

The Durant City Utilities Authority
\$5,610,000
Utility System and Sale Tax Revenue Note, Series 2007
(Project Financing)

Background

The Durant City Utilities Authority (the "Authority"), City of Durant, Oklahoma, has determined to issue certain obligations for the purpose of funding (i) various capital improvements throughout the City of Durant and (ii) paying costs of issuance. Consequently, the Authority intends to issue its Utility System and Sales Tax Revenue Note, Series 2007 (the "2007 Note") in the principal amount of \$5,610,000 to conduct the funding of the aforesaid projects as described herein.

The Durant City Utilities Authority

The Durant City Utilities Authority was established as a public trust under Title 60, Section 176 et seq., as amended and supplemented, of the Oklahoma Statutes pursuant to a Declaration of Trust dated May 21, 1956. The primary purpose of the Authority is operating the water, sanitary sewer and garbage systems of the City of Durant, Oklahoma, and providing a financing vehicle for other lawful purposes. The Trustees of the Authority are the Mayor and City Council of the City of Durant, Oklahoma. The City Clerk serves as Secretary of the Authority. Current members of the Authority are shown below:

Mr. Jerry L. Tomlinson - Chairman
Mr. Ron Cross - Trustee
Mr. Tom Marcum – Trustee
Mr. Leon Sherrer – Trustee
Mr. Bobby Story – Trustee

Mr. Tomlinson also serves as Mayor of the City. Jim Dunegan serves as City and Authority Manager. Ms. Leta McNatt serves as City Clerk and Authority Secretary. The FEI Number for the Authority is 73-6005186.

The Authority generally operates and maintains the water, sanitary sewer and garbage systems of the City and funds capital projects related thereto. The Authority currently has five long-term debt obligations with the Oklahoma Water Resources Board outstanding and a locally issued Utility System and Sales Tax Revenue Note, Series 2006, which are secured by a senior lien on water and sanitary sewer system revenues and three percent (3%) sales tax (levied pursuant to Ordinance No. 919 and Ordinance No. 1317 of the City of Durant). It has one long-term debt obligations with the Oklahoma Water Resources Board outstanding which is secured by a senior lien on water and sanitary sewer system revenues only.

Plan of Financing

A portion of the proceeds derived from the issuance of the 2007 Note will be used to fund various capital improvements throughout the City including but limited to construction and design of an additional fire station, various street improvements, water and sewer system improvements and design/study of new law enforcement center.

Financial Performance

Audited Financial Statements for the City and its component units for Fiscal Years Ended June 30, 2004, 2005 and 2006 along with unaudited financial statements for Fiscal Year Ended June 30, 2007 and Budgeted Revenues and Expenditures for Fiscal Year 2007/08 for certain funds and accounts prepared by the Authority staff are enclosed herein.

The Utility System and Sales Tax Revenue Note, Series 2007

The Durant City Utilities Authority will issue its Utility System and Sales Tax Revenue Note, Series 2007 (the "2007 Note") in the principal amount of \$5,610,000 to finance the various capital projects mentioned, including costs of issuance associated with the Note. The Note will be dated the date of delivery and mature in semi-annual installments commencing March 1, 2008 with a final maturity of September 1, 2027. Interest on the Note will also be paid semi-annually commencing March 1, 2008. The Note will be issued at one rate for all maturities. **The Note will be issued as a non-rated obligation.**

The Note will not be subject to redemption prior to maturity.

Pledge of the Trust Estate

The 2007 Note will constitute limited and special obligations of the Authority payable by the Authority from and secured by a pledge of revenues from the water and sanitary sewer system and a 3% municipal sales tax.

Sales Tax Revenue

Pursuant to Ordinance No. 837 and Ordinance No. 919 (collectively, the "Two Percent Ordinance"), the City of Durant levies a permanent sales tax of two percent (2%). The purpose of the Two Percent Ordinance is to provide revenues to be used for the support of the functions of the municipal government of the City. Pursuant to Ordinance No. 1317 (the "One Percent Ordinance"), the City of Durant levies a sales tax of one percent (1%). The purpose of the One Percent Ordinance is to provide revenues to pay principal and interest on debt of the City and the Authority, issued for the purpose of financing capital improvements. The One Cent Ordinance expires June 30, 2021. The combined three cent sales tax levied pursuant to the respective ordinances shall be referred to as "Sales Tax Revenue". In fiscal year 2006/07, the Sales Tax Revenue generated \$8,119,450. Historical Sales Tax collections for the City are included herein.

Sales Tax Security Agreement

The 2007 Note will be secured and payable from the Sales Tax Revenue pursuant to a Sales Tax Agreement between the City of Durant and the Authority in which the City agrees on a year-to-year basis to appropriate the Sales Tax Revenue to the Authority, provided the City cannot obligate itself beyond its fiscal year. The 2007 Note does not represent an obligation of the City and is payable solely from the Sales Tax Revenue, water and sanitary sewer system revenue. The Authority will be required to make monthly deposits to the Trustee Bank from the Sales Tax Revenue and other available revenues as it is received in sufficient amounts to pay interest on and principal of the 2007 Note.

Debt Coverage

In Fiscal Year 2006/07, the Net Water, Sanitary Sewer System and 3% Sales Tax Revenue (the "Net Revenues Available for Debt Service") generated approximately \$10,265,322 (3% Sales Tax Revenues - \$8,119,450 and Net Water, Sewer and Interest Revenues - \$2,145,873) in fiscal year 2006/07. The estimated total annual principal and interest requirements on the Authority's existing debt **and the 2007 Note (assuming a 4.50% interest rate, annual payment approximately \$426,825)** would be approximately \$2,547,171. Consequently, debt coverage for the all Authority debt would be approximately 4.03 times annual payments in FY 2006/07. Taking into effect the new five year utility rate plan that increases rates and charges by 3.5% annually beginning July 1, 2007 and a 5% annual growth in future sales tax collections, the Net Revenues Available for Debt Service in FY 2008/09 is expected to generate approximately \$11,330,461 or approximately 4.55 times total annual debt payments that would be paid in FY 2008/09.

Parity Debt Limitation

The Note Indenture governing the issue will provide that additional obligations may be issued on a parity or equal basis with the 2007 Note as long as the Net Revenues Available for Debt Service are at least 125% of the maximum annual amount required for debt service on all obligations on a parity with the 2007 Note. The Authority

may at any time and from time to time, without limitation as to amount, issue evidences of indebtedness secured on a subordinate or junior lien basis with the 2007 Note.

Private Placement

The 2007 Note is to be issued as a Private Placement obligation to be purchased by a financial institution. As the subject of a Private Placement, the purchaser of the 2007 Note will be required to execute an Investment Letter, representing itself as an “accredited investor” pursuant to Rule 501 of Regulation D promulgated by the Securities and Exchange Commission. As such, the 2007 Note will have limited assignability or transferability other than to another accredited investor. In essence, the purchaser is purchasing the 2007 Note for his own account with the intent to hold the 2007 Note to final maturity, but may offer participation in the 2007 Note with other financial institutions. The 2007 Note will be issued in the form of one note and will not be assigned a CUSIP Number.

Tax-Exemption

The Public Finance Law Group PLLC, Oklahoma City, Oklahoma, (“PFLG”) is acting as Bond Counsel on the transaction. PFLG will issue an opinion to the purchaser that under current tax laws, interest on the 2007 Note will be exempt from federal and State of Oklahoma income taxation. **In addition, the City will designate the 2007 Note as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.** In addition certain legal matters pertaining to the City and Authority will be passed upon by Pat Phelps, Esq., as City and Authority Counsel.

Trustee Bank

Trustee Bank for the 2007 Note will be First United Bank & Trust Company, Durant, Oklahoma.

Purchaser Bids

The Authority will accept bids from potential purchasers of the Note on the Bid Form enclosed herein. **The Note is to be sold at par (100%) of the principal amount of the Note.** Bids must be hand delivered or faxed to The Durant City Utilities Authority to the attention of Mr. Jim Dunegan, City Manager, 300 W. Evergreen, Durant, Oklahoma, 74702 (Fax No.: 580/924-8246) no later than **10:00 a.m. Tuesday, August 14, 2007.** The Authority will then consider the bids at a meeting later that afternoon at 4:00 p.m. in the City Council chambers at City Hall and award the Note to the bidder offering the lowest interest rate. **The Authority reserves the right to reject all bids.**

Please note that the Authority will provide the amount of \$2,500 from Note proceeds for the Bank’s Counsel to review the financing documents and cover other costs of the Purchaser. Any cost above this amount shall be paid by the successful purchaser. The purpose of this provision is to advise potential bidders that the Note will be awarded solely on the interest rate bid and the resulting interest cost to the Authority.

Payment for the Note

It is anticipated that the Note will be delivered to and paid for in full by the purchaser on or about August 28th, 2007 (the “Closing Date”). On the Closing Date, the purchaser will wire the funds to the Trustee Bank and receive delivery of the Note for safekeeping.

Authority Contacts

Questions regarding the Note should be addressed to Mr. Jim Dunegan, City Manager, at 580/924-7222 or Jon Wolff, Municipal Finance Services, Inc. (405/340-1727), the Financial Advisor to the Authority.