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# Outline of a Possible Municipal Stock Issue for Durban Metro

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Fenn Putman

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## 1. INTRODUCTION

The purpose of this paper is to look at the various aspects of the South African municipal credit market and to evaluate the ability of the Durban Metro Council to publicly sell an issue of Municipal Stock. The term "municipal" refers to the local government, not provincial or national. Municipal also means local cities, metro governments, and uni-city. The term "Durban Metro" means Durban as a uni-city and includes the new demarcated boundaries. This paper will set forth the advantages and disadvantages of a municipal stock issue. There will also be an attempt to indicate, under the current interest rate environment in South Africa, pricing levels for a Durban Metro Stock issue. The paper will describe who the participants are in a municipal stock issue, what they do and how they are selected.

Finally, there will be a detailed guide as to the steps needed to market an issue of Durban Metro Stock in the public market in South Africa. This will include an outline of the contents of an "Offering Circular" and a detailed timetable of the events to market a municipal stock issue in the public market.

2. DISCUSSION OF THE CURRENT VIEW OF MUNICIPAL CREDITS IN SOUTH AFRICA.

This view is based upon my evaluation of interviews with a number of financial institutions, credit rating agencies, investment bankers, investors, and various National Government Ministries. A list of these firms and individuals is listed in Appendix A. This analysis discusses the general view of the municipal credit market and while some of the observations apply to Durban Metro, the thrust of the evaluation is the general condition of municipal credits. It was the uniform view of those interviewed that Durban Metro was the best municipal credit in South Africa. It should be noted that the credit analysis goes only to the local municipals and not the Provincial level of government or the National Government.

A. <u>History of Municipal Credit Market</u>

Up until 1988, the market was greatly aided by the system of "Prescribed Asset Requirements". This system required certain financial institutions to have a percentage of their investments in local governments. There was a larger demand for local municipal securities than there was supply. Further, the belief and feeling of the institutions that were required to purchase these municipal securities, was that if the municipality did not pay their debts, the National Government would make the investor whole. The rationale being that if the National Government made the institutions purchase these securities under the "Prescribed Asset Requirements", the same Government was responsible to see that these investments were paid. Given this view by these institutions, they did little or no credit analysis. Because of the large demand for municipal securities under the "Prescribed Assets Requirements" regime the securities were privately placed with the institution and there was no secondary trading.

Once the National Government repealed the "Prescribed Assets Requirement", most institutions disposed of their municipal investments. There were a few institutions that retained their investment. They eventually sold these because there was no secondary market which they needed in order to not only trade the securities, but more importantly, to evaluate these investments for either regulatory asset value for insurance companies or mutual funds for "net asset value" purposes. A recent large insurance company traded their entire portfolio of municipal securities because they could not obtain current and accurate financial information from the municipalities (some Durban Metro stock was held by them and information was available); there was no secondary market to liquidate their holdings, and no market in order to evaluate the value of these assets for regulatory purposes.

## B. Demarcation

Until the December 5, 2000 elections, there was considerable concern as to what jurisdiction regarding physical boundaries the municipal council was responsible for. The December 5th election confirmed the territorial responsibility for all the municipal councils. This will also reduce the units from 847 to 284. This alone will assist in making the municipal market more viable. From December 5th, a completely new municipal government structure will be created. (For example, all the Council members in the Durban area will go from 300 to 200 as they become a uni-city). Also, various organizational schemes will be created, such as Executive Mayor, Executive Committees and other structures. And, while this will be good long term, it will take some time to fully accomplish the reorganization. There will also be in some cases, the question of the ability of these newly elected officials and their staff appointments.

## C. Accounting

The market will welcome the new municipal accounting system that is to be put in place. The new system, Generally Accepted Municipal Accounting Practices (GAMAP), will have all municipal governments present a uniform standard accounting format. While this concept has been worked out with practitioners over the last two years, it will be some time before it is completely implemented. In all probability, it will take at least a year of education and change in computer systems. GAMAP implementation will begin from FY 2002 in some pilot municipalities, and it will be fully implemented over the ensuing years.

## D. Information Availability

One of the major concerns of investors in municipal credits is the limited ability to obtain accurate information from municipal governments. Much of the information is not timely. That is, some of the financial statements are several years old. Also, some of the accounting methods do not accurately report how the internal loans and investments are accounted for. The new GAMAP will help this, and the proposed MFM Bill will require timely production of budgets and annual reports, which will be public documents. It would appear that National Government should implement a central repository for both financial statements and budgets for all municipal governments. Investors and businesses could then access this repository so that they could not only obtain the information, but also be able to conduct comparative analyses of various municipal governments.

## E. Basic Credit Concerns

1) The new definitive demarcation boundaries will eliminate one of the credit concerns of investors in municipals.

2) There is a fundamental problem of people not paying either tariffs or property taxes. In some cases, these people do not have the money due to unemployment and in many cases, an unwillingness to pay. This of course varies from place to place. In the case of Durban, they have a central billing system so that all property taxes and tariffs are in one bill. If a person or business does not pay on a timely basis, they disconnect their electricity. This system therefore does not disrupt the essential services of water and housing but does reduce Durban's bad debts. Of course, increased economic activity should greatly reduce unemployment and increase the capacity for people to pay their bills. Thus, economic development activity will be a key factor in credit upgrade.

3) A concern of investors is that the National Government has and will reduce "equitable share" payments to some municipal governments. The estimate is that on average, the equitable share will go from 4% to 2% of municipal revenues over the next several years. This was stated in the "2000 Intergovernmental Fiscal Review". The absolute amount, however, will increase. Because of the variability, this is a less stable financing but it could be used for smaller municipalities.

4) The National Government is also requiring local municipal governments to provide more services. One of these issues is delivery of primary medical care. This level of service is growing because of the impact of HIV-AIDS. There is a blurring of the line between primary care and acute care provided by the Provinces (which is financed by funds provided by the National Government). The local municipal government does not charge for these services and therefore they must be paid out of the general funds.

   Another issue is housing. There is a great need for low cost subsidized housing. The National Government does have a system to subsidize housing by granting money to build low cost housing, the level is based upon the income level of the homeowner. The local government, however, must provide the infrastructure to support new housing. This includes roads, water, sewer, solid waste disposal, and electric reticulation. Depending on terrain and distances, these costs can use up much, if not all, of the national subsidy and thus a city such as Durban must pay for some of the infrastructure out of general funds.

5) There is some confusion under existing law about defaulted loans and how the lender can proceed to collect that which is owed. The question of municipal bankruptcy is even less clear. (The Municipal Finance Management Bill envisages a form of "judicial management", i.e. the Municipal Finance Emergency Authority will appoint an Administrator to institute proper financial management). Under a Natal provincial ordinance, a lender might have the right to go to the courts to force the municipal borrower to charge property taxes and tariffs sufficient to meet its obligations. It should be noted that this has not been tested in the courts and may not be possible under the new Constitution. Moreover, the Department of Provincial and Local Government can place a ceiling on tariffs under the Municipal Systems Act and on property taxes under the draft Property Rates Bill.

## F. Bank Capacity

1) The general feeling is that there is ample capacity in the banking system to make new municipal loans. The credit concerns mentioned have slowed the banks from making new loans. The banks are most interested in making "structured" loans. "Structured" loans, in general, are loan structures based on the ability of the lender to use certain tax benefits. "Structured" loans have several drawbacks. First, while the loan rate is lower than normal bank loans, most loan documents require a makeup or gross-up of the rate if the tax rate changes. Second, there is a limit as to how much capacity for tax benefits there is in the system. Finally, there is some discussion by the Government as to whether this type of financing should continue.

   Note: the risk premium setaside required by the National Bank Regulation #R 1112 for municipal loans will go from 20% of the 8% to 100% of the 8% on January 1, 2001. This will not only increase the interest rate charged by banks to municipals, but will decrease the amount of bank capacity to make such loans. This rate change is not retrospective.

2) There are some specialized institutions that focus on supplying credit to municipalities. First is the Development Bank of Southern Africa. This institution was initially a development bank supported by the National Government. The second specialized institution is the Infrastructure Finance Corporation Ltd. – INCA. This institution, whose stockholders are major financial institutions, is financed by selling debt issues in the South African bond market using its municipal loan portfolio to service this debt, and essentially using these loans as security. INCA is currently rated by Duff & Phelps AA-, the same as Durban.

G. Project Financings

There seems to be interest in "project" secured financings however, because of the uncertainty of the available revenues from electricity (the concept of regional electric distribution systems-REDS) and the concept that water is a life necessity and that all people should have water either free or at subsidized rates, utility revenues will not be a stable basis for "ring fenced" financings. It should be pointed out that revenues would have to be a stable basis as South African law requires a balanced budget so their income will have to be increased elsewhere to provide the cross subsidization. While utility financing has some problems, it should not be ruled out. Under some specific situations these revenues could support a financing.

For Durban, there has been relatively little "equitable share" from the national fiscus to be able to be intercepted as security. National Treasury advises that 3-year indicative allocations for each municipality's future equitable share allocation will be available in a few months, and these indications will be updated on a rolling basis every year. While there are other revenues generated by municipalities, it will be somewhat hard to pledge these for specific loans. This can be done, and in fact has been done, but over time if certain properties are pledged, the remaining properties will be the weaker collectibles or it will take a great many residential properties to make a reasonable size loan.

H. Reasons for Lack of a Current Market

There are several reasons that there is not a current municipal stock (bond) market. (Note: Municipal stock is the same as a municipal bond). First is the above-mentioned credit concerns. Second, is a lack of actively traded outstanding stock. Third, is that without an active market it is very difficult to obtain price valuations and the institutions such as Life Insurance companies and mutual funds cannot place an accurate value on their investments for regulatory purposes or "net-asset-value" pricing by mutual funds. Finally, because of the small size of issues there is no liquidity.

I. Possibility of a Market

In talks with several security dealers, they felt that there could be a Municipal stock market, as did the person at the Bond Exchange of South Africa. Both groups mentioned the previously discussed concerns but felt with a large (R750 million to R1.2 billion) high-grade credit and the proper structure, a market could be created.

J. Credit Enhancement

It was generally agreed that credit enhancement would help the market for municipal stock. Currently there is no such facility as Municipal Bond Insurance in South Africa as we have in the United States. Generally, certain financial institutions could offer "Letters of Credit". However, normally these are only short term 3 to 5 years.

Even if credit enhancement becomes available, there would need to be a cost versus benefit analysis in order to decide whether or not to use such a facility.

K. Regulation

There are a number of legislative acts that have been passed which have an effect on the operations of municipalities. Additional legislation is under consideration, which will also affect municipalities. There have not, however, been many regulations issued under these legislative acts. This paper will not analyze these various acts and proposed legislation. They in all probability will have some effect on municipal credit especially when the ensuing regulations are promulgated.

3. ADVANTAGES AND DISADVANTAGES OF A MUNICIPAL STOCK ISSUE

A. Advantage

1) A municipal stock issue can mirror the life of the asset being financed. This allows for pay-as-you-use, whereby the user pays for the use over the life. Under a current payment for a long lived capital asset, the current and former ratepayers pay for the asset and the future user pays none of the capital costs.

2) A municipal stock issue can take advantage of conditions in the interest rate market. The best example being when short-term rates are higher than long term rates – an inverted yield curve. If all preparations have been taken to enter the market quickly, then a stock issue could take advantage of short-term aberrations in the market.

3) If an issuer establishes a position in the market, it can realize certain benefits. First, it gives the issuer a benchmark for a new issue or a bank loan rate. Second, if there are several large maturities that are quoted, it would be possible that a small add-on issue could be put into the market at a lower cost than a new issue.

4) By having a large benchmark issue quoted in the market, it would act as an advertisement for the municipality. This publicity could attract new business to the municipality.

5) Municipal stock issue gives the municipality an alternative to bank loans, structured loans, or overdrafts. Also, because of such parties as financial advisor and underwriters, there should be better intelligence about interest rates and investor capacity for lending.

6) By having a quoted large issue, the municipality could be contacted by long-term investors to purchase a stock issue directly from the municipality at much lower cost of issuance.

B. Disadvantages

1) The initial stock issue will take more time to accomplish than a bank loan.

2) The cost of issuance will be a good deal more than a bank loan.

3) There will be more parties to a stock issue and therefore organizing such an issue will be much harder and require more time of the municipal finance staff.

4) Because the stock issue will be a lump sum payment and not drawn down when needed as a bank loan facility would be, there is a need to have a reinvestment plan. Under a normal interest rate environment with short-term rates lower than long-term rates, the reinvestment of the municipal stock proceeds will result in negative arbitrage. The amount of this negative arbitrage will depend on the duration of the unspent funds.

5) It would be possible to borrow in the short term, under one year, market and expect to pay this loan off with the stock issue. There is a risk that if for some reason the stock issue could not be sold, the municipality would have to pay off the short term issue before the end of its fiscal year.

6) Because of the public sale of a stock issue, there will be a greater need for continuing information disclosure. Also, the complete accuracy of this information will be important so as to not mislead the investors.

7) Because of the fact that there will be a number of investors rather than one lender, payment of interest and principal will be many more items. This can be mitigated by the electronic payment system currently in place in South Africa.

4. WHO ARE THE PARTICIPANTS IN A MUNICIPAL STOCK ISSUE AND WHAT ARE THEIR ROLES?

A. Durban Metro Council

With the new Council organization, there must be a renewed effort by the financial staff to educate the Council about financial plans and possible options. The Council should continue the very good strategic financial program that Durban has followed in the past. The Council will need to be briefed on the municipal stock issue. This briefing should include the general details of the issue and give a range as to amount, interest rates, cost and use of proceeds. The process would be to get initial approval of the Council to the proposed issue process and then approval to the terms, etc., i.e. at each step.

B. Durban Metro Corporate Financial Services

The Director: Finance of this department will be the point person for the transaction. The Director, assisted by the staff, will be the people that make the decision for the municipality and be the working team to put the transaction together. This, of course, would start with the decision about the need to finance the capital improvement program. They will be the people to hire the outside participants and coordinate their activity. They, with the help of the financial advisor and underwriters will determine whether a municipal stock issue is the best way to raise the necessary capital and, if so, they will determine all the details, i.e. amount, structure, timing, and reinvestment strategy among other things.

C. Durban Metro Legal Department

The internal legal staff has the responsibility to make sure all the necessary actions are taken by the Durban Metro Council in order to make the municipal stock issue valid and binding and be able to give the investor that legal comfort. The legal department will also insure that the municipal stock issue meets all legal regulations and that the offering circular is properly drafted so as not to mislead the investors or fail to include critical material information. There may be a legal advisor to the underwriters that will interface with the legal department to insure all the various requirements are properly met.

D. Financial Advisor

This person, or more probably a firm, will be the chief outside financial expert to advise the Director-Finance as to all aspects of the Durban Metro capital financing programs, especially the municipal stock issue. The initial role will be to help evaluate financial options open to Durban Metro, the estimated costs and how they meet the capital needs. The financial advisor will give major assistance to the Director-Finance as to how to select an underwriting team and what the criteria should be. The financial advisor's knowledge of not only the financial markets in South Africa, but knowledge of the various financial firms will be critical. Assuming a municipal stock issue is sold, the financial advisor will be the principal outside financial expert to advise the Director-Finance on the negotiations with the underwriters as to structure, price and underwriters' profit. They will also assist in the reinvestment of unspent proceeds of a stock issue.

E. Underwriter

The firm, or more probably firms, will be responsible for the pricing and distribution of the municipal stock issue. The technical definition of "underwriting" is the commitment of a firm or firms to insure that the insurer does not take a financial risk. The financial risk is caused by the timing, that is, when the issuer and the underwriters agree upon a transaction, they sign an agreement which sets forth the details of the transaction and set a closing date which will be at least a week or two weeks in the future. The underwriter guarantees that the interest rate and price will be the same at the close as it was when the original agreement was signed regardless of changes in interest rates or the price of the municipal stock in the market.

The underwriters are the firms which will assist the Director: Finance and the financial advisor to analyze the municipal stock market and the outlook for interest rates. Then they will assist in producing an offering circular. Next, they will structure the stock issue based on the needs of Durban Metro and the investors. Following that, they will go into the market and test what the interests of the investors are, and at what level. Next, with the agreement of the Director: Finance and the financial advisor they will try to finalize the pricing. Then they will negotiate with the Director: Finance who will be advised by the financial advisor of the final details of the transaction. After the agreement is reached with the Director: Finance, a document called "the stock purchase agreement" will be signed by both parties. During this time the underwriter will continue with marketing any unsold stock and make a two-way market in the stock.

Another role the underwriter will play is to assist the Director: Finance and the financial advisor to formulate a plan for the reinvestment of the proceeds of the transaction. The plan would have been structured at the time of the decision to enter the market and once the transaction closes, the investments will be purchased. Many times the underwriters will offer, on a competitive basis, the investments to go into the reinvestment portfolio.

A major responsibility of the underwriter is to maintain a two-way market for the municipal stock issue. This is a very important function because if the investor knows that there will be a number of substantial firms making a market in the municipal stock, they are much more interested in buying. Also, by having a real market, the investor knows that they can always sell or buy the municipal stock issue and also obtain a valuation of their investment. It is important that the underwriter make a real market that is a reasonable spread between the bid and ask price, and be willing to make these in large size. The underwriter should give a report to the Director: Finance on a periodic basis on the trading history of the municipal stock. The obligation to make a market should be a contractual obligation. If the underwriter does not make a market, it is grounds for dismissal. They then would be replaced by another firm who would be given the next stock sale.

The underwriter therefore is the marketer of the Metro stock and a main promoter as to why investors should buy the securities of Durban Metro. By making a market and promoting the Metro credit, the underwriter should make it easier to re-enter the municipal stock market and at better prices and lower costs.

F. Corporate Trustee

At this time it does not appear that municipal stock issuers in South Africa use a corporate trustee. A corporate trustee is a commercial bank that has a separate corporate trust operation. They are not an individual that acts as a trustee. The function of a corporate trustee, which is designated by Durban Metro, is to act as custodian of the funds obtained through a stock sale and the official representative of the bondholder.

The "Trust Indenture" is a contract between Durban Metro and the corporate trustee acting on behalf of the stockholders. The trustee will oversee that the stock issue has been properly authorized. It will enforce, on behalf of the investors, the Durban Metro's security covenants and obligations contained in the stock issue. This would include the prompt payment of principal and interest. The agreement would detail the events of default and the remedies to correct such situations. The corporate trustee will save the Durban Metro from having to deal with a large number of stock holders and it will give the stock investors comfort that their interest are being protected by an impartial third party. It should be emphasized that Durban Metro, in consultation with the financial advisor and underwriter should analyze the cost versus benefit of engaging a corporate trustee.

G. The Bond Exchange of South Africa

"The Bond Exchange of South Africa ("BESA") lists Rand-denominated debt securities issued by central and local governments, public enterprises and major corporates". This was taken from the bond exchange journal of the Bond Exchange of South Africa.

The BESA offers a facility to trade debt securities. It also produces several publications that reflect the activities of the South African debt markets. On a monthly basis, the BESA publishes "Valuation of Bonds". This publication is very helpful to issuers, dealers and investors in that it reflects the actual trades in various debt issues and by formula for issues that did not trade prices on all outstanding debt issues listed on the Exchange. This not only provides a guide to liquidity, but also a pricing guide for investor valuations. These two are, beside credit concerns, the biggest factors why investors do not buy municipal stock.

The BESA has a number of items that must be complied with in order to be listed on the exchange. The document "Listing Disclosure and Requirements" is included as Appendix B. This document outlines the broad requirements and is an excellent guide as to the items to be included in going to the municipal stock market to raise capital funds.

The municipal stock that is traded in the secondary market through members of the BESA is electronically settled as to payment through four settlement agent banks and the Central Depository Ltd. Where some 99% (by value) of listed debt securities are currently immobilized. This means that Durban Metro does not have to keep records and do the processing of secondary market trades. This is a great savings of time and money versus Durban Metro handling these trades, and provides additional liquidity to the investors.

While the BESA members clear the Durban stock trades in the secondary market, they do not make principal and interest payments. As discussed later, a corporate trustee could make these payments. If the corporate trustee does not make these, then Metro will have to do this. Assuming that the goal of a liquid market for Metro stock is achieved, there could be a number of investors and therefore a good deal of paper work on Metro's part. Metro, therefore, will have to analyze the trustee's cost versus Metro doing the work. Today, Metro is its own paying agent, but with a large and changing investor group it will not be the same and will add to staff costs.

H. Credit Rating Agencies

It will be very important to obtain at least one rating of the municipal stock issue by a recognized South African rating agency. Currently, there are three rating agencies in South Africa, Duff & Phelps Credit Rating Co. Africa (PTY) Ltd., Fitch IBCA, and C.A. The Duff & Phelps Agency currently rates Durban Metro "AA-". The current rating only applies to South Africa and is not a global rating. The country of South Africa's gilt is rated "BAA3" by international rating agencies. Therefore, the Durban Metro would probably be rated lower than the Sovereign credit, which would make Durban Metro a non-investment grade credit in the international market.

The two major international credit rating agencies are Moody's Investors Service and Standard & Poor's. The C.A. rating agency is an affiliate of Standard & Poor's, but it does not carry an international standing.

A credit rating is an essential element of a public offering of municipal stock. It gives the investor a quick guide as to the financial standing of the issuer. The credit rating process is a good discipline for the local government because it makes them focus on the critical issues that indicate the financial and economic strengths and weaknesses of the community. Also, the credit rating agencies reflect the general thinking of investors. Therefore, this process of obtaining a rating will point out whether the investors will invest in the community and at what interest rate level.

The credit agency will go into great detail in their investigation of the municipality's credit condition. This will take the time of the financial staff. The rating agency will charge for the rating. This cost is well worth it because it should result in a better price in the market. Also by establishing an initial rating, it will be easier to continue a rating in the future and thereby facilitate secondary trading in the municipal stock. The obtaining of a published rating, particularly when it is a high rating as is the case with Durban Metro, will assist in not only obtaining favorable market acceptance, but will help in economic development. The reason for the latter is that business and industry want to locate in financially stable communities so that their tax and tariff costs will not be a growing burden.

I. Credit Enhancement

The idea of credit enhancement is that a third party with a higher credit rating than the municipal issuer guarantees the timely payment of principal and interest of the issuer. This can take several forms. The most widely used is a commercial bank letter of credit. In this case the bank with a high rating guarantees the payment of principal and interest by the municipality. This letter of credit is normally used in the short term market such as commercial paper or notes. The bank will charge a fee and there will be extensive documentation of the transaction. Normally, the bank credit facility will not go longer than five to seven years. Also, the longer the term of the facility, the more expensive. Thus, such bond guarantee, while useful, will not enhance twenty to twenty-five year stock issues.

In the United States there are a a number of mono-line insurance companies with AAA rating that will insure the principal and interest payments of municipal issuers. Currently there are no such insurance companies doing this type of business in South Africa. It is possible that the U. S. insurance company might under certain circumstances insure an issue. The first requirement is to have a Moody's and Standard & Poor's international rating. Because these rating agencies are not currently rating municipal issues in South Africa, the cost of obtaining such ratings will be fairly expensive. Also, if the rating is below investment grade, the risk premium will be quite high.

There is no question that credit enhancement would be valuable to assist municipalities to access the municipal stock market. It will also lower the rate of interest the municipality will pay. Therefore, an analysis of the cost of enhancement versus the interest cost savings is the only way to see if credit enhancement should be purchased.

There is one other type of enhancement that has been used in South Africa. The idea here is to set aside a certain amount of the stock issue proceeds and invest these proceeds in a "0" coupon security. This investment will, over the life of the stock issue, accrete to equal the principal amount of the stock issue. This will give the investor assurance that if all else fails, that the principal will be repaid and therefore they will require a lower risk premium. Depending on market conditions, this could be cost effective. Again, an analysis at the time of issue to determine the effectiveness of the "0" coupon enhancement option is the only way to make a decision to use this tool.

5. HOW ARE THE PARTICIPANTS SELECTED AND ON WHAT CRITERIA?

A. Tender Process

In all probability there will be a legal requirement to have a public tender for the services of the financial advisor, underwriters and the trustee. Since the legal requirement and format of a tender are beyond the scope of this paper, there will follow a discussion of the criteria from a financial aspect and not the legal format. It should be noted that price is only one of the elements that should be considered when selecting the various participants.

B. Financial Advisor

The financial advisor will be the key outside agent to advise Durban Metro on financing their long term capital assets. The financial advisor, much as a personal physician, will be the professional between the financial staff and the financial markets including the investors and the underwriters. The financial advisor's role will be to look at and price all financial options open to Durham Metro. He will also be responsible to advise on the format for the tenders for the underwriter and trustee and their selection. He will be a critical party to creating an effective offering statement. Finally, he will continue to serve Durban Metro over a number of years so as to continue to advise on financing options.

Given the duties of the financial advisor, he must be someone or some firm that has a broad knowledge of financial markets, the major participants, the rating agencies, financial regulations, investors, new financial products that could reduce the costs of financing capital assets, and a knowledge of the permitted investments of unspent funds in order to maximize the investment income. The possible candidates will be people from commercial banks, possibly such institutions as the DBSA, investment firms and small consulting firms that have experience in local government finances. Durban Metro will want the strongest candidate even if it precludes them from being an underwriter. Note: generally the financial advisor is precluded from also being an underwriter. The enclosed sample "Request for Proposal" ("RFP"), Appendix C, will indicate many of the key elements of the criteria to select a financial advisor. A major element that cannot be gleaned from the RFP responses is the chemistry between the Director: Finance and the person considered for the financial advisor's role. This is a very important aspect since the Director: Finance must have complete confidence in his financial advisor and trust his advice.

The financial advisor is paid in various ways. First is a retainer: that is, they are paid for a period of time at a fixed fee. The other way is to pay a fee on a "per unit of stock sold", i.e. a percent of the stock issue sold. In Durban Metro's case, since it is not known at this time if or when a municipal stock issue will be sold, and since a key role of the financial advisor will be to look at all financial alternatives, it would be best to hire the person or firm for a flat fee and for a period of at least three years. Further, the financial advisor should be hired in the near future so that all the financing options can be investigated sooner rather than later. It is difficult to set a range of fees that would be appropriate at this time. Again, do not hire a firm strictly on price. Experience, knowledge and compatibility do not have set prices.

C. <u>Underwriters</u>

The underwriters will be selected after a proper tender for services, RFP, has been accomplished. A sample RFP is included as Appendix D. It will be important to have significant input by the financial advisor on the RFP.

There are several elements that are key to selecting a good underwriting team. It should be noted that there should be more than one firm selected. It would be ideal to have three excellent firms. By having three firms, Durban Metro should obtain a wide range of knowledge, experience, different investor base and a good competitive situation between the firms for future business. Some of the key elements are financial position, i.e. underwriting capacity, ability to maintain secondary markets, being able to market effectively the Durban Metro story and broaden the investor base so that there will continue to be a strong demand for Durban Metro stock. The underwriters must be firms that are forward thinking so that new ideas and products which can reduce financing costs for new capital projects are being proposed to Durban Metro. It will also be good if the firms have a strong investment arm that can add value to investing unused proceeds of a stock issue or surplus funds in general.

Underwriters normally get paid out of the proceeds of a stock issue. Thus, if there is no stock issue, they receive no remuneration. Given the fact that municipal stock issues are not currently commonplace, there may have to be some minimum fee paid to them if no issue is sold. The underwriter should underwrite the entire issue and not market the issue on a "best efforts" basis. There are four basic elements to the fees that underwriters should charge. First, investment banking, that is analyzing the market, preparing the offering circular, and structuring the deal. Secondly, a fee for using the firm's capital to underwrite the issue. Thirdly, a fee for marketing or selling the stock issue which would include advertising the issue, putting on "road shows", and creating selling materials plus the commission paid to the sales personnel that actually sell the issue to investors. Finally, reimbursement for pre-approved out-of-pocket expenses associated with the transaction.

The underwriter will be required to make a two-way secondary market in Durban Metro stock. The underwriter does not get paid by Durban Metro to do this. The underwriters will make their money by the difference between the bid and ask prices. They, if so inclined, could make money by speculating on the direction of interest rates by holding Durban Metro stock in hopes that interest rates go down and thereby having their holdings go up in price. The latter is a decision only the underwriting firm should make. It is not possible for Durban Metro to compel the firm to hold Durban Metro stock. (See 4.E.)

D. Corporate Trustee

The selection process for a corporate trustee is the most direct. The institution, most probably a bank, should demonstrate that it has a separate trust organization which is not subject to the creditors of the bank. The bank, however, should be adequately capitalized, i.e. a certain minimum amount of capital. The trust operation should indicate the amount and type of trustee work that they are responsible for and the size of the unit. The selection, assuming that they meet the minimum level of capital and experience, is based upon their fee structure. This fee would be for reviewing the Trust Indenture, an annual fee for handling the work, probably based on the amount of outstanding stock and the estimated timing and amount of future issues. There would be a fee based upon the amount and frequency of payments if they are the paying agent. Therefore, the selection comes down to the lowest fee. It should be noted that the fee should be compared to doing the work in-house and the reduced interest cost because of the comfort gained by the investor in having a trustee. The latter evaluation can be done by the underwriters and the financial advisor.

A sample RFP is included as appendix E. The trustee duties and obligations must conform to the South African trust laws.

## 6. WHAT ARE THE POSSIBLE STRUCTURES FOR A MUNICIPAL STOCK ISSUE – ADVANTAGES AND DISADVANTAGES

### A. Type of Security

#### 1. General Obligation ("GO")

A general obligation is an obligation of Metro to repay the lender out of the general funds of Metro. This type of municipal stock is clearly the simplest of securities. This form has the advantage to Metro of having only one single pledge of all revenues and does not split up Metro's revenues by type and have separate encumbrances on them. From an investor's point of view, the GO security makes for easier analysis and certain stock covenants, such as additional debt restriction, are more understandable and easier to administer. A GO also lets Metro have a variety of types of debts, e.g. bank loans, private placements and publicly issued stock all under one indenture. The GO obligation makes a clear picture of Metro's debt position without having to analyze the impact of eliminating or partially encumbering certain revenue sources. Finally, as indicated earlier, under the National Constitution, a creditor can mandate that Metro raise its rates and tariffs sufficient enough to meet the debt obligation. Under a GO program, Metro has more flexibility to choose the best area to raise rates or tariffs.

The disadvantage of GO debt is that normally there are statutory limits on the amount of GO debt that can be outstanding. In Metro's case that number is "200% of the total income of the revenue accounts as prescribed for the immediately preceding financial year". As of the end of fiscal year 2000, that amount is R9.76 bn. This is a 1974 Natal provision which will probably be changed. The current thinking is that there will not be a statutory or regulated amount or ratio.

Also, in some jurisdictions, the voters at a public election must vote to incur such general obligation debt. It is my understanding that currently it is not the case in South Africa. One other possible disadvantage of GO debt versus other debt secured by specific revenues is that, depending on the GO credit rating and the relative strength of the separately pledged revenue, the specific revenue debt could be rated higher by the rating agencies. This is particularly true where an intercept of National revenue is possible. The latter does not appear likely in Durban's case.

2. Utility Revenue

In many cases "ring fenced" revenue debt is considered more secure and therefore carries a higher credit rating than the general obligation debt of a municipality. One reason for this is that a single source revenue stream is easier to analyze than a number of revenues and expensed such as a GO. Also with, for example, electric revenues, it will be easier to project both revenue and expenses since much of the costs are fixed and the demand for the service can be projected with some accuracy. Further, the collection of accounts receivables is more certain since the provider can discontinue service. An analysis of the elasticity of price can also show what the effect of rate increases could be on revenue.

One of the negatives in Metro's case is that electric revenues are 43% of total revenue. If their revenues were not available for the GO financing, it is probable that the Metro credit rating would not be as high. Another problem is that if a "ring fenced" electric revenue secured stock were issued, it would be possible that a major change in the way revenues were generated could impair the viability of the stock issue. Currently, the REDS program could do just that. Under current conditions with the REDS concept evolving, it does not seem that a stock issue by Metro, secured by electric revenues, would be the best way to finance.

The other utility revenue source, water, which is approximately 15% of total revenue is not an ideal security for a "ring fenced" stock issue. The main reason for this is the concept that water is an essential human need. Therefore, if one does not pay the water bill, it would be very difficult to turn off the water. Further, there is a strong public policy position to make sure all people have a potable water supply and that the low income people should have subsidized water rates or free water. Here Metro has taken a very enlightened approach to the policy issue. They give everyone free water up to a certain usage and charge for use above that minimum. The minimum is designed to supply at least a livable amount so that the poor do not have to pay, and there is not an undue amount of paperwork and politics. Therefore, a water revenue stock issue does not appear to be a good alternative to a GO issue for Durban.

As can be seen from the above numbers, electric and water revenues are 58% of Metro's total revenues. If these are removed and some higher level of government takes over these utilities, it will have a major negative effect on Metro. Other than the obvious this will cause a severe problem because Metro will have a much smaller base in which to allocate administrative costs. Also, any profits these utilities generate will be lost. Because Metro has managed its finances very well and has used surplus funds to lend to the utilities at favorable rates, this produces additional income to Metro. Therefore, if these utilities are removed from Metro this will result in a severe limitation on Metro's ability to finance.

3. <u>Specific Asset</u>

Here the idea would be to use a major building or other asset as the security for a stock issue. There has been some of this type of financing done, but not publicly. The problem with this type of financing is that once you have used the better assets for security, it becomes very hard to do additional financing. The actual security would be the property tax from these assets. Another type of asset-based borrowing would be the property tax from individual residences. The problem again would be that once you have used the best residents, the later financings would be difficult. Also if residential property tax were used, there would need to be a large number of individual residences in order to have a large stock issue.

One other specific asset would be the RSC or business tax. While this could be a good security, the analysis would need to go into each business to see if it was a viable going concern. In many cases, this could not be done because there would be a number of private businesses that do not release financial information. A solution to this would be to have a very high coverage ratio. That is, an investor would want debt service covered two or three times. This high coverage ratio would severely limit the amount that could be borrowed. Also, the idea behind the RSC revenue was to use this income stream to assist in building capital assets with little associated income. Therefore, RSC revenues do not appear to be a good single revenue source to secure a financing. There is also some belief that the National Government wants to change or eliminate this tax.

4. "Structured" Financings

In its simplest form, a "structured" finance is one where the lender, who is a tax payer, uses certain tax deductible items generated by a municipal government which cannot use them because they do not pay income taxes. This transfer of tax benefits from a non-taxpayer to a taxpayer then results in the lender, who uses the tax benefits or can sell them, giving the borrower a much lower interest rate on a loan. There is a good deal of this type of financing being done. There are several problems. First, any change in South African tax law will result in a change in the agreed-upon interest rate. Second, there is a limit to this market since it is based upon the capacity for tax benefits. Finally, there seems to be a feeling that the National Government would like to discourage this type of financing. This type of financing would, by its nature, be a private placement and could not be done on a GO public sale basis. Since the rates are attractive, Metro will need to look carefully at this type of financing when analyzing financing options.

5. Credit Enhanced

The general idea of credit enhancement was discussed under 3. I. All parties, where this subject was discussed, agreed that credit enhancement would help a public stock sale. At the time of selling a public stock issue for Metro, and analysis should be made to see if the credit enhancement premium or fee is less than the interest cost savings. The problem with this is that the cost of credit enhancement is not well established and the value of credit enhancement in the market place is even less understood or quantifiable.

6. "0" Coupon Investment for Maturity Payment

Many bank loans, in order to have a higher degree of certainty that money will be available to pay the loan principal at maturity, have the municipal borrower purchase out of the proceeds of the loan an investment in a "0" coupon which will accrete over the life of the loan to an amount equal to the principal amount of the loan. This, of course, gives the lender very strong assurance that the loan principal will be paid at maturity. For example, R3,373,000., invested in a "0" coupon accreting at 14% would have a maturity value of R100,000,000. over a 25-

year period. The concept could certainly give comfort to an investor in a 25-year bullet maturity Metro stock issue. Of course, it does not help in paying semi-annual interest. "0" coupon investment return is always subject to what someone will pay Metro. The shorter the maturity, the less efficient is this concept. Again, this is an issue that would have to be analyzed at the time of issue to see what benefits – lower interest rate by investor versus the interest rate obtainable for the "0" coupon investment.

7. Debt Service Reserve Fund

In the United States, many municipal bond (stock) issues have a Debt Service Reserve Fund ("DSRF") which is funded from the proceeds of the bond issue. Because this is the norm, it is hard to say that the DSRF greatly enhances the issue from a credit perspective. The DSRF is held by the Trustee and earns interest which can go to the issuer for any purpose or may be used to pay a portion of debt service. The amount of the DSRF is normally 10% of the principal amount of the bond issue. The DSRF would invest in U. S. Treasury securities with maturities of 5 years or less. The purpose of the DSRF is to pay any shortfall in principal or interest and therefore must be in very liquid and secure investments. This concept works very well since the municipal bonds are tax exempt from income tax and therefore this yield is normally less than U. S. Treasury issues and this gives the issuer a positive yield on the investment. Since South African municipal stock issues are not tax exempt, they will almost always yield more than RSA gilts, thereby the DSRF will be negative yield investment. There does not seem to be such a concept in South Africa and thus the idea may not enhance the credit or marketability of a stock issue. One must also weigh the negative yield vs. any price benefit.

8. Put and Call Features

While not truly a type of security, but one of a structure issue, it seems that this concept should be discussed under this heading. First, the "put" feature. This is a stock issue that allows an investor, at certain specified times and at set prices, to "put" the stock issue back to the issuer. That is to say, the investor has the right and the issuer the obligation to repurchase the stock issue if put to them by the investor at a date certain and a specific price. The major problem with this concept is that investors will generally only "put" the stock to the issuer when general interest rates are higher than the interest rate on the stock issue. This causes two problems for the issuer. First, they have to raise the funds to pay for the "put", and if they need to raise funds to pay for the "put", these rates will be higher than the issue which was "put". Second, it also is not clear that such an issue will significantly reduce the initial rate on the "put" issue.

Just the opposite is true with a callable issue. In this case, the issuer has the right but not the obligation to call the stock issue on specific dates and at certain prices. This concept allows the issuer to call the stock issue at its discretion. While the issuer would have to obtain the funds to call or repurchase the outstanding issue, it could finance this new issue at lower interest rates. The offset to this concept is that the investor will want a higher interest rate because of the call. At the time of issue this tradeoff can be calculated. That is, at what call premiums will the investor not require a higher rate, and is the call premium believed to be a price that in the future would not inhibit the issuer's ability to call the issue at a favorable interest rate, and finally, what is the probability of that interest rate scenario happening?

## B. MATURITY STRUCTURE

The following discussion reflects an estimation of what level of interest Metro could achieve in the market. Because there is not a current market for any municipal stock, it is very hard to come up with a realistic scale of interest rates. However, using the same basic rate scale it can be shown what effect maturity structure has on interest cost. One other aspect of a stock sale is the cost of issuance. In these analyses, a spread of R30 per R1000 is used. This issuance cost is reflected by showing that Metro receives 97% of the par amount of the stock issue and 3% is the cost of issuance. Thus, Metro pays the cost of issuance over the life of the financing. The cost of issuance is a rough estimate. The cost includes the financial advisor, the underwriter, the cost of producing and printing the OC, cost of the Trustee, fees of the BESA, and the credit rating fees. There may be other costs of Metro, but most of these will be soft cost, i.e. staff time. Without a market it is hard to put a real number on these costs.

In attempting to write an interest rate scale, the following issues were considered. First, Metro's current rating and secondly, the rate of interest on RSA Gilts. Third, possible comparative issues. Under the last item it seems that Umgeni Water trades at between 80 basis points to 110 basis points cheaper (higher interest rate) than RSA debt of comparable maturities. It should be noted that Metro is over 85% of Umgeni's revenues. Therefore, one could argue that if Metro is slightly cheaper, say 25 basis points, it would be a better investment than Umgeni water. Metro would therefore trade only 100 basis points cheaper than the RSA gilt. The INCA debt trades at between 140 basis points and 160 basis points cheaper than RSA debt of comparable maturities. Currently, INCA has a AA- credit rating from Duff & Phelps, the same as Durban Metro.

The scales produced reflect a level of rates of 100 basis points on the first maturity to 200 basis points on the long maturities, cheaper than the RSA scale. Clearly, there are reasons why Metro should achieve lower rates by between 50 basis points and 75 basis points or be priced the same as INCA's stock. It would seem that if a proper issue was sold and a secondary market made, that Metro could be priced on or close to INCA stock. However, since this analysis is the high end of the interest rate range, Metro should get a better price - lower yield – than that which is shown. Also, the cost of issuance is the high end and it, too, could be reduced.

1. <u>Level Debt Scenario One A</u>

The first scale, which is Scenario One A, Item 1, of Appendix F reflects the yield curve for the highest credit or approximately the same as the RSA gilt market as shown in the Bond Exchange of South Africa "Valuation of Bonds" for 31 October 2000. This reflects the best interest rate any issuer could obtain and is the benchmark by which issues are priced. Thus, in Metro's case, as shown in Scenario One, Item 2 of Appendix F, they would have a higher market yield. Scenario One A shows an issue of R1,000,000,000. and has level annual principal and interest payments. Also, the cost of issuance is shown as R30,000,000. and is deducted from the issue amount. Thus, the issuer only receives R970,000,000. This issuance cost is therefore spread over the 25-year life of the issue. Further, the issue is assumed to be sold on July 1, 2001 and paid for that day so that there is no accrued interest in this illustration.

While this level debt service schedule captures the total positive yield curve, it does not achieve certain goals of Metro. Because of the small amounts of annual principal payments, there will be little secondary market trading and the large investor will probably not buy such an issue. Also, because of the many (25) separate maturities, it will be harder to obtain a market valuation on each maturity. Metro will also not meet the asset life test. That is, only 1.8% will amortize over the first three years versus the 22% average life of assets over this period. Also, only 1.6% of the assets will amortize over the next two years versus the 22% of Metro's assets. Thus, with a level debt schedule, only a small percent of the principal is paid versus an estimated useful life of the average assets. As is shown in the table, the average life, or when 50% of the principal has been paid, is 19.6 years on the twenty-five year debt schedule.

Scenario One A shows the pure yield curve has a true interest cost of 13.50%. The true interest takes into account the time value of money versus simple interest. The true interest cost, including the 3% cost of issuance, is 13.97%. As stated previously, this yield curve reflects the RSA gilt scale and therefore is the lowest possible rate at that point in time.

2. Level Debt Scenario One

The interest rates shown on this scale are a best estimate using the RSA gilt rates, Umgeni water, INCA and others. This scale was written as of November 30, 2000, at which time interest rates were slightly lower than those shown in Scenario One A, which was an October 31, 2000 scale. The result was a true interest cost of 15.585% versus 13.504% on the Scenario One A scale. The true interest cost including the cost of issuance was 16.10% versus 13.969% on Scenario One A. Also, because of the higher interest rate, the average life went from 19.6 years to 20.18 years on Scenario One.

The purpose of this comparison is to show the amounts of both principal and interest each year and what the high yield differential could be on a Metro issue versus an RSA similar issue.

3. Term Issues Without Sinking Funds

The next two Scenarios contained in Appendix F, Items 3 and 4, try to do two things. First, the maturities are set to mirror large marketable maturities of RSA gilt issues. The purpose of this is twofold – first, to have a benchmark issue such as R150, in order to price the Metro issue, and second, to be able to trade and therefore hedge against such an issue. That is to say, if Metro had a large issue with the same maturity as a key RSA issue, the dealer making the secondary market in the Metro issue could hedge his long position by shorting the RSA issue, and thereby not take an interest rate risk. The second is to try and mirror the expected life of the assets financed, that is 22% in three years, 22% in five years, 1% in ten years, 37% in 20 years, and 18% in 25 years, which makes the average life 13.76 years. The maturity schedules shown in Scenario Two, Terms with No Sinking Funds, shows that 30% mature in four years to match the benchmark issue of RSA 150 and 20% mature in nine years to match the RSA 153, and 50% in twenty-five years to match RSA 186. The yields on the various term bonds are less than the yield scale on Scenario One because of the match with the comparable RSA issue and the very much larger maturity amount. Again, the larger amount will facilitate a more liquid market and therefore will achieve a lower interest rate. While these maturities do not match the asset life profile of Metro, they are closer and therefore represent a reasonable amortization versus asset life. The overall average life of the entire issue is 16.2 years which is almost four years shorter than the level debt service in Scenario One of 20.18 years and closer to the average life of 13.76 years of the asset profile of Metro.

This Scenario would allow Metro to have "bullet" maturities for which they could prepare for in a way which would allow them total flexibility. The investor, however, would be somewhat concerned as to how Metro could meet such a large maturity and may require a slightly higher interest rate. In the past however, Metro has effectively accumulated funds to meet future maturities. They have used these funds to finance short term issues until they were needed to pay off the maturity of a stock or a loan.

The result of Scenario Two is a true interest cost of 15.05% and a true interest cost of 15.64% including the cost of issuance. The same rates for Scenario One are 15.585% and 16.10%. It should be pointed out that debt service is not level but has some very large payments in the years that have a maturity.

4. Scenario Three, Terms w/Sinkers

This Scenario has the same maturity schedule and interest rates as Scenario Two, Terms Without Sinkers. The difference is that each of the three maturities have sinking funds which pay off the maturity in installments rather than in one lump sum. This has several advantages. First, Metro will not have very large payments, maximum annual debt service of R299,500,000. versus R577,500,000. on Scenario Two and lower average annual debt service of R118,009,615. versus R133,961,538. Second, it lowers the average life to 13.5 years, which is approximately the same as Metro's profile of 13.76 years. Third, the TIC is higher, 15.68 versus 15.63, and both of these scenarios have lower TIC's than Scenario One - Level Debt because of the large short maturities and each has lower interest rates than the level debt schedule because of greater marketability.

While the TIC for Scenario Three is slightly higher by 5 basis points, the sinking fund concept reduces the total interest by R415,000,000. versus the no sinking fund issue. The higher TIC of the sinking fund issue is caused by the fact that this issue has an average life of 13.5 years versus 16.2 years for the no sinking fund issue. Because TIC is calculated on the time value of money, this shorter average life gives less time to accrete the discount caused by the issuance cost.

The sinking fund concept has several disadvantages. First, depending on interest rates, Metro could be better off in not paying off the maturities early and using the accumulated capital repayment fund for other uses. Second, again depending on interest rates and interest rate outlook, investors may not want their investment to have a shorter duration, and therefore will want a higher interest rate. Third, as with Scenario Two, there is a great variation in annual debt service payment which could cause cash flow problems in certain out years.

## 7. OUTLINE OF THE CONTENTS OF THE OFFERING CIRCULAR

The offering circular ("OC") is the legal document which sets forth the terms of the stock issue and contains all the relevant information needed by an investor to make an informed investment in the stock The following outline is a general description of what could be contained in an OC but has not been vetted by either South African legal counsel or investment banker. There may be some specific issues or format that are not covered. Therefore, this outline should be taken only as a rough guide to the OC.

The OC is usually done in two phases. First, a preliminary offering circular ("POC") is produced in order to go into the market. This POC will contain all the information that the final OC contains except for the actual details of the transaction – the interest rate, final amount and maturity of the issue, the price, call features, and any material changes that occurred from the time the POC was issued and the final OC. The purpose of the POC, of course, is to inform prospective investors about the stock issue so that the underwriter can receive indication of buying interest and at what level. These indicative or firm orders then allow the underwriter to negotiate a price with the issuer and therefore underwrite the issue. With this agreement, the terms of the transaction can then be set forth to complete the final OC by Metro.

A. Cover

The cover of the OC normally would indicate the following:

1. The name of the issuer – Durban Metro

2. Description of the amounts of stock and the various maturities with interest coupon and price.

3. Some indication that the stock will be listed on the Bond Exchange of South Africa and how trades will be settled.

4. The name of the managing and co-managing underwriting firms.

5. Date of the OC

6. A statement about the OC and that it should be read before investing.

7. Name of the Trustee (if any)

B. Inside Cover

This could be several pages discussing a number of issues and would be located on the back of the cover of the OC. The following are some of the more typical items it would contain:

1. A statement that Metro is responsible for the information and its accuracy and to their knowledge there is no omission of material information and that this information is not misleading.

2. A disclaimer by the underwriter that they did not prepare the information in the OC and therefore are not liable for the accuracy or completeness of the information.

3. A statement that the OC only goes to the date of issue and does not imply that the information contained in the OC is correct at any time subsequent to the date of the OC.

4. A statement about the fact that the OC contains all the information and that other sources should not be relied upon.

5. That the investor should read the entire OC before deciding to purchase the stock.

6. A number of statements about the fact that the OC is not an offer to sell the described securities.

7. Any key regulatory statements

8. That all references to the "Rand" etc. means the currency of South Africa.

C. Table of Contents

D. Summary of Principal Terms of the Offering – Term Sheet

The purpose of the term sheet is to outline the key elements of the transaction. By putting this as the initial item in the OC, an investor can quickly read through the items and one, be generally aware of the terms of the issue and second, decide whether this is an appropriate investment and, if so, can then read and analyze the entire OC.

The following is a brief list of some of the key items to be included in the term sheet. Clearly, at the time of sale, all parties to the transaction will have input as to which items should be included.

1. Description of the issuer and authorization for issue – Durban Metro.

2. The municipal stock – the stock code designation assigned by the Bond Exchange of South Africa.

3. Purpose of issue – to finance capital projects. This is a general statement – the more detailed description being found in the main body of the OC.

4. Security for the payment of the stock – General Obligation of Durban Metro, including key covenants.

5. Amounts and maturities of stock

6. Coupon rates and prices
7. Interest payment dates
8. Register closed dates for payments
9. Optional redemption, if any
10. Method of transfer
11. Trustee, if any
12. Rating agencies and their ratings
13. Financial Advisor
14. Managing Underwriters and Co-Managers
15. Tax issues, if any (Stamp Tax, etc.)
16. Regulations that affect the investor as to restrictions or requirements
17. Dispute resolution – arbitration (?)

E. <u>Risk Factors</u>

This section, which does not necessarily have to be included, points out some of the major risks to investors in purchasing and owning the stock issue in question. The main body of the OC will indicate some of these risk factors. However, it is better to point out in this section what the unusual ones are so that the main body can be a more positive description of the various aspects of the transaction. Also, it is a form of protection against an investor looking to get his money back because he did not know X. With the risk pointed out up front, this should help the issuer defend against such rescissions. Again, this is an issue that should be agreed upon by all parties to the transaction.

The following are some of the key risks. The basis credit risk of Metro, that is the inability to pay debt service, is always a consideration in any debt financing and therefore does not have to be in this section since the investor will need to evaluate the information in the body of the OC to determine the credit risk.

1. The fact that there is not a current market in Metro stock, and while the underwriter will attempt to make a liquid market in this stock issue, there is no assurance that there will be a secondary market.

2. The question of whether the investors, through a Trustee, can enforce the raising of rates or tariffs to insure timely payment of principal and interest.

3. Uncertain rules and procedures if Durban Metro defaults as to how this situation can be corrected.

4. The question of what the procedure is if Durban Metro goes bankrupt.

5. If no Trustee, what are the assurances that payments will be made on a timely basis and how would the stock covenants be monitored and enforced.

6. If no Trustee, how do investors enforce their rights.

7. No assurance that the credit ratings will be the same over the life of the stock issue.

8. No assurance that Metro can finance the necessary infrastructure in the future in order to maintain its viability.

9. The growing problem of increased unfunded mandates by the Provincial and National Government

F. Description of Durban Metro

This is the key section of the OC that gives the details about Durban Metro. It is here that Durban Metro, with complete accuracy and no misleading statements, gives the reasons why it is a high grade investment by showing not only what it has accomplished, but why its future looks to be even better. This section should take the most time to properly construct by all parties involved - Durban Metro, Financial Advisor, Underwriters, and the legal staff.

The following is a brief outline of some of the key items and what they should contain.

1. General Description of the Durban Metro Government

This section should spell out exactly how the Metro government is organized, who the key people are, and how decisions are made. First, there should be a section on the Council, second, the key officials, and third, the key staff and their function. With the new demarcation there should be a map showing the old area and the new expanded area.

Also in this section, a breakdown of the twelve sections of the Municipal Government and their functions and responsibilities:

a) Corporate Financial Services

b) Corporate Services

c) Corporate Human Resources

d) Parks, Recreation and Cultural Services

e) Emergency Services

f) Metro Housing

g) Market Services

h) Development and Planning

i) City Engineers

j) Durban Metro Water Service

k) Durban Transport, and

l) Durban Metro Electricity.

Each should have a brief description of the function and services that are provided. Later, the financial aspects will be covered in the Financial Section.

2. Socio-Economic Characteristics of Durban Metro

This section, also called demographics, really paints a broad brush of what are Durban Metro's basic characteristics. This profile should include the following:

a) Population and, if possible, broken down by age groups

b) GDP and GDP as a percentage of South African GDP

c) GDP per capita

d) Unemployment rate

e) Mean household income

f) Dependency ratio

g) Education levels, if available

h) Number of households that receive water, sewer, electricity, refuse disposal, telephone, and the number that do not receive such services

i) History (3 to 5 years) of real estate property values, both residential and business

j) New construction in value or building permits, again both residential and business

k) A breakdown of GDP by sector, both in % and R – agriculture, mining, manufacturing, construction, utilities, transportation, communications, finance and real estate, and government.

l) If appropriate, a list of the ten largest employers in Durban Metro. This would include, government, both municipal provincial and national, schools, parastatals (Port) and manufacturers, shopping centers and service institutions such as banks or insurance companies. It is possible some companies do not want this information made public. Therefore, this section should be checked with those involved.

It would be helpful to compare some of these statistics with current and past ones in order to show a trend line, and certain current items could be compared with other South African cities, particularly the uni-cities.

3. Sources of Income

This section should show the last three years of sources of income by category – RSC Business Levies, Rates, General Service Revenues, Electricity, Water, Sewerage, other trading services, grants/subsidies and other income including investment income. Each one of these should be described as to what they are and how rates and tariffs are set. Some description of the unique way Durban sets water rates with the minimum free water concept so as to avoid a subsidy and still provide free water to the needy. Also a discussion of the electric revenues and what could happen if the REDS concept was implemented. A brief description of the past three years of the rate of collections both at a yearend basis and then what has subsequently been collected, i.e. property rates 90% in current year and 95% prior year, and 98% of two years ago. This will show that over time, most of the tariffs and rates are collected. A description of the billing process of one bill for all services and taxes and how they are collected and how non-payment of any service causes a disconnect of electricity which makes for higher collections without leaving the person without water or housing – a very good practice.

Again, these statistics should show each in R and as a percentage of total revenue. There can also be usage for water and electricity, and perhaps the price paid per unit. This latter may be hard since there are several types of tariffs. Comparative numbers with other uni-cities would be helpful.

4. Expenditures

Here, a table showing the expenditures of the twelve units of government, or broad categories could be shown such as salaries, repair and maintenance, general expense, water, electricity, interest expense, etc. Several items could be contrasted with revenues such as water and electricity. A good description of bad debts, both the outstanding and what the actual write-offs are.

5. Future Capital Expenditures

This section can show what capital expenditures have occurred over the past three years and how they were financed. The next part would be a brief description of the next three years' capital improvement program and how they are expected to be paid. Any major projects such as the Point or the new airport should be explained as to the amounts and the expected return.

6. Summary of Financial Position

This section should have an abbreviated income statement and balance sheet for the past two years. If there is a significant stub period of more than six months, a comparison of this period should be shown. A reference to the complete financial statement contained in Appendix B of the OC should be included. The highlights should be pointed out in this section. A key one would be the allocations of funds to pay off maturing debt. Also, a discussion of the investments of Metro and some market valuation versus the balance sheet value. The inter-fund transactions should be explained and how inter-fund borrowing works. It should be pointed out that Metro has had a balanced budget in each year since 1942. While the Provincial Legislation has always required a balanced budget, only now has the rest of the country caught up with Metro. Also, that while Metro has R3.36 bn debt outstanding at this time, they have offsetting investments which make them basically debt free.

7. Economic Developments

There should be a discussion of the renewed economic development as an outcome of "The Best Practice City Commission". The major projects to increase economic activity should be described. These are the newly approved La Mercy Airport, Port of Durban expansion, Point Waterfront and Marine Park, Effingham/Anoca mixed use development, Southern Industrial Basin regeneration, casino-resorts (?) and the Durban Investment Promotion Agency.

The last item should be explained on the basis that this revitalized effort to promote economic growth has several long-term benefits. Increased economic activity, of course, adds to the financial stability and viability of Durban. The concept of employee training has several important results. It makes a better labor force that can be hired by businesses coming into the area and it adds skills to many who can then either obtain employment or increase their income level with better jobs. Any other positive long-term effects this initiative will provide should be discussed.

G. Details of the Transaction

This section describes the transaction in detail. The following are the key items:

1. The maturity schedule with amounts per maturity and the coupon rate,

2. The call feature (if any) including the date and price; for example, 7/1/2015 @ 105% of par,

3. A sinking fund schedule (if any) showing amounts and dates of the sinking fund redemption and a price of par.

4. If the concept of letting Durban Metro open up a previously issued maturity with additional issuance of stock, the method and details of how this would be done should be explained,

5. A table showing the proceeds of the issue -

   Par Amount

   Price Discount – if sold below par

   Cost of Issuance

   Net proceeds

   followed by a brief statement as to the use of the proceeds – finance capital projects, etc. Also if credit enhancement has been obtained, the cost of such enhancement.

6. Certain covenants of the issue as to additional debt, normally a ratio to revenues; maintaining a debt to equity ratio; debt service coverage ratio; no debt senior to this

to this debt; and other such financial covenants as required by the investors. It should be noted that with the aid of the financial advisor, no covenants should be agreed upon that could severely restrict the ability of Durban Metro to carry out its legal functions in the future or using other methods of finance in the future, as long as they do not become a senior lien to this issue and meet the additional debt test.

7. A description of the stock issued would include the form, denominations, registration and payments and replacement procedure and the stock code designation by the Bond Exchange of South Africa.

H. Summary of Documents

There should be a section that contains a summary of the key documents. The major agreement will be the Stock Resolution or Trust Indenture. A complete copy of this document should be in the appendix. (A stock resolution is the contract between the issuer and the stockholder detailing the rights and obligations of each party. A trust indenture does the same thing except the agreement is between the issuer and a trustee on behalf of the stockholder).

I. Events of Default

There should be a section on the events of default by the issuer and what the steps are to remedy the default. Also, an additional section on the event of bankruptcy and the procedures for the stockholders should be included. This latter section and the procedures under municipal bankruptcy at this time is not well defined.

J. Bond Exchange of South Africa

A description of the Bond Exchange of South Africa and what role it plays in the transaction. Also, a statement by the Bond Exchange that the issue has met the listing requirements.

K. Trustee (if any)

The name of the Corporate Trustee and the function of the Trustee. This would include how they communicate with stockholders and what the stockholders need to do to have the

Trustee enforce the agreed upon covenants. There will also be a description of how a Trustee can be changed and the process for selecting a new Trustee.

L. Credit Enhancement (if any)

This section would describe the issuer of the credit enhancement, the firm, its financial position, its credit rating and other relevant information. Next, it would detail how the credit enhancement would work. In the case of a third party stock insurance policy, the insurance company would pledge to pay principal and interest on a timely basis if the municipal issuer did not pay. It would spell out under what condition it would not pay and also the length of the commitment. It would also describe what would happen if the insurance company went out of business or transferred the credit enhancement to another company. The name and a short sentence about the credit enhancement would be on the front cover of the OC.

M. Credit Ratings

This section would state the credit ratings of the issue, who gave the ratings and some disclaimer by the rating agencies as to what their credit rating means and that in the future, it could change depending on future events.

N. Certain Legal Matters

This section would describe any major lawsuits that could affect the financial viability of Durban Metro and the likely outcome of the cases. Also, there could be a comment by the in-house legal department about the enforceability of the stock covenants. They could here, or elsewhere, comment about the completeness and accuracy of the information in the OC. Additionally, that there were no material facts left out and that the statements were not misleading.

If there was outside counsel, who they are and what role they played in the transaction. Such counsel could be those used by the underwriters.

O. Continuing Disclosure

The issuer would indicate what information it would send to the then current stockholders and how it would send such information. The key items would be the annual financial statements and any material adverse event that took place. Sometimes, these events are spelled out, but it may be better to just make the simple statement. The delivery method could be several; one through the trustee, directly by mail to the current stockholder, through the media, or if established, a central municipal information repository.

P. Plan of Distribution

This section written by the underwriter would describe how they plan to distribute the stock, if they would make a stabilization market for the stock during distribution, how they would sell to overseas buyers, and what kind of secondary market they plan to maintain. There would be a statement indicating the price at which the underwriter bought the stock and their initial offering price thus indicating their spread or expected profit on the transaction.

Q. Appendices

The following would be the normal appendices that are made part of the OC:

| | | |
|---|---|---|
| Appendix A | - | Definitions |
| Appendix B | - | Stock Resolution or Trust Indenture |
| Appendix C | – | Credit Enhancement Agreement (if any) |
| Appendix D | – | Financial Statements (This would be the blue pages of the "Administrative Entity of Durban" – Annual Report for the year ending ___. |

## 8. TIMETABLE TO ENTER MARKET

The following is a brief outline of the steps to be taken to enter the stock market. The most important aspect is to watch and analyze the market or try to anticipate the timing of the stock sale so as to get the most favorable pricing and placement. The second most important concept is to have your advisors, both the financial advisor and the underwriters, hired well before you need to go the market to fund the capital improvement program. The financial advisor should be hired as soon as possible and then they should assist Metro to get the underwriting team on board soon thereafter.

### A. How to make a decision to enter the market

Once the financial advisor is on board, they should run scenarios as to the various alternative financing options. These would be short term loans, floating rate long-term debt, long term bank loans and a public stock issue. Unless the rate differentials for a stock issue are very large, Metro and the financial advisor should proceed to engage an underwriting team. Together these three parties should again review all the options currently available, their pricing and their long-term impact on Metro's long-term capital needs. Analysis such as, is now the time to use floating rate debt or should this be saved until rates and rate structures for long-term debt are too high to be acceptable. The same analysis should be made on short-term debt and bank loans. For example, is there bank loan capacity to fund all the requirements and if the loans are taken now, what are the future bank loan options. An interest rate outlook will be important to determine a strategy going forward to look at not only future options but current timing. Also, the knowledge of the underwriters as to the needs and expectations of investors.

### B. Tasks to be Completed to Enter the Market

The first and most important task is to detail who is responsible for what task and the time to complete the task. Second is to begin work on the POC and again set forth who is responsible for the various parts of the POC and who at Metro is responsible to get the necessary information about Metro. This task will of course start with an agreed-upon outline of what is to go into the POC. Third, the various parties external to the transaction should be contacted so as to insure their cooperation and what Metro needs to do. For example, complying with the regulation for listing on the Bond Exchange of South Africa. Four, contact the rating agencies to set up a meeting with them to answer their questions and prepare the information that they require. Five, contact the Trustee in order to begin drafting the Trust Indenture. Six, alert the audit firm to be sure that if they have to give an opinion on the stub period, that they begin the necessary work so as to give a written opinion at the close. Seven, if there are outside legal counsel, they too should be contacted in order that they begin due diligence, especially the lawyers for the underwriters. Eight, make sure any regulations and laws regarding stock issues have been checked and Metro is in compliance. Nine, this assumes that Metro has obtained the proper internal authority to proceed. Ten, contact any credit enhancer to find out their interest and at what price and terms and conditions. Eleven, finally, a detailed timetable needs to be agreed upon by all parties. This timetable, a sample timetable for a U.S. issuer is included in Appendix G, will set forth the date at which all tasks are to be completed and the dates at which meetings take place to accomplish the various tasks and who should attend. The key date of course is when the stock issue is to be sold. It is always good to have all tasks done by an early date so that the issuer and advisors can pick the best time to enter the market. Do not wait till it looks good to go into the market and then start the process. The issuer could then easily miss the market.

## C. Marketing and Pricing the Stock Issue

Once the decision to enter the market is made, the following is a brief description of the normal procedure to market and sell the stock issue.

1. Finalize the POC and authorize its distribution by the underwriters.

2. An agreement is reached by Metro, its financial advisor and the underwriters as to the maturity and the par amount in each maturity.

3. Once the structure has been decided, the underwriters will suggest the coupon and price that they want to go into the market with in order to test whether there is sufficient orders to allow them to underwrite the issue. Metro, with the advice of its financial advisor, will agree with the underwriters or have them go out with a different price. The reality is that unless the market is rapidly improving once this initial price is in the market, it will be difficult to obtain a better price. The exception would be if there is a much larger investor demand than expected. Therefore, this initial pricing is an important step. The other concept to keep in mind is that if the price is too high, it will turn off the investor and it will be difficult to reinterest them at a better market price. It will take a much cheaper price. Therefore, while the preliminary price is not the final price, this initial pricing is very important in order to obtain the best final price.

4. The underwriters, after an agreement on the initial price, will go into the market and solicit orders from investors. They will also send out the initial pricing over their system and answer questions of possible investors. During this time, one to two days, the underwriter will keep both Metro and its financial advisor informed as to the progress of the transaction.

   If the issue is going well, the underwriters may want to stop the initial order period and fix the price. If there is a very strong order book, perhaps twice the amount of the issue, the financial advisor would then suggest to Metro to halt the preliminary marketing and increase the price. They then would negotiate with the underwriters a reasonable price given the amount of orders at the initial price. Again, Metro would not want to raise the price to where all the orders were cancelled.

5. Once the initial marketing is completed, the underwriter will give a bid in order to negotiate a final price with Metro. Metro, with the assistance of its financial advisor will evaluate the underwriter's price in light of the amount of orders they have, the relative interest rates versus SA gilt, INCA and other benchmark issues. Also they should try to forecast interest rates for the next several weeks. If it appears that interest rates will drop rapidly, then Metro may want to get a higher price. Of course, if the outlook is for little change or higher interest rates, they should quickly agree to the price.

   Normally, the underwriters will want to negotiate the price as quickly as possible once they submit a bid. The reason is that their investors will not let their orders stand for more than several hours. Thus, Metro, with advice from its financial advisor, should come to an agreement with the underwriters during the business day of their bid.

6. Once the price is agreed upon between the underwriter and Metro, the two parties will enter into a binding agreement. This agreement, the Bond Purchase Agreement ("BPA"), an example is contained in Appendix H. The purpose of this agreement is to hold the agreed upon price until the transaction is closed. By close, we mean the completion of the transaction and the underwriters pay Metro for the stock issue.

The agreement will have certain key issues. Metro will agree to supply certain information including a final OC with the agreed upon structure and prices. Metro will also give certain representation and warranties as to their ability to sell the issue and that the information in the OC is accurate and not misleading. Metro will also have to state that there has been no material change in their financial position. There are some other issues as indicated in the example of a BPA in Appendix H.

The major agreement that the underwriters state in the agreement is that, provided Metro provides the agreed upon information and that there has not been any adverse financial change in Metro, the underwriters will pay for the stock issue at the agreed upon price and at a date certain. This agreement to pay cannot be affected by any changes in interest rates, a loss of orders from investors, or any other market changes. The only out the underwriter has other than Metro's performance is a force majeure event. Such events would be war, closing all banks in South Africa, suspend trading on the JSE, or other type of unforeseen happenings.

7. <u>Reinvestment Process</u>

At the time of the decision to enter the stock market, Metro and its financial advisors need to plan for the investment of the stock issue proceeds. Metro will need to set forth the use of the money to pay for outstanding loans that are due, or will be, within the near term, and the cash flow timing for the capital improvements projects that will be funded by the stock issue. This latter requirement will take very good estimation by Metro so that there will not be either insufficient funds from the investments or delayed projects so that there is uninvested funds which can then only be invested in overnight investments that will probably be at lower interest rates than if the funds were invested longer at the time of the issue.

When the cash flow needs are set forth by Metro, then an investment plan should be constructed. The investments must conform to legal investments as set forth by Metro and any limits set forth by National legislation or those prescribed by various ministries. Given the various options, then Metro, with assistance of both their financial advisor and the underwriter, obtain the highest possible return. In all probability, it will be necessary to bid out to the market the list of investments. It would be best if the investment bids were received simultaneously with the underwriter's bid so that the size of the issue could be as small as possible given the fixed requirements. The problem with getting bids for the investments at the time of the underwriter's bid is that there is a small chance that the transaction will not close and therefore, those that agreed to supply the investments will not be able to sell them to Metro because Metro does not have the funds. The investment agreement will specify that if the stock issue does not close, Metro does not have an obligation to buy the investments. Given the time lag between the bid and the closing and the possibility that the transaction will not close, the offerors of investments will not give the best rates. Again, based upon the outlook for interest rates, Metro may want to bid out the investments when the transaction closes.

One other consideration as to an investment program is the concept to have some variable rate or short-term funds that could be available for emergencies and then put the investments out to the expected date of use even with the history that the funds will not be needed as the project managers expect. This concept of course depends on the yield curve and the expected directions of interest rates.

8. Ongoing Obligations

Once the issue closes, Metro and its financial advisor should sit down with the underwriter and analyze the transaction Metro should get a list of the institutional buyers. There should be a discussion about why some investors did not buy the stock – was it price, credit, maturity, etc. There should be an evaluation of the performance of the underwriters. The stock price should be monitored to see if the original price was fair. The monitoring of the market should be continuous so as to see how much is traded and by whom. Also to observe the possibility of reopening a maturity and to get a better idea of where Metro stock is priced versus other benchmark issues.

The main obligation after the issue closes, is to supply the agreed upon information to the market. The most important being the financial statements. Next would be to disclose any material event which could lead to a financial problem. The definition of a material event is always a difficult one. Common sense should dictate what should be disclosed. It would be prudent to have the in-house lawyer agree as to what should be disclosed.

The financial advisor should have an obligation under their contract to continuously advise Metro on the market and review all financial proposals to Metro. These could be bank loans, short term ideas, swaps and other derivatives.

# Contact List

ABSA Bank
- Nick Grobler
- Ben Pretorius
- Pierre Morgenrood

Bond Exchange of South Africa
- Allen Jones

CorpCapital Bank
- William Bamber

Deloitte & Touche
- Dave Geils
- Mark Roux

Department of Provincial and Local Government
- Jackie B. Manche

Development Bank of Southern Africa
- J. J. Esterhuizen
- Helge Switala
- Callie Calitz

Duff & Phelps Credit Rating
- Dave King
- Neil Brislin
- Grant Kelly

Durban Metro
- Krish Kumar
- Rory Turner
- John Nicholls
- Lawrence Gibson
- Ebrahim Seedat
- John M. Paley
- Glen Robbins
- H. G. (Siko) Thabede
- Mike Johnston
- Vijay Naidoo
- Dr. C. A. Pieterse

Fitch
- Mike Berry

Gensec
- Thomas Reilly
- Bongani Gigaba
- Mike Andrew
- Robert McJannet

INCA
- Johan Kruger
- Dirkje Du-Pont-Bouma

Investec
- Vusi Mahlangu
- Brian Irvine

KPMG House
- Robert Young

MIIU
- James Leigland

Merrill Lynch
- Andrew Cross

PSG Investment Bank
- Susan Shames
- Sollie Nortjé
- Teresa Taljaard

Rand Merchant Bank
- Marlene Hesketh
- Greg McKenzie
- Laurènt Scholtz
- Jill Mann
- Zelda Roscherr
- Gillian Raine

Republic of South Africa – Department of Finance
- T. V. Pillay
- Lesetja Kganyago
- Ismail Momoniat
- Chris Morrill
- (Additional members who attended workshop on November 16, 2000)

Research Triangle Institute
- Matthew D. Glasser

Standard Bank
- Paul Hewitt
- Frikkie van Zyl

USAID
- Joy D. Ndwandwe
- Sydney Watae

Mike Andrew (27 11) 778-6970
Consultant - Corporate Derivatives
Gensec Bank Limited
3A Summit Rd., Dunkeld West
Johannesburg 2196
South Africa

William Bamber 27 11 283-0111
CorpCapitalBank
2 Arnold Rd.
Rosebank, Johannesburg 2196
South Africa

Mike Berry (27 11) 789 1272
Fitch IBCA, Duff & Phelps
355 Kent Ave., 4th Floor
PO Box 1985 Randburg 2125
South Africa

Neil Brislin +27 (0) 11 444-7151
Vice President
Duff & Phelps Credit Rating Co. Africa (Pty) Ltd.
P. O. Box 76667
Wendywood 2144
South Africa

Callie Calitz (011) 313 3168
Senior Project Leader, Urban Dev't.
Development Bank of Southern Africa
P. O. Box 1234
Halfway House 1685
South Africa

Andrew Cross (2711) 305-5731
Director, Debt Capital Markets
Merrill Lynch South Africa (Pty) Ltd.
138 West Street
Sandown, Sandton 2196
South Africa

Ms. Dirkje Du-Pont-Bouma (011) 371 8615
Credit Manager
Infrastructure Finance Corporation Ltd.
66 Sauer St., 12th Fl.
Johannesburg
South Africa

J. J. Esterhuizen (011) 313 3691
Senior Financial Analyst, Urban Dev't.
Development Bank of Southern Africa
P. O. Box 1234
Halfway House 1685
South Africa

Dave Geils (031) 560-7000
Senior Consultant
Deloitte & Touche
P. O. Box 243
Durban
South Africa

Lawrence Gibson (031) 365 3119
Acting Executive Director
Durban Metropolitan & No.&So.Ctrl.Local Councils
251 Smith St., 1st Fl.
Durban 4000
South Africa

Bongani Gigaba (27 11) 778-6970
Quantitative Analyst: Capital Markets
Gensec Bank Limited
3A Summit Rd., Dunkeld West
Johannesburg 2196
South Africa

Matthew D. Glasser, JD, MGA (202) 728-2472
Director de Program
Research Triangle Institute
1615 M St. NW, Suite 740
Washington DC 20036-3209
USA

Grant Kelly +27 (0) 11 444-7151
Vice President
Duff & Phelps Credit Rating Co. Africa (Pty) Ltd.
P. O. Box 76667
Wendywood 2144
South Africa

Lesetja Kganyago +27 12 323 1703
Chief Director, Liability Management
Republic of South Africa, Dept. of Finance
Abattoir House, 50 Hamilton St.
Pretoria 0002
South Africa

Dave King +27 (0) 11 444-7151
Chairman
Duff & Phelps Credit Rating Co. Africa (Pty) Ltd.
P. O. Box 76667
Wendywood 2144
South Africa

Johan Kruger (011) 352-3455
Managing Director
Infrastructure Finance Corporation Ltd.
66 Sauer St., 12th Fl.
Johannesburg
South Africa

Krish Kumar
Treasurer

James Leigland (011) 313 3455
Municipal Infrastructure Specialist
Municipal Infrastructure Investment Unit
1258 Lever Rd., Headway Hill
Midrand 1685
South Africa

| | |
|---|---|
| Vusi Mahlangu<br>Public Sector Finance<br>Investec Bank Limited<br>100 Grayston Drive Sandown<br>Sandton 2146<br>South Africa | (2711) 286 7244 |
| Jackie B. Manche<br>Acting Deputy Director-General:Local Gov't.<br>Department of Provincial and Local Government<br>87 Hamilton Street<br>Arcadia, Pretoria 0001<br>South Africa | +27 (012) 334-0793 |
| Robert McJannet<br>Fixed Income<br>Gensec Bank Limited<br>3A Summit Rd., Dunkeld West<br>Johannesburg 2196<br>South Africa | (27 11) 778-6176 |
| Greg McKenzie<br>Structured Finance<br>Rand Merchant Bank<br>1 Merchant Place<br>Sandton 2146<br>South Africa | +27 11 282 8143 |
| Dr. P (Pierre) Morgenrood<br>Senior Manager: Public Sector Strategic Positioning<br>ABSA<br>160 Main St., 22nd Floor, Absa Towers<br>Johannesburg 2001<br>South Africa | (011) 350 5276 |
| Chris Morrill<br>Senior Policy Advisor, Local Gov't.Budgets<br>Republic of South Africa, Dept. of Finance<br>240 Vermeulen St.<br>Pretoria 0001<br>South Africa | +27 12 315 5943 |

+27 11 269-9040

Jill A. Mann
Fixed Income - Structuring
Rand Merchant Bank
1 Merchant Place
Sandton 2146
South Africa

Vijay Naidoo
Chief Nursing Manager
Health Department

012 323-8869

Joy D. Ndwandwe
Local Government Team Leader
U. S. Agency for International Development
524 Church St, Sancardia, 9th Fl.
Arcadia 0007
South Africa

(031) 3111-1624

John Nicholls
Assistant City Treasurer (Investments)
City of Durban, City Treasurer's Dept.
Box 1514
Durban 4000
South Africa

+27 (11) 721 1600/1777

Sollie Nortje
Structured and Project Finance
PSG Investment Bank
160 Jan Smuts Ave.
Rosebank 2196
South Africa

John M. Paley, Esq.
Legal Counsel

Dr. C.A. Pieterse
Chief
Health Department

T. V. Pillay +27 12 315 5154
Director: Local Government Budgets
Republic of South Africa, Dept. of Finance
240 Vermeulen Street
Pretoria 0002
South Africa

BV (Ben) Pretorius (011) 350 5148
Manager: Public Sector Finance
ABSA
160 Main St., 22nd Floor, Absa Towers
Johannesburg 2001
South Africa

Gillian E. Raine +27 11 282 8124
Special Projects
Rand Merchant Bank
1 Merchant Place
Sandton 2146
South Africa

Thomas Reilly (27 11) 778-6970
Head - Fixed Income
Gensec Bank Limited
3A Summit Rd., Dunkeld West
Johannesburg 2196
South Africa

Glen Robbins (031) 300-3800
Economic & Investment Advisor
Durban Metro Economic Dev't.Corp.Svcs.
221 Smith Street, 7th fl.
Durban 4000
South Africa

Zelda Roscherr
Head: Interest Rates
Rand Merchant Bank
1 Merchant Place
Sandton 2146
South Africa

+27 11 269 9556

Mark Roux
Manager
Deloitte & Touche
P. O. Box 11007
Hatfield 0028
South Africa

(012) 482-0007

Laurent Scholtz
Structured Finance
Rand Merchant Bank
1 Merchant Place
Sandton 2146
South Africa

+27 11 282-8108

Ebrahim Seedat
Deputy General Manager
Durban Pension Fund
251 Smith St., 6th Fl. Martin West Bldg.
Durban 4001
South Africa

Susan Shames
Structured and Project finance
PSG Investment Bank
160 Jan Smuts Ave.
Rosebank 2196
South Africa

+27 (11) 721 1600/1629

Helge Switala
Private Sector Investments
Development Bank of Southern Africa
P. O. Box 1234
Midrand, Halfway House 1685
South Africa

(011) 313 3479

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| | |
|---|---|
| Teresa Taljaard<br>Structured and Project finance<br>PSG Investment Bank<br>160 Jan Smuts Ave.<br>Rosebank 2196<br>South Africa | +27 (11) 721 1600/1630 |
| H. G. (Siko) Thabede<br>Director: Finance &Administration<br>Durban Metro Housing<br>251 Smith St., 4th fl.<br>Durban 4001<br>South Africa | (031) 365-3452 |
| Rory Turner<br>Director: Finance<br>Durban Metropolitan & No.& So.Ctrl. Local Councils<br>251 Smith St.<br>Durban 4000<br>South Africa | (031) 311 1136 |
| Frikkie van Zyl<br>Public Finance Division<br>Standard Corporate and Merchant Bank<br>3 Simmonds St., 6th Fl.<br>Johannesburg<br>South Africa | (011) 636-2007 |
| Sydney Watae<br>Specialist<br>U.S. Agency for International Development<br>351 Independence Ave.<br>Lusaka, Sambia | 260-1-254303/6 Ext.116 |
| Robert Young<br>Partner<br>KPMG House<br>26 Aliwal Street<br>Durban<br>South Africa | (031) 332-1312 |

Appendix B

# THE BOND EXCHANGE OF SOUTH AFRICA

## LISTING DISCLOSURE AND REQUIREMENTS

12 May1999

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## INTRODUCTION

The Bond Exchange of South Africa, was licenced on 15 May 1996 as a licenced financial exchange under the Financial Markets Control Act, No. 55 of 1989 for the listing, trading and settlement of debt securities in South Africa.

These negotiable debt securities, which are issued by public and private sector organisations, are commonly referred to as "local registered stock", "gilts" or "bonds".

The Financial Markets Control Act has important implications for participants in the capital market -

- The buying and selling of listed interest-bearing securities in South Africa is prohibited unless undertaken through a member of a financial exchange.
- To protect issuers and investors all interest-bearing financial instruments must be listed on a licenced financial exchange in order to be traded and settled through the formal Exchange mechanisms.

The capital market provides government, provincial and local authorities, parastatals and major corporations with an important source of short, medium and long-term debt financing. In terms of legislation, bonds issued by these organisations must be listed on an Exchange before secondary trading is permitted. To facilitate the formal listing process, the Bond Exchange has established the minimum listing requirements needed for a listing.

The Bond Exchange will consider a listing of a financial instrument on an issue by issue basis, in light of the suitability for a listing.

The Financial Services Board in terms of current legislation approves the listing of a bond as the final arbiter.

An issuer of securities does need not to be an Exchange member.

## OBJECTIVE OF THIS DOCUMENT

The Bond Exchange has adopted international standards thereby ensuring a high level of investor protection and harmonises debt-listing requirements. This document lays down the requirements for a listing on the Bond Exchange of South Africa.

### Overview

The probability of systemic risk in the financial markets (failures of significant market participants or technical failure of the system) manifests itself in the financial system during the payment and settlements process when some parties are unable to meet their obligations. It is a cross-market phenomenon in that problems in one market have a 'domino or knock-on' and multiplier effect into other markets.

An initiative by major participants in the bond market has resulted in an electronic net settlement system which provides delivery versus payment of scrip and payment, providing major benefits for the listing financial instruments on the Bond Exchange -

- Transparency and fair value received;
- All trades are reported timeously;
- Protection of members and participants;
- Guarantee Fund in the event of a member default;
- Elimination of cherry picking through the action of the liquidator in terms of the Insolvency Act under netting;
- Large and costly administration infrastructure are reduced;
- Listed financial instruments are immobilised in the Central Depository, the electronic custodial services organisation;
- All trades are electronically settled;
- A significant reduction in the risk of losing the physical certificate and the possibility of error, fraud through receiving tainted scrip;
- Guaranteed electronic delivery of scrip versus payment of funds;
- A far more efficient and faster processing of settlements, interest and redemption payments through direct credit transfers via settlement agents; and
- In compliance with international standards.

**Settlement Process**

All trades in bonds are reported to the Bond Exchange system and settled through settlement agents. The Bond Exchange, as regulator of the bond market in South Africa, has laid down minimum requirements and risk management for market participation with the basic goals of market integrity and efficiency, financial safety, and investor protection. Trading on the Bond Exchange ensures protection of participation through its surveillance of the market with regards price risk and settlement risk and transparency.

**The Bond Exchange is anticipating dramatic changes with regards to listings, namely –**

- the variety of bonds issued;
- the size of issues;
- the variety of issues in terms of their disclosures;
- the variety of borrowers / issuers;
- the number of bonds in issue and the related turnover between participants;
- factors driving the growth;
- non-resident participation;
- off-shore participation;
- recent and proposed Exchange Control changes;
- the increasing sophistication of professional investors and issuers;
- the increase in different types of asset funds of Unit Trusts;
- the growth of the derivatives market which are closely correlated to the underlying cash markets;
- the technology available to assist in the trading of securities; and
- the requirements that apply before, during an offering or listing.

This document is a reference for governmental entities, financial institutions and major corporations interested in accessing the South African capital market through the Bond Exchange.

**The following Acts and regulations are of importance –**

- The Banks Act 1990 (No. 94 of 1990);
    - Commercial Paper Regulations - Government Notice 2172 (published in Government Gazette No. 16167 of December 1994);
    - Securitisation Schemes - Government Notice 153 (published in Government Gazette No. 13723 of 3 January 1992);
- The Companies Act 1973 (No. 61 of 1973);
- The Financial Markets Control Act 1989 (No. 55 of 1989) herein referred to as the FMCA Act;
- The Safe Deposit of Securities Act 1992 (No. 85 of 1992); and
- The Rules of the Bond Exchange.

## DEFINITIONS

"Act" means the Financial Markets Control Act No.55 of 1989, and includes regulations made thereunder;

"Bond Exchange" means the Bond Exchange of South Africa;

"Central Depository" means The Central Depository, Registration No. 91/00941/06, registered as a central securities depository in terms of the Safe Deposit of Securities Act, No. 85 of 1992;

"Cross-border" means an offering or listing of financial instruments when it is directed to one or more countries other than the issuer's home country, whether or not the offering or listing also is being made concurrently in the issuers home country;

"Disclosure document" means the provision of certain information to prospective investors about the listing and the issuer, that the listing complies with procedures in terms of the Act and Rules of the Bond Exchange and published in the form of -

(a) Prospectus; or
(b) Placing document;
(c) Offering circular.

"Home country" means the jurisdiction in which the issuer is legally incorporated or established;

"Host country" means the jurisdiction other than the home country, in which the issuer is seeking to offer, register or list its financial instruments;

"issuer" means an issuer of listed financial instruments;

"listing" means the financial instrument included in the list of financial instruments listed on the Bond Exchange of South Africa;

"offering circular" means an document which comprises listing particulars in compliance with the listing rules for the purpose of giving information with regard to an issuer regarding a issuance programme;

"parastatals" means organisations –
(a) set up by or pursuant to a special law; and / or
(b) whose activities are governed by that law and consists solely of raising funds under state control through the issue of debt securities and financing production by means of the resources which they have raised and resources provided by the state; and / or
(c) the debt securities of which are, for the purposes of admission, considered by the law as debt securities issued or guaranteed by the state.

"paying agent" means an organisation (bank or transfer secretaries) appointed by the issuer to provide financial services with regards financial instruments until the date on which the financial instruments are finally redeemed. The issuer itself may perform this financial service function. These financial services may be restricted to marketing, issuing, administration and servicing coupon interest and capital redemption.

"placing document" means an invitation to investors to subscribe privately to the proposed listing;

"prospectus" means an invitation to the public to invest in the proposed listing;

"public sector issuers" means government, provincial and local authorities, and parastatals;

"state" means the Government of the Republic of South Africa;

"trust deeds" means trust deeds and equivalent documents securing or constituting debt securities.

# SECTION 1

## LISTING DISCLOSURE RULES

### 1 GENERAL

1.1 The Bond Exchange will consider granting a listing subject to any special considerations it may consider appropriate at the time.

1.2 The listing of financial instruments on the Bond Exchange may be granted for either a private placement or by an invitation to the public to subscribe.

1.3 The relevant documentation required in terms of this Rule must be submitted to the Bond Exchange at least 30 days, or such other date as the exchange may stipulate, before the listing shall be granted; Provided that this shall not apply to a contemplated listing by public sector issuers.

1.4 The issuer must be duly incorporated or otherwise be validly established according to the relevant laws of its place of incorporation or establishment, and be operating in conformity with its memorandum and articles of association or equivalent constitutional documents.

1.5 To be listed, issuers must –

1.5.1 conform with the law of the applicant's place of incorporation;
1.5.2 be duly authorised according to the requirements of the applicant's memorandum and articles of association; and
1.5.3 have obtained any necessary statutory or other consents.

1.6 Approval of the listing of a financial instrument will be granted at the time that the placing document, offering circular or prospectus is approved, subject to the submission of all the documents to the satisfaction of the Bond Exchange prior to the date of listing.

1.7 The granting of a listing of a financial instrument must be announced through the media on the day the offer opens.

1.8 In the case of listings applications by public sector issuers, conditions only 1.1 and 1.5 apply.

### 2 TERMS AND CONDITIONS

2.1 The disclosure document for any listing must describe the terms of the issue, including provisions with respect to the description of the financial instrument being offered, interest payments, conversions, redemption dates, underwriting etc.

2.2 The following is a summary of the requirements for disclosure that must be contained in the disclosure document. It must contain the following information, when appropriate -

2.2.1 *Name*

The full name of the issuer, registered number and place of incorporation.

2.2.2 *The business of the issuer*

A broad statement must be made describing the general business of the issuer.

2.2.3 *Management and control*

The composition and full names of directors, council and management.

2.2.4 *Secretary and registered office*

The full names of the company secretary and transfer secretary, and the address of the registered and transfer secretary's offices.

2.2.5 *Attorneys, auditors, bankers, issue managers, market-makers and sponsoring members*

The full name, name of contact person, address and registration number.

2.2.6 *Amount of the issue*

The authorised amount of the issue and the initial amount.

2.2.7 *Placing conditions*

Whether the issue is a private placing or an invitation to subscribe. The issue may be initially been offered privately to private subscribers and at a later date opened for public investment and participation.

2.2.8 *Purpose of the Issue*

Purpose of the use of the proceeds of the issue.

2.2.9 *Loan number*

The loan number should be similar to the "stock code". The Bond Exchange will issue this stock code, which will be in accordance with conventions that identifies with the issuer's current listed stock / loan numbers and with the short name of the stock and will be registered with an ISIN number.

2.2.10 *Rate(s) of interest*

2.2.10.1 The coupon rate of interest per annum payable until maturity date; or
2.2.10.2 The first variable interest rate; and
2.2.10.3 The conditions of the variable interest payment.

2.2.11 *Redemption dates*

The maturity date when the issuer repays the principal and the final interest payment to the registered holder against delivery of the financial instrument being redeemed.

2.2.12 *Interest payable dates*

2.2.12.1 The date on which the interest is payable, until maturity date; or
2.2.12.2 The date on which variable interest rate is payable, until maturity date; or
2.2.12.4 The date on which Zero Coupon bonds interest is amortised, until redemption date; or
2.2.12.5 Or such other date conventions as the Bond Exchange may approve.

2.2.13 *First interest payable*

The date on which the first interest payment will be made to the registered bondholder and how it will be determined.

2.2.14 *Books closed from date – Last day to register (LDR)*

The date on which the transfer secretaries to the issue close the register of holders in order to process the payment of maturity and / or coupon interest due to the registered bond holder.

2.2.15 *Issue price*

The price on the issue date can either be at a yield to maturity or price basis. Where the issuer does not fix the offering issue price, the offering price should be -

2.2.15.1 be negotiated on issue date at market related rates; or
2.2.15.2 by tender on issue date; or
2.2.15.3 by auction; or
2.2.15.4 any other approved price discovery mechanism.

2.2.16 *Listing or issue date*

The date from which the financial instrument has been granted the listing -

2.2.16.1 When the offer will open and close in the case of a private placing; or
2.2.16.2 When the offer will open in the case of a public placing.

2.2.17 *Trading date*

The first date of trading.

2.2.18 *Settlement date*

Settlement of the issue amount allotted will be in accordance with the settlement rules of the Bond Exchange.

## 3.1 DISCLOSURE REQUIREMENTS

3.1.1 Disclosure is the cornerstone of any listing. An issuer must make public disclosures and keep the Exchange fully informed with regards its listing(s). These requirements are to ensure that the market participants have adequate information and time for consideration and response to the listing. It is necessary that changes relative to listings be continuously maintained regarding the entitlement to various benefits as they accrue to the investors and registered holders from time to time. This section describes the minimal disclosure requirements applicable to listings. In the case of financial instruments issued by public sector issuers, only the conditions in 1, 2 and 3.9 apply.

3.1.2 The requirements laid down are not exhaustive and the issuer may include any additional information.

3.1.3 In case of applications in Rand denominated financial instruments issued by foreign entities or cross-border investment by market participants in listed financial instruments the conditions 3.1.4 to 3.28 shall apply to all applicants for a listing.

3.1.4 The listing particulars shall contain the information which, according to the particular nature of the issuer and of the financial instrument for the admission of a listing application being made. The investor needs to make the necessary informed assessment of the assets and liabilities, financial positions, profits and losses, and prospect of the issuer and of the rights attaching to such financial instrument. The standard disclosure or listing information for cross-border investment or issuance that is required is –

3.1.4.1 all information that would be material to an investor's investment decisions and that is necessary to enable market participants to make an informed assessment of its assets and liabilities, financial position, profit and losses, and prospects of the issuer and of the rights attaching to such financial instruments;

3.1.4.2 whether the securities regulators may permit certain information (trade or proprietary) to be omitted, such as in the case of information that is required by law to be kept secret. The issuer is required to state specifically that the omitted information has been omitted due to a reason;

3.1.4.3 any information that would be material to Debt Issuance Programme, Special Purpose Vehicle, Trust Deed or Asset Backed issue such as mining, hydrocarbons, quarrying and similar activities in so far as significant, description of deposits, estimate of economically exploitable reserves and expected period of working;

3.1.4.4 any supplementary information which may materially affect the issuer or its financial instrument, that occurs between the date of publication of the disclosure document and the date of listing.

## 3.2 DIRECTORS AND OFFICERS

3.2.1 Disclosure concerning directors, executive officers and other significant employees of the private issue is required, including position held.

3.2.2 Any potential conflicts of interest that are considered relevant to the issue should be disclosed.

## 3.3 USE OF PROCEEDS

3.3.1 The disclosure document must include a detailed statement of the intended use of the proceeds from the financial instrument listing.

3.3.2 If the issuer has no specific plans for using the proceeds, this must be stated and the issuer must discusses the principle reason for the financial instrument issue and listing.

3.3.3 If the loan or parts thereof will be issued as and when required by the issuer and the expected date when the issue will commence.

3.3.4 If the issue will be subject to debt issuance programme.

## 3.4 GUARANTEES, INSURANCE OR UNDERWRITING

3.4.1 The issuer is required to disclose a plan of distribution or underwriting arrangements and any material relationship between the issuer and underwriter.

3.4.2 The application and disclosure document for a listing should contain a statement indicating whether or not such financial instrument listing is guaranteed, insured, underwritten, secured or unsecured.

3.4.3 The disclosure document should include the name, address, registered number (if applicable) and the name of contact person of the issuer as well as of the guarantor, insurer or underwriter.

3.4.4 Where the issue is government guaranteed, guaranteed or underwritten by a third party or insured, the certified copy of the registered guarantee, insurance or underwriting letter of intent or agreement must be included with the listing application.

3.4.5. The Bond Exchange will require –

3.4.5.1 the name and address of the insurer or underwriter;
3.4.5.2 the name and address of the insurer or underwriter's agent in South Africa where the insurer or underwriter is a non-resident;
3.4.5.3 a certified copy of the Resolution of the Board of Directors authorising the issue to be insured or underwritten or appropriate level of authority;
3.4.5.4 any additional information concerning the underwriter's business and financial condition as the Bond Exchange may reasonably require.

3.4.6 The guarantee details should address the following where appropriate –

3.4.6.1 the name(s) of the Minister(s) or principal representatives signature(s) to the guarantee;
3.4.6.2 the name of the Administrators / Trustees on behalf of the said issuer and promotion of the said issue and any claims arising therefrom;
3.4.6.3 whether the guarantee is conditional / unconditional and irrevocable;
3.4.6.4 whether the grantor / underwriter undertakes to make payment of the amounts payable in terms of the guarantee upon receipt of a written request from the Trustee to the guarantor / underwriter.

3.4.7 The Trustee is to confirm in writing to the Bond Exchange that it has the specific guarantee in its possession and that the issue thereof complies with all conditions as required by law and the requirements of the Exchange.

## 3.5 RISK FACTORS

3.5.1 If the issue involves particular investment considerations, a section describing / detailing the risk factors must be provided.

3.5.2 The risk factors to include not only matters concerning the business and financial condition of the issuer, but also such matters (when applicable) as the absence of an operating history, the absence of profitable operations and future projections.

3.5.3 The Bond Exchange reserves the right to request the issuer at any time after the listing and the issuer is obliged to provide within 7 days, to disclose such information which may have a material adverse effect on the ability of the issuer or its guarantor / underwriter to maintain any of its obligations of any specific listed financial instrument.

## 3.6 MARKET-MAKERS

3.6.1 The disclosure document should include a description of the management arrangement of the issue.

3.6.2 Where an issuer intends appointing active third party market-makers to its issue, the issuer should consider the following -

3.6.2.1 a minimum of two market-makers;
3.6.2.2 member market-makers can trade with members and clients;
3.6.2.3 non-member market-makers have to trade with members or with clients through a member;

3.6.2.4 market-makers may have prudential requirements that hold a specific minimum amount of capital in the Republic of South Africa;
3.6.2.5 the performance obligation required by the market-maker to maintain a certain minimum turnover in the issue.

3.6.3 The issuer must notify the Bond Exchange in writing of any change in the appointment of market-makers whilst a listing application is being considered or at least 3 days prior to the anticipated change, after a listing has been granted.

**3.7 AUDITORS**

3.7.1 The auditors must be independent of the issuer and comply with guidelines issued by their national accountancy bodies.

3.7.2 The auditor(s) of the issuer shall confirm where appropriate –

3.7.2.1 the guarantee of the listing; or
3.7.2.2 the solvency of the issuer.

**3.8 TRANSFER SECRETARIES / PAYING AGENTS**

3.8.1 The organisation(s) that have been appointed by the issuer at the time of the listing as the transfer secretary / paying agent when a listing has been granted for the payment of interest and redemption payments.

3.8.2 The disclosure document should include; the name and address of the transfer secretary, the name of contact person(s), telephone, facsimile number and e – mail address.

**3.9 ADDITIONS TO, REDUCTION IN AUTHORISED AMOUNT AND CHANGES TO AN ISSUE**

3.9.1 In the circumstances where there have been changes to an issue the following information is required -

3.9.1.2 *Increase in primary issued amount*

3.9.1.2.1 The issuer must submit an application for an increase in the primary issued amount (preferably through the sponsoring member), giving details where appropriate -

3.9.1.2.1.1 the financial instrument and short name;
3.9.1.2.1.2 the issue price;
3.9.1.2.1.3 the coupon rate / variable interest rate;
3.9.1.2.1.4 the change from the previous coupon interest rate to the new interest rate payable;
3.9.1.2.1.5 the original date of the issue and the proposed date of the additional issue;
3.9.1.2.1.6 the previous authorised amount and the new amount;
3.9.1.2.1.7 the total amount issued after this additional issue.

3.9.1.2.2 Where an additional listing amount to be issued causes the listing to exceed its approved listing authorisation, the application must be accompanied by the appropriate resolution from the governing body (Board of Directors) of the issuer.

3.9.1.3 *Reduction in issued amount*

3.9.1.3.1 In respect of a reduction (i.e. invitation to redeem, convert or split) in the issued amount of a listed financial instrument, written evidence submitted via a the issuer (preferably through the sponsoring member) shall be forwarded to the Bond Exchange, providing details of -

3.9.1.3.1 the reduction in the amount;
3.9.1.3.2 the remaining balance;
3.9.1.3.3 the proposed date of reduction and the circular to be issued or proposed to the financial instrument holders giving notice of the reduction where applicable;
3.9.1.3.4 the circular to be issued or proposed to the registered holders giving notice of the reduction, where applicable.

3.9.1.4 *Market-making of listing*

In the case of an issuer market-making its own listed financial instrument the issuer must notify the Bond Exchange of the changes of the total amounts in issue at the end of each month within 3 business days after the end of that period.

3.9.1.5 *Change to registered information*

Issuers granted a listing shall forthwith advise the Bond Exchange in writing of any -

3.9.1.5.1 change in name, together with a certified copy of the certificate from the Registrar of Companies giving approval for the new name;
3.9.1.5.2 change of company secretary;
3.9.1.5.3 change of company address;
3.9.1.5.4 change in transfer officers;
3.9.1.5.5 "Stops" placed against, or the reported loss of, listed financial instrument certificates; and
3.9.1.5.6 liquidation or reconstruction of any issue and the dates of the closing of the transfer registers;
3.9.1.5.7 changes to the dates of the closing of the transfer registers.

3.9.1.6 *Continued listing requirements*

3.9.1.6.1 Issuers of listed financial instruments must continue to comply with the requirements of the Bond Exchange in order to maintain the listing on the Exchange.

3.9.1.6.2 The Bond Exchange will consider delisting a listed financial instrument in the following circumstances -

3.9.1.6.2.1 where an Order of the Court is granted which places the issuer under judicial management or provisional liquidation, any listing granted to such issuer shall be terminated forthwith.

3.9.1.6.2.2 an issuer whose listing has been terminated may, if such court order is subsequently set aside, re-apply for a financial listing, which shall be treated as a new application for listing.

## 3.10 SPONSORING MEMBERS

3.10.1 Issuers must appoint a sponsoring member when making an application for listing.

3.10.2 A sponsoring member must be an member of the Bond Exchange.

3.10.3 The sponsoring member is not responsible for underwriting or guaranteeing the listing of a financial instrument. It is the choice of the sponsoring member if it decides to underwrite or guarantee the listing. All terms of any sponsorship are to be negotiated between the member and issuer.

3.10.4 The duties of the sponsoring member are -

3.10.4.1 to ensure all documents required for the application for a listing have been complied with;
3.10.4.2 to be satisfied to its best knowledge and belief, all disclosure have been complied with;
3.10.4.3 to ensure there is no additional disclosure needed to be brought to the attention of the Bond Exchange;
3.10.4.4 to inform the Bond Exchange of any further information which should be disclosed;
3.10.4.5 to submit the application for a financial instrument listing to the Bond Exchange by the sponsor.

3.10.5 An issuer of financial instruments who is also a member of the Bond Exchange may act as sponsoring member in respect of its own listings application.

3.10.6 All communications with the Bond Exchange in connection with the application shall be directed via the sponsoring member.

3.10.7 Where the name of a member appears on any document issued by or on behalf of any issuer, the following shall be appended to the name of the member: "Member of the Bond Exchange".

3.10.8 Where the name or logo of a member appears on an advertisement in respect of a financial instrument listing, the advertisement shall be submitted to the Bond Exchange for approval by the issuer or sponsoring member at least 7 business days prior to the anticipated advertisement and the Bond Exchange shall confirm its approval or reasons for non-approval at least 3 business days prior to such anticipated advertisement.

3.10.9 The sponsoring member must confirm in writing to the Bond Exchange the terms of its sponsorship.

## 3.11 RATINGS AGENCY

3.11.1 The Bond Exchange firmly supports the concept of ratings as an independent measure of default related to a listing..

3.11.2 An issuer of listed financial instruments may at their option obtain an general independent credit rating by a Rating Agency recognised by the Bond Exchange for a listing.

3.11.3 An issuer who has not obtained an independent credit rating by an Rating Agency recognised by the Bond Exchange for a financial instrument listing shall be subject to specific requirements the Exchange may consider appropriate at the time.

## 3.12 MEDIA AND ADVERTISING

3.12.1 While there are announcements that can be made about a proposed financial instrument listing, the issuer may issue a media release, which contains a brief description of -

3.12.1.1 the issuer and its business;
3.12.1.2 the title and the amount of the issue to be issued;
3.12.1.3 the names of the managing, sponsors, legal, underwriters (where applicable);
3.12.1.4 the listing status of the issue the issue has been given or is in the process of a listing by the Bond Exchange.

3.12.2 Media announcements in connection with a listed financial instrument must state that the Bond Exchange has granted the issuer a financial instrument listing. Approval must be sought from the Bond Exchange 48 hours before release.

## 3.13 ROAD SHOWS

3.13.1 An issuer's management may make presentations to market participants, and / or prospective investors, or conduct meetings with prospective investors only after the granting of the financial instrument listing.

3.13.2 The disclosure document as approved to by the Bond Exchange with regards the issue shall be included with any written material available at such venue.

### 3.14 FINANCIAL STATEMENTS

3.14.1 An applicant, other than an issuer of asset-backed securities which is a company must have published or filed audited accounts which –

3.14.1.1 cover at least three years except as provided for in 3.14.1.2, the latest accounts must be in respect of a period ended not more than 18 months before the date of the listing particulars;
3.14.1.2 have been prepared in accordance with the Companies Act, 1973 or the applicants national law; and
3.14.1.3 have been independently audited.

3.14.2 In relation to 3.14.1.1 above, accounts relating to a shorter period than three years may be accepted if the Bond Exchange is satisfied –

3.14.2.1 such acceptance is desirable in the interests of the applicant or of investors and investors have the necessary information available to arrive at an informed judgement concerning the applicant and the securities for which listing is sought;
3.14.2.2 where the applicant is in respect of guaranteed financial instruments; Provided the guarantor(s) has published or filed audited accounts which cover at least three years; or
3.14.2.3 where the application is in respect of debt financial instruments, the obligations created in respect of such securities are fully secured or asset-backed.

3.14.3 Where new companies do not have an adequate trading record the entity may be required to include an estimate of future funding and profit and dividend projections.

3.14.4 An issuer granted a listing shall within six months of the end of every financial year submit audited financial statements to the Bond Exchange.

3.14.5 The auditors must be independent of the applicant and comply with guidelines issued by their national accountancy bodies.

### 3.15 INFORMATION ON THE ISSUER

The issuer should provide information about its business operations, the products it makes, or the services it provides, and the factors which affect the business such as –

3.15.1 the adequacy and suitability of the entities properties, plants and equipment;

3.15.2 information relating to the issuer's subsidiaries, if the information is not otherwise disclosed in accordance with generally accepted accounting principles used in preparing the financial statements.

## 3.16 CAPITALISATION AND INDEBTEDNESS

3.16.1 The applicant should provide a statement of capitalisation and indebtedness showing the company's capitalisation on an actual basis and if applicable, as adjusted to reflect the sale of new financial instruments being issued and the intended application of the net proceeds therefrom.

3.16.2 The applicant's indebtedness should distinguish whether guaranteed and non-guaranteed, and secured and unsecured. Indebtedness also includes indirect and contingent indebtedness.

## 3.17 TAXATION

The issuer shall provide information regarding taxation requirements, *inter alia* –

3.17.1 Withholding provisions; and / or

3.17.2 Persons qualifying for exemption from taxation; and / or

3.17.3 Persons who do not qualify for exemption from taxation; and /or

3.17.4 The companies responsibility; and /or

3.17.5 Any reciprocal tax treaties between the home and host countries.

## 3.18 RESPONIBILITY STATEMENT

The directors, underwriters, sponsoring member and / or others involved in the offering or listing information in the disclosure document should include a statement "to the best of their knowledge, the information given in that part of the document for which they are responsible is in accordance with the facts and contains no omissions likely to affect the import of the document".

## 3.19 DOCUMENTS ON DISPLAY

The issuer shall provide the name and the address where the documents concerning the issuer, which are referred to in, the disclosure document may be inspected.

## 3.20 SUPPLIMENTARY INFORMATION

Where significant information becomes available that is capable of affecting assessment of the financial instrument the issuer is required to lodge and issue a supplement document to the disclosure document.

## 3.21 SIGNING AND DATE OF DISCLOSURE DOCUMENT

A disclosure document shall -

3.21.1 in the case where the issuer is a company, be signed by two directors of such a company, or if such company has only one director, by that director and a senior official of that company; or

3.21.2 in the case where the issuer is a juristic person other than a company, be signed by two senior officials of such juristic person -

3.21.2.1 such signatories of the placing document or prospectus shall be deemed to have authorised the issue of such disclosure document.

3.21.2.2 every signature to a disclosure document shall be dated and the latest of such dates shall be deemed to be the date of the disclosure document.

3.21.3 The reprinting / reissuing of "new" variations in the disclosure documents / prospectii, where the issuer wishes to reacquaint investors with a specific issuer's salient "features / terms" but does not go into the original underwriting / allotment, or where legislation / the business / different economic activities of the issuer / subsidiaries / purpose of the issue, if not for the same reason as originally anticipated / has change sufficiently to "warrant" a new document.

## 3.22 CONDITIONS TO INVESTOR AND ISSUER

The listing conditions of financial instruments on the Bond Exchange is as follows –

3.22.1 *Dematerialised Issues*

3.22.1.1 The minimum conditions to a listing dematerialised in a Central Depository operating in terms of the Safe Deposit of Securities Act unless the issues is required by law to issue securities, certificate or other evidence of ownership as the case may be. Provided that –

3.22.1.1.1 The disclosure document in respect of a listed financial instrument to be dematerialised, that dematerialisation is a condition of the issue in terms of the rules of the Bond Exchange;

3.22.1.1.2 A certificate will not be issued to individual beneficial holder or market participants;

3.22.1.1.3 A written agreement has been lodged with a Central Depository in respect of the issue of listed financial instruments specifying the details and conditions of the issue to be dematerialised;

3.22.1.1.4 The issuer of dematerialised listed financial instruments is required to abide by the procedures of the Central Depository regarding interest and redemption payments.

3.22.2 *Immobilised Issues*

3.22.2.1 The minimum conditions to an investor or issuer of a listed financial instrument on the Bond Exchange immobilised in a Central Depostitory -

3.22.2.1.1 The financial instrument listed to be immobilised by a Central Depository operating in terms of the Safe Deposit of Securities Act. The certificates will only be issued to individual investors on request to a settlement agent.

3.22.2.1.2 The settlement (delivery versus payment) of financial instruments will be in terms of Bond Exchange rules via the Electronic Net Settlement system by as operated by the settlement agents.

3.22.2.1.3 Certificates in respect of a financial instrument listing will be provided to the beneficial financial instrument-holder on written application to the settlement agent in which event the financial instrument-holder is entitled –

3.22.2.1.3.1 to receive a certificate for the nominal value of the listed financial instrument purchased or allotted to it within 7 (seven) days after settlement has been received therefor;

3.22.2.1.3.2 to receive a certificate for the nominal value transferred to that listed financial instrument-holder within 7 (seven) days after registration of that transfer subject to the provisions of the transfer deed;

3.22.2.1.3.3 to a replacement of a certificate if it is worn out or defaced, there upon its production to the transfer secretary;

3.22.2.1.3.4 to a replacement of a certificate is lost or destroyed there upon proof thereof to the satisfaction of the transfer secretary; or

3.22.2.1.3.5 to a replacement certificate where a certificate is lost or in default of proof of destruction of a certificate, on such conditions as to provision of an acceptable indemnity and reimbursement of all out-of-pocket expenses of the issuer in investigating and securing its rights and obligations to that loss as the issuer deem adequate.

3.22.2.1.4 an entry as to the issue of a new certificate and indemnity (if any) shall be made in the register of stockholders provided the holder presents to the transfer secretary all such information as may be reasonably required to enable this entry to be effected.

3.22.2.1.5 certificates to be provided by the issuer or its transfer secretary to an financial instrument-holder shall be collected by the holder from their settlement agent or as otherwise agreed.

3.22.2.2 An issuer of listed financial instruments must abide by the procedures of the Central Depository provided such current procedures be communicated in writing to the issuer and any changes thereto, at least 30 working days prior to any change being effected regarding –

3.22.2.2.1 the deposit of certification to be used upon deposit and withdrawal of the underlying securities to facilitate electronic clearing and settlement of trades in terms of the Bond Exchange Rules;

3.22.2.2.2 the interest and redemption payments on due date.

## 3.23 EXCHANGE CONTROL REGULATIONS

The issuer shall describe any Exchange Control laws, decrees, regulations or other legislation that the issuer may be affected, such as –

3.23.1 the remittance of dividends, interest or other payments to non-resident holders of the listed instrument;

3.23.2 the import or export of capital, including the availability of cash and cash equivalents for use by the issuer.

3.23.3 The Bond Exchange will grant the listing of Rand denominated financial instruments issued by foreign entities or a dual listing to a financial instrument subject to Exchange Control Requirements approval.

### 3.24 REGISTRATION OF DISCLOSURE DOCUMENT

Issuers are required to register their disclosure document with the Companies Registration Office if the offer is to the public on or before the date of listing.

### 3.25 THE LISTING PROCESS

3.25.1 An issuer wishing to list financial instruments on the Bond Exchange should submit a listing application to the Exchange via a sponsoring member.

3.25.2 To be listed, issuers of financial instruments must –

3.25.2.1 conform to the law of the applicant's place of incorporation;
3.25.2.2 be duly authorised according to the requirements of the applicant's memorandum and articles of association; and
3.25.2.3 have any necessary statutory or other consents.

3.25.3 With the submission of the financial instrument listing application the issuer must submit where applicable –

3.25.3.1 a certified copy of the certification of registration of the company;
3.25.3.2 a copy of the resolution by the governing authority of the issuer authorising the issue of financial instruments;
3.25.3.3 a copy of the provisions of the Act under which such financial instruments are to be issued and listed; or
3.25.3.4 a copy of the Memorandum and Articles of Association;

3.25.3.5 the disclosure document duly signed by the authorised person(s) of the issuer;
3.25.3.6 a notarially certified copy of any applicable government guarantee in respect of the financial instrument; or
3.25.3.7 a notarially certified underwriter's letter of intent or agreement in respect of the financial instrument;
3.25.3.8 copies of all marketing material to be used in connection with the original issue of the financial instrument;
3.25.3.9 a copy of the letter appointing a settlement agent;
3.25.3.10 a copy of the letter sent to the Central Depository requesting immobilisation / dematerialisation of the financial instrument appointing a settlement agent;
3.25.3.11 any trust deed of the issuer relating to the issue;
3.25.3.12 a copy of the South African Reserve Bank approval in respect of the issue if applicable; and
3.25.3.13 evidence of the credit rating issued by a rating agency if the issuer chooses to refer to such credit rating being obtained.

### 3.26 DEBT ISSUANCE PROGRAMMES

3.26.1 Issues, which are issued under a programme and are subject to international practice, common general terms and conditions, may take advantage of debt issuance programme regime.

3.26.2 The application for listing must cover the maximum amount of financial instruments, which may be in issue and listed at any one time under the programme. If the Bond Exchange approves the application, it will admit to listing all financial instruments which may be issued under the programme within 12 months after the publications of the listing particulars, subject to the Bond Exchange –

3.26.2.1 being advised of the final terms of each issue;
3.26.2.2 receiving and approving for publication any supplementary listing particulars that may be appropriate;
3.26.2.3 receiving confirmation that the financial instruments in question have been issued; and
3.26.2.4 receiving any listing fees and levies payable.

3.26.3 For issues in excess of the authorised maximum or made more than 12 months after publication of listing particulars, initial application and publication procedures as set out in 3.26 above must be followed.

3.26.4 The final terms of each issue which is intended to be listed ('the pricing supplement') must be to the Bond Exchange as soon as possible after been agreed and in any event no later than 14h00 on the day before listing is required to become effective.

3.26.5 The pricing supplement relating to an issue must provide an investor with the full terms and conditions of that issue.

3.26.6 The application for admission to listing need not be submitted for issues made after the first issue in any 12-month period after publication of listing particulars.

3.26.7 The listing particulars must contain the general terms and conditions applicable to all securities that may be issued and listed under the programme.

3.26.8 The listing particulars must include a statement that documents may be inspected at the registered office of the issuer and the office of the paying agent throughout the life of the programme.

3.26.9 The issuer must make a declaration in the offering circular in the following form –

> "The issuer accepts responsibility for the information contained in these listing particulars. To the best of the knowledge and belief of the issuer (which has taken all reasonable care to ensure that such is the case) the information contained in these listing particulars is in accordance with the facts and does not omit anything likely to affect the import of such information".

3.26.10 The listing particulars must be published in terms of 3.26.6.

3.26.11 The following documentation must be available for inspection at the registered office of the issuer and the office of the paying agent for as long as issues are made under the programme –

3.26.11.1 the current listing particulars;
3.26.11.2 any supplementary listing particulars published since the current listing particulars were published; and
3.26.11.3 any pricing supplements (relating to listing and outstanding issues) issued since the current listing particulars were published.

## 3.27 ASSET-BACKED SECURITIES

3.27.1 Due to the complex nature of asset-backed security transactions, the Bond Exchange should be consulted at an early stage. Depending of any particular issue, the requirements set out below may be modified or additional requirements may apply.

3.27.2 The following additions and exceptions to the conditions for listing to issuers of asset-backed financial instruments apply –

3.27.2.1 the issuer must normally be a special purpose undertaking for issuance of asset-backed securities;
3.27.2.2 subject to audited accounts in 3.14.1.1;
3.27.2.3 where an issue of asset-backed financial instruments is backed by equity securities, those securities must be listed on a stock exchange or traded on another regulated and regularly operating open market, must represent minority interests and must not confer legal or management control of the issuing companies; and
3.27.2.4 there must be a trustee or other appropriate independent party representing the interests of the holders of the asset-backed financial instrument and with the right of access to appropriate information relating to the assets.

## 3.28 CONDITIONALITY

An issue that is conditionally cancelled before the first document of title is issued and therefore the granting of the listing may not become effective, must be made clear in the listing particulars upon submission. The subscription agreements must make the obligations thereunder conditional upon the debt being accepted for a listing.

# SECTION 2

## FEES AND LEVIES

### GENERAL

A financial instrument listing granted by the Bond Exchange in terms of the Rules will be subject to the listing fees and levies prescribed in this document which can be varied from time to time by the Executive Committee.

The listing fees and levies applicable to all financial instruments will comprise -

- a primary listing fee; and
- an annual revision fee.

The listing fees and levies will apply to every financial instrument granted a financial instrument listing.

An issuer granted a financial instrument listing will at all times ensure that information required for the calculation of the applicable listing fees and levies is submitted timeously to the Bond Exchange.

Listing fees and levies are subject to value-added tax (VAT) at the standard rate, which amount will be calculated and added to all fees prescribed in this document.

Listing fees and levies will not be refundable where, for any reason, a listing is reduced, withdrawn, consolidated, suspended or terminated.

### PRIMARY LISTING FEE

A primary listing fee will be levied -

- on the original application for a financial instrument listing; and
- on any increase in the issued amount in excess of the original application, subsequent to the date of listing.

A primary listing fee shall be payable on the date of the original listing application and on the date of any increase in the issued amount in excess of the original application.

Primary listing fee in respect of fixed or variable coupon listed financial instruments are to be calculated in accordance with the following formulae -

- on the date of the original listing application;

  (1) Primary issue amount per original application.

  (2) Nominal value in Rands of item (1) x 0.01%.

  (3) Calculation of item (2) subject to a minimum fee of R1 000,00 and a maximum fee of R10 000,00.

- on the date of any increase in the issued amount in excess of the original application;

  (1) Increase in issue amount in excess of the original application, subsequent to the date of listing.

  (2) Nominal value in Rands of item (1) x 0.01%.

  (3) Calculation of item (2) subject to a minimum fee of R1 000,00 and a maximum fee of R10 000,00.

A primary listing in respect of Zero Coupon listed financial instruments will be calculated on the cash value of the financial instrument in accordance with the following formula -

(1) Primary issue amount per original application.

(2) Cash value in Rands of item (1) x 0.01%.

(3) Calculation of item (2) subject to a minimum fee of R1 000,00 and a maximum fee of R10 000,00.

The cumulative maximum primary listing fee payable in respect of a specific financial instrument will not exceed R10 000,00.

A primary listing fee will be payable by means of a cheque or by credit transfer in favour of the Bond Exchange of South Africa.

The primary listing fee payable in respect of the original application to is paid in full prior to the granting of a financial instrument listing.

An issuer of listed financial instruments that fails to pay a primary listing fee on any increase in the issued amount in excess of the original application within 30 days of such fee becoming payable will be notified in writing of such arrears and of the interest due on the outstanding amount.

If such arrears and interest are not paid within seven days of the date of notice, the financial instrument listing granted to the issuer will be suspended and a notice to that effect published in accordance with the Rules at the expense of the issuer.

If such arrears and interest are not paid within 21 days of the publication of such notice, the financial instrument listing granted to the issuer shall be terminated and a notice to that effect published in accordance with the Rules at the expense of the issuer.

**ANNUAL REVISION FEE**

An annual revision fee will be levied on 1 July each year on financial instruments listed on the Bond Exchange as at the close of business on that date as determined by the executive committee from time to time.

The annual revision fee will be payable annually in respect of the period 1 July to 30 June.

# SCHEDULE 1

## PRO FORMA OF LISTING DOCUMENT

### GENERAL

The following is an example of a standardised form of disclosure document on the Bond Exchange other than debt issuance programmes -

# (ISSUERS NAME)

## PROSPECTUS / PLACING DOCUMENT

---

**_Issuer Name_ Registered Loan Stock ( Loan No: ....)**
**(....% coupon, redeemable on .. ........ ....)**

**Initial Nominal Value R. ... million**

---

# ISSUER NAME

## South Africa's ..................... Company
## (All data where appropriate)

## (Reg. No. 91/...../06 Pretoria)
## R. ... million registered stock
## Loan No: ....

**Issue manager and Sponsoring member**

**Logo**

**Member name**
**(Reg. No.../...../..)**

**Issue manager and Sponsoring member**

**Logo**

**Member name**
**(Reg. No.../...../..)**

**Financial arranger**

**Logo**

**Financial arranger name**
**(Reg. No.../...../..)**

**Financial advisor**

**Logo**

**Financial advisor name**
**(Reg. No.../...../..)**

**Legal advisor**

**Logo**

**Legal advisor name**
**(Reg. No.../...../..)**

**Auditors**

**Logo**

**Auditors name**
**(Reg. No.../...../..)**

**Market - maker**

**Logo**

**Market - maker name**
**(Reg. No.../...../..)**

**Market - maker**

**Logo**

**Market - maker name**
**(Reg. No.../...../..)**

Date listed on the Bond Exchange:
Date of Prospectus / Placing document:

| | |
|---|---|
| "redemption date" | .. ........ 2... or, if such date is not a business day, the next business day; |
| "registers" | the registers of stockholders kept by the settlement agents and the transfer secretaries; |
| "Rules" | the rules and directives of the Bond Exchange; |
| "settlement agent" | any of the institutions approved by the approved by the executive committee of the Bond Exchange to perform electronic nett settlement of both funds and scrip on behalf of all market participants on the Bond Exchange from time to time; |
| 'settlement date' | ............., .. ......... 1998, being the date upon which successful applicants are required to pay for the *Issuer name* stock allotted and issued to them; |
| "stockholders" | the successful applicants to the *Issuer name* stock has been allotted and issued; |
| "*Issuer name* " or "the issuer" | *Issuer name* , a telecommunications commpany in terms of the ................Act, No. .. 1996 and the Commpanies Act, No. 61 of 1973; |
| "transfer secretaries" | ....................; |
| '*Issuer name* stock" | *Issuer name* SA Ltd. Registered Loan Stock (Loan No.....) classified as "loan stock" pursuant to the provisions of the Financial Markets Control Act, No. 55 of 1989. |

## Summary

| | |
|---|---|
| **Issue** | *Issuer name* Registered Loan Stock (Loan No....) |
| **Purpose** | The purpose of the issue is to raise funds to finance the extention of the ...................... network and the provision of additional ...................... services. |
| **Amount** | The initial issue will be for a maximum nominal value of R. ... milion allocated all or part at the discretion of the issuer. The issuer is authorised to increase the amount in issue at any time up to the redemption date as capital is required subject to the provisions of the ..............Act, No.. of 19... |
| **Security** | In accordance with the provisions of the ..............Act, the stock now issued will rank *pari passu* with all existing loans, and together with interest due or to become due in respect therefore, will have a fist charge on all the revenues and assets of *Issuer name* and on all monies recovered or to be recovered. |
| **Interest rate (per annum)** | ......% |
| **Period** | .... years |
| **Redemption date** | .. ............ .... |
| **Redemption value** | R100,00% |
| **Interest payable** | Interest is payable semi-annually in arrear on .. .... And .. .... In each year until redemption date, with the first payment on . ....... 1998 and the last payment .. ......... 2... |
| **Registers closed** | The registers will be closed from .. .... to .. .... and .. .... to .. .... (all dates inclusive) in each year until the redemption date. |
| **Date of issue** | ........., .. ...... 1998, being the date of the issue of the *Issuer name* stock. |
| **Payment date** | Payment by investors must be made to their settlement agents on ....., .. ..... 1998 in accordance with the Rules. |
| **Trading** | The *Issuer name* stock is listed on the Bond Exchange (under the designation .....) and traded by members of the Bond Exchange from ......., .. ....... 1998. |

## Summary

### Salient dates and times

**Issue date**
**Payment**

### Definitions

In this prospectus, unless otherwise stated or implied by the context, the words and phrases in the first column have the meaning stated opposite them in the second column:

| | |
|---|---|
| "Bond Exchange" | The Bond Exchange of South Africa, a licenced financial exchange in terms of the Financial Markets Control Act, No. 55 of 1989; |
| "Bond Exchange System" | the electronic booking , matching and settlement system operated by Unexcor for the Bond Exchange to facilitate electronic settlement of funds and scrip; |
| "business day" | any day except a Sunday, public holiday or any other day declared by the executive committee of the Bond Exchange, and approved by the Registrar of Financial Markets, not to be a business day or banking day; *(Section 4 of the Interpretation Act, No. 33 of 1957 prescribes the "Reckoning of number of days")* |
| "Central Depository" | The Central Depository Limited (Reg. No. 91/00941/06) operating in terms of the Safe Deposit of Securities Act, No. 85 of 1992, for the immobilisation of securities; |
| "individual certificate holders" | stockholders to which individual certificates have been issued in respect of *Issuer name* stock allotted and issued to them; |
| "initial issue" | the initial issue of *Issuer name* stock with a nominal value of R ... million; |
| "interest payment date" | .. ..... and .. ....... In each year after the issue date and if such date is not a business day, the next succeeding business day, until redemption date; |
| "issue" | the authorised nominal value of *Issuer name* stock of R ... million; |
| "issue date" | ..........., .. .......... 1998, being the date of allotment and issue of the *Issuer name* stock forming part of the initial issue; |

**Stamp duty**

In terms of current legislation, as at the date of this prospectus, *Issuer name* stock is transferable free of stamp duty and registration charges. Any future statutory changes will be for the cost of stockholders as recorded in the registers at such time.

**Electronic settlement**

The *Issuer name* stock will be issued in accordance with the Rules. Settlement agents will follow the electronic settlement procedures prescribed by the Rules of the Bond Exchange when making interest and capital payments. The Rules are available on request from the Bond Exchange.

Interest and capital payments by the transfer secretaries to stockholders will be made by electronic funds transfer.

The issuer will issue a single *Issuer name* stock certificate which will be immobilised at the Central Depository in terms of the Rules. Certificates will only be issued to individual certificate holders on request to their settlement agents.

**Blocked rand**

Blocked rand may be used to purchase *Issuer name* stock subject to South African Exchange Control Regulations.

## Initial Issue

1. **Invitation** The issuer hereby invites applicants to apply for the initial issue of *Issuer name* stock having a maximum nominal value of R. ... million on the basis set out in this prospectus. The issuer is authorised to increase the amount in issue at any time up to the redemption date as capital is required subject to the provisions of the ............ Act, No.. of 19...

2. **Purpose of the Issue** The purpose of the issue is to raise funds to finance the extension of the ..........................network and the provision of additional .......................... services.

3. **Payment and certificates** Payment of the full price of the *Issuer name* stock allocated and issued to investors must be made on .. ...., .. .. .......... 1998 to their settlement agents, in the currency of the Republic of South Africa in terms of the Rules.

   A single *Issuer name* stock certificate in respect of all the *Issuer name* stock allotted and issued to investors will be immobilised at the Central·Depository in terms of the Rules.

   On written application by a stockholder to its settlement agent the stockholder will be entitled to collect a certificate for the *Issuer name* stock, allotted and issued to it, from the offices of the settlement agent concerned.

   The Central Depository and the individual certificate holders will be the registered stockholders. The transfer secretaries will list in their register the Central Depository and the individual certificate holders, and the settlement agents will keep registers of the stockholders whose stock has been immobilised at the Central Depository.

## Terms and conditions of the issue

**1. Authorisation**

1.1 The issue was approved by a resolution of the board of directors of the issuer dated ............

1.2 All *Issuer name* stock will be held and issued subject to the terms and conditions contained herein.

1.3 These terms and conditions are binding on the issuer and will be binding on each investor whose name is entered in the registers.

**2 Allotment and issue of *Issuer name* stock**

2.1 The initial issue will be for a initial amount of R. ... million.

2.2 The issue will be made to investors in minimum nominal values of R. ... million each.

2.3 All *Issuer name* stock shall rank *pari passu* in all respects with existing *Issuer name* debt then in issue from the respective dates of allotment and issue thereof.

**3 Security - appropriate**

The obligation of the issuer to pay interest and repay capital on *Issuer name* stock is explicity guaranteed by the Government of the Republic of South Africa in terms of the.........

**4 Bond Exchange listing**

The *Issuer name* stock is listed on the Bond Exchange as an approved financial instrument in terms of the Financial Markets Control Act, No55 of 1989 and the Rules.

**5 Certificates, register and transfers of *Issuer name* stock**

5.3 A single *Issuer name* stock certificate in respect of the *Issuer name* stock and issued to investors will be immobilised at the Central Depository in terms of the Rules.

5.4 An individual certificate for the *Issuer name* stock allotted and issued to any individual stockholder will only be issued to such stockholder on written application to its settlement agent, in which the stockholder will be entitled to collect the certificate from the settlement agent concerned.

5.5 The Central Depository and the individual certificate holders will be the registered stockholders. The transfer secretaries will list in their register the Central Depository and the individual certificate holders, and the settlement agents will keep registers of the stockholders whose stock has been immobilised at the Central Depository.

5.6 Neither the settlement agents nor the transfer secretaries shall be bound to enter in their respective registers notice of any trust or to recognise any right of any other person to *Issuer name* stock other than the stockholders.

5.7 Transfer of *Issuer name* stock shall be done in terms of the Rules and in respect of individual certificate holders no transfer shall be registered in the register of the transfer secretaries unless the certificate and a form of transfer in the prescribed form have been lodged by the individual certificate holder with the transfer secretaries.

## 6 Interest

6.3 Interest, at the rate of .....% per annum, will be paid semi-annually in arrear until .. ........... 2....

6.4 Interest payment dates will be.. .... And .. ...... in each year up to and including the redemption date, and the first payment of interest will be made on .. .... 1998 calculated on a six monthly basis.

6.5 The registers will be closed in each year up to the redemption date from .. .... to .. .... and from .. ....... to .. ....... (all dates inclusive) or such shorter period as market conditions may allow to determine those stockholders entitled to receive interest.

6.6 Interest payments will, subject to Exchange Control Regulations, be made in the currency of the Republic of South Africa by electronic funds transfer into the accounts of stockholders unless, in respect of individual certificate holders, contrary instructions are agreed with the transfer secretaries in advance.

6.7 As at the date of this prospectus and in terms of current legislation, interest payments to non-residents are free of withholding tax.

## 7 Redemption of capital

7.3 The nominal value of *Issuer name* stock outstanding will be redeemed in full on .. ..... 2....

7.4 Redemption payments will, subject to Exchange Control Regulations, be made in the currency of the Republic of South Africa on the redemption date by electronic transfer into the accounts of stockholders, contrary instructions are agreed with the transfer secretaries in advance.

7.5 No individual payment in respect of *Issuer name* stock held by individual certificate holders will be made unless the certificate in respect of the *Issuer name* stock has been surrendered to the transfer secretaries.

## 8 Exchange Control Regulations

8.3 Former residents of the Common Monetary Area (being the Republics of South Africa and Namibia and the Kingdoms of Swaziland and Lesotho) may use blocked funds to acquire *Issuer name* stock subject to South African Exchange Control Regulations.

8.4 All payments in respect of applications for *Issuer name* stock by non-residents using blocked funds must be made through an authorised dealer in foreign exchange.

8.5 *Issuer name* stock certificates issued to a non-resident stockholder whose registered address is outside the Common Monetary Area will be endorsed "non-resident" and will be sent to the authorised dealer through which the payment was made for their control in terms of the Exchange Control Regulations.

**Electronic funds transfer**

Interest and redemption payments will be made electronically into the accounts of stockholders. Neither the issuer nor its agents will be responsible for any loss in transmission. On request by an individual certificate holder to the transfer secretaries, payment can be made by cheque. In such event, post-dated interest and redemption cheques will be posted to the individual certificate holders (unless contrary instructions have been agreed with the transfer secretaries), at the stockholder's risk, 14 days prior to the interest payment date or the redemption date, as the case may be.

## 9 Postal agents

Where cheques and certificates are posted, they will be posted to the registered address of individual certificate holders, provided that neither the issuer nor its agents will be responsible for any loss in delivery and the postal authorities will be deemed to be the agent of the individual certificate holders for the purpose of all such deliveries.

## 10 Documents available for inspection

Copies of the audited annual financial statements of the issuer for its most recent financial year, are available on request at the offices of *Issuer name* during normal business hours until the redemption date.

## 11 Transfer secretaries

*Issuer name* Contact person:
Issuer address
Telephone no.
Facsimile no.

Signed at Pretoria on behalf of *Issuer name* on .. ......... 1998

Chief Executive Director

## Corporate information

**Issue manager and Sponsoring member**

*IM &SM name*
Issuer address
Telephone no.
Facsimile no.

**Issue manager and Sponsoring member**

*IM & SM name:*
Issuer address
Telephone no.
Facsimile no.

**Financial arranger**

*FA name*
Issuer address
Telephone no.
Facsimile no.

**Financial advisor**

*FA name:*
Issuer address
Telephone no.
Facsimile no.

**Legal advisor**

*LA name*
Issuer address
Telephone no.
Facsimile no.

**Auditors**

*A name:*
Issuer address
Telephone no.
Facsimile no.

**Market - maker**

*MM name*
Issuer address
Telephone no.
Facsimile no.

**Market - maker**

*MM name:*
Issuer address
Telephone no.
Facsimile no.

Appendix C

DRAFT

April 1, 2001

The Durban Metro Council ("Metro") is soliciting proposals from experienced firms to act as Financial Advisor to Metro.

Metro requests that no later than 5:00 p.m. on April 25, 2001 each respondent submit 8 copies of a written response to the enclosed Request for Proposals ("RFP) to:

Rory Turner
Director: Finance
Corporate Financial Services
Durban Metropolitan & North &
South Central Local Councils
1st Floor, Martin West building
251 Smith Street
Durban, South Africa 4000

All questions with respect to the RFP should be addressed to Rory Turner. No other contact with Metro Council members, staff or consultants regarding this RFP will be allowed during the pendency of this RFP. Any contact with these individuals, other than as set forth in this RFP, shall be grounds for disqualification.

We look forward to the interest and participation of your firm in this RFP.

Sincerely,

Rory Turner
Director : Finance

Enclosures:

RFP
Statute
Durban Metro
Durban Metro Capital Improvement Plan
Durban Metro Financial Report

Metro is soliciting a firm through this Request for Proposals ("RFP") to serve as Financial dvisor as described below. The selected firm will be responsible for serving as the Financial dvisor for Metro's financing program for the next three years. Respondents should be xperienced in providing financial advisory services.

## I. CALENDAR OF EVENTS

| | |
|---|---|
| Issuance of RFP | April 1, 2001 |
| RFP Due Date | April 25, 2001 |
| Interviews (if necessary) | May/June 2001 |
| Selection of Financial Advisor | May/June 2001 |

## II. BACKGROUND

etro is a local governmental unit and instrumentality of the Republic of South Africa. Its ›erations are controlled by the Council, and certain laws and regulations as passed by the ational Legislature and the constitution.

ıe Metro Council has authorized, in order to build additional infrastructure assets to enhance ≥ sustainability of Durban, an external financing program for fiscal 2002 in the amount of ›proximately R1.2 billion. In the past, Metro has issued municipal stock which was privately aced. We now wish to explore the possibility of selling up to R1.2 billion municipal stock in the ıblic market. We will make a decision to issue municipal stock based upon our analysis of ernative financing costs and the long term benefits of various alternatives including municipal ›ck. We may also use various other instruments to finance our 2002 capital improvement ›gram.

indicated in our estimated five year capital improvement program which is attached, we will ed on average at least R750 million per year. This amount is subject to change based on pital needs, revenues and the overall economic condition of Durban Metro. We expect, ›refore, that the Financial Advisor selected will serve Metro for a period of at least three years. e tenure of the Financial Advisor, of course, can be changed depending upon performance

## III. SERVICES REQUIRED OF FINANCIAL ADVISOR

<u>ıtement of Work</u>

e scope of work anticipated to be performed by the Financial Advisor is described below and l commence upon execution of the contract. The subject services are as follows:

A. Provide advice on maintenance and enhancement of Metro's comprehensive debt management program;

B. Provide advice on Metro's financing plan that provides the required capital on a timely basis to achieve the lowest available interest cost to Metro while providing the highest degree of operating flexibility;

C. Provide advice relating to the sizing and timing of stock issuances;

D. Prepare an RFP for underwriters in consultation with the Director: Finance and advise on the selection of the underwriters. This would include a review of the RFP responses and conducting interviews with underwriters.

E. Provide input on the offering circular and how Metro can best describe itself so as to achieve the highest possible credit rating.

F. Recommend to Metro general timing for the sale of said stock, specific stock purchase contract requirements, stock maturities, interest rates discounts or premiums, and other structuring issues;

G. Provide Metro with advice and counsel regarding optimal short term funding strategies and assist in the structuring and implementation of such funding, as appropriate;

H. Attend meetings of Metro's Finance committee and provide periodic reports as requested;

I. Provide other financial assistance to Metro as requested from time to time by the Director: finance.

'lease note that the selected firm(s) will not be allowed to underwrite any of the authority's ıture financings.

## IV. PROPOSAL REQUIREMENTS

A. <u>Information to be Provided</u>

The following is a listing of the information to be provided by the proposer. A proposal that does not include all the information required below shall be subject to rejection. Please provide the information in the same order using corresponding numbers as presented. Respondents are require to limit their submissions including the cover letter to 25 single-sided pages. Responses should be prepared on 8 ½ x 11 inch paper using at least 10-point type with standard margins.

You are requested to provide resumes of team members and a copy of your firm's Affirmative Action Policy as an appendix to your proposal. Joint proposals will not be considered. You are requested to attach as an appendix your firm's latest financial report.

All information included in the responses to this Request for Proposals shall become the property of Metro.

All proposers will have an obligation to update their proposals to reflect any material changes to Sections IV. A. I, IV. A. 2 and IV. A. 3 of their proposal prior to the Metro's selection of Financial Advisor. All proposers agree to be bound by the terms of this RFP and their submissions hereunder.

1. Cover Letter (All Firms)

A cover letter, addressed to Rory Turner, Director: Finance, which shall be considered an integral part of the proposal, shall be signed by an individual or individuals authorized to contractually bind the proposer. The letter shall also contain the following:

a) Each firm must certify in writing that its participation in the proposed issuances will not create any conflict of interest involving that firm. Identify and work your firm has done for Metro or any of its political subdivisions over the past three years, including any formal or informal work relating to the planning or implementation of any financial plans. Identify any conflicts your firm may have as a result of the ownership of debt securities whose value has been, or may be, affected by this transaction. Also, explicitly describe your firm's procedures for conflict of interest resolutions. If you believe that a conflict of interest may arise as a result of your participation in Metro's transaction as Financial Advisor, please describe the nature of the conflict as well as how such conflict would be resolved.

b) Include a description of any financial or joint marketing arrangements your firm my have. Also, describe any direct or indirect consulting arrangements your firm has or had, that could pertain to Metro or its proposed transactions.

2. General Information (All Firms)

a) Provide the name, title, address, telephone number and fax number of the individual Metro should contact with respect to your proposal. Make a statement regarding the availability of this individual throughout this engagement

b) Provide a brief description of your firm and its ownership structure. Discuss your firm' public finance and municipal sales, trading and underwriting departments and your firm's continuing commitments to these areas. Explain any significant changes in staffing and/or organization of your firm's public finance and municipal sales, trading and underwriting departments since January 1, 1999. Describe any plans to significantly change your corporate presence in South Africa.

c) Please provide your firm's fiscal year end (i) Net Capital, (ii) Aggregate Indebtedness, and (iii) Ratio of Aggregate indebtedness to Net Capital for your most recent three completed fiscal years

d) Discuss any past or present civil or criminal legal investigations, pertinent litigation and/or regulatory action involving your firm or its employees which could impact, or might reasonable be perceived to impact, your role or ability to serve as Financial Advisor to Metro.

3. Team Members (All Firms)

a) Describe the team of individuals that will be assigned to Metro's account from your firm and their relevant experience. Provide a description of the role which each of these members will have on the transaction. Provide resumes of these individuals in an appendix to your response (this appendix will not count against the applicable page limits).

b) Provide no more than three references for the primary contact of your team.

4. Experience

b) Provide a summary of your firm's experience over the last three years as a Financial Advisor.

(i) Describe any financial advisory service your firm provides to any local government.
(ii) Describe any municipal workout or restructuring of debt.
(iii) Describe any consulting services provided to the Ministry of Finance or Ministry of Local Government which dealt with municipal finance.
(iv) List any "parastatal" for which your firm provides any financial service.
(v) Discuss any other financial services your firm provides and how it could relate to Metro.
(vi) Indicate any investment management services your firm provides, particularly for local government.

c) Describe any issuer, including RSA debt for which your firm makes a secondary market.

c) Describe what municipal loan activity your firm has done over the last three years.

5. Rating Strategy – Proposers are requested not to contact either the rating agencies or credit enhancers.

a) Discuss your recommended rating agency strategy for the Metro financing program. What do you think will be the primary concerns of the rating agencies and how would you advise Metro to address their concerns?
b) Based on your firm's knowledge and experience with new credits, what bond rating(s) do you expect? What strategies would you recommend to obtain the highest ratings?

c) What covenants or constraints do you believe will have the most impact on the final credit rating?

d) What strategies or recommendations does your firm have for Metro in presenting itself as a first time issuer?

6. Financing Plan

a) Describe what you believe to be the best structure of the stock issue that will result in the lowest cost financing in the current interest rate environment. This must be balanced with the average asset life of:

| | |
|---|---|
| 22% | in 3 years |
| 22% | in 5 years |
| 1% | in 10 years |
| 37% | in 20 years |
| 18% | in 25 years |

While this is the current expectation, the financial plan does not have to exactly follow this in the maturity structure.

b) What ideas do you have to reduce interest costs to Metro aside from fixed rate versus variable rate debt, bond insurance and derivatives?

c) Comment on the need for a funded debt service reserve.

d) Comment on the use of an invested "0" coupon in order to provide for funds to pay principal when due.

e) What specific role do you see for derivative products for this program? What is your firm's experience with structuring and implementing the specific products you are recommending? Would your firm act as principal or agent in administering these products and what are the counterparty's credit ratings?

B. Administrative Specifications

1. The proposers should submit 8 copies of their proposal, as directed below.

2. All proposals must be firm for 90 days, and signed by an authorized officer of the firm.

3. The successful bidder must agree to provide Metro with audit access on request during the term of the contract and for seven years after the term of the contract.

C. Addenda: Errors and Omissions

If a proposer discovers any ambiguity, conflict, discrepancy, omission or other error in this RFP, immediately notify Metro's Director: Finance of such error and request clarification or modification to the document. Verbal notification must be confirmed in writing.

Should Metro find it necessary, modification will be made by addenda. Such clarifications may be given by written notice to all parties who have been furnished an RFP.

If a proposer fails prior to the final filing date for submission to notify Metro of a known error or an error that reasonably should have been known, the proposer shall assume the risk. If awarded the contract, the proposer shall not be entitled to additional compensation or time by reason of the error or its late correction.

D. Submission of Proposals

Eight copies of your proposal are due no later than 5:00 p.m. on August 14, 2001, in a sealed package or packages. Responses received after this deadline will not be considered, nor will faxed responses whenever received. Materials should be delivered as follows:

Rory Turner
Director: Finance
Corporate Financial Services
Durban Metropolitan & North &
South Central Local Councils
1st Floor, Martin West building
251 Smith Street
Durban, South Africa 4000

Metro will not reimburse for any expense incurred in connection with this RFP including the cost of preparing the initial response, any additional information and travel expenses relating to an oral interview.

## V. EVALUATION OF PROPOSALS

The selection process will begin with the review and evaluation of each of the written proposals. The purpose of this evaluation process is twofold: (1) to assess the responses for compliance with proposal requirements; and (2) to identify the proposers that have the highest probability of satisfactorily performing these financial advisory services and thereby achieving Metro's objectives. The evaluation process also may include reference checks and will be conducted in a comprehensive and impartial manner.

E. Preliminary Review

1. Each proposal will be date and time stamped when received. Proposals received at Metro after the final filing date and time will be rejected.

2. All proposals will be reviewed to determine if they satisfy the requirements specified in Section IV. Incomplete proposals or those not meeting the proposal requirements may, at the discretion of Metro, be rejected.

F. Evaluation

Proposals will undergo an evaluation process conducted by a committee of representatives from Metro. This selection committee will make its recommendations to the Director: Finance for final approval. The committee will evaluate the proposals based on the criteria for selection set forth below.

G. Criteria for Selection

The criteria for selection shall include the following:

1. Demonstrated record of the firm's experience as financial advisor.
2. Quality of services provided to major municipal clients.
3. Demonstrated understanding of Metro's financial needs.
4. The qualifications, experience and availability of the lead person(s) and any other individuals assigned to this engagement.
5. Overall completeness, clarity, quality of proposal, creativity of ideas and responsiveness to the RFP.

Proposers may be requested by Metro to clarify the contents of their proposal. Other than to provide such information as may be required by Metro, including material changes to Sections IV. A.1, IV. A.2 and IV. A.3 of the RFP, no proposer will be allowed to alter its proposal or add new information after the final filing date. Metro reserves the right to reject any and all proposals submitted and/or to request additional information from all proposers.

Metro reserves the right, in its sole discretion, to reject any and all responses to this RFP and to waive any minor irregularities or informalities in a response. Firms whose proposals are not accepted will be notified in writing. The selection of Financial Advisor is scheduled to be made in late May or June of 2001.

H. Interviews

Following the evaluation of proposals as provided above, Metro's selection committee will determine whether the finalists will be interviewed.

## VI. FINAL APPROVAL OF ENGAGEMENT

Metro's selection of the successful proposers will not be binding until Metro's Director: Finance has approved it. The duration of the term of service will be determined in the future. Performance of the financial advisory team will be reviewed on an ongoing basis.

Appendix D

DRAFT

July 1, 2001

The Durban Metro Council ("Metro") is soliciting proposals from experienced firms to act as Senior Managing and Co-Managing Underwriters to Metro.

Metro requests that no later than 5:00 p.m. on August 14, 2001 each respondent submit 8 copies of a written response to the enclosed Request for Proposals ("RFP) to:

Rory Turner
Director: Finance
Corporate Financial Services
Durban Metropolitan & North &
South Central Local Councils
1st Floor, Martin West building
251 Smith Street
Durban, South Africa 4000

All questions with respect to the RFP should be addressed to Rory Turner. No other contact with Metro Council members, staff or consultants regarding this RFP will be allowed during the pendency of this RFP. Any contact with these individuals, other than as set forth in this RFP, shall be grounds for disqualification.

We look forward to the interest and participation of your firm in this RFP.

Sincerely,

Rory Turner
Director : Finance

Enclosures:

RFP
Statute
Durban Metro
Durban Metro Capital Improvement Plan
Durban Metro Financial Report

Metro is soliciting firms through this Request for Proposals ("RFP") to serve as Senior Managing and Co-Managing Underwriters as described below. The selected firms will be responsible for serving as the underwriting team for Metro's financing program for the next three years. Respondents should be experienced in providing underwriting services and be an active firm in trading debt issues in South Africa.

## I. CALENDAR OF EVENTS

| | |
|---|---|
| Issuance of RFP | July 1, 2001 |
| RFP Due Date | August 14, 2001 |
| Interviews (if necessary) | August/September 2001 |
| Selection of Senior Managing Underwriters | August/September 2001 |
| Selection of Co-Managing Underwriters | August/September 2001 |

## II. BACKGROUND

Metro is a local governmental unit and instrumentality of the Republic of South Africa. Its operations are controlled by the Council, and certain laws and regulations as passed by the National Legislature and the constitution.

The Metro Council has authorized, in order to build additional infrastructure assets to enhance the sustainability of Durham, an external financing program for fiscal 2002 in the amount of approximately R1.2 billion. In the past, Metro has issued municipal stock which was privately placed. We now wish to explore the possibility of selling up to R1.2 billion municipal stock in the public market. We will make a decision to issue municipal stock based upon our analysis of alternative financing costs and the long term benefits of various alternatives including municipal stock. We may also use various other instruments to finance our 2002 capital improvement program.

As indicated in our estimated five year capital improvement program which is attached, we will need on average at least R750 million per year. This amount is subject to change based on capital needs, revenues and the overall economic condition of Durban Metro. We expect, therefore, that the underwriting team selected will serve Metro for a period of at least three years. The tenure of the underwriting firm, of course, can be charged depending upon performance and their capital position.

## III. SERVICES REQUIRED OF SENIOR MANAGING AND CO-MANAGING UNDERWRITERS

A. The Senior Managing Underwriters shall perform the following services, as directed by Metro:

1. Recommend structures for specific debt issuance and alternatives to achieve overall targeted debt service at the lowest cost;

2. Assist in the drafting and review of relevant documents such as offering circular, resolutions, etc.;

3. Assist in meeting with and developing credit structures for presentation to the rating agencies and credit enhancers;

4. Identify financing opportunities available to Metro;

5. Provide recommendations with respect to, and implementation of marketing programs, including investor meetings and conferences; distribute preliminary and final offering circular to investors and regulators;

6. Manage the underwriting process as well as assist in market.timing and minimizing Metro's total debt issued, overall interest cost and annual debt service requirements;

7. Commit substantial capital, as required, in underwriting the Metro's stock;

8. Provide post-closing analysis of stock issuances including pricing, orders, allotments, etc.;

9. Provide secondary market support; and

10. Provide such other services as requested by Metro.

Metro intends to establish underwriters' compensation that is consistent with achieving the lowest all-in borrowing cost. The final underwriters' compensation will be subject to the agreement of Metro and the underwriting team after the financing structure is finalized.

B. The Co-Managing Underwriters shall perform the following services in coordination with the Senior Managing Underwriters:

1. Assist in marketing and distribution of stock, and

2. Provide support for the stock in the secondary market.

## IV. PROPOSAL REQUIREMENTS

A. <u>Information to be Provided</u>

The following is a listing of the information to be provided by the proposer. A proposal that does not include all the information required below shall be subject to rejection. Please provide the information in the same order using corresponding numbers as presented. Respondents are require to limit their submissions including the cover letter to 25 single-sided pages for Senior Managing Underwriters and 10 single-sided pages for Co-Managing Underwriters. Responses should be prepared on 8 ½ x 11 inch paper using at least 10-point type with standard margins.

You are requested to provide resumes of team members and a copy of your firm's Affirmative Action Policy as an appendix to your proposal. Joint proposals will not be considered. You are requested to attach as an appendix your firm's latest financial report.

All information included in the responses to this Request for Proposals shall become the property of Metro.

All proposers will have an obligation to update their proposals to reflect any material changes to Sections IV. A. I, IV. A. 2 and IV. A. 3 of their proposal prior to the Metro's selection of Senior Managing and Co-Managing Underwriters. All proposers agree to be bound by the terms of this RFP and their submissions hereunder.

1. Cover Letter (All Firms)

A cover letter, addressed to Rory Turner, Director: Finance, which shall be considered an integral part of the proposal, shall be signed by an individual or individuals authorized to contractually bind the proposer. The letter shall also contain the following:

a) Each firm must certify in writing that its participation in the proposed issuances will not create any conflict of interest involving that firm. Identify and work your firm has done for Metro or any of its political subdivisions over the past three years, including any formal or informal work relating to the planning or implementation of any financial plans. Identify any conflicts your firm may have as a result of the ownership of debt securities whose value has been, or may be, affected by this transaction. Also, explicitly describe your firm's procedures for conflict of interest resolutions. If you believe that a conflict of interest may arise as a result of your participation in Metro's transaction as underwriter, please describe the nature of the conflict as well as how such conflict would be resolved.

b) Include a description of any financial or joint marketing arrangements your firm my have. Also, describe any direct or indirect consulting arrangements your firm has or had had, that could pertain to Metro or its proposed transactions.

c) Please state whether your firm is interested in being considered for a Senior Managing or Co-Managing Underwriter position or both.

2. General Information (All Firms)

a) Provide the name, title, address, telephone number and fax number of the individual Metro should contact with respect to your proposal. Make a statement regarding the availability of this individual throughout this engagement

b) Provide a brief description of your firm and its ownership structure. Discuss your firm' public finance and municipal sales, trading and underwriting departments and your firm's continuing commitments to these areas. Explain any significant changes in staffing and/or organization of your firm's public finance and municipal sales, trading and underwriting departments since January 1, 1999. Describe any plans to significantly change your corporate presence in South Africa.

c) Please provide your firm's fiscal year end (i) Net Capital, (ii) Aggregate Indebtedness, and (iii) Ratio of Aggregate indebtedness to Net Capital for your most recent three completed fiscal years. In general terms, what are (or would be) your firm's process and criteria for making capital commitments to an underwriting of an issuance of Metro stock.

d) Discuss any past or present civil or criminal legal investigations, pertinent litigation and/or regulatory action involving your firm or its employees which could impact, or might reasonable be perceived to impact, your role or ability to serve as Senior Managing or Co-Managing Underwriter to Metro.

3. Team Members (All Firms)

a) Describe the team of individuals that will be assigned to Metro's account from your firm and their relevant experience. Provide a description of the role which each of these members will have on the transaction. Provide resumes of these individuals in an appendix to your response (this appendix will not count against the applicable page limits).

b) Provide no more than three references for the primary contact of your team.

4. Experience

a) Provide a summary of your firm's experience over the last three years as a Senior Managing or Co-Managing Underwriter for each of the following:

(i) negotiated, large scale, first time municipal financings programs; and
(ii) negotiated, large scale South Africa financings.

For each category, discuss one financing that is most relevant to this RFP. Provide an issuer reference for each financing.

b) Describe any issuer, including RSA debt for which your firm makes a secondary market.

c) Describe what municipal loan activity your firm has done over the last three years.

5. Rating Strategy – Proposers are requested not to contact either the rating agencies or credit enhancers.

a) Discuss your recommended rating agency strategy for the Metro financing program. What do you think will be the primary concerns of the rating agencies and how would you advise Metro to address their concerns?

b) Based on your firm's knowledge and experience with new credits, what bond rating(s) do you expect? What strategies would you recommend to obtain the highest ratings?

c) What covenants or constraints do you believe will have the most impact on the final credit rating?

d) What strategies or recommendations does your firm have for Metro in presenting itself as a first time issuer?

6. Financing Plan

a) Describe what you believe to be the best structure of the stock issue that will result in the lowest cost financing in the current interest rate environment. This must be balanced with the average asset life of:

| | |
|---|---|
| 22% | in 3 years |
| 22% | in 5 years |
| 1% | in 10 years |
| 37% | in 20 years |
| 18% | in 25 years |

While this is the current expectation, the financial plan does not have to exactly follow this in the maturity structure.

b) What ideas do you have to reduce interest costs to Metro aside from fixed rate versus variable rate debt, bond insurance and derivatives?

c) Comment on the need for a funded debt service reserve.

d) Comment on the use of an invested "0" coupon in order to provide for funds to pay principal when due.

e) What specific role do you see for derivative products for this program? What is your firm's experience with structuring and implementing the specific products you are recommending? Would your firm act as principal or agent in administering these products and what are the counterparty's credit ratings?

7.1 Marketing and Distribution (Senior Managing Underwriter only)

a) Provide your recommendations on how to effectively market the fixed rate, long term portion of the financing based on your answers to Section IV. A. 5 and 6. Discuss the current market environment for such a transaction.

b) Discuss your firm's retail distribution capability within South Africa. What special marketing strategy, if any, should be considered with respect to Durban retail investors.

c) Metro would like to monitor the secondary market for its securities after the close of its initial financing. What specific data can your firm provide to Metro in this respect, assuming quarterly updates for a 12 month period from closing?

7.2 Marketing and Distribution (Co-Managing Underwriters)

a) Discuss your recommendations for an effective distribution of securities in your role as Co-Managing Underwriter. What do you see as your role and how will you interact with the Senior Managing Underwriter?

b) Provide a description of specific transaction(s) where your role as Co-Managing Underwriter led to an effective distribution of the issuer's securities. Include data on your firm's orders and allotments for the transaction.

c) Discuss your firm's retail distribution capability within South Africa. What special marketing strategy, if any, should be considered with respect to Durban retail investors.

8. Other Information (All Firms)

a) Discuss any other items which you feel are relevant to your selection as a Senior Managing or Co-Managing Underwriter to Metro.

B. <u>Administrative Specifications</u>

1. The proposers should submit 8 copies of their proposal, as directed below.

2. All proposals must be firm for 90 days, and signed by an authorized officer of the firm.

3. The successful bidder must agree to provide Metro with audit access on request during the term of the contract and for seven years after the term of the contract.

C. <u>Addenda: Errors and Omissions</u>

If a proposer discovers any ambiguity, conflict, discrepancy, omission or other error in this RFP, immediately notify Metro's Director: Finance of such error and request clarification or modification to the document. Verbal notification must be confirmed in writing.

Should Metro find it necessary, modification will be made by addenda. Such clarifications may be given by written notice to all parties who have been furnished an RFP.

If a proposer fails prior to the final filing date for submission to notify Metro of a known error or an error that reasonably should have been known, the proposer shall assume the risk. If awarded the contract, the proposer shall not be entitled to additional compensation or time by reason of the error or its late correction.

D. Submission of Proposals

Eight copies of your proposal are due no later than 5:00 p.m. on August 14, 2001, in a sealed package or packages. Responses received after this deadline will not be considered, nor will faxed responses whenever received. Materials should be delivered as follows:

Rory Turner
Director: Finance
Corporate Financial Services
Durban Metropolitan & North &
South Central Local Councils
1st Floor, Martin West building
251 Smith Street
Durban, South Africa 4000

Metro will not reimburse for any expense incurred in connection with this RFP including the cost of preparing the initial response, any additional information and travel expenses relating to an oral interview.

## V. EVALUATION OF PROPOSALS

The selection process will begin with the review and evaluation of each of the written proposals. The purpose of this evaluation process is twofold: (1) to assess the responses for compliance with proposal requirements; and (2) to identify the proposers that have the highest probability of satisfactorily performing these underwriting services and thereby achieving Metro's objectives. The evaluation process also may include reference checks and will be conducted in a comprehensive and impartial manner.

A. Preliminary Review

1. Each proposal will be date and time stamped when received. Proposals received at Metro after the final filing date and time will be rejected.

2. All proposals will be reviewed to determine if they satisfy the requirements specified in Section IV. Incomplete proposals or those not meeting the proposal requirements may, at the discretion of Metro, be rejected.

B. Evaluation

Proposals will undergo an evaluation process conducted by a committee of representatives from Metro and its advisors. This selection committee will make its recommendations to the Director: Finance for final approval. The committee will evaluate the proposals based on the criteria for selection set forth below.

C. Criteria for Selection

The criteria for selection shall include the following:

1. Demonstrated record of the firm's experience as underwriter or lenders to large issuers of debt and secondary market making.
2. Quality of marketing and other services provided to major municipal clients.
3. Demonstrated understanding of Metro's financial needs.
4. The qualifications, experience and availability of the lead person(s) and any other individuals assigned to this engagement.
5. Overall completeness, clarity, quality of proposal, creativity of ideas and responsiveness to the RFP.

Proposers may be requested by Metro to clarify the contents of their proposal. Other than to provide such information as may be required by Metro, including material changes to Sections IV. A.1, IV. A.2 and IV. A.3 of the RFP, no proposer will be allowed to alter its proposal or add new information after the final filing date. Metro reserves the right to reject any and all proposals submitted and/or to request additional information from all proposers.

Metro reserves the right, in its sole discretion, to reject any and all responses to this RFP and to waive any minor irregularities or informalities in a response. Firms whose proposals are not accepted will be notified in writing. The selection of Senior Managing Underwriters is scheduled to be made in late August or early September of 2001, and the selection of Co-Managing Underwriters is scheduled to be made at the same time or shortly thereafter.

D. Interviews

Following the evaluation of proposals as provided above, Metro's selection committee will determine whether the finalists will be interviewed.

VI. FINAL APPROVAL OF ENGAGEMENT

Metro's selection of the successful proposers will not be binding until Metro's Director: Finance has approved it. The rotation and the duration of the term of service will be determined in the future. Performance of the underwriting team will be reviewed on an ongoing basis and members of the underwriting team may be eliminated, substituted or added at any time. In addition, an open door policy with underwriting firms will be maintained for new and innovative ideas. Ideas will be reviewed on an ongoing basis and transactions awarded where appropriate.

Appendix E

DRAFT

July 1, 2001

The Durban Metro Council ("Metro") is soliciting proposals from experienced firms to act as Corporate Trustee to Metro.

Metro requests that no later than 5:00 p.m. on August 14, 2001 each respondent submit 8 copies of a written response to the enclosed Request for Proposals ("RFP) to:

Rory Turner
Director: Finance
Corporate Financial Services
Durban Metropolitan & North &
South Central Local Councils
1st Floor, Martin West building
251 Smith Street
Durban, South Africa 4000

All questions with respect to the RFP should be addressed to Rory Turner. No other contact with Metro Council members, staff or consultants regarding this RFP will be allowed during the pendency of this RFP. Any contact with these individuals, other than as set forth in this RFP, shall be grounds for disqualification.

We look forward to the interest and participation of your firm in this RFP.

Sincerely,

Rory Turner
Director : Finance

Enclosures:

RFP
Statute
Durban Metro
Durban Metro Capital Improvement Plan
Durban Metro Financial Report

DRAFT

REQUEST FOR PROPOSALS
FOR TRUSTEE AND RELATED SERVICES

Durban Metro Council

## Introduction

The Durban Metro Council ("Metro"), hereby solicits proposals from firms to offer trustee and related services, including escrow agent, paying agent and tender agent services, and, as such, to establish certain funds and accounts for the operations of Metro, including funds and accounts for revenues and debt service.

Over the next five years, Metro expects to issue up to about R4.2 billion of new money stock in multiple financings under an Indenture to be entered into between Metro and the Trustee to be named. Metro expects to issue various debt issues, including bank loans, which would not need some of the trust services and to use the services of the Central Depository Ltd., for the issuance and transfer of municipal stock.

## Background

Metro is a local governmental unit and instrumentality of the Republic of South Africa. Its operations are controlled by the Council, and certain laws and regulations as passed by the National Legislature and the constitution.

The Metro Council has authorized, in order to build additional infrastructure assets to enhance the sustainability of Durban, an external financing program for fiscal 2002 in the amount of approximately R1.2 billion. In the past, Metro has issued municipal stock which was privately placed. We now wish to explore the possibility of selling up to R1.2 billion municipal stock in the public market. We will make a decision to issue municipal stock based upon our analysis of alternative financing costs and the long term benefits of various alternatives including municipal stock. We may also use various other instruments to finance our 2002 capital improvement program.

As indicated in our estimated five year capital improvement program which is attached, we will need on average at least R750 million per year. This amount is subject to change based on capital needs, revenues and the overall economic condition of Durban Metro. We expect, therefore, that the Trustee selected will serve Metro for a period of at least three years. The tenure of the Trustee, of course, can be changed depending upon performance and their capital position.

The municipal stock is expected to be payable from general revenues of Metro.

The implementation of the financing plan is dependent upon, among other things, market conditions and satisfaction of the requirements of third parties, such as bond rating agencies and underwriters.

Scope of Services

The selected firm for each credit will be required to provide the services assigned from time to time, including those listed below. Metro may terminate the services of any selected firm at any time upon written notice as provided by the stock resolutions. It is expected that each issue of stock will be book entry only and deposited with the Central Depository Ltd. And listed on the Bond Exchange of South Africa.

A. Trustee

Initial Responsibilities;

1. Review and comment on provisions relating to the Trustee contained in the relevant indentures and other financing documents, as appropriate.

2. Attend document meetings and stock closings as requested by Metro.

3. Establish Metro's related funds and accounts, as such funds and accounts can be established, in the sole discretion of Metro, at banks other than the Trustee.

4. Receive and apply the proceeds of the stock issue upon each issuance in accordance with the provisions of the Indenture.

Ongoing Responsibilities:

1. Maintain, monitor and administer the accounts of Metro in accordance with the specific stock resolution.

2. Provide monthly statements of fund and account activity to Metro, Metro's investment managers, if any and others as designated.

3. Provide daily cash and investment activity reports in an electronic format.

4. Provide information to Metro's auditors and consultants, as requested.

5. Perform compliance reporting.

6. Preserve and service any collateral or security interest.

7. Make payments and transfers as directed by Metro.

8. Establish new accounts as required.

9. Work with Metro's independent investment advisor(s), if any.

B. Escrow Agent

1. Maintain and administer the escrow funds of Metro in accordance with escrow agreements.

2. Provide monthly statements of fund and account activity to Metro.

3. Establish and maintain new accounts as required.

4. Upon the direction of Metro, release funds, reinvest earnings and otherwise cooperate in the restructuring of escrows, in each case to the extent permitted by the terms of the related documents.

C. Registrar (if necessary). This may be done by the Central Depository Ltd.

1. Maintain and keep books for the registration and transfer of stock.

2. Act as Metro's agent in the registration, transfer or exchange of stock.

3. Issue and authenticate new stock in the event of transfer or exchange.

4. Maintain all stockholder accounts with continuous proof of principal outstanding.

5. Establish new stockholder accounts.

6. Perform administrative functions relating to special transfers, processing changes to stockholder records, obtaining taxpayer identification numbers, etc.

7. Provide a toll free number for stockholder inquiries.

D. Paying Agent

1. Make payment of principal and interest, when due, for fixed rate and any variable rate financings, and which could be more frequently than semi-annually.

2. Service stockholder claims for non-payment.

3. Provide a toll free number for stockholder inquiries.

4. Act as Issuing and Paying Agent in connection with any commercial paper issued under the indentures.

E. Tender Agent

1. Act as tender agent for any variable rate or put stocks.

2. Provide a toll free number for stockholder inquiries.

In each of the foregoing capacities, the selected firm for each credit will maintain arrangements with Central Depository Ltd., or its successor, for book-entry stock and comply with such arrangements in performing its duties under the stock resolutions(s).

Contents of Proposal

The following is a listing of the information to be provided by the Proposers. Submissions that do not include all the information required below shall be subject to rejection. Please provide the information in the same order using corresponding numbers as presented. Respondents are requested to keep their submissions to the shortest length possible consistent with addressing each information request completely. The submission should not exceed 15 pages including the cover letter, except as otherwise specified. All information included in the responses to this RFP shall become the property of Metro.

A. Qualifications

Please provide the following information:

1. A brief description of your firm and its organizational structure;

2. A statement that your firm is a bank or trust company organized under the laws of South Africa;

3. A copy of your most recent annual report. Please note: your firm must have a combined capital and surplus of at least R______________.

4. Describe in detail the services you would provide to Metro as Trustee, Paying Agent, Registrar, Escrow Agent and Tender Agent, including your ability to allow Metro, using its licensed software, to access your daily activity reports electronically;

5. List five clients who have outstanding financing programs of at least R___ ______ with a similar level of complexity and identify in detail the services you have provided for each. Where appropriate, list the name, title and telephone number for each person who Metro may contact to provide first-hand information about your services. Please note: in submitting these names, you release Metro from any liability for use of information provided by such persons in the evaluation process;

6. Provide resumes of the individuals who will be responsible for servicing Metro's account, including any experience with the clients referenced above;

7. Provide a description of the on-line computer network services you have with dealers and remarketing agents of various obligations;

8. Explain your experience as Trustee for municipal issuers that have utilized or are currently utilizing derivative products such as interest rate swaps and inverse floating rate securities;

9. Indicate the law firm and the name(s) of the attorney(s) which you would expect to use as your counsel. If you intend to use your internal counsel, please state the name of the attorney who would be assigned; and

10. Please provide a copy of your firm's affirmative action plan.

B. Fees

Please provide a schedule of proposed fees, indicating the fee for each service to be provided. The proposed fee schedule should also include an all-inclusive annual fee for providing all of the services outlined above. The cost of investment activity should be separated from other fees. In addition, provide a schedule of legal fees and any additional fees for miscellaneous items.

C. Litigation/Conflicts of Interest

Please identify any litigation or administrative proceedings to which you are a party and which would either (i) materially impair your ability to perform the services enumerated herein and for which this RFP was issued or (ii) if decided in an adverse manner, materially affect the financial condition of your firm.

Please disclose any existing or contemplated relationship(s) with any other person or entity, including relationship(s) with any parent, subsidiary or affiliated firm, that would constitute an actual or potential conflict of interest in connection with your rendering services as Trustee, Registrar, Escrow Agent or Tender Agent.

D. Cover Letter

Please provide a cover letter as indicated below.

<u>Proposal Submission</u>

A. Cover Letter

A cover letter, which shall be considered an integral part of the proposal shall be signed by the individual or individuals authorized to bind the Proposer contractually. The letter shall also contain the following:

1. A statement to the effect that the price terms quoted in the proposal is an irrevocable offer for 90 days.

2. Name and telephone number of the official within the firm who will be Metro's primary contact.

3. Certification that its services as Trustee, Registrar, Escrow Agent, Paying Agent or Tender Agent will not create any conflict of interest.

4. A statement that your firm will allow the establishment of trustee accounts at other financial institutions which meet the requirements of a trustee under the bond resolution.

B. Submission Address and Number of Copies

Please submit five (5) copies of your response to:

Rory Turner
Director: Finance
Corporate Financial Services
Durban Metropolitan & North &
South Central Local Councils
1st Floor, Martin West building
251 Smith Street
Durban, South Africa 4000

C. Deadline

RESPONSES MUST BE RECEIVED AT THE ABOVE ADDRESS NO LATER THAN 5:00 P.M. ON AUGUST 14, 2001. PROPOSALS RECEIVED AFTER THIS DEADLINE WILL NOT BE CONSIDERED. FAXED PROPOSALS WILL NOT BE ACCEPTED.

D. Inquiries

Any inquiries concerning this RFP should be directed to Rory Turner.

Evaluation and Selection

Selection will be made on the basis of the criteria listed below and such other criteria as Metro considers appropriate.

A. Qualification and Experience

The quality and depth of the Proposer's prior experience, expertise and capability in providing services to similar clients. Metro will give particular attention to Proposers that have experience with large and complicated financing programs.

B. Assistance to Metro

The Proposer's understanding of the administrative issues connected with Trustee services for Metro and the potential impact on the operating cash flow process of Metro.

C. Personnel

The prior related experience of the Proposer's proposed project team and commitment of significant resources with appropriate expertise to fulfill all responsibilities and to provide exemplary fiduciary services.

D. Responsiveness to the RFP

Cohesiveness, conciseness, clarity and readability of the Proposal.

D. Compensation

The nature and amount of the fees and other charges proposed for services to be rendered.

Proposed Schedule

The estimated schedule for selection is as follows:

| Task | Date |
|---|---|
| 1. Release RFP | July 1, 2001 |
| 2. Receive submissions | August 14, 2001 |
| 3. Select Information Agent(s) | September 15, 2001 |

The proposer must be available and prepared to work with Metro's financing team immediately upon selection.

Additional Information

A. Proposal Acceptance

This RFP does not commit Metro to award a contract, pay any costs incurred in the preparation of a response, or procure or contract for services or supplies of any kind whatsoever. Metro reserves the right, in its sole and absolute discretion, to accept or reject any or all responses as a result of this RFP in whole or part. The Proposer will be expected to abide by any terms and conditions in its Proposal. Final selection of the Proposer will be subject to the approval of Metro's Director: Finance and assurances from the Proposer regarding the proper execution of the proposed contract.

B. Costs

All responses submitted are made at the sole cost of the Proposer.

C. Oral Interviews

Proposers may be required to participate in oral interviews and to submit price, technical or other revisions to their Proposals following such interviews.

D. Ownership of Materials

All materials submitted in response to this RFP will become the property of Metro. Metro reserves the right to waive any informality or irregularity in any proposal.

SOURCES AND USES OF FUNDS

MOCK PROJECT
Scenario One A, Level Debt

| | |
|---|---|
| Dated Date | 07/01/2001 |
| Delivery Date | 07/01/2001 |

| Sources: | |
|---|---|
| Bond Proceeds: | |
| Par Amount | 1,000,000,000.00 |
| | 1,000,000,000.00 |

| Uses: | |
|---|---|
| Delivery Date Expenses: | |
| Cost of Issuance | 30,000,000.00 |
| Other Uses of Funds: | |
| Additional Proceeds | 970,000,000.00 |
| | 1,000,000,000.00 |

## BOND SUMMARY STATISTICS



MOCK PROJECT
Scenario One A, Level Debt

| | |
|---|---|
| Dated Date | 07/01/2001 |
| Delivery Date | 07/01/2001 |
| Last Maturity | 07/01/2027 |
| | |
| Arbitrage Yield | 13.503870% |
| True Interest Cost (TIC) | 13.503870% |
| Net Interest Cost (NIC) | 13.567062% |
| All-In TIC | 13.969284% |
| Average Coupon | 13.567062% |
| | |
| Average Life (years) | 19.613 |
| Duration of Issue (years) | 7.067 |
| | |
| Par Amount | 1,000,000,000.00 |
| Bond Proceeds | 1,000,000,000.00 |
| Total Interest | 2,660,961,422.50 |
| Net Interest | 2,660,961,422.50 |
| Total Debt Service | 3,660,961,422.50 |
| Maximum Annual Debt Service | 140,810,779.00 |
| Average Annual Debt Service | 140,806,208.56 |
| | |
| Underwriter's Fees (per $1000) | |
| Average Takedown | |
| Other Fee | |
| | |
| Total Underwriter's Discount | |
| | |
| Bid Price | 100.000000 |

| Bond Component | Par Value | Price | Average Coupon | Average Life |
|---|---|---|---|---|
| Serials | 1,000,000,000.00 | 100.000 | 13.567% | 19.613 |
| | 1,000,000,000.00 | | | 19.613 |

| | TIC | All-In TIC | Arbitrage Yield |
|---|---|---|---|
| Par Value | 1,000,000,000.00 | 1,000,000,000.00 | 1,000,000,000.00 |
| + Accrued Interest | | | |
| + Premium (Discount) | | | |
| - Underwriter's Discount | | | |
| - Cost of Issuance Expense | | -30,000,000.00 | |
| - Other Amounts | | | |
| Target Value | 1,000,000,000.00 | 970,000,000.00 | 1,000,000,000.00 |
| Target Date | 07/01/2001 | 07/01/2001 | 07/01/2001 |
| Yield | 13.503870% | 13.969284% | 13.503870% |

BOND PRICING

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MOCK PROJECT
Scenario One A, Level Debt

| Bond Component | Maturity Date | Amount | Rate | Yield | Price |
|---|---|---|---|---|---|
| Serials: | 07/01/2002 | 5,505,000 | 10.920% | 10.920% | 100.000 |
| | 07/01/2003 | 6,105,000 | 11.410% | 11.410% | 100.000 |
| | 07/01/2004 | 6,800,000 | 11.910% | 11.910% | 100.000 |
| | 07/01/2005 | 7,610,000 | 12.390% | 12.390% | 100.000 |
| | 07/01/2006 | 8,555,000 | 12.840% | 12.840% | 100.000 |
| | 07/01/2007 | 9,655,000 | 13.220% | 13.220% | 100.000 |
| | 07/01/2008 | 10,930,000 | 13.520% | 13.520% | 100.000 |
| | 07/01/2009 | 12,410,000 | 13.710% | 13.710% | 100.000 |
| | 07/01/2010 | 14,110,000 | 13.790% | 13.790% | 100.000 |
| | 07/01/2011 | 16,060,000 | 13.790% | 13.790% | 100.000 |
| | 07/01/2012 | 18,275,000 | 13.760% | 13.760% | 100.000 |
| | 07/01/2013 | 20,785,000 | 13.730% | 13.730% | 100.000 |
| | 07/01/2014 | 23,640,000 | 13.700% | 13.700% | 100.000 |
| | 07/01/2015 | 26,880,000 | 13.680% | 13.680% | 100.000 |
| | 07/01/2016 | 30,555,000 | 13.650% | 13.650% | 100.000 |
| | 07/01/2017 | 34,725,000 | 13.630% | 13.630% | 100.000 |
| | 07/01/2018 | 39,460,000 | 13.610% | 13.610% | 100.000 |
| | 07/01/2019 | 44,830,000 | 13.590% | 13.590% | 100.000 |
| | 07/01/2020 | 50,920,000 | 13.580% | 13.580% | 100.000 |
| | 07/01/2021 | 57,835,000 | 13.570% | 13.570% | 100.000 |
| | 07/01/2022 | 65,685,000 | 13.560% | 13.560% | 100.000 |
| | 07/01/2023 | 74,590,000 | 13.550% | 13.550% | 100.000 |
| | 07/01/2024 | 84,695,000 | 13.550% | 13.550% | 100.000 |
| | 07/01/2025 | 96,175,000 | 13.550% | 13.550% | 100.000 |
| | 07/01/2026 | 109,205,000 | 13.550% | 13.550% | 100.000 |
| | 07/01/2027 | 124,005,000 | 13.550% | 13.550% | 100.000 |
| | | 1,000,000,000 | | | |

| | | |
|---|---|---|
| Dated Date | 07/01/2001 | |
| Delivery Date | 07/01/2001 | |
| First Coupon | 07/01/2002 | |
| Par Amount | 1,000,000,000.00 | |
| Original Issue Discount | | |
| Production | 1,000,000,000.00 | 100.000000% |
| Underwriter's Discount | | |
| Purchase Price | 1,000,000,000.00 | 100.000000% |
| Accrued Interest | | |
| Net Proceeds | 1,000,000,000.00 | |

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BOND DEBT SERVICE



MOCK PROJECT
Scenario One A, Level Debt

| Period Ending | Principal | Coupon | Interest | Debt Service | Annual Debt Service |
|---|---|---|---|---|---|
| 07/01/2001 | | | | | |
| 07/01/2002 | 5,505,000 | 10.920% | 135,300,707.50 | 140,805,707.50 | 140,805,707.50 |
| 01/01/2003 | | | 67,349,780.75 | 67,349,780.75 | |
| 07/01/2003 | 6,105,000 | 11.410% | 67,349,780.75 | 73,454,780.75 | 140,804,561.50 |
| 01/01/2004 | | | 67,001,490.50 | 67,001,490.50 | |
| 07/01/2004 | 6,800,000 | 11.910% | 67,001,490.50 | 73,801,490.50 | 140,802,981.00 |
| 01/01/2005 | | | 66,596,550.50 | 66,596,550.50 | |
| 07/01/2005 | 7,610,000 | 12.390% | 66,596,550.50 | 74,206,550.50 | 140,803,101.00 |
| 01/01/2006 | | | 66,125,111.00 | 66,125,111.00 | |
| 07/01/2006 | 8,555,000 | 12.840% | 66,125,111.00 | 74,680,111.00 | 140,805,222.00 |
| 01/01/2007 | | | 65,575,880.00 | 65,575,880.00 | |
| 07/01/2007 | 9,655,000 | 13.220% | 65,575,880.00 | 75,230,880.00 | 140,806,760.00 |
| 01/01/2008 | | | 64,937,684.50 | 64,937,684.50 | |
| 07/01/2008 | 10,930,000 | 13.520% | 64,937,684.50 | 75,867,684.50 | 140,805,369.00 |
| 01/01/2009 | | | 64,198,816.50 | 64,198,816.50 | |
| 07/01/2009 | 12,410,000 | 13.710% | 64,198,816.50 | 76,608,816.50 | 140,807,633.00 |
| 01/01/2010 | | | 63,348,111.00 | 63,348,111.00 | |
| 07/01/2010 | 14,110,000 | 13.790% | 63,348,111.00 | 77,458,111.00 | 140,806,222.00 |
| 01/01/2011 | | | 62,375,226.50 | 62,375,226.50 | |
| 07/01/2011 | 16,060,000 | 13.790% | 62,375,226.50 | 78,435,226.50 | 140,810,453.00 |
| 01/01/2012 | | | 61,267,889.50 | 61,267,889.50 | |
| 07/01/2012 | 18,275,000 | 13.760% | 61,267,889.50 | 79,542,889.50 | 140,810,779.00 |
| 01/01/2013 | | | 60,010,569.50 | 60,010,569.50 | |
| 07/01/2013 | 20,785,000 | 13.730% | 60,010,569.50 | 80,795,569.50 | 140,806,139.00 |
| 01/01/2014 | | | 58,583,679.25 | 58,583,679.25 | |
| 07/01/2014 | 23,640,000 | 13.700% | 58,583,679.25 | 82,223,679.25 | 140,807,358.50 |
| 01/01/2015 | | | 56,964,339.25 | 56,964,339.25 | |
| 07/01/2015 | 26,880,000 | 13.680% | 56,964,339.25 | 83,844,339.25 | 140,808,678.50 |
| 01/01/2016 | | | 55,125,747.25 | 55,125,747.25 | |
| 07/01/2016 | 30,555,000 | 13.650% | 55,125,747.25 | 85,680,747.25 | 140,806,494.50 |
| 01/01/2017 | | | 53,040,368.50 | 53,040,368.50 | |
| 07/01/2017 | 34,725,000 | 13.630% | 53,040,368.50 | 87,765,368.50 | 140,805,737.00 |
| 01/01/2018 | | | 50,673,859.75 | 50,673,859.75 | |
| 07/01/2018 | 39,460,000 | 13.610% | 50,673,859.75 | 90,133,859.75 | 140,807,719.50 |
| 01/01/2019 | | | 47,988,606.75 | 47,988,606.75 | |
| 07/01/2019 | 44,830,000 | 13.590% | 47,988,606.75 | 92,818,606.75 | 140,807,213.50 |
| 01/01/2020 | | | 44,942,408.25 | 44,942,408.25 | |
| 07/01/2020 | 50,920,000 | 13.580% | 44,942,408.25 | 95,862,408.25 | 140,804,816.50 |
| 01/01/2021 | | | 41,484,940.25 | 41,484,940.25 | |
| 07/01/2021 | 57,835,000 | 13.570% | 41,484,940.25 | 99,319,940.25 | 140,804,880.50 |
| 01/01/2022 | | | 37,560,835.50 | 37,560,835.50 | |
| 07/01/2022 | 65,685,000 | 13.560% | 37,560,835.50 | 103,245,835.50 | 140,806,671.00 |
| 01/01/2023 | | | 33,107,392.50 | 33,107,392.50 | |
| 07/01/2023 | 74,590,000 | 13.550% | 33,107,392.50 | 107,697,392.50 | 140,804,785.00 |
| 01/01/2024 | | | 28,053,920.00 | 28,053,920.00 | |
| 07/01/2024 | 84,695,000 | 13.550% | 28,053,920.00 | 112,748,920.00 | 140,802,840.00 |
| 01/01/2025 | | | 22,315,833.75 | 22,315,833.75 | |
| 07/01/2025 | 96,175,000 | 13.550% | 22,315,833.75 | 118,490,833.75 | 140,806,667.50 |
| 01/01/2026 | | | 15,799,977.50 | 15,799,977.50 | |
| 07/01/2026 | 109,205,000 | 13.550% | 15,799,977.50 | 125,004,977.50 | 140,804,955.00 |
| 01/01/2027 | | | 8,401,338.75 | 8,401,338.75 | |
| 07/01/2027 | 124,005,000 | 13.550% | 8,401,338.75 | 132,406,338.75 | 140,807,677.50 |
| | 1,000,000,000 | | 2,660,961,422.50 | 3,660,961,422.50 | 3,660,961,422.50 |

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## SOURCES AND USES OF FUNDS



### MOCK PROJECT
Scenario One, Level Debt

| | |
|---|---|
| Dated Date | 07/01/2001 |
| Delivery Date | 07/01/2001 |

| Sources: | |
|---|---|
| Bond Proceeds: | |
| Par Amount | 1,000,000,000.00 |
| | 1,000,000,000.00 |

| Uses: | |
|---|---|
| Delivery Date Expenses: | |
| Cost of Issuance | 30,000,000.00 |
| Other Uses of Funds: | |
| Additional Proceeds | 970,000,000.00 |
| | 1,000,000,000.00 |

# BOND SUMMARY STATISTICS



## MOCK PROJECT
Scenario One, Level Debt

| | |
|---|---|
| Dated Date | 07/01/2001 |
| Delivery Date | 07/01/2001 |
| Last Maturity | 07/01/2027 |
| Arbitrage Yield | 15.585169% |
| True Interest Cost (TIC) | 15.585169% |
| Net Interest Cost (NIC) | 15.708745% |
| All-In TIC | 16.100800% |
| Average Coupon | 15.708745% |
| Average Life (years) | 20.180 |
| Duration of Issue (years) | 6.446 |
| Par Amount | 1,000,000,000.00 |
| Bond Proceeds | 1,000,000,000.00 |
| Total Interest | 3,169,986,187.50 |
| Net Interest | 3,169,986,187.50 |
| Total Debt Service | 4,169,986,187.50 |
| Maximum Annual Debt Service | 160,386,675.00 |
| Average Annual Debt Service | 160,384,084.13 |
| Underwriter's Fees (per $1000) | |
| Average Takedown | |
| Other Fee | |
| Total Underwriter's Discount | |
| Bid Price | 100.000000 |

| Bond Component | Par Value | Price | Average Coupon | Average Life |
|---|---|---|---|---|
| Serials | 1,000,000,000.00 | 100.000 | 15.709% | 20.180 |
| | 1,000,000,000.00 | | | 20.180 |

| | TIC | All-In TIC | Arbitrage Yield |
|---|---|---|---|
| Par Value | 1,000,000,000.00 | 1,000,000,000.00 | 1,000,000,000.00 |
| + Accrued Interest | | | |
| + Premium (Discount) | | | |
| - Underwriter's Discount | | | |
| - Cost of Issuance Expense | | -30,000,000.00 | |
| - Other Amounts | | | |
| Target Value | 1,000,000,000.00 | 970,000,000.00 | 1,000,000,000.00 |
| Target Date | 07/01/2001 | 07/01/2001 | 07/01/2001 |
| Yield | 15.585169% | 16.100800% | 15.585169% |

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# BOND PRICING

## MOCK PROJECT
Scenario One, Level Debt

| Bond Component | Maturity Date | Amount | Rate | Yield | Price |
|---|---|---|---|---|---|
| Serials: | | | | | |
| | 07/01/2002 | 4,195,000 | 11.500% | 11.500% | 100.000 |
| | 07/01/2003 | 4,680,000 | 12.500% | 12.500% | 100.000 |
| | 07/01/2004 | 5,265,000 | 13.500% | 13.500% | 100.000 |
| | 07/01/2005 | 5,975,000 | 14.000% | 14.000% | 100.000 |
| | 07/01/2006 | 6,810,000 | 14.250% | 14.250% | 100.000 |
| | 07/01/2007 | 7,780,000 | 14.500% | 14.500% | 100.000 |
| | 07/01/2008 | 8,910,000 | 14.750% | 14.750% | 100.000 |
| | 07/01/2009 | 10,220,000 | 15.000% | 15.000% | 100.000 |
| | 07/01/2010 | 11,755,000 | 15.250% | 15.250% | 100.000 |
| | 07/01/2011 | 13,550,000 | 15.250% | 15.250% | 100.000 |
| | 07/01/2012 | 15,615,000 | 15.500% | 15.500% | 100.000 |
| | 07/01/2013 | 18,035,000 | 15.500% | 15.500% | 100.000 |
| | 07/01/2014 | 20,830,000 | 15.500% | 15.500% | 100.000 |
| | 07/01/2015 | 24,060,000 | 15.500% | 15.500% | 100.000 |
| | 07/01/2016 | 27,785,000 | 15.500% | 15.500% | 100.000 |
| | 07/01/2017 | 32,095,000 | 15.750% | 15.750% | 100.000 |
| | 07/01/2018 | 37,150,000 | 15.750% | 15.750% | 100.000 |
| | 07/01/2019 | 43,000,000 | 15.750% | 15.750% | 100.000 |
| | 07/01/2020 | 49,775,000 | 15.750% | 15.750% | 100.000 |
| | 07/01/2021 | 57,610,000 | 15.750% | 15.750% | 100.000 |
| | 07/01/2022 | 66,685,000 | 15.750% | 15.750% | 100.000 |
| | 07/01/2023 | 77,190,000 | 15.750% | 15.750% | 100.000 |
| | 07/01/2024 | 89,345,000 | 15.750% | 15.750% | 100.000 |
| | 07/01/2025 | 103,420,000 | 15.750% | 15.750% | 100.000 |
| | 07/01/2026 | 119,705,000 | 15.750% | 15.750% | 100.000 |
| | 07/01/2027 | 138,560,000 | 15.750% | 15.750% | 100.000 |
| | | 1,000,000,000 | | | |

| | | |
|---|---|---|
| Dated Date | 07/01/2001 | |
| Delivery Date | 07/01/2001 | |
| First Coupon | 07/01/2002 | |
| Par Amount | 1,000,000,000.00 | |
| Original Issue Discount | | |
| Production | 1,000,000,000.00 | 100.000000% |
| Underwriter's Discount | | |
| Purchase Price | 1,000,000,000.00 | 100.000000% |
| Accrued Interest | | |
| Net Proceeds | 1,000,000,000.00 | |

BOND DEBT SERVICE

MOCK PROJECT
Scenario One, Level Debt

| Period Ending | Principal | Coupon | Interest | Debt Service | Annual Debt Service |
|---|---|---|---|---|---|
| 07/01/2001 | | | | | |
| 07/01/2002 | 4,195,000 | 11.500% | 156,189,100.00 | 160,384,100.00 | 160,384,100.00 |
| 01/01/2003 | | | 77,853,337.50 | 77,853,337.50 | |
| 07/01/2003 | 4,680,000 | 12.500% | 77,853,337.50 | 82,533,337.50 | 160,386,675.00 |
| 01/01/2004 | | | 77,560,837.50 | 77,560,837.50 | |
| 07/01/2004 | 5,265,000 | 13.500% | 77,560,837.50 | 82,825,837.50 | 160,386,675.00 |
| 01/01/2005 | | | 77,205,450.00 | 77,205,450.00 | |
| 07/01/2005 | 5,975,000 | 14.000% | 77,205,450.00 | 83,180,450.00 | 160,385,900.00 |
| 01/01/2006 | | | 76,787,200.00 | 76,787,200.00 | |
| 07/01/2006 | 6,810,000 | 14.250% | 76,787,200.00 | 83,597,200.00 | 160,384,400.00 |
| 01/01/2007 | | | 76,301,987.50 | 76,301,987.50 | |
| 07/01/2007 | 7,780,000 | 14.500% | 76,301,987.50 | 84,081,987.50 | 160,383,975.00 |
| 01/01/2008 | | | 75,737,937.50 | 75,737,937.50 | |
| 07/01/2008 | 8,910,000 | 14.750% | 75,737,937.50 | 84,647,937.50 | 160,385,875.00 |
| 01/01/2009 | | | 75,080,825.00 | 75,080,825.00 | |
| 07/01/2009 | 10,220,000 | 15.000% | 75,080,825.00 | 85,300,825.00 | 160,381,650.00 |
| 01/01/2010 | | | 74,314,325.00 | 74,314,325.00 | |
| 07/01/2010 | 11,755,000 | 15.250% | 74,314,325.00 | 86,069,325.00 | 160,383,650.00 |
| 01/01/2011 | | | 73,418,006.25 | 73,418,006.25 | |
| 07/01/2011 | 13,550,000 | 15.250% | 73,418,006.25 | 86,968,006.25 | 160,386,012.50 |
| 01/01/2012 | | | 72,384,818.75 | 72,384,818.75 | |
| 07/01/2012 | 15,615,000 | 15.500% | 72,384,818.75 | 87,999,818.75 | 160,384,637.50 |
| 01/01/2013 | | | 71,174,656.25 | 71,174,656.25 | |
| 07/01/2013 | 18,035,000 | 15.500% | 71,174,656.25 | 89,209,656.25 | 160,384,312.50 |
| 01/01/2014 | | | 69,776,943.75 | 69,776,943.75 | |
| 07/01/2014 | 20,830,000 | 15.500% | 69,776,943.75 | 90,606,943.75 | 160,383,887.50 |
| 01/01/2015 | | | 68,162,618.75 | 68,162,618.75 | |
| 07/01/2015 | 24,060,000 | 15.500% | 68,162,618.75 | 92,222,618.75 | 160,385,237.50 |
| 01/01/2016 | | | 66,297,968.75 | 66,297,968.75 | |
| 07/01/2016 | 27,785,000 | 15.500% | 66,297,968.75 | 94,082,968.75 | 160,380,937.50 |
| 01/01/2017 | | | 64,144,631.25 | 64,144,631.25 | |
| 07/01/2017 | 32,095,000 | 15.750% | 64,144,631.25 | 96,239,631.25 | 160,384,262.50 |
| 01/01/2018 | | | 61,617,150.00 | 61,617,150.00 | |
| 07/01/2018 | 37,150,000 | 15.750% | 61,617,150.00 | 98,767,150.00 | 160,384,300.00 |
| 01/01/2019 | | | 58,691,587.50 | 58,691,587.50 | |
| 07/01/2019 | 43,000,000 | 15.750% | 58,691,587.50 | 101,691,587.50 | 160,383,175.00 |
| 01/01/2020 | | | 55,305,337.50 | 55,305,337.50 | |
| 07/01/2020 | 49,775,000 | 15.750% | 55,305,337.50 | 105,080,337.50 | 160,385,675.00 |
| 01/01/2021 | | | 51,385,556.25 | 51,385,556.25 | |
| 07/01/2021 | 57,610,000 | 15.750% | 51,385,556.25 | 108,995,556.25 | 160,381,112.50 |
| 01/01/2022 | | | 46,848,768.75 | 46,848,768.75 | |
| 07/01/2022 | 66,685,000 | 15.750% | 46,848,768.75 | 113,533,768.75 | 160,382,537.50 |
| 01/01/2023 | | | 41,597,325.00 | 41,597,325.00 | |
| 07/01/2023 | 77,190,000 | 15.750% | 41,597,325.00 | 118,787,325.00 | 160,384,650.00 |
| 01/01/2024 | | | 35,518,612.50 | 35,518,612.50 | |
| 07/01/2024 | 89,345,000 | 15.750% | 35,518,612.50 | 124,863,612.50 | 160,382,225.00 |
| 01/01/2025 | | | 28,482,693.75 | 28,482,693.75 | |
| 07/01/2025 | 103,420,000 | 15.750% | 28,482,693.75 | 131,902,693.75 | 160,385,387.50 |
| 01/01/2026 | | | 20,338,368.75 | 20,338,368.75 | |
| 07/01/2026 | 119,705,000 | 15.750% | 20,338,368.75 | 140,043,368.75 | 160,381,737.50 |
| 01/01/2027 | | | 10,911,600.00 | 10,911,600.00 | |
| 07/01/2027 | 138,560,000 | 15.750% | 10,911,600.00 | 149,471,600.00 | 160,383,200.00 |
| | 1,000,000,000 | | 3,169,986,187.50 | 4,169,986,187.50 | 4,169,986,187.50 |

Appendix F-3

SOURCES AND USES OF FUNDS

1

MOCK PROJECT
Scenario Two, Terms w/ no Sinkers

| | |
|---|---|
| Dated Date | 07/01/2001 |
| Delivery Date | 07/01/2001 |

| Sources: | |
|---|---|
| Bond Proceeds: | |
| Par Amount | 1,000,000,000.00 |
| | 1,000,000,000.00 |

| Uses: | |
|---|---|
| Delivery Date Expenses: | |
| Cost of Issuance | 30,000,000.00 |
| Other Uses of Funds: | |
| Additional Proceeds | 970,000,000.00 |
| | 1,000,000,000.00 |

BOND SUMMARY STATISTICS

MOCK PROJECT

Scenario Two, Terms w/ no Sinkers



| | |
|---|---|
| Dated Date | 07/01/2001 |
| Delivery Date | 07/01/2001 |
| Last Maturity | 07/01/2027 |
| Arbitrage Yield | 15.050308% |
| True Interest Cost (TIC) | 15.050308% |
| Net Interest Cost (NIC) | 15.327160% |
| All-In TIC | 15.639651% |
| Average Coupon | 15.327160% |
| Average Life (years) | 16.200 |
| Duration of Issue (years) | 5.632 |
| Par Amount | 1,000,000,000.00 |
| Bond Proceeds | 1,000,000,000.00 |
| Total Interest | 2,483,000,000.00 |
| Net Interest | 2,483,000,000.00 |
| Total Debt Service | 3,483,000,000.00 |
| Maximum Annual Debt Service | 577,500,000.00 |
| Average Annual Debt Service | 133,961,538.46 |
| Underwriter's Fees (per $1000) | |
| Average Takedown | |
| Other Fee | |
| Total Underwriter's Discount | |
| Bid Price | 100.000000 |

| Bond Component | Par Value | Price | Average Coupon | Average Life |
|---|---|---|---|---|
| Term due '05 | 300,000,000.00 | 100.000 | 14.000% | 4.000 |
| Term due '11 | 200,000,000.00 | 100.000 | 15.000% | 10.000 |
| Term due '27 | 500,000,000.00 | 100.000 | 15.500% | 26.000 |
| | 1,000,000,000.00 | | | 16.200 |

| | TIC | All-In TIC | Arbitrage Yield |
|---|---|---|---|
| Par Value | 1,000,000,000.00 | 1,000,000,000.00 | 1,000,000,000.00 |
| + Accrued Interest | | | |
| + Premium (Discount) | | | |
| - Underwriter's Discount | | | |
| - Cost of Issuance Expense | | -30,000,000.00 | |
| - Other Amounts | | | |
| Target Value | 1,000,000,000.00 | 970,000,000.00 | 1,000,000,000.00 |
| Target Date | 07/01/2001 | 07/01/2001 | 07/01/2001 |
| Yield | 15.050308% | 15.639651% | 15.050308% |

# BOND PRICING

3

## MOCK PROJECT
Scenario Two, Terms w/ no Sinkers

| Bond Component | Maturity Date | Amount | Rate | Yield | Price |
|---|---|---|---|---|---|
| Term due '05: | 07/01/2005 | 300,000,000 | 14.000% | 14.000% | 100.000 |
| Term due '11: | 07/01/2011 | 200,000,000 | 15.000% | 15.000% | 100.000 |
| Term due '27: | 07/01/2027 | 500,000,000 | 15.500% | 15.500% | 100.000 |
| | | 1,000,000,000 | | | |

| | | |
|---|---|---|
| Dated Date | 07/01/2001 | |
| Delivery Date | 07/01/2001 | |
| First Coupon | 07/01/2002 | |
| Par Amount | 1,000,000,000.00 | |
| Original Issue Discount | | |
| Production | 1,000,000,000.00 | 100.000000% |
| Underwriter's Discount | | |
| Purchase Price | 1,000,000,000.00 | 100.000000% |
| Accrued Interest | | |
| Net Proceeds | 1,000,000,000.00 | |

BOND DEBT SERVICE

4

MOCK PROJECT
Scenario Two, Terms w/ no Sinkers

| Period Ending | Principal | Coupon | Interest | Debt Service | Annual Debt Service |
|---|---|---|---|---|---|
| 07/01/2001 | | | 149,500,000 | 149,500,000 | 149,500,000 |
| 07/01/2002 | | | 74,750,000 | 74,750,000 | |
| 01/01/2003 | | | 74,750,000 | 74,750,000 | 149,500,000 |
| 07/01/2003 | | | 74,750,000 | 74,750,000 | |
| 01/01/2004 | | | 74,750,000 | 74,750,000 | 149,500,000 |
| 07/01/2004 | | | 74,750,000 | 74,750,000 | |
| 01/01/2005 | 300,000,000 | 14.000% | 74,750,000 | 374,750,000 | 449,500,000 |
| 07/01/2005 | | | 53,750,000 | 53,750,000 | |
| 01/01/2006 | | | 53,750,000 | 53,750,000 | 107,500,000 |
| 07/01/2006 | | | 53,750,000 | 53,750,000 | |
| 01/01/2007 | | | 53,750,000 | 53,750,000 | 107,500,000 |
| 07/01/2007 | | | 53,750,000 | 53,750,000 | |
| 01/01/2008 | | | 53,750,000 | 53,750,000 | 107,500,000 |
| 07/01/2008 | | | 53,750,000 | 53,750,000 | |
| 01/01/2009 | | | 53,750,000 | 53,750,000 | 107,500,000 |
| 07/01/2009 | | | 53,750,000 | 53,750,000 | |
| 01/01/2010 | | | 53,750,000 | 53,750,000 | 107,500,000 |
| 07/01/2010 | | | 53,750,000 | 53,750,000 | |
| 01/01/2011 | 200,000,000 | 15.000% | 53,750,000 | 253,750,000 | 307,500,000 |
| 07/01/2011 | | | 38,750,000 | 38,750,000 | |
| 01/01/2012 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2012 | | | 38,750,000 | 38,750,000 | |
| 01/01/2013 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2013 | | | 38,750,000 | 38,750,000 | |
| 01/01/2014 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2014 | | | 38,750,000 | 38,750,000 | |
| 01/01/2015 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2015 | | | 38,750,000 | 38,750,000 | |
| 01/01/2016 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2016 | | | 38,750,000 | 38,750,000 | |
| 01/01/2017 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2017 | | | 38,750,000 | 38,750,000 | |
| 01/01/2018 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2018 | | | 38,750,000 | 38,750,000 | |
| 01/01/2019 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2019 | | | 38,750,000 | 38,750,000 | |
| 01/01/2020 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2020 | | | 38,750,000 | 38,750,000 | |
| 01/01/2021 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2021 | | | 38,750,000 | 38,750,000 | |
| 01/01/2022 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2022 | | | 38,750,000 | 38,750,000 | |
| 01/01/2023 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2023 | | | 38,750,000 | 38,750,000 | |
| 01/01/2024 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2024 | | | 38,750,000 | 38,750,000 | |
| 01/01/2025 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2025 | | | 38,750,000 | 38,750,000 | |
| 01/01/2026 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2026 | | | 38,750,000 | 38,750,000 | |
| 01/01/2027 | 500,000,000 | 15.500% | 38,750,000 | 538,750,000 | 577,500,000 |
| 07/01/2027 | | | | | |
| | 1,000,000,000 | | 2,483,000,000 | 3,483,000,000 | 3,483,000,000 |

## SOURCES AND USES OF FUNDS



### MOCK PROJECT
Scenario Three, Terms w/ Sinkers

Dated Date 07/01/2001
Delivery Date 07/01/2001

| | |
|---|---|
| **Sources:** | |
| Bond Proceeds: | |
| Par Amount | 1,000,000,000.00 |
| | 1,000,000,000.00 |
| **Uses:** | |
| Delivery Date Expenses: | |
| Cost of Issuance | 30,000,000.00 |
| Other Uses of Funds: | |
| Additional Proceeds | 970,000,000.00 |
| | 1,000,000,000.00 |

BS

# BOND SUMMARY STATISTICS



## MOCK PROJECT
Scenario Three, Terms w/ Sinkers

| | |
|---|---|
| Dated Date | 07/01/2001 |
| Delivery Date | 07/01/2001 |
| Last Maturity | 07/01/2027 |
| | |
| Arbitrage Yield | 15.061963% |
| True Interest Cost (TIC) | 15.061963% |
| Net Interest Cost (NIC) | 15.320370% |
| All-In TIC | 15.681974% |
| Average Coupon | 15.320370% |
| | |
| Average Life (years) | 13.500 |
| Duration of Issue (years) | 5.352 |
| | |
| Par Amount | 1,000,000,000.00 |
| Bond Proceeds | 1,000,000,000.00 |
| Total Interest | 2,068,250,000.00 |
| Net Interest | 2,068,250,000.00 |
| Total Debt Service | 3,068,250,000.00 |
| Maximum Annual Debt Service | 299,500,000.00 |
| Average Annual Debt Service | 118,009,615.38 |
| | |
| Underwriter's Fees (per $1000) | |
| Average Takedown | |
| Other Fee | |
| | |
| Total Underwriter's Discount | |
| | |
| Bid Price | 100.000000 |

| Bond Component | Par Value | Price | Average Coupon | Average Life |
|---|---|---|---|---|
| Term due '05 | 300,000,000.00 | 100.000 | 14.000% | 3.500 |
| Term due '11 | 200,000,000.00 | 100.000 | 15.000% | 8.500 |
| Term due '27 | 500,000,000.00 | 100.000 | 15.500% | 21.500 |
| | 1,000,000,000.00 | | | 13.500 |

| | TIC | All-In TIC | Arbitrage Yield |
|---|---|---|---|
| Par Value | 1,000,000,000.00 | 1,000,000,000.00 | 1,000,000,000.00 |
| + Accrued Interest | | | |
| + Premium (Discount) | | | |
| - Underwriter's Discount | | -30,000,000.00 | |
| - Cost of Issuance Expense | | | |
| - Other Amounts | | | |
| Target Value | 1,000,000,000.00 | 970,000,000.00 | 1,000,000,000.00 |
| Target Date | 07/01/2001 | 07/01/2001 | 07/01/2001 |
| Yield | 15.061963% | 15.681974% | 15.061963% |

# BOND PRICING

## MOCK PROJECT
Scenario Three, Terms w/ Sinkers

| Bond Component | Maturity Date | Amount | Rate | Yield | Price |
|---|---|---|---|---|---|
| Term due '05: | 07/01/2005 | 300,000,000 | 14.000% | 14.000% | 100.000 |
| Term due '11: | 07/01/2011 | 200,000,000 | 15.000% | 15.000% | 100.000 |
| Term due '27: | 07/01/2027 | 500,000,000 | 15.500% | 15.500% | 100.000 |
| | | 1,000,000,000 | | | |

| | | |
|---|---|---|
| Dated Date | 07/01/2001 | |
| Delivery Date | 07/01/2001 | |
| First Coupon | 07/01/2002 | |
| Par Amount | 1,000,000,000.00 | |
| Original Issue Discount | | |
| Production | 1,000,000,000.00 | 100.000000% |
| Underwriter's Discount | | |
| Purchase Price | 1,000,000,000.00 | 100.000000% |
| Accrued Interest | | |
| Net Proceeds | 1,000,000,000.00 | |

# BOND DEBT SERVICE

## MOCK PROJECT
Scenario Three, Terms w/ Sinkers

| Period Ending | Principal | Coupon | Interest | Debt Service | Annual Debt Service |
|---|---|---|---|---|---|
| 07/01/2001 | | | 149,500,000 | 149,500,000 | 149,500,000 |
| 07/01/2002 | | | 74,750,000 | 74,750,000 | |
| 01/01/2003 | | | 74,750,000 | 74,750,000 | 149,500,000 |
| 07/01/2003 | | | 74,750,000 | 74,750,000 | |
| 01/01/2004 | | | 74,750,000 | 224,750,000 | 299,500,000 |
| 07/01/2004 | 150,000,000 | 14.000% | 64,250,000 | 64,250,000 | |
| 01/01/2005 | | | 64,250,000 | 214,250,000 | 278,500,000 |
| 07/01/2005 | 150,000,000 | 14.000% | 53,750,000 | 53,750,000 | |
| 01/01/2006 | | | 53,750,000 | 53,750,000 | 107,500,000 |
| 07/01/2006 | | | 53,750,000 | 53,750,000 | |
| 01/01/2007 | | | 53,750,000 | 53,750,000 | 107,500,000 |
| 07/01/2007 | | | 53,750,000 | 53,750,000 | |
| 01/01/2008 | | | 53,750,000 | 103,750,000 | 157,500,000 |
| 07/01/2008 | 50,000,000 | 15.000% | 50,000,000 | 50,000,000 | |
| 01/01/2009 | | | 50,000,000 | 100,000,000 | 150,000,000 |
| 07/01/2009 | 50,000,000 | 15.000% | 46,250,000 | 46,250,000 | |
| 01/01/2010 | | | 46,250,000 | 96,250,000 | 142,500,000 |
| 07/01/2010 | 50,000,000 | 15.000% | 42,500,000 | 42,500,000 | |
| 01/01/2011 | | | 42,500,000 | 92,500,000 | 135,000,000 |
| 07/01/2011 | 50,000,000 | 15.000% | 38,750,000 | 38,750,000 | |
| 01/01/2012 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2012 | | | 38,750,000 | 38,750,000 | |
| 01/01/2013 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2013 | | | 38,750,000 | 38,750,000 | |
| 01/01/2014 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2014 | | | 38,750,000 | 38,750,000 | |
| 01/01/2015 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2015 | | | 38,750,000 | 38,750,000 | |
| 01/01/2016 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2016 | | | 38,750,000 | 38,750,000 | |
| 01/01/2017 | | | 38,750,000 | 38,750,000 | 77,500,000 |
| 07/01/2017 | | | 38,750,000 | 38,750,000 | |
| 01/01/2018 | | | 38,750,000 | 88,750,000 | 127,500,000 |
| 07/01/2018 | 50,000,000 | 15.500% | 34,875,000 | 34,875,000 | |
| 01/01/2019 | | | 34,875,000 | 84,875,000 | 119,750,000 |
| 07/01/2019 | 50,000,000 | 15.500% | 31,000,000 | 31,000,000 | |
| 01/01/2020 | | | 31,000,000 | 81,000,000 | 112,000,000 |
| 07/01/2020 | 50,000,000 | 15.500% | 27,125,000 | 27,125,000 | |
| 01/01/2021 | | | 27,125,000 | 77,125,000 | 104,250,000 |
| 07/01/2021 | 50,000,000 | 15.500% | 23,250,000 | 23,250,000 | |
| 01/01/2022 | | | 23,250,000 | 73,250,000 | 96,500,000 |
| 07/01/2022 | 50,000,000 | 15.500% | 19,375,000 | 19,375,000 | |
| 01/01/2023 | | | 19,375,000 | 69,375,000 | 88,750,000 |
| 07/01/2023 | 50,000,000 | 15.500% | 15,500,000 | 15,500,000 | |
| 01/01/2024 | | | 15,500,000 | 65,500,000 | 81,000,000 |
| 07/01/2024 | 50,000,000 | 15.500% | 11,625,000 | 11,625,000 | |
| 01/01/2025 | | | 11,625,000 | 61,625,000 | 73,250,000 |
| 07/01/2025 | 50,000,000 | 15.500% | 7,750,000 | 7,750,000 | |
| 01/01/2026 | | | 7,750,000 | 57,750,000 | 65,500,000 |
| 07/01/2026 | 50,000,000 | 15.500% | 3,875,000 | 3,875,000 | |
| 01/01/2027 | | | 3,875,000 | 53,875,000 | 57,750,000 |
| 07/01/2027 | 50,000,000 | 15.500% | | | |
| | 1,000,000,000 | | 2,068,250,000 | 3,068,250,000 | 3,068,250,000 |

Draft
January 22, 1998

# State of California
# Veterans General Obligation Bonds
# $66,600,000 Series BM
# $91,065,000 Series BN

## Financing Schedule

| JANUARY 1998 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| | | | | 1 | 2 | 3 |
| 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| 25 | 26 | 27 | 28 | 29 | 30 | 31 |

| FEBRUARY 1998 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |

| MARCH 1998 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | 31 | | | | |

| APRIL 1998 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| | | | 1 | 2 | 3 | 4 |
| 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 12 | 13 | 14 | 15 | 16 | 17 | 18 |
| 19 | 20 | 21 | 22 | 23 | 24 | 25 |
| 26 | 27 | 28 | 29 | 30 | | |

| MAY 1998 | | | | | | |
|---|---|---|---|---|---|---|
| S | M | T | W | T | F | S |
| | | | | | 1 | 2 |
| 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 17 | 18 | 19 | 20 | 21 | 22 | 23 |
| 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| 31 | | | | | | |

| DAY | ACTION | PARTIES |
|---|---|---|
| January 26 | Finance Team Conference Call to Review Finance Plan | STO, DVA, SM, BC, UC, CFX, AG |
| January 29 | Distribute draft POS and Resolutions | BC, UC |
| January 30 | Publish TEFRA hearing notice (if required) | STO, DVA, BC |
| February 2 | Finance Team Conference Call | STO, DVA, SM, BC, UC, CFX, AG |
| February 3 | Submit preliminary CDAC report | BC, DVA |
| February 4 | Distribute revised POS and Resolutions | BC, UC |
| February 9 | Notice of Veterans Debenture Finance Committee Meeting and Veterans Finance Committee of 1943 Meeting | DVA, BC |
| February 10 | Finance Team Conference Call | STO, DVA, SM, BC, UC, CFX, AG |
| February 12 | Submit cash flow projections and draft POS to rating agencies and bond insurers | SM, CFX, BC, UC |
| February 13 | Distribute draft Investment Agreement Bid Request | SM |

Appendix G

**Draft**
**January 22, 1998**

# State of California
# Veterans General Obligation Bonds
# $66,600,000 Series BM
# $91,065,000 Series BN

## Financing Schedule

**JANUARY 1998**

| S | M | T | W | T | F | S |
|---|---|---|---|---|---|---|
| | | | | 1 | 2 | 3 |
| 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 |
| 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| 25 | 26 | 27 | 28 | 29 | 30 | 31 |

**FEBRUARY 1998**

| S | M | T | W | T | F | S |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |

**MARCH 1998**

| S | M | T | W | T | F | S |
|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 29 | 30 | 31 | | | | |

**APRIL 1998**

| S | M | T | W | T | F | S |
|---|---|---|---|---|---|---|
| | | | 1 | 2 | 3 | 4 |
| 5 | 6 | 7 | 8 | 9 | 10 | 11 |
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**MAY 1998**

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| DAY | ACTION | PARTIES |
|---|---|---|
| January 26 | Finance Team Conference Call to Review Finance Plan | STO, DVA, SM, BC, UC, CFX, AG |
| January 29 | Distribute draft POS and Resolutions | BC, UC |
| January 30 | Publish TEFRA hearing notice (if required) | STO, DVA, BC |
| February 2 | Finance Team Conference Call | STO, DVA, SM, BC, UC, CFX, AG |
| February 3 | Submit preliminary CDAC report | BC, DVA |
| February 4 | Distribute revised POS and Resolutions | BC, UC |
| February 9 | Notice of Veterans Debenture Finance Committee Meeting and Veterans Finance Committee of 1943 Meeting | DVA, BC |
| February 10 | Finance Team Conference Call | STO, DVA, SM, BC, UC, CFX, AG |
| February 12 | Submit cash flow projections and draft POS to rating agencies and bond insurers | SM, CFX, BC, UC |
| February 13 | Distribute draft Investment Agreement Bid Request | SM |

Draft
January 22, 1998

# State of California
# Veterans General Obligation Bonds
# $66,600,000 Series BM
# $91,065,000 Series BN

## Financing Schedule

| JANUARY 1998 | | | | | | |
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| FEBRUARY 1998 | | | | | | |
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| MARCH 1998 | | | | | | |
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| APRIL 1998 | | | | | | |
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| MAY 1998 | | | | | | |
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| DAY | ACTION | PARTIES |
|---|---|---|
| January 26 | Finance Team Conference Call to Review Finance Plan | STO, DVA, SM, BC, UC, CFX, AG |
| January 29 | Distribute draft POS and Resolutions | BC, UC |
| January 30 | Publish TEFRA hearing notice (if required) | STO, DVA, BC |
| February 2 | Finance Team Conference Call | STO, DVA, SM, BC, UC, CFX, AG |
| February 3 | Submit preliminary CDAC report | BC, DVA |
| February 4 | Distribute revised POS and Resolutions | BC, UC |
| February 9 | Notice of Veterans Debenture Finance Committee Meeting and Veterans Finance Committee of 1943 Meeting | DVA, BC |
| February 10 | Finance Team Conference Call | STO, DVA, SM, BC, UC, CFX, AG |
| February 12 | Submit cash flow projections and draft POS to rating agencies and bond insurers | SM, CFX, BC, UC |
| February 13 | Distribute draft Investment Agreement Bid Request | SM |

| DAY | ACTION | PARTIES |
|---|---|---|
| | Request | |
| February 16 | Washington's Birthday Holiday | |
| February 17 | TEFRA Hearing (if required) | STO, DVA, BC |
| | Finance Team conference call to review POS | STO, DVA, BC, UC, CFX, SM, AG |
| February 18 | Send Draft POS to Printer | BC |
| February 19 | Conference call to review Investment Agreement Bid Request | STO, DVA, BC, UC, SM, AG, CFX |
| February 20 | Distribute Draft redemption notices | BC |
| | Receive Accountants procedures letter | STO, DVA, SM, UC |
| February 23 | Distribute revised draft Investment Agreement Bid Request | SM |
| | Distribute draft Bond Purchase Agreement | UC |
| | Labels due at printer for POS | SM, CM |
| | Receive ratings and bond insurance bids | SM, STO |
| | Prepare priority of orders, designation rules and retention | SM, STO |
| February 24 | Meeting of Veterans Debenture Finance Committee to approve resolution regarding sale | STO, DVA, BC, AG, SM, UC |
| | Meeting of Veterans Finance Committee of 1943 | STO, DVA, BC, AG, SM, UC |
| | Due diligence meeting – sign off on POS and Bond Purchase Agreement | STO, DVA, AG, BC, SM, UC, CFX, AG, DT, CM |
| | Clear POS | STO, DVA, AG, BC, SM, UC |
| February 25 | Print and mail POS | STO, DVA, P, SM, BC, UC |

| DAY | ACTION | PARTIES |
|---|---|---|
| | Conference Call on orders, designations rules, and retention | STO, SM |
| | Incorporate decisions into AAU | SM, UC |
| | Final memo on orders, designation rules and retention sent to STO | SM |
| | Apply for CUSIP numbers | SM |
| | Letter sent to STO on AAU | SM |
| February 26 | Evaluate bond insurance bids | STO, DVA, SM, CFX |
| March 6 | Marketing Conference Call with STO and Co-Managers | STO, SM, CM |
| | Distribute Investment Agreement Bid Request to potential bidders | SM |
| | Mail redemption notice to Bondholders for April 1 redemption | STO, BC |
| March 10 | Fax prepared of pricing terms to STO 4 hours before call | SM |
| | Retail Order Period | SM, CM |
| | Pre-Pricing Call | STO, DVA, SM, CM |
| | Preliminary pricing wire faxed to DVA for structural and programmatic review | SM, DVA |
| | Preliminary pricing wire faxed to STO for approval | SM, STO |
| | AAUs returned to Senior Manager | SM, CM |
| March 11 | Release of Preliminary Pricing Wire | SM |
| | Pricing | SM |
| | Receive Verbal Award | STO, SM |
| | Form of final pricing wire faxed to DVA for structural and programmatic review | SM, DVA |
| | Release of Final Pricing Wire upon STO approval | STO, SM |

| DAY | ACTION | PARTIES |
|---|---|---|
| | Comply with all pricing and report requirements | STO, SM |
| | Sign Bond Purchase Agreement - Deliver Good Faith Deposit | STO, DVA, SM, BC, UC |
| | Bond Allocation | STO, SM |
| March 12 | Receive Investment Agreement Bids - Select winning bidders | STO, DVA, SM, CFX |
| March 13 | Provide STO, DVA, Bond Counsel and Underwriters Counsel with completed set of computer cash flows | CFX |
| | Follow-Up Conference Call on pricing | STO, DVA, SM |
| | Distribute draft of Final Official Statement | BC, UC |
| March 16 | Sign off on Final OS | STO, DVA, AG, BC, UC, SM, CFX, A |
| | Mailing List | SM, STO |
| | Distribute Bond Certificates | BC |
| March 18 | Distribute draft closing flow of funds | CFX |
| | Closing documents including Tax Certificate distributed for review and comments | BC, UC |
| | Distribute draft Investment Agreements | IA |
| | Provide redemption details to STO | DVA, SM, CFX |
| March 19 | Review Bond Certificates | STO, BC |
| | Coordinate obtaining all necessary signatures | BC |
| | Labels due at printer for Final OS | SM, CM |
| March 20 | Print and mail Final OS | UC, P |
| | Provide STO with secondary market update report following release of syndicate restrictions | SM |
| | Conference Call to review Investment Agreement | STO, DVA, SM, BC, UC, AG, IA, CFX |

| DAY | ACTION | PARTIES |
|---|---|---|
| | Distribute Closing Memo to STO and DVA | SM |
| | Distribute revised Closing Documents | BC, UC |
| | STO to release Bond Certificates | STO, SM |
| March 24 | Coordinate recording of legal documents | BC |
| March 25 | Pre-Close for all Bonds | STO, DVA, BC, UC, SM, AG, IA, CFX |
| March 26 | Close for Series BM Bonds | STO, DVA, BC, UC, SM, AG, IA, CFX |
| | Confirm delivery of funds | STO, SM, BC |
| | Call DTC to release Bonds | STO, SM, BC |
| | Complete investments | STO, IA |
| April 1 | Redemption of Bonds | STO |
| April 3 | Post-Sale evaluation of Book-Running Senior Manager sent to STO | SM |
| | Post-sale evaluation syndicate member survey sent to STO | CM |
| | Deliver 2 sets of Bond transcripts to STO | BC |
| | Final pricing book sent to STO | SM |
| May 5 | Close for Series BN Bonds | STO, DVA, BC, UC, SM, AG, IA, CFX |
| | Confirm delivery of funds | STO, SM, BC |
| | Call DTC to release Bonds | STO, SM, BC |
| | Complete investments | STO, IA |
| June 30 | Mail Redemption notice to Bondholders for August 1 Redemption | STO, BC |
| August 1 | Redemption of Bonds | STO |

**Abbreviations:**

| | | | |
|---|---|---|---|
| State of California Treasurer's Office | STO | Senior Manager | SM |
| Department of Veterans Affairs | DVA | Co-Managers | CM |
| Attorney General of the State of California | AG | Accountants | A |
| Bond Counsel | BC | Financial Printer | P |
| Underwriters' Counsel | UC | Investment Agreement Providers | IA |
| | | cfX Incorporated | CFX |

Appendix G

Draft
January 22, 1998

# State of California
# Veterans General Obligation Bonds
# $66,600,000 Series BM
# $91,065,000 Series BN

## Financing Schedule

JANUARY 1998

| S | M | T | W | T | F | S |
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FEBRUARY 1998

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MARCH 1998

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APRIL 1998

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MAY 1998

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| 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| 31 | | | | | | |

| DAY | ACTION | PARTIES |
|---|---|---|
| January 26 | Finance Team Conference Call to Review Finance Plan | STO, DVA, SM, BC, UC, CFX, AG |
| January 29 | Distribute draft POS and Resolutions | BC, UC |
| January 30 | Publish TEFRA hearing notice (if required) | STO, DVA, BC |
| February 2 | Finance Team Conference Call | STO, DVA, SM, BC, UC, CFX, AG |
| February 3 | Submit preliminary CDAC report | BC, DVA |
| February 4 | Distribute revised POS and Resolutions | BC, UC |
| February 9 | Notice of Veterans Debenture Finance Committee Meeting and Veterans Finance Committee of 1943 Meeting | DVA, BC |
| February 10 | Finance Team Conference Call | STO, DVA, SM, BC, UC, CFX, AG |
| February 12 | Submit cash flow projections and draft POS to rating agencies and bond insurers | SM, CFX, BC, UC |
| February 13 | Distribute draft Investment Agreement Bid Request | SM |

| DAY | ACTION | PARTIES |
|---|---|---|
| | Request | |
| February 16 | Washington's Birthday Holiday | |
| February 17 | TEFRA Hearing (if required) | STO, DVA, BC |
| | Finance Team conference call to review POS | STO, DVA, BC, UC, CFX, SM, AG |
| February 18 | Send Draft POS to Printer | BC |
| February 19 | Conference call to review Investment Agreement Bid Request | STO, DVA, BC, UC, SM, AG, CFX |
| February 20 | Distribute Draft redemption notices | BC |
| | Receive Accountants procedures letter | STO, DVA, SM, UC |
| February 23 | Distribute revised draft Investment Agreement Bid Request | SM |
| | Distribute draft Bond Purchase Agreement | UC |
| | Labels due at printer for POS | SM, CM |
| | Receive ratings and bond insurance bids | SM, STO |
| | Prepare priority of orders, designation rules and retention | SM, STO |
| February 24 | Meeting of Veterans Debenture Finance Committee to approve resolution regarding sale | STO, DVA, BC, AG, SM, UC |
| | Meeting of Veterans Finance Committee of 1943 | STO, DVA, BC, AG, SM, UC |
| | Due diligence meeting – sign off on POS and Bond Purchase Agreement | STO, DVA, AG, BC, SM, UC, CFX, AG, DT, CM |
| | Clear POS | STO, DVA, AG, BC, SM, UC |
| February 25 | Print and mail POS | STO, DVA, P, SM, BC, UC |

| DAY | ACTION | PARTIES |
|---|---|---|
| | Conference Call on orders, designations rules, and retention | STO, SM |
| | Incorporate decisions into AAU | SM, UC |
| | Final memo on orders, designation rules and retention sent to STO | SM |
| | Apply for CUSIP numbers | SM |
| | Letter sent to STO on AAU | SM |
| February 26 | Evaluate bond insurance bids | STO, DVA, SM, CFX |
| March 6 | Marketing Conference Call with STO and Co-Managers | STO, SM, CM |
| | Distribute Investment Agreement Bid Request to potential bidders | SM |
| | Mail redemption notice to Bondholders for April 1 redemption | STO, BC |
| March 10 | Fax prepared of pricing terms to STO 4 hours before call | SM |
| | Retail Order Period | SM, CM |
| | Pre-Pricing Call | STO, DVA, SM, CM |
| | Preliminary pricing wire faxed to DVA for structural and programmatic review | SM, DVA |
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| March 11 | Release of Preliminary Pricing Wire | SM |
| | Pricing | SM |
| | Receive Verbal Award | STO, SM |
| | Form of final pricing wire faxed to DVA for structural and programmatic review | SM, DVA |
| | Release of Final Pricing Wire upon STO approval | STO, SM |

| DAY | ACTION | PARTIES |
|---|---|---|
| | Comply with all pricing and report requirements | STO, SM |
| | Sign Bond Purchase Agreement - Deliver Good Faith Deposit | STO, DVA, SM, BC, UC |
| | Bond Allocation | STO, SM |
| March 12 | Receive Investment Agreement Bids - Select winning bidders | STO, DVA, SM, CFX |
| March 13 | Provide STO, DVA, Bond Counsel and Underwriters Counsel with completed set of computer cash flows | CFX |
| | Follow-Up Conference Call on pricing | STO, DVA, SM |
| | Distribute draft of Final Official Statement | BC, UC |
| March 16 | Sign off on Final OS | STO, DVA, AG, BC, UC, SM, CFX, A |
| | Mailing List | SM, STO |
| | Distribute Bond Certificates | BC |
| March 18 | Distribute draft closing flow of funds | CFX |
| | Closing documents including Tax Certificate distributed for review and comments | BC, UC |
| | Distribute draft Investment Agreements | IA |
| | Provide redemption details to STO | DVA, SM, CFX |
| March 19 | Review Bond Certificates | STO, BC |
| | Coordinate obtaining all necessary signatures | BC |
| | Labels due at printer for Final OS | SM, CM |
| March 20 | Print and mail Final OS | UC, P |
| | Provide STO with secondary market update report following release of syndicate restrictions | SM |
| | Conference Call to review Investment Agreement | STO, DVA, SM, BC, UC, AG, IA, CFX |

| DAY | ACTION | PARTIES |
|---|---|---|
| | Distribute Closing Memo to STO and DVA | SM |
| | Distribute revised Closing Documents | BC, UC |
| | STO to release Bond Certificates | STO, SM |
| March 24 | Coordinate recording of legal documents | BC |
| March 25 | Pre-Close for all Bonds | STO, DVA, BC, UC, SM, AG, IA, CFX |
| March 26 | Close for Series BM Bonds | STO, DVA, BC, UC, SM, AG, IA, CFX |
| | Confirm delivery of funds | STO, SM, BC |
| | Call DTC to release Bonds | STO, SM, BC |
| | Complete investments | STO, IA |
| April 1 | Redemption of Bonds | STO |
| April 3 | Post-Sale evaluation of Book-Running Senior Manager sent to STO | SM |
| | Post-sale evaluation syndicate member survey sent to STO | CM |
| | Deliver 2 sets of Bond transcripts to STO | BC |
| | Final pricing book sent to STO | SM |
| May 5 | Close for Series BN Bonds | STO, DVA, BC, UC, SM, AG, IA, CFX |
| | Confirm delivery of funds | STO, SM, BC |
| | Call DTC to release Bonds | STO, SM, BC |
| | Complete investments | STO, IA |
| June 30 | Mail Redemption notice to Bondholders for August 1 Redemption | STO, BC |
| August 1 | Redemption of Bonds | STO |

**Abbreviations:**

| | | | |
|---|---|---|---|
| State of California Treasurer's Office | STO | Senior Manager | SM |
| Department of Veterans Affairs | DVA | Co-Managers | CM |
| Attorney General of the State of California | AG | Accountants | A |
| Bond Counsel | BC | Financial Printer | P |
| Underwriters' Counsel | UC | Investment Agreement Providers | IA |
| | | cfX Incorporated | CFX |

Appendix H

Example

EXECUTION COPY

$25,000,000

Subordinate Revenue Bonds
Series 12

CONTRACT OF PURCHASE

December 7, 2000

Dear Ladies and Gentlemen:

The undersigned, prior to the Closing, as defined below (the "Underwriter"), offers to enter into the following agreement with the of the relating to the $25,000,000 aggregate principal amount of the Authority's Subordinate Revenue Bonds, Series 12 (the "Bonds"). The offer made hereby is subject to acceptance by the Authority by execution of this Contract of Purchase and delivery thereof to the undersigned at or prior to 5:00 P.M., New York time, on the date first above written. Upon acceptance of such offer by the Authority, this Contract of Purchase will be binding upon the Authority and the Underwriter.

1. **Purchase, Sale and Closing**

(a) *Bonds.* In reliance on the representations and warranties of the Authority contained herein and subject to the satisfaction of the terms and conditions which can be performed at or prior to the Closing (as defined herein) set forth herein to which the obligations of the Underwriter are subject, the Underwriter will purchase from the Authority, and the Authority will sell to the Underwriter all (but not less than all) of the Bonds. The Bonds shall be as described in the Official Statement and the Subordinate Resolution (as hereinafter described) and shall be issued pursuant to the Subordinate Resolution and the Act, all as hereinafter defined. The aggregate price to be paid by the Underwriter for the Bonds is $24,925,224.56 or approximately 99.70% of the aggregate principal amount of the Bonds (which price reflects an aggregate underwriting discount of $74,775.44).

The Bonds shall be as described in, and shall be issued pursuant to, the General Subordinate Resolution Authorizing Subordinate Revenue Bonds (the "General Subordinate Resolution"), adopted on July 25 2000, as supplemented, and as further supplemented by the Second Supplemental Subordinate Resolution Authorizing Subordinate Revenue Bonds, Series 5 through 13 (the "Second Supplemental Subordinate Resolution"), adopted on October 31, 2000, authorizing the issuance and sale of the Bonds in the form heretofore delivered to the Underwriter, all as described in the Official Statement (as defined herein). Such Resolutions are herein called the "Subordinate Resolution". Pursuant to the Subordinate Resolution, The Bank of New York, New York, New York, has been appointed Trustee (the "Trustee"). Capitalized terms used herein and not otherwise defined herein shall have the meaning set forth in the Subordinate Resolution.

The proceeds of the Bonds, will be applied to (i) reimburse the Authority for expenditures made to fund the design, engineering, construction, installation and other related costs associated with the projects consisting of up to eleven generating units, with an expected effective aggregate capacity of 451 MW, each unit consisting of natural gas fueled combustion turbine electric generating plant, designed and engineered to operate as a base load generation facility, and related facilities and real and personal property, (ii) fund additional design, engineering, construction, installation and other related costs associated with such projects, (iii) pay certain financing costs during construction associated with such projects, and (iv) pay fees and expenses incurred in connection with the issuance of the Series 5 through 13 Bonds.

(b) *Closing and Delivery*. The Closing will be held at such time and place on December 14, 2000 or such other date as shall have been mutually agreed upon by the Underwriter and the Authority (the "Closing"). At the Closing the Authority will deliver, or cause to be delivered, to the Underwriter, the Bonds, in fully registered form, bearing proper CUSIP numbers, duly executed by the Authority and authenticated by the Trustee, together with the other documents hereinafter mentioned, and the Underwriter will accept such delivery and pay the purchase price of the Bonds as set forth in Section 1(a) hereof by delivering to the Authority a check payable in Federal funds or other immediately available funds to the order of the Authority, in the amount of such purchase price.

The Bonds will be delivered in registered form in denominations of $25,000 or any integral multiple thereof and registered in the name of Cede & Co., as nominee of The Depository Trust Company, and will be made available to the Underwriter for inspection not less than 24 hours prior to the Closing.

It shall be a condition to the Underwriter's obligation to purchase and accept delivery of the Bonds that all the Bonds be sold and delivered by the Authority at the Closing. It shall be a condition to the Authority's obligation to sell and deliver the Bonds to the Underwriter that all of the Bonds be accepted and paid for by the Underwriter at the Closing.

## 2. Commitment

(a) Upon execution of this Contract of Purchase by the Authority and the Underwriter, this Contract of Purchase shall be in full force and effect in accordance with its terms and shall be binding upon the Authority and the Underwriter.

(b) Delivered herewith by the Underwriter, is a corporate check payable to the order of the Authority in an amount equal to $250,000 (1% of the aggregate principal amount of the Bonds). Until the earlier of the Closing or such other termination of this Contract of Purchase as provided herein, the Authority shall hold such check uncashed. At the Closing, such check shall be returned to the Underwriter.

In the event the Authority shall fail to deliver the Bonds at the date fixed for the Closing, or if the Authority shall be unable at the date fixed for the Closing to satisfy the conditions to the obligations of the Underwriter contained herein, or if the obligations of the Underwriter shall be terminated for any reason permitted hereby, the check shall be immediately returned to the Underwriter (unless previously returned pursuant hereto) and upon the return of such check, neither the Authority nor the Underwriter shall be under any further obligation or liability hereunder (except for the payment of costs and expenses for which they are respectively responsible pursuant to Section 9 hereof).

In the event the Underwriter shall fail (other than for a reason permitted hereby) to accept and pay for the Bonds upon tender thereof by the Authority as provided herein, such check held by the Authority shall be retained by the Authority as and for full liquidated damages for such failure and for any and all defaults on the part of the Underwriter, and the retention of such moneys shall constitute a full release and discharge of all claims and damages for such failure and for any and all such defaults.

Prior to or simultaneously with the execution of this Contract of Purchase, PricewaterhouseCoopers LLP, independent auditor, will have delivered to the Authority and the Underwriter, a letter addressed to the Authority and the Underwriter, in form satisfactory to the Authority and the Underwriter, consenting to the references to such firm in the Official Statement and setting forth the conclusions and findings of said firm with respect to certain financial information and other matters contained in the Official Statement.

## 3. Documents

At the time of acceptance hereof by the Authority, the Authority shall deliver to the Underwriter two counterparts of the Official Statement of the Authority relating to the Bonds in the form heretofore delivered to the Underwriter together with such changes as shall have been approved by the Underwriter (which, together with all exhibits, appendices, diagrams, reports and statements included therein or attached thereto, is herein called the "Official Statement"), dated November 29, 2000 and executed by conformed signature on behalf of the Authority by its Chairman, Vice Chairman or President.

Within seven (7) business days hereof (but not later than the delivery of the Bonds), the Authority shall deliver to the Underwriter copies of the Official Statement in sufficient quantity as may reasonably be requested by the Underwriter in order to comply with Rule 15c2-12 under the Securities Exchange Act of 1934 ("Rule 15c2-12"), with only such changes as shall have been approved by the Underwriter, which approval shall not be unreasonably withheld. The Authority authorizes the use of any and all such material (including specifically copies of the Official Statement, the Subordinate Resolution and the information therein contained) in connection with the public offering and sale of the Bonds.

The Authority agrees that it will cooperate in qualifying the Bonds for offering and sale under the "Blue Sky" or other securities laws of those states designated by the Underwriter; provided, however, that the Authority shall not be required to qualify to do business in any state nor shall the Authority be required to take any action which would subject it to general service of process in any jurisdiction where it is not now so subject.

## 4. Representations of the Authority

The Authority acknowledges that the Bonds will be sold to the Underwriter and that the Underwriter will purchase the Bonds in reliance upon the representations and warranties set forth herein and upon the information contained in the Official Statement. Accordingly, the Authority represents and warrants to the Underwriter that:

(a) *Organization; Power.* The Authority is and will be at the Closing a duly organized and existing body corporate and politic constituting a corporate municipal instrumentality and political subdivision of the State of New York under the Constitution and laws of the State of New York with the powers and authority set forth in the Authority Act of the State of New York, Title 1 of Article 5 of the Public Authorities Law, Chapter 43-A of the Consolidated Laws of the State of New York, as amended (the "Act"), and as such has and will have at the Closing the legal right to adopt and engage in the transactions contemplated by the Subordinate Resolution, the Continuing Disclosure Agreement, as hereinafter defined, the Official Statement and this Contract of Purchase.

(b) *Action by the Authority.* The Authority has authorized by appropriate action (i) the issuance and sale of the Bonds upon the terms herein and as set forth in the Official Statement and the Subordinate Resolution, (ii) the use of the proceeds from the sale of the Bonds as described in the Official Statement, (iii) the execution, delivery, performance, acceptance, approval and receipt, as the case may be, of this Contract of Purchase, the Bonds, the Subordinate Resolution, the Continuing Disclosure Agreement and the Official Statement, and (iv) the taking of any and all such action as may be required to carry out, give effect to and consummate the transactions contemplated therein and herein.

(c) *Valid Obligations.* When delivered to and paid for by the Underwriter at the Closing in accordance with the provisions of this Contract of Purchase, the Bonds will have been duly authorized, executed, issued and delivered and will constitute valid, binding and enforceable obligations of the Authority in conformity with the Act and the Subordinate Resolution and will be entitled to the benefit and security thereof.

(d) *No Defaults.* The Authority is not in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any bond, debenture, note or other evidence of indebtedness of the Authority or any mortgage, deed of trust, indenture or other agreement or instrument pursuant to which indebtedness of the Authority was incurred. Neither the adoption of the Subordinate Resolution, the execution and delivery of this Contract of Purchase, the Bonds, the Continuing





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Disclosure Agreement and the Official Statement, the consummation by the Authority of the transactions contemplated thereby and hereby, nor the compliance by the Authority with the provisions thereof and hereof, will result in any breach of the terms, conditions or provisions of, conflict with, or constitute a breach of or a default (or any event which with the passage of time or the giving of notice, or both, would become a default) under (i) the Act, any currently effective resolution of the Authority, or any contract, agreement or instrument to which the Authority is a party, (ii) the constitution of the United States or of the State of New York, or (iii) any existing law, administrative regulation, court order or consent decree to which the Authority is subject.

(e) *Security.* Upon their due issuance and sale as contemplated herein, the Bonds will be secured by and payable from certain monies of the Authority as provided in the Subordinate Resolution. In addition, other than the Senior Indebtedness (as defined in the Official Statement) and the other liens and encumbrances described in the Official Statement, there are no liens or encumbrances on the revenues or other assets, properties, funds or interest pledged pursuant to the Subordinate Resolution, and, other than as described in the Official Statement, the Authority has not entered into any contract or arrangement of any kind, and, to the knowledge of the Authority, there is no existing, pending, threatened or anticipated event or circumstance, which might give rise to any such lien or encumbrance.

(f) *Offering Document.* The Authority has authorized the use of the Official Statement dated November 29, 2000 (the "Official Statement") and the information contained therein furnished by or on behalf of the Authority and the use of copies of the Subordinate Resolution, in connection with the public offering and sale of the Bonds by the Underwriter.

(g) *Official Statement.* Both at the time of the Authority's acceptance hereof and at the Closing, the statements and information contained in the Official Statement (as the same may be supplemented or amended with the approval of the Underwriter, which approval shall not be unreasonably withheld), excluding the information contained in Part 1 of the Official Statement under the caption "Bond Insurance for Auction Rate Bonds" and the information contained in Appendices C, D, E and F to Part 1 of the Official Statement, are and will be true, correct and complete and such Official Statement does not and will not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements and information therein, in the light of the circumstances under which they were made, not misleading. If the Official Statement is supplemented or amended, at the time of each supplement or amendment thereto and (unless subsequently supplemented or amended pursuant to paragraph 10 hereof), at all times during the period from the date of such supplement or amendment to the end of the period described in paragraph 10 hereof, the Official Statement (except for the information set forth in Part 1 of the Official Statement under the caption "Bond Insurance for Auction Rate Bonds" and the information set forth in Appendices C, D, E and F to Part 1 of the Official Statement, as to which no representation or warranty is made) as so supplemented or amended will not contain any untrue statement of a material fact or omit to state a material fact necessary, in order to make the statements contained therein, in light of the circumstances under which they were made, not misleading in any material respect.

(h) *Financial Statements.* The financial statements included by reference in the Official Statement present fairly the financial position of the Authority at December 31, 1999 and December 31, 1998 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding periods.

(i) *Litigation.* Except for the matters disclosed in the Official Statement, there is no pending, or to the knowledge of the Authority threatened, legal, administrative or judicial proceeding to which the Authority is or would be a party: (i) contesting the official existence or powers of the Authority; (ii) contesting or affecting the authority for the issuance of the Bonds, or seeking to restrain or enjoin the issuance or the delivery of the Bonds; (iii) contesting or affecting, the validity of the Bonds, the Subordinate Resolution, the Continuing Disclosure Agreement or this Contract of Purchase; (iv) contesting the use of the proceeds of the Bonds as contemplated in the Official Statement; (v) seeking to restrain or enjoin the collection of the income or revenues available for or pledged to the Bonds under the Subordinate Resolution; or (vi) involving the possibility of any judgment or uninsured liability which may result in any material adverse change in the business, properties, assets or financial condition of the Authority.

(j) *Filings or Approvals.* All approvals, consents or orders of any governmental authority or agency having jurisdiction in the matter which would constitute a condition precedent to the lawful performance by the Authority of its obligations hereunder and under the Subordinate Resolution and the Bonds have been obtained and are in full force and effect, except for the approval of the Comptroller of the State of New York provided for in Section 1010-a of the Public Authorities Law of the State of New York.

(k) *Additional Certificates.* Any certificates signed by any authorized officer of the Authority and delivered to the Underwriter pursuant to this Contract of Purchase shall be deemed a representation and warranty by the Authority to the Underwriter as to the statements made therein with the same effect as if such representation and warranty were set forth by the Authority herein.

(l) *Continuing Disclosure Agreement.* At or prior to the Closing, the Authority shall have duly authorized, executed and delivered a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement") substantially in the form of Appendix E to Part 1 of the Official Statement.

5. **Underwriter's Representation**

The Underwriter agrees to make a bona fide public offering to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of Underwriter or wholesalers) of the Bonds at not more than the public offering prices set forth on the inside cover of the Official Statement. Simultaneously with or before delivery of the Bonds, the Underwriter shall furnish to the Authority a certificate acceptable to Bond Counsel (hereinafter referred to) to the effect that (i) the Underwriter has had a bona fide public offering of the Bonds to the public at initial offering prices not greater than the prices shown on the inside cover of the Official Statement and (ii) ten percent (10%) or more of the final principal amount of the Bonds of each maturity was sold to the final purchasers thereof (not including bond houses, brokers or similar persons or organizations acting in the capacity of Underwriter or wholesalers) at a price not greater than such initial offering price. The Underwriter agrees to include a copy or copies of the Official Statement with the confirmation sent to each purchaser of the Bonds. The Underwriter also agrees, on or prior to the Closing, to file the Official Statement with a Nationally Recognized Municipal Securities Information Repository.

## 6. Conditions of the Underwriter's Obligations

The obligations of the Underwriter to purchase the Bonds are subject to the fulfillment of the following conditions at or before the Closing. Should any of the following conditions not be fulfilled, the obligations of the Underwriter under this Contract of Purchase shall terminate and neither the Authority nor the Underwriter shall have any further obligations hereunder except as provided in Sections 2 and 9 hereof.

(a) The Authority's representations contained in Section 4 hereof shall be true, correct and complete as of the Closing and shall be confirmed at the Closing by certificates, signed by authorized officers of the Authority, in form and substance satisfactory to the Underwriter and its counsel.

(b) On or prior to the Closing: (i) the Subordinate Resolution shall have been adopted and the Subordinate Resolution shall be valid, binding and in full force and effect; (ii) the Bonds shall have been duly authorized, issued, executed, attested and authenticated in accordance with the provisions of the Subordinate Resolution and the Act, and delivered; and (iii) the Authority shall have duly adopted and there shall be in force and effect such resolutions as, in the opinion of Bond Counsel, shall be necessary in connection with the transactions contemplated hereby.

(c) At or prior to the Closing, unless otherwise agreed to by the Underwriter in writing, the Underwriter shall receive the following:

(i) The opinion of Hawkins, Delafield & Wood, as Bond Counsel, dated the date of the Closing and addressed to the Authority and the Underwriter, substantially in the form of Appendix C to Part 1 of the Official Statement.

(ii) The supplemental opinion of Hawkins, Delafield & Wood, as Bond Counsel, dated the date of the Closing and addressed to the Authority and Underwriter, and in form and substance as attached hereto as Schedule I.

(iii) The opinion of Nixon Peabody LLP, special counsel to the Authority, dated the date of the Closing and addressed to the Authority and Underwriter, and in form and substance as attached hereto as Schedule II.

(iv) An opinion of the General Counsel to the Authority, dated the date of the Closing and addressed to the Underwriter, in form and substance as attached hereto as Schedule III.

(v) The opinion of Winston & Strawn, as counsel to the Underwriter, dated the date of Closing, and addressed to the Underwriter, and in form and substance attached hereto as Schedule IV.

(vi) A letter from PricewaterhouseCoopers LLP, dated the date of the Closing and addressed to the Authority and the Underwriter, setting forth, as of a date not more than five days prior to the date of such letter, the conclusion and findings set forth in the letter delivered pursuant to Section 2 hereof.

(vii) A certificate, dated the date of the Closing, executed by a duly authorized officer of the Authority, to the effect that it is not expected that the proceeds of the Bonds will be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code.

(viii) A certificate executed by a duly authorized officer of the Authority, dated the date of the Closing, to the effect that there has been no material adverse change in the affairs or financial condition of the Authority from that described in the Official Statement and further stating that upon delivery of the Bonds, the Authority will not be in default in the performance of the terms and provisions of the General Resolution, the Subordinate Resolution, the Commercial Paper Note Resolution and the ART Note Resolution.

(ix) Five copies of the General Subordinate Resolution and the Second Supplemental Subordinate Resolution, each duly certified by the Secretary or the Deputy Secretary of the Authority.

(x) A copy of the executed DTC Letter of Representation relating to the Bonds.

(xi) The Bonds shall have received ratings from Moody's Investors Service, Standard & Poor's Ratings Group and Fitch Inc. of "AAA", "AAA" and "AAA", respectively.

(xii) At or prior to the Closing, the Authority shall have duly authorized, executed and delivered the Continuing Disclosure Agreement.

(xiii) An executed copy of the Tender Agency Agreement dated as of December 1, 2000 between the Authority and The Bank of New York, as tender agent.

(xiv) An executed copy of the Broker-Dealer Agreement dated as of December 1, 2000 among the Authority, The Bank of New York, as Auction Agent and as broker-dealer.

(xv) An executed copy of the Auction Agreement dated as of December 1, 2000 between the Authority and the Bank of New York, as Trustee and Auction Agent.

(xvi) An executed municipal bond insurance policy to be issued by Financial Security Assurance Inc. in the form of Appendix F to Part 1 of the Official Statement.

(d) At the Closing, the Underwriter shall receive such additional certificates, instruments or opinions as Bond Counsel or counsel to the Underwriter may reasonably request to evidence the due authorization, execution, authentication and delivery of the Bonds and the Subordinate Resolution with the terms of the Bonds and the Subordinate Resolution as summarized in the Official Statement, the exclusion from gross income for federal income tax purposes of interest on the Bonds, and the truth, accuracy and completeness as of the closing of the Authority's representations and warranties contained herein, in the Official Statement and in any of certificates or documents of Authority or officers of the Authority delivered pursuant thereto.

(e) The Official Statement, including the Appendices thereto, shall not have been amended or supplemented without the approval of the Underwriter, which shall not be unreasonably withheld.

7. **Events Permitting the Underwriter to Terminate**

The Underwriter may terminate its obligation to purchase the Bonds at any time before the Closing if any of the following should occur:

(a) (i) Legislation shall have been enacted by the House of Representatives or the Senate of the Congress of the United States, or recommended to the Congress for passage by the President of the United States or favorably reported for passage to either House of Congress by any committee of such House or by any conference committee of the two Houses of Congress or legislation shall have been proposed, or an authorized release or other written public announcement describing proposed legislation or proposing legislation shall have been issued, by the President of the United States, the Secretary of the Treasury or the Chairman or ranking minority member of the House Ways and Means Committee or the Senate Finance Committee, all subsequent to the date hereof, or (ii) a decision shall have been rendered by the United States Tax Court or by a court established under Article III of the Constitution of the United States or (iii) an order, ruling or regulation shall have been issued or proposed by or on behalf of the Treasury Department of the United States or the Internal Revenue Service or any other agency of the United States, or (iv) an authorized release or official statement shall have been issued by the Treasury Department of the United States or by the Internal Revenue Service, the effect of which in any such case described in clause (i), (ii), (iii) or (iv) would be to impose, directly or indirectly, Federal income taxation upon interest received on obligations of the general character of the Bonds or upon income received by entities of the general character of the Authority in such a manner as in the sole reasonable judgment of the Underwriter would materially impair the marketability or materially reduce the market price of the Bonds.

(b) Any action shall have been taken by the Securities and Exchange Commission or by a court or legislation shall have been enacted by the House of Representatives or the Senate of the Congress of the United States, or recommended to the Congress for passage by the President of the United States or favorably reported, subsequent to the date hereof, for passage to either House of the Congress by any Committee of such House, which would require registration of any security under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or qualification of any indenture under the Trust Indenture Act of 1939, as amended, in connection with the public offering of the Bonds or any action shall have been taken by any court or by any governmental authority suspending the use of the Official Statement, or any amendment or supplement thereto, or any proceeding for that purpose shall have been initiated or threatened in any such court or by any such authority.

(c) (i) There shall exist any event described in paragraph 10 hereof which in the opinion of the Underwriter requires a supplement or amendment to the Official Statement; provided however, that the Underwriter shall, if requested by the Authority, circulate to purchasers a supplement or amendment to the Official Statement reflecting such event, and if such supplement or amendment is so circulated the Underwriter shall only be entitled to terminate this Contract of Purchase pursuant to this clause, if, as a result of such circulation, the marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially adversely affected; or (ii) the ratings for the Bonds shall have been lowered below the ratings specified in paragraph 6(c)(xi) hereof, or withdrawn, by Moody's Investors Services, Standard & Poor's Ratings Group or Fitch, Inc. and in the opinion of the Underwriter, the marketability of the Bonds or the market price thereof has been materially adversely affected thereby.

(d) The marketability of the Bonds or the market price thereof, in the opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States or of the State or by Federal or State legislation.

(e) (i) A general suspension of trading in securities shall have occurred on the New York Stock Exchange, or (ii) the United States shall have become engaged in hostilities which have resulted in the declaration, on or after the date of this Contract of Purchase, of a national emergency or war, the effect of which, in either case described in clause (i) or (ii), is, in the judgment of the Underwriter, so material and adverse as to make it impracticable to proceed with the public offering or the delivery of the Bonds on the terms and in the manner contemplated in this Contract of Purchase and the Official Statement.

(f) A general banking moratorium shall have been declared by authorities of the United States or the State of New York.

**8. Notices and Other Actions**

All notices, demands and formal actions hereunder will be in writing, mailed, telegraphed or delivered to:

The Authority:

The Underwriter:

## 9. Expenses

All costs and expenses of the Authority in connection with the authorization, issuance, sale and delivery of the Bonds and other items herein specified to be delivered to the Underwriter shall be paid for, or provision for payment made by the Authority. Such provision for payment may include payment from the proceeds of the Bonds. Said costs and expenses shall include: the costs of printing the Bonds, the Subordinate Resolution, the Official Statement and this Contract of Purchase, and all other underwriting documents required in connection with the distribution of the Official Statement, in all cases in reasonable quantities; the fees and charges of any consultants, financial advisors, fiscal advisors, accountants, auditors and the rating agencies employed by the Authority in connection with the issuance and sale of the Bonds; any expenses incurred in connection with qualification of the Bonds for sale and determination of their eligibility for investment under the laws of such jurisdictions as the Underwriter may designate (including reasonable fees and disbursements of counsel to the Underwriter relating thereto) and the preparation and printing of surveys in connection therewith; and the fees and expenses of Bond Counsel in connection with the transactions herein contemplated. Except as indicated above, all expenses of the Underwriter, including specifically the fees and expenses of counsel to the Underwriter not described in the preceding sentence, shall be paid by the Underwriter.

## 10. Official Statement Amendments

If, during the period from the date hereof to and including the date of delivery of the Bonds, there shall exist any event which, in the opinion of the Underwriter and counsel to the Underwriter and in the opinion of the Authority, requires a supplement or amendment to the Official Statement so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, when it is delivered to a potential investor, the Authority will supplement or amend the Official Statement in a form and in a manner approved by the Underwriter and the Authority.

Unless otherwise notified in writing by the Underwriter on or prior to the date of Closing, the Authority may assume that the "end of the underwriting period" for the Bonds for all purposes of Rule 15c2-12 is the date of the Closing. In the event such notice is given in writing by the Underwriter, the Underwriter shall notify the Authority in writing following the occurrence of the "end of the underwriting period" for the Bonds as defined in Rule 15c2-12. Except as otherwise specifically provided herein, the "end of the underwriting period" for the

Bonds as used in this Agreement shall mean the date of the Closing or such later date as to which notice is given by the Underwriter in accordance with the preceding sentence.

**11. Miscellaneous**

No recourse shall be had for the payment of the principal of or interest on the Bonds or for any claim based thereon, on the Subordinate Resolution or on this Contract of Purchase against any member, officer or employee of the Authority or any person executing the Bonds or this Contract of Purchase.

This Contract of Purchase may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all of such counterparts shall together constitute one and the same instrument. This Contract of Purchase will inure to the benefit of and be binding upon the parties and their successors, and will not confer any rights upon any other person. This Contract of Purchase shall not be binding until executed by the parties hereto. All representations and agreements by the Authority and the Underwriter in this Contract of Purchase shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter and shall survive the delivery of any payment for the Bonds. This Contract of Purchase shall be governed by, and construed in accordance with, the laws of the State of New York. Section headings have been inserted in this Contract of Purchase as a matter of convenience of reference only, and it is agreed that such section headings are not part of this Contract of Purchase and will not be used in the interpretation of any provisions of this Contract of Purchase.

as Underwriter

By:________

Accepted as of the date first set forth above

By:________
Treasurer



523869.2

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Schedule I

[FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL]

as Underwriter, $25,000,000 Subordinate
Revenue Bonds, Series 12 of

December 14, 2000

Ladies and Gentlemen:

In connection with the issuance by the (the "Authority") of $25,000,000 principal amount of its Subordinate Revenue Bonds, Series 12 (the "Bonds"), which are being delivered today pursuant to a Contract of Purchase (the "Purchase Contract"), dated December 7, 2000, between the Authority and yourself (the "Underwriter"), we have examined:

(a) Certified copies of the resolutions of the Authority entitled General Subordinate Resolution Authorizing Subordinate Revenue Bonds, adopted on July 25 2000, as supplemented, and as further supplemented by the Second Supplemental Subordinate Resolution Authorizing Subordinate Revenue Bonds, Series 5 through 13, adopted on October 31, 2000 (collectively, the "Subordinate Resolution");

(b) An executed copy of the Official Statement of the Authority, dated November 29, 2000 (the "Official Statement");

(c) A certified copy of a record of proceedings relating to the issuance and delivery of the Bonds; and such other documents, certificates and matters of law, as we have considered necessary to enable us to render this opinion; and

(d) An executed copy of the continuing disclosure agreement dated December 14, 2000 (the "Continuing Disclosure Agreement").

In accordance with our understanding with the Authority, we rendered legal advice and assistance to the Authority in the course of its preparation of the Official Statement. Rendering such assistance involved, among other things, discussions and inquiries concerning various legal and related subjects, and reviews of and reports on certain documents and proceedings. We also participated in conferences with officers of the Authority, representatives of the Underwriter, its counsel, Winston & Strawn, and the Authority's special counsel, Nixon Peabody LLP and during which the contents of the Official Statement and related matters were discussed and reviewed.

We have not acted as counsel to the Authority with regard to any contracts, administrative proceedings, negotiations or litigation relating to the acquisition or construction of any facilities, the generation or transmission of power, or the sale of power from such facilities. We have made inquiries of certain officers of the Authority regarding such matters and the statements relating to such matters contained in the Official Statement. As a result of the foregoing and the limitations inherent in the independent verification of factual matters and the character of determinations involved in the preparation of the Official Statement, we express no opinion, except to the extent we have actual knowledge of such matters, as to the accuracy, completeness or fairness of the statements contained in the Official Statement relating to the negotiations, contracts, administrative proceedings and litigation described above. Also we do not express any opinion or belief as to any financial, statistical or engineering data contained in the Official Statement, as to the information included in Part 1 of the Official Statement under the heading "BOND INSURANCE FOR AUCTION RATE BONDS" or as to the description of the Authority's facilities included therein or as to Appendices D or F to Part 1 of the Official Statement or Appendix 2 to Part 2 of the Official Statement.

On the basis of the information which was developed in the course of the performance of the services referred to above, considered in the light of our understanding of the applicable law and the experience we have gained through our practice thereunder, subject to the limitations expressed in the preceding paragraph, nothing has come to our attention to cause us to believe that the Official Statement (excluding any financial, statistical or engineering data contained therein, the information included in Part 1 thereof under the heading "BOND INSURANCE FOR AUCTION RATE BONDS", the description of the Authority's facilities included therein, Appendices D or F to Part 1 thereof and Appendix 2 to Part 2 thereof) contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. We are further of the opinion that, on the basis of the information which was developed in the course of the performance of the services referred to above:

1. The Purchase Contract and the Continuing Disclosure Agreement have been duly authorized, executed and delivered by the Authority.

2. The adoption by the Authority of the Subordinate Resolution and the execution and delivery by the Authority of the Purchase Contract and the Continuing Disclosure Agreement did not, and the performance by the Authority of its obligations thereunder will not, violate or conflict with any applicable law or administrative regulation or the provisions of any judgment, loan agreement, note, resolution or agreement of which we have knowledge, to which the Authority is a party or otherwise subject.

3. The Bonds are exempted securities within the meaning of Section 3(a)(2) of the Securities Act of 1933, as amended, and it is not necessary, in connection with the public offering and sale of the Bonds, to register the Bonds under the Securities Act of 1933, as amended; and it is not necessary to qualify the Subordinate Resolution under the Trust Indenture Act of 1939, as amended.

Very truly yours,

[LETTERHEAD OF SPECIAL COUNSEL]

December 14, 2000

As the Underwriter named in the
Contract of Purchase
dated D~~ember 7, 2000
with the

Ladies and Gentlemen:

In connection with the issuance by (the "Authority") of $25,000,000 aggregate principal amount of the Authority's Subordinate Revenue Bonds, Series 12 (the "Bonds"), which are being delivered today pursuant to the Contract of Purchase dated December 7, 2000 (the "Purchase Agreement"), between the Authority and the underwriter named therein (the "Underwriter"), we have examined and relied upon the following:

(a) A copy, certified or otherwise identified to our satisfaction, of the General Subordinate Resolution Authorizing Subordinate Revenue Bonds, adopted on July 25 2000, as supplemented, and as further supplemented by the Second Supplemental Subordinate Resolution Authorizing Subordinate Revenue Bonds, Series 5 through 13, adopted on October 31, 2000 (collectively, the "Subordinate Resolution");

(b) An executed copy of the Official Statement of the Authority, dated November 29, 2000 (the "Official Statement"), relating to the Bonds;

(c) Executed copies of the opinions of Hawkins, Delafield & Wood, Bond Counsel, delivered to the Underwriter pursuant to paragraphs 6(c)(i) and (ii) of the Purchase Agreement,

(d) Executed copies of the opinion of General Counsel of the Authority, delivered to the Underwriter pursuant to paragraph 6(c)(iv) of the Purchase Agreement;

(e) An executed copy of the Purchase Agreement;

(f) An executed copy of the Continuing Disclosure Agreement, dated December 14, 2000 (the "Continuing Disclosure Agreement"); and

(g) The Act, as defined in the Official Statement, and such records of the corporate proceedings of the Authority as we deemed relevant to the opinions set forth below including the Subordinate Resolution.

In addition, we have examined and relied on originals or copies (certified or otherwise identified to our satisfaction) of such other documents, instruments or corporate records, and have made such investigations of law, as we have considered necessary or appropriate for the purposes of this opinion.

In accordance with our understanding with the Authority and as its Special Counsel, we rendered legal advice and assistance to the Authority in connection with the preparation of the Official Statement. Rendering such advice and assistance involved, among other things, discussions and inquiries concerning various legal and related subjects, and reviews of and reports on certain documents and proceedings. We also participated in conferences with representatives of the Authority and the Underwriter, their respective counsel, Bond Counsel, and other consultants to the Authority during which the contents of the Official Statement and related matters were discussed and reviewed. Based upon such participation and our review of the documents described above, and information developed in the course of the performance of the services referred to above, we are of the opinion that the statements in the Official Statement under the headings "Summary," "Introduction," "Security for the Subordinate Revenue Bonds," "Application of the Subordinate Revenue Bond Proceeds," and "The Subordinate Revenue Bonds," including the information contained in Appendices A, E and G and the statements contained in Part 2 of the Official Statement under the headings "The Authority", "Certain Financial and Operating Matters", "The Authority's Response to Competitive Environment", "Power Sales", "Energy Conservation", "The Authority's Facilities", "Legislation Affecting the Authority", "Certain Factors Affecting the Electric Utility Industry" and "Regulation", including the information contained in Appendices 1 and 2, as of the date of the Official Statement and as of the date hereof, insofar as they purport to summarize the Constitution or laws of the State of New York, (the "State"), the laws of any political subdivision of the State, or any legal documents pertaining to the security for the Bonds, are correct in all material respects and constitute fair and accurate summaries thereof in all material respects.

On the basis of the information that was developed in the course of our examination referred to above and our participation in the preparation of the Official Statement, and, without having undertaken to determine independently the accuracy or completeness of the statements contained in the Official Statement, nothing has come to our attention which would lead us to believe that, as of the date of the Official Statement and as of the date hereof, the Official Statement (except for the information contained in Part 1 of the Official Statement under the caption "Bond Insurance for Auction Rate Bonds", the information contained in Appendices B, C, D and F to Part 1 of the Official Statement, and other financial, statistical and engineering data included in the Official Statement, as to which no opinion or view is expressed) contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

This letter is furnished by us solely for your benefit in connection with the provisions of the Purchase Agreement and may not be relied upon by any other person, without our express written consent.

Very truly yours,

[LETTERHEAD OF AUTHORITY GENERAL COUNSEL]

December 14, 2000

As the Underwriter named in the
Contract of Purchase, dated
December 7, 2000 with the
Power Authority of the
State of New York

Ladies and Gentlemen:

Reference is made to Section 6(c)(iv) of the Contract of Purchase, dated December 7, 2000 (the "Purchase Agreement"), for the Subordinate Revenue Bonds, Series 12 (the "Bonds"), by and between k (the "Authority") and the Underwriter referred to in the Purchase Agreement, and the General Subordinate Resolution Authorizing Subordinate Revenue Bonds, adopted on July 25 2000, as supplemented, and as further supplemented by the Second Supplemental Subordinate Resolution Authorizing Subordinate Revenue Bonds, Series 5 through 13, adopted on October 31, 2000 (collectively, the "Subordinate Resolution").

As General Counsel to the Authority, I have examined and relied on originals or copies certified or otherwise identified to my satisfaction of such documents, instruments or corporate records, and have made such investigations of law, as I have considered necessary or appropriate for the purposes of this opinion.

Except as otherwise defined herein, all terms used herein shall have the meanings assigned to such terms in the Subordinate Resolution or the Official Statement (as hereinafter defined).

Members of the legal department of the Authority have participated in the preparation of the Official Statement of the Authority dated November 29, 2000 relating to the Bonds (the "Official Statement"), including participation in conferences as to the matters to be included therein and related matters, with representatives of the Authority, bond counsel and special counsel to the Authority, and the Underwriter and its counsel. Based upon my review of such documents and proceedings as I have deemed necessary, nothing has come to my attention to cause me to believe that the information as to legal matters contained in the Official Statement (except for the information contained in Part 1 of the Official Statement under the caption "Bond Insurance for Auction Rate Bonds", the financial, statistical and engineering data contained in the Official Statement and information contained in Appendices C, D, E and F thereto, as to which no opinion or view is expressed), as of its date contained, and as of the date hereof contains, an untrue statement of a material fact or as of its date omitted, or as of the date hereof omits, to state any material fact necessary in order to make any statements made therein, in light of the circumstances under which they were made, not misleading.

Without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to my attention to cause me to believe that the Official Statement (except for the information contained in Part 1 of the Official Statement under the caption "Bond Insurance for Auction Rate Bonds", the financial, statistical and engineering data included in the Official Statement and the information contained in Appendices C, D, E and F thereto, as to which no opinion or view is expressed), as of its date contained, and as of the date hereof contains, an untrue statement of a material fact or as of its date omitted, or as of the date hereof omits, to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

I am of the opinion that:

1. The Authority is a body corporate and politic constituting a corporate municipal instrumentality of the State of New York (the "State") duly created by and validly existing under the Act, with the right, power and authority to execute, deliver and perform its obligations under the Purchase Agreement and the Continuing Disclosure Agreement, to adopt the Subordinate Resolution and to issue the Bonds thereunder (collectively, the "Authorized Documents").

2. The execution and delivery of, and the performance by the Authority of its obligations under, the Purchase Agreement and the Continuing Disclosure Agreement and the performance by the Authority of its obligations under the Bonds have been duly authorized by proper corporate proceedings of the Authority. The Purchase Agreement and the Continuing Disclosure Agreement have each been duly executed and delivered by the Authority and assuming the due authorization, execution and delivery by the other parties thereto, each constitutes a legal, valid and binding agreement of the Authority enforceable in accordance with its terms. The Subordinate Resolution has been duly and lawfully adopted by the Authority and is in full force and effect and is valid and binding upon the Authority and enforceable in accordance with its terms, and no other authorization for, or filing or recording of, the Subordinate Resolution is required.

3. Except for the lien of the General Resolution and as permitted by the Subordinate Resolution, the items pledged by the Subordinate Resolution are, and under the Subordinate Resolution and existing law will be, free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge created by the Subordinate Resolution and all corporate action on the part of the Authority to that end has been duly and validly taken.

4. The Authority has good right and lawful authority to undertake the activities with respect to which the Bonds are being issued.

5. The Official Statement has been duly authorized, executed and delivered by the Authority.

6. Except as described in the Official Statement, the Authority is not in any material respect in violation of, breach of or default under any applicable constitutional provisions or law of any state or of the United States, or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Authority or any of its activities, or any indenture, mortgage, deed of trust, resolution, note agreement or other agreement or instrument to which the Authority is a party or by which the Authority or any of its property or assets is bound, and no event has occurred and is continuing which with the passage of time or the giving of notice, or both, would constitute such a default or event of default under any such instruments; and the execution and delivery of the Authorized Documents, and compliance with the provisions on the Authority's part contained therein, do not and will not conflict with, or constitute on the part of the Authority a violation of, breach of or default under, any

constitutional provision or law of any state or of the United States, or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Authority or any of its activities, properties or assets, or any indenture, mortgage, deed of trust, resolution, note agreement or other agreement or instrument to which the Authority is a party or by which the Authority or any of its property or assets is bound, nor will any such execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the Authority or under the terms of any such law, regulation or instrument, except as provided by the Bonds or the Authorized Documents.

7. Except as described in the Official Statement, there is no litigation or other proceeding pending or, to the best of my knowledge, threatened in any court, agency or other administrative body (either State or Federal) restraining or enjoining the issuance, sale or delivery of the Bonds, or in any way questioning or affecting (i) the issuance, sale and delivery of the Bonds, (ii) the proceedings under which the Bonds are to be issued, (iii) the validity of any provision of the Bonds, the Subordinate Resolution, the Continuing Disclosure Agreement or the Purchase Agreement, (iv) the pledge by the Authority effected under the Subordinate Resolution, or (v) the legal existence of the Authority. Except as described in the Official Statement, there is no litigation or other proceeding pending to which the Authority is a party or, to the best of my knowledge, threatened against it, and, to the best of my knowledge, there is no other litigation or proceeding pending or threatened in any court, agency or other administrative body (either State or Federal) which could have a material adverse effect on the transactions contemplated by the Subordinate Resolution and the items pledged under the Subordinate Resolution.

8. The Authority is not in default in any material respect under the terms of the Subordinate Resolution.

9. All authorizations, consents, approvals and reviews of governmental bodies or regulatory authorities required for, or the absence of which would materially adversely affect (i) the execution, issuance and performance by the Authority of the Bonds and (ii) the execution, delivery and performance by the Authority of the Continuing Disclosure Agreement and the performance by the Authority of the Subordinate Resolution have been obtained or effected.

The obligations of the Authority and the enforceability thereof are limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights. The enforceability of such obligations is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

This opinion is solely for your information and assistance and is not to be used, circulated, quoted or otherwise referred to, except that reference to this opinion may be made in the Official Statement and in any list of closing documents pertaining to the issuance of the Bonds or in such closing documents.

Very truly yours,

______________________

Name:
Title:

[LETTERHEAD OF COUNSEL TO THE UNDERWRITER]

December 14, 2000

as Underwriter named in the
Contract of Purchase dated December 7, 2000
with respect to the captioned Bonds

Re: $25,000,000 aggregate principal amount
of the Authority's Subordinate Revenue Bonds, Series 12

Ladies and Gentlemen:

We have acted as counsel to you (the "Underwriter") in connection with the purchase by the Underwriter from t. (the "Authority"), a body corporate and politic constituting a public benefit corporation of the State of New York, of the above-referenced Bonds (the "Bonds") pursuant to the terms of the Contract of Purchase dated December 7, 2000 (the "Purchase Agreement"), between you and the Authority.

We have, as such counsel, examined the following documents:

(a) the General Subordinate Resolution Authorizing Subordinate Revenue Bonds, adopted on July 25 2000, as supplemented, and as further supplemented by the Second Supplemental Subordinate Resolution Authorizing Subordinate Revenue Bonds, Series 5 through 13, adopted on July 25 2000, (collectively, "Subordinate Resolution");

(b) the legal opinion of Hawkins, Delafield & Wood, Bond Counsel to the Authority ("Bond Counsel"), dated the date hereof;

(c) the Official Statement of the Authority with respect to the Bonds, dated November 29, 2000 (the "Official Statement");

(d) the Purchase Agreement;

(e) the Continuing Disclosure Agreement, dated December 14, 2000 (the "Continuing Disclosure Agreement") by and between the Authority and The Bank of New York, as trustee; and

(f) such other documents and showings as we have deemed necessary in order to render this opinion.

On the basis of the foregoing, and having regard to legal questions that we deem relevant, we are of the opinion that:

(1) The Bonds are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Subordinate Resolution is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended.

(2) Based on our participation in the preparation of the Official Statement as counsel for the Underwriter, without having undertaken to independently verify the accuracy, completeness or fairness of the statements contained in the Official Statement, nothing has come to our attention that would lead us to believe that the Official Statement, as of its date, contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein in light of the circumstances under which they were made, not misleading (except for the information contained in Part 1 of the Official Statement under the caption "Bond Insurance for Auction Rate Bonds", the financial statements and other financial and statistical data included in the Official Statement, the descriptions of the Authority's facilities included in the Official Statement and in Appendices C, D, F and G of Part 1 of the Official Statement and Appendix 2 of Part 2 of the Official Statement, as to which no view is expressed) or that the Official Statement contains as of the date hereof an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (except as aforesaid).

(3) The Continuing Disclosure Agreement satisfies the requirements of Section (b)(5)(i) of Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"), which provide for an undertaking for the benefit of the holders, including beneficial owners, of the Bonds to provide certain annual financial information and event notices to various information repositories at the times and in the manner required by the Rule.

(4) The Authority is "an issuer of municipal securities" within the meaning of the Rule.

(5) With respect to the Bonds, other than the Authority, there is no "obligated person" within the meaning of the Rule which would be required to provide certain annual financial information and event notices to various information repositories as required by the Rule.

In rendering the opinions contained in paragraphs 3, 4 and 5, we have assumed the due authorization, execution and delivery of the Continuing Disclosure Agreement by the Authority, and that such agreement is a valid and binding obligation of the Authority enforceable in accordance with its terms.

As counsel for the Underwriter, we are furnishing this letter to you, solely for your benefit as Underwriter pursuant to Section 6 (c)(v) of the Purchase Agreement. This letter shall not be used, circulated, quoted, referred to or relied upon, by any other person, firm, corporation or other entity without our prior written consent. This letter is as of the date hereof and we undertake no, and disclaim any, obligation to advise you of any changes in any matter set forth herein.

Very truly yours,