



Public Resources Management Group, Inc.

Utility, Rate, Financial and Management Consultants

November 3, 2015

Mr. John McKinney
Finance Director
City of Edgewater
104 North Riverside Drive
Edgewater, Florida 32132

Dear Mr. McKinney:

I have reviewed the recommendation made by the City's Financial Advisor and concur that combining the revenue pledge related to the issuance of long-term debt to include both the Water and Wastewater enterprise and the Stormwater enterprise would be beneficial to the City from a rate/financing perspective.

As you know, when the City issues long-term debt to finance utility infrastructure, the authorizing resolutions required by the lenders, among other things, pledge that the net revenues of the utility system must be used to make annual debt service payments, which provides the security for the debt. These resolutions also include an obligation to satisfy a debt service covenant such that the net revenues (i.e. gross revenues less operating expense) are an amount larger than the annual debt service payments. The test used by the lenders is referred to as a debt service coverage test ("DSC"). By combining the Water and Wastewater and Stormwater net revenues as the pledge for the repayment of long-term utility debt, the City would be able to demonstrate a higher DSC ratio which should enhance the City's credit rating and the ability to maintain an adequate DSC ratio ensuring compliance with its' obligations to the lenders once new debt is issued. While the City should still set Water, Wastewater and Stormwater rates such that each utility system can stand on its' own to meet expenditure requirements, combing the revenue pledge for repayment of debt should strengthen the City's credit.

The primary reason that the combined utility pledge is expected to be beneficial is that the Stormwater System does not have any current or planned long term debt obligations. Since the Water and Wastewater System will need to issue a significant amount of debt in the future adding the Stormwater System net revenues to the revenue pledged to repay the debt will enhance the DSC ratio. Also in the future should the City need to issue long-term debt for Stormwater System projects you would be able to leverage off the strength of the combined pledge as well.

If you should have any questions regarding this opinion, please don't hesitate to let me know.

Very truly yours,

Public Resources Management Group, Inc.

A handwritten signature in blue ink that reads "Henry L. Thomas".

Henry L. Thomas
Senior Vice President