 65% of 30-day LIBOR index, with a floor of 1.63%.

**Swap Provider** – BBVA Compass Bank

Swap provides a synthetic-fixed rate of 2.39%.

Bond Counsel: McGuireWoods LLP

**ISSUED AS:**

$12,310,000 Note due October 1, 2018, with principal installments commencing on October 1, 2011.

**RATINGS:**

None.

**PREPAYMENT PENALTY:**

A three percent (3.0%) prepayment penalty will be assessed if the 2010 Airport Note is prepaid in the first three years; a two percent (2.0%) prepayment penalty in year four; a one percent (1.0%) prepayment penalty in year five, and a zero percent (0%) thereafter.

**OUTSTANDING PARITY BONDS:**

The lien upon the Pledged Funds is on parity with the 2008 Airport Bonds, the 2012 Airport Note and the 2015 Airport Note.

**$12,310,000**
**CITY OF PENSACOLA, FLORIDA**
**AIRPORT REVENUE NOTE, SERIES 2010 (AMT)**

## SUMMARY OF DEBT SERVICE REQUIREMENTS

| Fiscal Year | Coupon Rate | Principal Payment | Interest Payment | Total P & I |
|---|---|---|---|---|
| 2017 | 2.390% | $ 1,225,000.00 | $ 75,225.26 | $ 1,300,225.26 |
| 2018 | 2.390% | 1,250,000.00 | 45,649.02 | 1,295,649.02 |
| 2019 | 2.390% | 1,285,000.00 | 15,355.76 | 1,300,355.76 |
| | | $ 3,760,000.00 | $ 136,230.04 | $ 3,896,230.04 |

## $6,300,000
## CITY OF PENSACOLA, FLORIDA
## AIRPORT REVENUE NOTE, SERIES 2012

Dated: September 28, 2012

**PURPOSE:**

The 2012 Airport Note was issued to provide funds for the primary purpose of financing the 2012 Project described in the authorizing resolution as including the acquisition, construction and rehabilitation of capital improvements to the Airport Facilities more particularly the Airport Parking Facilities and (ii) to pay certain costs of issuance of the 2012 Airport Note.

**SECURITY:**

The 2012 Airport Note is secured by the Pledged Funds (as more fully described above with respect to the 2008 Airport Bonds). The 2012 Airport Note does not share in the Reserve Fund established by the City for the 2008 Airport Bonds, the 2010 Airport Note and the 2015 Airport Note.

**AGENTS:**

**Holder –** Coastal Bank and Trust, a division of Synovus Bank

**Bond Counsel** – McGuireWoods LLP, Jacksonville, Florida

**ISSUED AS:**

$6,300,000 Note due October 1, 2027, with principal installments commencing on October 1, 2018.

The 2012 Airport Note has a Fixed Rate Period commencing on the Dated Date of the 2012 Airport Note, to but not including October 1, 2017, payable each April 1 and October 1 of each year, commencing April 1, 2013, and a Variable Rate Period commencing October 1, 2017, to and including October 1, 2027 (the Maturity Date), payable on the first day of each calendar month commencing November 1, 2017, and ending on but not including the first day of the next month. The fixed interest rate is 2.50%, as may be adjusted in accordance with the terms of the 2012 Airport Note, and the variable interest rate is equal to the sum of the Treasury Swap Rate (as defined in the 2012 Airport Note) plus one hundred and fifty basis points per annum (1.50%), computed on the principal amount outstanding as of such date, as may be adjusted in accordance with the terms of the 2012 Airport Note, all as more fully described in the 2012 Airport Note.

**RATINGS:**

None.

**CALL PROVISIONS:**

**Optional Redemption**

The 2012 Airport Note may be prepaid in whole or in part on any date at a price equal to the principal amount prepaid plus accrued interest to the date of the prepayment.

**OUTSTANDING PARITY BONDS:**

The lien upon the Pledged Funds is on parity with the 2008 Airport Bonds, the 2010 Airport Note and the 2015 Airport Note.

**$6,300,000**
**CITY OF PENSACOLA, FLORIDA**
**AIRPORT REVENUE NOTE, SERIES 2012**

## SUMMARY OF DEBT SERVICE REQUIREMENTS

| FISCAL YEAR | INTEREST RATE | PRINCIPAL | INTEREST | TOTAL |
|---|---|---|---|---|
| 2017 | 2.500% | $ - | $ 157,500 | $ 157,500 |
| 2018 | 4.450% | - | 335,737 | 335,737 |
| 2019 | 4.450% | 540,000 | 258,323 | 798,323 |
| 2020 | 4.450% | 555,000 | 233,681 | 788,681 |
| 2021 | 4.450% | 575,000 | 208,167 | 783,167 |
| 2022 | 4.450% | 595,000 | 181,764 | 776,764 |
| 2023 | 4.450% | 615,000 | 154,471 | 769,471 |
| 2024 | 4.450% | 640,000 | 126,083 | 766,083 |
| 2025 | 4.450% | 660,000 | 96,787 | 756,787 |
| 2026 | 4.450% | 685,000 | 66,398 | 751,398 |
| 2027 | 4.450% | 705,000 | 35,099 | 740,099 |
| 2028 | 4.450% | 730,000 | 2,707 | 732,707 |
| Totals | | $ 6,300,000 | $ 1,856,717 | $ 8,156,717 |

The 4.450% interest rate commencing October 1, 2017 is the estimated variable rate as of the date of issuance of the 2012 Airport Note.

## $12,465,000
## CITY OF PENSACOLA, FLORIDA
## AIRPORT REFUNDING REVENUE NOTE, SERIES 2015

Dated: October 26, 1015

**PURPOSE:**

The 2015 Airport Note was issued for the primary purpose of financing the cost of refunding $13,345,000 in remaining outstanding principal amount of the City's $15,145,000 Airport Refunding Revenue Bonds, Series 2005A (Non-AMT). While the outstanding par amount of the bonds was $13,345,000; the loan amount was reduced by $880,000 through a release of a portion of the reserve fund netting a borrowing amount of $12,465,000.

**SECURITY:**

The 2015 Airport Note is secured by the Pledged Funds (as more fully described above with respect to the 2008 Airport Bonds). In addition, the City has established a Reserve Fund for payment of the outstanding 2015 Airport Note, the 2008 Airport Bonds and the 2010 Airport Note when other funds are insufficient therefor.

**AGENTS:**

**Holder –** Regions Capital Advantage, Inc.

**Bond Counsel** – Bryant Miller Olive, P.A.

**ISSUED AS:**

$12,465,000 Note due on October 1, 2027, with principal installments commencing on October 1, 2016.

**RATINGS:**

None.

**CALL PROVISIONS:**

**Optional Redemption**

The 2015 Airport Note may be prepaid in whole or in part, on any date on and after October 1, 2019, at a price equal to the principal amount prepaid plus accrued interest to the date of the prepayment.

**OUTSTANDING PARITY BONDS:**

The lien upon the Pledged Funds is on parity with the 2008 Airport Bonds, the 2010 Airport Note and the 2012 Airport Note.

**$12,465,000**
**CITY OF PENSACOLA, FLORIDA**
**AIRPORT REFUNDING REVENUE NOTE, SERIES 2015**

## SUMMARY OF DEBT SERVICE REQUIREMENTS

| FISCAL YEAR | INTEREST RATE | PRINCIPAL | INTEREST | TOTAL |
|---|---|---|---|---|
| 2017 | 2.550% | $ 915,000 | $ 306,191 | $ 1,221,191 |
| 2018 | 2.550% | 925,000 | 282,731 | 1,207,731 |
| 2019 | 2.550% | 945,000 | 258,889 | 1,203,889 |
| 2020 | 2.550% | 970,000 | 234,472 | 1,204,472 |
| 2021 | 2.550% | 995,000 | 209,419 | 1,204,419 |
| 2022 | 2.550% | 1,020,000 | 183,727 | 1,203,727 |
| 2023 | 2.550% | 1,045,000 | 157,399 | 1,202,399 |
| 2024 | 2.550% | 1,075,000 | 130,369 | 1,205,369 |
| 2025 | 2.550% | 1,100,000 | 102,637 | 1,202,637 |
| 2026 | 2.550% | 1,130,000 | 74,205 | 1,204,205 |
| 2027 | 2.550% | 1,160,000 | 45,008 | 1,205,008 |
| 2028 | 2.550% | 1,185,000 | 15,109 | 1,200,109 |
| Totals | | $ 12,465,000 | $ 2,000,156 | $ 14,465,156 |

**$6,299,600**
**CITY OF PENSACOLA, FLORIDA**
**TAXABLE AIRPORT FACILITIES GRANT ANTICIPATION NOTE, SERIES 2016**

Dated: September 23, 2016

**PURPOSE:**

The 2016 Grant Anticipation Note was issued for the purpose of financing a portion of the cost of the construction of a hanger and related facilities at the Pensacola International Airport in anticipation of the receipt of proceeds of a grant from the Florida Department of Transportation.

**SECURITY:**

The 2016 Grant Anticipation Note is secured by the pledge of (i) the Grant Proceeds, (ii) moneys on deposit in the funds and accounts created under the Loan Agreement, and (iii) certain investment earnings. Pledged Funds shall include any net receipts from periodic payments received by the City under the Swap Agreement as described in the 2016 Loan Agreement.

**AGENTS:**

**Holder –** Compass Bank.

**Bond Counsel** – Bryant Miller Olive, P.A.

**ISSUED AS:**

$6,299,600 draw-down Note with principal draws allowed through January 1, 2018. Principal on the 2016 Grant Anticipation Note shall be paid in two installments on October 1, 2018 and October 1, 2019.

Interest shall accrue from the date of the initial advance under the 2016 Grant Anticipation Note on the outstanding principal balance thereof and shall be payable on each Interest Payment Date at a variable rate per annum equal to LIBOR, adjusted monthly to reflect any change in LIBOR, plus 178 basis points. Pursuant to the SWAP Agreement, the City entered into a variable to fixed interest rate swap transaction with Compass Bank, providing a synthetic fixed interest rate to the City of 3.01%.

**RATINGS:**

None.

**CALL PROVISIONS:**

**Optional Redemption**

The 2016 Grant Anticipation Note may be prepaid in whole or in part on any date at a price equal to the outstanding principal amount thereof plus accrued interest to the date of the prepayment; subject to the payment of any required Termination Payment owed by the issuer under the Swap Agreement occasioned solely by such prepayment.

**OUTSTANDING PARITY BONDS:**

None.

**$6,299,600**
**CITY OF PENSACOLA, FLORIDA**
**TAXABLE AIRPORT FACILITIES GRANT ANTICIPATION NOTE, SERIES 2016**

**SUMMARY OF DEBT SERVICE REQUIREMENTS**

On September 23, 2016 the City issued $6,299,600 of Taxable Airport Facilities Grant Anticipation Note, Series 2016 ("2016 Grant Anticipation Note") pursuant to the Loan Agreement dated as of September 23, 2016, between the City and Compass Bank (the "2016 Loan Agreement"). The 2016 Grant Anticipation Note was issued for the purpose of financing a portion of the cost of the construction of a hanger and related facilities at the Pensacola International Airport in anticipation of the receipt of proceeds of a grant from the Florida Department of Transportation. The 2016 Grant Anticipation Note matures on October 1, 2019 and has a floating rate equal to LIBOR plus 178 basis points as more fully described in the 2016 Loan Agreement. Pursuant to the SWAP Agreement (as defined in the 2016 Loan Agreement), the City entered into a variable to fixed interest rate swap transaction with Compass Bank, providing a synthetic fixed interest rate to the City of 3.01%. The payment of principal and interest on the 2016 Grant Anticipation Note and all obligations of the City under the SWAP Agreement are payable solely by a first priority lien upon and pledge of the Pledged Funds which consist primarily of the Grant Proceeds. Pursuant to the 2016 Loan Agreement, the City may draw principal during the Draw-Down Period which commenced on January 1, 2017, and shall end on January 1, 2018. As of September 30, 2016, no funds had been drawn-down under the 2016 Loan Agreement.

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**APPENDIX A**

**DEBT INCURRENCE AND ADMINISTRATION POLICY** – Adopted by Council Action February 22, 1996; Amended August 11, 2005; Amended by Resolution 21-10 August 21, 2010 effective Noon, January 10, 2011

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

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

- Long-term debt should be used to meet capital needs when such needs cannot be financed from current revenues. Further, it should only be used when adequate funds are likely to be available to meet future debt service requirements.

- The City will not use long-term debt to finance current operations.

- On all debt issuances the City Council will be informed of the nature of the financing and the proposed structure of the financing team. In the instance of a negotiated sale or private placement, City Council will also be informed of the underwriter(s) to be selected and the reasons for the selection.

- Repayment of long-term debt should occur within a time period that does not exceed the estimated useful live (lives) of the project(s) financed. (For multiple acquisition long-term debt, acquisition lives should be measured against principal retirements during the early years.)

- The average life of any long-term debt issuance will not initially exceed 20 years.

- The ratio of general government debt service expenditures to general government total expenditures should not exceed 15 percent (as measured by either the most recent comprehensive annual financial report or the adopted current year budget) except when a proposed borrowing is necessitated to finance reconstruction following emergencies (such as a hurricane or other natural disaster).

- Except for Pensacola Regional Airport whose coverage requirements are established by contracts with the airlines, long-term debt of City enterprises should be maintained at minimum coverage of 130 percent.

• The City will meet full disclosure requirements/needs on all debt issuances. In order to meet our commitment to full disclosure the following will be implemented:

- The City will annually produce and distribute to interested parties, a "Report to Bondholders", updating information on the City's finances and debt.

- The Mayor will establish procedures dealing with requests for information about the City's finances and/or debt. The policy should designate a single source for response. Further, information provided as a result of a request, also when appropriate, be provided to the market. Finally, the procedures should provide that whenever a material event occurs, timely notification to the market will be provided.

• The City will maintain good communications with rating agencies and bond insurance companies.

• The City will take advantage of the technical expertise and professionalism of its financing team (financial advisor, bond counsel and disclosure counsel) on all debt issuances.

• Prior to issuing long-term debt, the City shall consider the alternatives of competitive bids, negotiated sales or private placements giving consideration to the following criteria:

- Is the issue viewed by the market as carrying complex or innovative features and/or requiring explanation as to the bonds' soundness?

- Are interest rates stable, is market demand strong, and/or is the market able to absorb a reasonable amount of buying or selling without substantial price changes?

- Does the issue have a non-enhanced credit rating of an A or greater or can a credit enhancement be obtained prior to the sale?

- Is the debt structure backed by the City's full faith and credit or a strong, known or historically performing revenue stream?

- The following requirements must be met by any applicant for conduit financing:

    - The applicant should submit audited financial statements for its three most recent years.

    - The applicant must pay a fee of not less than $1,000 to cover the administrative cost of processing the application. In addition, the applicant must pay for a financial review by the City's financial advisor. Applicant must also pay reasonable fees for legal reviews by or for the City.

    - The applicant must agree to include in the bond resolution, provisions that insure adequate disclosure relating to the issuance and all post issuance disclosures (see disclosure requirements outlined above).

- Refunding or advance refunding of outstanding debt can be a valuable tool in reducing annual borrowing costs. Such refundings can be undertaken within the following parameters:

    - The final maturity is not later than that of the refunded issue.

    - The refunding results in present value savings of at least 3 percent. (Present value savings may be used to reduce debt service or fund capital projects.)

    - The refunding itself does not result in net new debt service. (However, a refunding may be combined with issuance of new debt for capital projects.)

The following definitions apply to this policy:

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

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

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

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

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

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

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

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

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

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

a. Principal and interest payment delinquencies

b. Nonpayment related defaults

c. Unscheduled draws on reserves

d. Unscheduled draws on credit enhancements

e. Substitution of credit or liquidity providers, or their failure to perform

f. Adverse tax opinions or events affecting the tax exempt status of the security

g. Modifications to rights of security holders

h. Bond Calls

i. Defeasances

j. Matters affecting collateral

k. Rating changes

**APPENDIX B**

**INVESTMENT POLICY -** Adopted by Council Action and Resolution September 26, 2002; Amended by Resolution 21-10 August 21, 2010 effective Noon, January 10, 2011

Resolution 35-02, adopted under the authority of Sections 166.261 and 218.415, Florida Statutes, sets forth the policy of the City of Pensacola with regard to the investment of funds in excess of those required to meet short-term expenditures. The Mayor shall be responsible for implementing this policy, subject to the provisions of Section 1-1-1 (c) of the Code of the City of Pensacola. No person may engage in any investment transaction with City funds or funds held in a trust relationship by or for the City, except as authorized by the Director of Finance or authorized designee. Provided, however, this policy shall not apply to pension funds, trust funds, or funds related to the issuance of debt.

## Authority

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

## Scope

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

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

## Objectives

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

## Ethical Standards

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

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

## Continuing Education

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

## Performance Measurement

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

## Authorized Investments

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

(a) The Local Government Surplus Funds Trust Fund or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act as provided in Section 163.01, Florida Statutes.

(b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency.

(c) Interest-bearing time deposits or savings accounts in qualified public depositories as defined in Section 280.02, Florida Statutes.

(d) Direct obligations of the United States Treasury.

(e) Federal agencies and instrumentalities.

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

(g) Other investments authorized by law or by ordinance for a county or a municipality.

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

**Bid Requirements**

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

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

**Portfolio Composition**

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

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

Repurchase agreements shall only be entered into with the City's primary depository, First Union National Bank [currently Wells Fargo Bank, N.A.], which is also identified as a qualified public depository.

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

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

**Safekeeping And Custody**.

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

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

**Collateral**

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

**Master Repurchase Agreement**

The City has entered into only one Master Repurchase Agreement. First Union National Bank [currently Wells Fargo Bank, N.A.], the City's primary depository, holds the contract.

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

(a) Purchased only from the City's contracted banking service provider.

(b) Securities used as collateralization for the overnight (sweep) Repurchase Agreement will be held for the benefit of the City with a third party, the Federal Reserve Bank or the contracted bank's correspondent bank in an amount not less than 100% of the overnight amount of the Repurchase Agreement.

(c) The City's primary depository must have on file an executed copy of the City's Master Repurchase Agreement for overnight repos and an executed Sweep Investment Service Agreement.

(d) Repurchase Agreements for the City of Pensacola will exist only for the purposes of an overnight "sweep".

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

**Internal Controls**

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

(a) Investment transactions authority is limited to specific persons within the Financial Services Department.

(b) All investment transactions require approval of the Director of Finance.

(c) Staff in the Financial Services Department reconciles the City's general depository account on a monthly basis by comparing the City's general ledger with the applicable bank account statements. The reconciliation of the general depository account would reveal any difference in investment transaction recording and the actual movement of funds.

(d) Each month the designated staff person authorized to transact investments shall prepare an Investment Schedule. The schedule is then reviewed and reconciled to the general ledger by a person independent of the investment functions.

(e) Authority for wire transfers is restricted to specific individuals with specific dollar limits within the Financial Services Department. All non-repeat type wire transfers require verification authorization by a second individual specified in wire authority documents executed with the City's primary depository.

(f) Transfer of all funds through a central account only.

(g) Each year the City's external auditors review existing internal controls as well as investment transactions by examining data on a random basis.

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

**Accounting Method**

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

**Reporting**

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

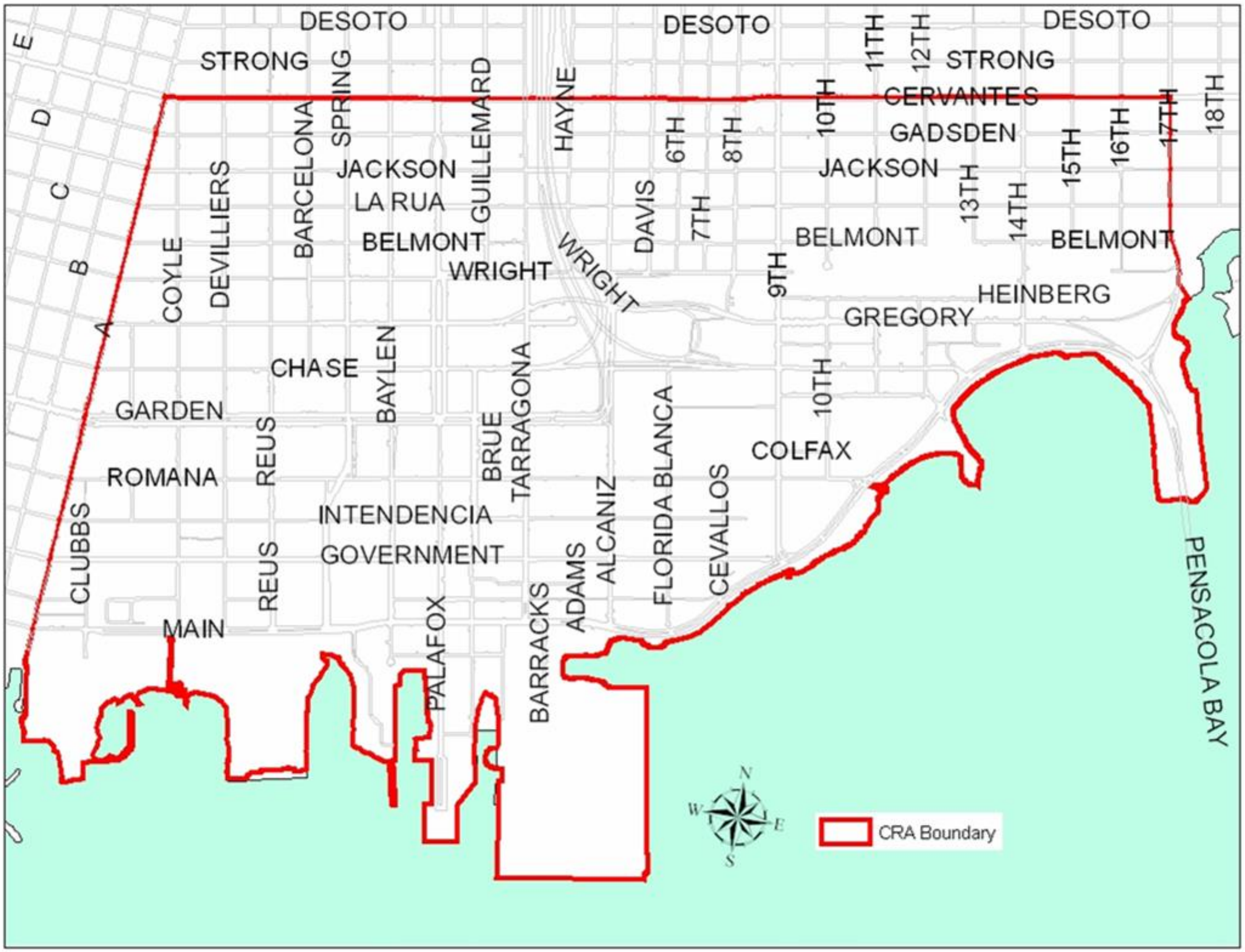
This resolution supersedes Resolution No. 27-01.

**APPENDIX C**

## CONTINUING DISCLOSURE UNDERTAKINGS

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

**APPENDIX D**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