

**NEW ISSUE  
BOOK-ENTRY ONLY**

See “**BOND RATINGS**” herein

*In the opinion of Gilmore & Bell, P.C. and The Martinez Law Firm, LLC, Co-Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the “Code”), interest on the Bonds (including any original issue discount properly allocable to said owner thereof) is excludable from gross income for federal and Missouri income tax purposes, except as described in this Official Statement, and is not an item of tax preference for the purposes of the federal alternative minimum tax imposed on individuals and corporations. The Bonds have not been designated as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3) of the Code. See “TAX MATTERS” herein.*

**\$69,480,000**

**CITY OF KANSAS CITY, MISSOURI**

**Sanitary Sewer System Revenue Bonds, Series 2009A**

**Date: Date of Delivery**

**Due: A detailed maturity schedule  
is set forth on the inside front cover.**

The Bonds are special, limited obligations of the City payable solely from, and secured as to the payment of principal and interest by a pledge of, the net revenues derived by the City from the operation of the Sanitary Sewer System. The taxing power of the City is not pledged to the payment of the Bonds either as to principal or interest. The Bonds shall not be or constitute a general obligation of the City nor shall they constitute an indebtedness of the City within the meaning of any constitutional, statutory or charter provision, limitation or restriction.

**The Bonds will be junior and subordinate only to the Outstanding Senior Bonds and on a parity with the Outstanding Parity Bonds with respect to payment of principal and interest from the Net Sanitary Sewer Revenues.** See “SECURITY” herein.

The Bonds will be issued as fully registered bonds without coupons in the denomination of \$5,000 or any integral multiple thereof, and, when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in authorized denominations. Investors will not receive physical certificates representing their interests in Bonds purchased. So long as Cede & Co. is registered owner of the Bonds, as nominee of DTC, references herein to the owners or registered owners shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (herein defined) of the Bonds. Principal will be payable upon presentation and surrender of the Bonds by the registered owners thereof at the payment office of a paying agent which shall be designated in a certificate by the Director of Finance/CFO of the City. It is expected that The Bank of New York Mellon Trust Company, NA, in St. Louis, Missouri, will serve as the paying agent for the Bonds (the “Paying Agent”). Interest will be payable by check or draft of the Paying Agent mailed (or by electronic transfer in certain circumstances as described herein) by the Paying Agent to the persons who are the registered owners of the Bonds as of the close of business on the Record Date, as defined in the Ordinance. So long as DTC or its nominee Cede & Co., is the owner, such payments will be made directly to such owner. DTC is expected, in turn, to remit such payments to the DTC Participants (herein defined) for subsequent disbursement to the Beneficial Owners.

The Bonds are offered when as and if issued by the City, subject to the approval of legality by Gilmore & Bell, P.C., Kansas City, Missouri, and The Martinez Law Firm, LLC, Liberty, Missouri, Co-Bond Counsel. Certain legal matters will be passed upon for the City by Galen Beaufort, Esq., City Attorney. Certain legal matters for the City will be passed upon by King Hershey, PC, Kansas City, Missouri, as Disclosure Counsel. It is expected that the Bonds will be available for delivery at DTC on or about April 8, 2009.

**George K. Baum & Company**

**Morgan Stanley**

**D.A. Davidson & Co.**

**Siebert Brandford Shank & Co., LLC**

**Valdés & Moreno, Inc.**

**The date of this Official Statement is March 26, 2009**

**\$69,480,000**

**CITY OF KANSAS CITY, MISSOURI**

**SANITARY SEWER SYSTEM REVENUE BONDS, SERIES 2009A**

The Bonds will bear interest payable on January 1 and July 1, commencing July 1, 2009, and will mature January 1 as follows:

<u>Maturity January 1</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price</u>	<u>Yield</u>	<u>CUSIP Numbers<sup>2</sup></u>
Serial Bonds:					
2011	\$1,830,000	2.500%	101.528	1.600%	48507T CL5
2012	1,885,000	2.500	101.721	1.850	48507T CM3
2013	1,945,000	3.000	102.631	2.260	48507T CN1
2014	2,000,000	3.250	102.424	2.700	48507T CP6
2015	2,065,000	3.250	101.726	2.920	48507T CQ4
2016	2,140,000	3.500	102.287	3.120	48507T CR2
2017	2,215,000	3.750	102.563	3.370	48507T CS0
2018	2,295,000	4.000	103.196	3.570	48507T CT8
2019	2,390,000	4.000	101.936	3.760	48507T CU5
2020	2,485,000	4.000	100.000	4.000	48507T CV3
2021	2,585,000	4.100	99.350	4.170	48507T CW1
2022	2,695,000	4.250	99.314	4.320	48507T CX9
2023	2,810,000	5.000	103.818	4.510 <sup>1</sup>	48507T CY7
2024	2,935,000	5.000	102.549	4.670 <sup>1</sup>	48507T CZ4
2025	3,070,000	5.000	101.455	4.810 <sup>1</sup>	48507T DA8
2026	3,210,000	5.000	100.682	4.910 <sup>1</sup>	48507T DB6
2027	3,360,000	5.000	100.000	5.000	48507T DC4
Term Bonds:					
2029	\$ 7,230,000	5.000%	99.495	5.040%	48507T DE0
2034	20,335,000	5.250	100.000	5.250	48507T DF7

The Bonds are subject to redemption prior to maturity at the redemption prices and subject to the provisions more fully described herein.

<sup>1</sup>Yield on bonds maturing in the years 2023, 2024, 2025 and 2026 are calculated to the first optional call date of January 1, 2019.

<sup>2</sup>CUSIP numbers have been assigned to this issue by Standard & Poor's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., and are included solely for the convenience of the Bondowners. Neither the City nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth above.

**CITY OF KANSAS CITY, MISSOURI**

**City Hall  
414 East 12<sup>th</sup> Street  
Kansas City, Missouri 64105**

**ELECTED OFFICIALS**

**MAYOR**  
Mark Funkhouser

**CITY COUNCIL MEMBERS**

**Council Members-at-Large**

District 1      Deb Hermann  
District 2      Ed Ford  
District 3      Melba Curls  
District 4      Beth Gottstein  
District 5      Cindy Circo  
District 6      Cathy Jolly

**District Council Members**

District 1      Bill Skaggs  
District 2      Russ Johnson  
District 3      Sharon Sanders Brooks  
District 4      Jan Marcason  
District 5      Terry Riley  
District 6      John A. Sharp

**CITY ADMINISTRATIVE OFFICIALS**

**CITY MANAGER**  
Wayne Cauthen

**CITY ATTORNEY**

Galen Beaufort, Esq.

**CITY CLERK**

Vickie Thompson

**DIRECTOR  
OF FINANCE/CFO**

Jeffrey A. Yates

**DIRECTOR OF  
WATER SERVICES**

Bernardo Garcia

**CO-FINANCIAL ADVISORS**

Public Financial Management  
Des Moines, Iowa

TKG & Associates  
Chicago, Illinois

**CO-BOND COUNSEL**

Gilmore & Bell, P.C.  
Kansas City, Missouri

The Martinez Law Firm, LLC  
Liberty, Missouri

**DISCLOSURE COUNSEL**

King Hershey, PC  
Kansas City, Missouri

**FEASIBILITY CONSULTANT**

Burns & McDonnell  
Kansas City, Missouri

## REGARDING USE OF THE OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the City or by any person to give any information or to make any representations with respect to the Bonds offered hereby, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any offer, solicitation or sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not so expressly described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from the City and other sources which are believed to be reliable. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information presented herein since the date hereof.

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

THE BONDS HAVE NOT BEEN REGISTERED WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE ORDINANCE AUTHORIZING THE ISSUANCE OF THE BONDS BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED. THE BONDS ARE BEING OFFERED IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS.

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.**

Any CUSIP numbers for the Bonds included in the final Official Statement are provided for convenience of the owners and prospective investors. The CUSIP numbers for the Bonds have been assigned by an organization unaffiliated with the City. The City is not responsible for the selection of the CUSIP numbers and makes no representation as to the accuracy thereof as printed on the Bonds or as set forth on the final Official Statement. No assurance can be given that the CUSIP numbers for the Bonds will remain the same after the date of issuance and delivery of the Bonds.

This Official Statement will be posted on worldwide website located at [www.MuniDeals.com](http://www.MuniDeals.com). Information in the Official Statement can be relied upon only if downloaded in its entirety from such website or if obtained in original, bound format.

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**OFFICIAL STATEMENT**

**\$69,480,000**

**KANSAS CITY, MISSOURI**

**SANITARY SEWER SYSTEM REVENUE BONDS, SERIES 2009A**

**(BOOK-ENTRY ONLY)**

**INTRODUCTORY STATEMENT**

The purpose of this Official Statement is to set forth certain information concerning the City of Kansas City, Missouri (the “City”) and the \$69,480,000 principal amount of Sanitary Sewer System Revenue Bonds, Series 2009A (the “Bonds” or the “Issue”) to be issued by the City. The City will issue the Bonds to provide funds for the purpose of paying the cost of extending and improving the City’s Sanitary Sewer System, as more fully described herein, to fund a reserve fund and to pay the costs of issuing the Bonds. The City adopted an ordinance on February 19, 2009 authorizing the issuance of the Bonds (the “Ordinance”).

The Bonds are special, limited obligations of the City payable solely from, and secured as to the payment of principal and interest by a pledge of net revenues derived from the operation of the City’s Sanitary Sewer System. The taxing power of the City is not pledged to the payment of the Bonds either as to principal or interest. The Bonds shall not be or constitute a general obligation of the City nor shall they constitute an indebtedness of the City within the meaning of any constitutional, statutory or charter provision, limitation or restriction.

**The Bonds will be junior and subordinate only to the Outstanding Senior Bonds and on parity with the Outstanding Parity Bonds with respect to payment of principal and interest from the Net Sanitary Sewer Revenues.** See “SECURITY” herein.

This introduction is not a summary of this Official Statement, but instead is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the Official Statement including the cover page and appendices thereto and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Bonds to potential investors is made only by means of the entire Official Statement.

Additional information regarding the City, the Bonds and the Ordinance may be obtained from Public Financial Management, 2600 Grand Avenue, Suite 214, Des Moines, Iowa 50312, or by telephoning (515) 243-2600.

**CONTINUING DISCLOSURE**

The City has covenanted for the benefit of the Bondowner to send certain financial information and operating data to certain information repositories annually and to provide notice to such information repositories or the Municipal Securities Rulemaking Board of certain events, pursuant to the requirements of Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12, as amended (the “Rule”). See Appendix D – “FORM OF CONTINUING DISCLOSURE UNDERTAKING.” To the best of its knowledge, the City has never failed to comply in any material respect with any prior undertaking with regard to the Rule to provide annual reports or notices of material events. A failure by the City to comply with such undertaking will not constitute a default on the Bonds (although Bondowners will have any available remedy at law or in equity). Nevertheless, a failure to provide annual reports must be reported in accordance with the Rule and must be considered by any broker, dealer or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Consequently, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

## THE CITY

### *In General*

The City was incorporated on June 3, 1850. The City is the central city of a fifteen-county Metropolitan Statistical Area (MSA), which includes Bates, Caldwell, Cass, Clay, Jackson, Platte, Clinton, Lafayette and Ray counties in the State of Missouri and Johnson, Franklin, Linn, Wyandotte, Leavenworth and Miami counties in the State of Kansas. The City is situated at the confluence of the Kansas and Missouri rivers on Interstate Highways I-29, I-35 and I-70. According to the City Planning and Development Department, the population estimates of the City and the Kansas City MSA for 2008 are 480,534 and 2,006,565, respectively. See Appendix A – “CITY OF KANSAS CITY, MISSOURI INDEPENDENT AUDITOR’S REPORT AND AUDITED FINANCIAL STATEMENTS” and Appendix C – “INFORMATION CONCERNING THE CITY OF KANSAS CITY, MISSOURI” for further information.

### *Available Information*

The City has entered into continuing disclosure undertakings under SEC Rule 15c2-12, under which the City annually files its audited financial statements and certain other information with each nationally recognized municipal securities information repository. Such financial statements and other information are available from the nationally recognized municipal securities repositories. The SEC maintains a site on the worldwide web at <http://www.sec.gov/info/municipal/nrmsir.htm>, which contains a listing of the nationally recognized municipal securities information repositories. The City intends, but is not obligated to file its continuing disclosure filings through Municipal Advisory Council of Texas’s central post office system located on the worldwide web at <http://www.disclosureusa.org>, where interested parties may obtain an index of filings made by the City through such service.

The MSRB has sought to establish a continuing disclosure service of its Electronic Municipal Market Access System (“EMMA”), considered the equivalent of the SEC’s EDGAR system. MSRB filed with the SEC an amendment to the continuing disclosure proposal intended to provide for a transition to EMMA’s continuing disclosure service. The operational date for the continuing disclosure service has been set at July 1, 2009 (or such later effective date for related amendments to Exchange Act Rule 15c2-12 proposed by the SEC). Thus, unless such date is delayed by the MSRB, beginning on July 1, 2009, filings with the MSRB may be made via EMMA. EMMA will replace the four existing nationally recognized municipal securities information repositories, as well as the Central Post Office disclosure service.

For information relating to the City’s continuing disclosure undertakings in connection with the issuance of the Bonds, see the caption “CONTINUING DISCLOSURE” and “**Appendix F** -- Form of Continuing Disclosure Undertaking” in this Official Statement.

### *Anticipated Future Financings*

The City has previously sold and delivered numerous series of bonds. From time to time in the future, the City will issue its general obligation bonds payable from ad valorem taxes, special obligation bonds or bonds secured by annual appropriations of the City. The City is reviewing certain of its outstanding variable rate obligations and evaluating whether such obligations should be restructured or refinanced, however, these variable rate obligations do not relate to the Sewer Fund. The City anticipates that in the next several months it will issue additional obligations secured in part by the City’s annual appropriation. Despite the foregoing, the sole source of revenue for debt service on the Bonds is the net revenue derived by the City from the operation of the Sanitary Sewer System (the “System”). See “SECURITY” for further information.

### *Accounting Change for Other Postemployment Benefits*

In June 2004, the Governmental Accounting Standards Board (“GASB”) issued Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (“OPEB”). This Statement establishes standards for the measurement, recognition, and display of OPEB expenses, expenditures, related liabilities (assets), note disclosures and, if applicable, required supplementary information in the financial reports of

state and local governmental employers. Specifically, the City is required to measure and disclose an amount for annual OPEB cost on the accrual basis for health benefits that will be provided to retired employees in future years. The disclosure requirement for the City began with the fiscal year ending April 30, 2008.

The City's aggregate actuarial accrued liability (including Police uniformed and civilian) is \$181,732,457 and the corresponding annual required contribution ("ARC") is \$18,172,240. For financial reporting purposes, the aggregate actuarial accrued OPEB liability and ARC (excluding Police uniformed and civilian) will be apportioned to both governmental and business-type activities (i.e., aviation, water, sewer, storm water and wastewater). The sewer fund's actuarial accrued OPEB liability and ARC are \$7,588,652 and \$808,277, respectively.

### ***Incorporation of Certain Documents by Reference***

Any statement contained in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement therein or in any other subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

## **THE BONDS**

### ***General Description***

The Bonds will be dated the date of delivery. The Bonds will mature, subject to redemption as described below, on January 1 in the years and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds will be payable semiannually on January 1 and July 1, beginning July 1, 2009. Principal will be payable upon presentation and surrender of the Bonds by the Bondowner thereof to the Paying Agent. The Bonds are issued in book-entry form. The payment of interest payable on each Bond on any Interest Payment Date will be made by check or draft mailed by the Paying Agent to the address of the Bondowner shown in the Bond Register. The principal of and redemption premium, if any, and interest on the Bonds is payable by electronic transfer in immediately available federal funds to a bank in the continental United States of America pursuant to instructions from any Bondowner received by the Paying Agent prior to the Record Date.

### ***Redemption Provisions***

#### **Optional Redemption**

The Bonds maturing on and after January 1, 2020, are subject to redemption prior to stated maturity, at the option of the City, at any time as a whole or in part from maturities selected by the City, on any date on or after January 1, 2019, at the principal amount thereof, together with accrued interest thereon calculated to the date of redemption, at a Redemption Price equal to 100% of the principal amount, plus accrued interest thereon to the redemption date.

In the case of a partial redemption of Bonds of the same maturity, the City will notify the Paying Agent of the amount of such maturity to be redeemed. The Paying Agent shall select, by such random allocation method as the Paying Agent shall deem fair and appropriate, the portions of such maturity to be redeemed. The portions of the principal of outstanding Bonds so selected for partial redemption shall be equal to \$5,000 or integral multiples thereof.

#### **Mandatory Sinking Fund Redemption**

The Bonds maturing on January 1, 2029 and January 1, 2034 are subject to mandatory redemption and payment prior to stated maturity pursuant to the mandatory redemption requirements set forth in the Ordinance on each January 1 on the dates and in the amounts set forth below, at 100% of the principal amount thereof plus accrued interest to the redemption date, without premium:

<u>Year</u>	<u>Principal Amount</u>
2028	\$3,525,000
2029 <sup>+</sup>	3,705,000
<hr/>	
+ Final Maturity	

<u>Year</u>	<u>Principal Amount</u>
2030	\$3,660,000
2031	3,855,000
2032	4,055,000
2033	4,270,000
2034 <sup>+</sup>	4,495,000
<hr/>	
+ Final Maturity	

### Notice of Redemption

In the event any of the Bonds are to be redeemed and paid prior to the maturity thereof, the Paying Agent, acting on behalf of the City, will give written notice of its intention to redeem and pay the Bonds, said notice to be given by first-class mail, postage prepaid, mailed at least thirty (30) days prior to the date fixed for redemption.

### Effect of Call for Redemption

Whenever any Bond is called for redemption and payment, all interest on such Bond shall cease from and after the date for which such call is made, provided funds are then available for its payment at the price hereinbefore specified.

### ***Book-Entry System for the Bonds***

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

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

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

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

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

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

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

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

### ***Registration, Transfer and Exchange of Bonds***

If Bonds need to be transferred, the Bonds are transferable only upon the books of the Paying Agent upon presentation and surrender of the Bonds, together with instructions for transfer. Bonds may be exchanged for Bonds of authorized denominations in the same aggregate principal amount and maturity upon presentation to the Paying Agent, subject to the terms, conditions and limitations described in the Ordinance, and upon payment of any tax, fee or other governmental charge required to be paid with respect to any such registration, exchange or transfer.

### ***Mutilated, Lost, Stolen or Destroyed Bonds***

If any mutilated Bond is surrendered to the Paying Agent or the Paying Agent receives evidence to its satisfaction of the destruction, loss or theft of any Bond, and there is delivered to the City and the Paying Agent such security or indemnity as may be required by each of them, then, in the absence of notice to the City or the Paying Agent that such bond has been acquired by a bona fide purchaser, the City shall exercise and, upon the City's request, the Paying Agent shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Bond, a new Bond of the same maturity and of like tenor and principal amount. If any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the City in its discretion may pay such Bond instead of issuing a new Bond. Upon the issuance of any new Bond, the City may require the payment by the Bondowner of a sum sufficient to cover any tax or other governmental charge that may be imposed and any other expenses (including the fees and expenses of the Paying Agent). These provisions are exclusive and will preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, lost, stolen or destroyed Bonds.

### ***CUSIP Numbers***

It is anticipated that CUSIP identification numbers will be assigned to or printed on the Bonds, but neither the failure to assign or print such numbers on the Bonds, nor any error in the assignment or printing of such numbers shall constitute cause for the failure or refusal by the Underwriter thereof to accept delivery of and payment for any Bond.

## **AUTHORITY AND PURPOSE**

On August 2, 2005, a majority of qualified voters of the City authorized \$250,000,000 in additional sewer revenue bonds. Bonds in the principal amount of \$40,000,000 have been issued pursuant to the authority granted by the August 2005 sewer revenue bond authorization.

Proceeds of the Bonds will be used to provide funds to finance all or a portion of the costs of wastewater improvements, and to provide funds to cover reasonable costs of issuance and reserve funds. In 2009, the Department identified a capital improvement program ("CIP"). This CIP is intended to provide facilities to meet existing and anticipated federal and state standards and to maintain a reliable sanitary sewer system that can respond to changing usage patterns throughout the City's service area. The CIP identifies an estimated \$110.1 million of general capital improvements and \$148.2 million of Overflow Control Plan ("OCP") capital improvements, which are expected to be financed primarily through a combination of annual revenues, contributions from local sources,

available fund balances, and bond proceeds. Pursuant to current Missouri statutes, future authorizations of bonds for Sewer System improvements or for the OCP program which are in addition to the authorizations described in the first paragraph of this section would require voter approval.

Major projects, design studies, and activities to be funded by the Bonds, as described in Appendix A – “CONSULTING ENGINEER’S REPORT AND FEASIBILITY STUDY” of this Official Statement:

The Bonds will fund projects for the following purposes:

- Wastewater treatment plant expansion;
- Replacement of wastewater pump stations and force mains;
- Biosolids incinerator improvements;
- Overflow Control Program costs;
- Green solutions pilot;
- New interceptor sewers; and
- Sewer system relocation.

Proceeds of the Bonds will also be used to pay the costs of design, monitoring of the foregoing and of issuing the Bonds.

***Feasibility Study***

The City has engaged Burns & McDonnell (“Consulting Engineer”), Kansas City, Missouri, to produce a report dated March 27, 2009, entitled “WASTEWATER UTILITY BOND FEASIBILITY REPORT” (the “Consulting Engineer’s Report”), a copy of which is attached hereto as **APPENDIX A**. The Consulting Engineer’s Report includes historical financial data and projections for future years based on stated assumptions. The purpose of the Consulting Engineer’s Report is to present findings concerning debt service coverage requirements of the issuance of the Bonds. **The Consulting Engineer’s Report should be read in its entirety by prospective investors for a full understanding of the forecasted statements, assumptions and qualifications contained therein.** See the section herein captioned “**RISK FACTORS – Forward Looking Statements**” in this Official Statement.

**SOURCES AND USES OF FUNDS**

The following is the sources and uses of funds relating to the issuance of the Bonds.

<b>SOURCES OF FUNDS</b>	
Par Amount of Bonds	\$69,480,000.00
Net Premium	<u>597,886.90</u>
Total Sources	\$70,077,886.90
<b>USES OF FUNDS</b>	
Deposit to Construction Account	\$64,502,887.80
Debt Service Reserve Account	5,008,337.50
Costs of Issuance	204,525.00
Rebate Account	10,000.00
Underwriter’s Discount	<u>352,136.60</u>
Total Uses	\$70,077,886.90

**SECURITY**

The Bonds and the interest thereon will constitute special obligations of the City, payable solely from the net revenues derived by the City from the operation of the System, after payments of operating expenses, maintenance and repair charges, and not from any other source (“Net Sanitary Sewer Revenues”). The Bonds do not constitute a general obligation of the City or an indebtedness of the City within the meaning of any constitutional, statutory or charter provision, limitation or restriction. The taxing power of the City is not pledged to the payment of the Bonds.

Sanitary sewer system revenue bonds sold by the City prior to November 3, 1998 are secured by a pledge of both stormwater and sanitary sewer net revenues and are referred to as the “Outstanding Senior Bonds.” However, as a matter of current City policy, the City applies only Net Sanitary Sewer Revenues to the payment of the Outstanding Senior Bonds. Sanitary sewer system revenue bonds sold by the City after November 3, 1998 are secured by a pledge of only Net Sanitary Sewer Revenues and are referred to as the “Outstanding Parity Bonds.”

At the general election held on November 3, 1998, voters in Kansas City approved a ballot question relating to the establishment of a new stormwater fee structure. The approved ballot question provided that “the stormwater fee will be used for the sole purpose of stormwater management.” Based upon the foregoing approved language, stormwater fees are not a part of the Net Sanitary Sewer Revenues, and are instead, segregated into a stormwater fund to be used exclusively for stormwater related improvements. Consequently, stormwater funds have not been used in the calculation of debt service coverage tables provided in this Official Statement.

To the best of its knowledge the City has never defaulted on any of its obligations payable from revenues of the Sanitary Sewer System.

### ***Outstanding Senior Bonds***

The City has five series of sewer revenue bonds to which the Bonds will be junior and subordinate (collectively, the “Outstanding Senior Bonds”). The Outstanding Senior Bonds as of March 1, 2009, with a total balance of \$36,025,000, are specified as follows:

- Sewerage System Revenue Bonds (State Revolving Fund Program) Series 1992B, outstanding in the aggregate principal amount of \$475,000;
- Sewerage System Revenue Bonds (State Revolving Fund Program) Series 1995A, outstanding in the aggregate principal amount of \$8,290,000;
- Sewerage System Revenue Bonds (State Revolving Fund Program) Series 1996A, outstanding in the aggregate principal amount of \$11,550,000;
- Sewerage System Revenue Bonds (State Revolving Fund Program) Series 1997A, outstanding in the aggregate principal amount of \$10,070,000; and
- Sewerage System Revenue Bonds (State Revolving Fund Program) Series 1998A, outstanding in the aggregate principal amount of \$5,640,000.

### ***Outstanding Parity Bonds***

The Bonds are being issued on a parity with ten series of City sanitary sewer revenue bonds (the “Outstanding Parity Bonds”). The Outstanding Parity Bonds as of March 1, 2009, with a total balance of \$128,200,000, are specified as follows:

- Sanitary Sewer System Revenue Bonds (State Revolving Fund Program) Series 1999A, outstanding in the aggregate principal amount of \$3,880,000;
- Sanitary Sewer System Revenue Bonds (State Revolving Fund Program) Series 2000A, outstanding in the aggregate principal amount of \$8,390,000;
- Sanitary Sewer System Revenue Bonds (State Revolving Fund Program) Series 2000B, outstanding in the aggregate principal amount of \$7,560,000;
- Sanitary Sewer System Refunding Revenue Bonds, Series 2001A, currently outstanding in the aggregate principal amount of \$2,030,000;
- Sanitary Sewer System Revenue Bonds (State Revolving Fund Program) Series 2001B, outstanding in the aggregate principal amount of \$12,655,000;
- Sanitary Sewer System Revenue Bonds, Series 2002D consisting of Sanitary Sewer System Revenue Bonds, Series 2002D-1, outstanding in the aggregate principal amount of \$8,325,000 and Taxable Sanitary Sewer System Revenue Bonds, Series 2002D-2, outstanding in the aggregate principal amount of \$830,000;
- Sanitary Sewer System Revenue Bonds (State Revolving Fund Program) Series 2002J, outstanding in the aggregate principal amount of \$7,520,000;

- Sanitary Sewer System Revenue Bonds, Series 2004A, outstanding in the aggregate principal amount of \$16,005,000;
- Sanitary Sewer System Revenue Bonds (State Revolving Fund Program) Series 2004H, outstanding in the aggregate principal amount of \$8,685,000;
- Sanitary Sewer System Revenue Bonds, Series 2005B, outstanding in the aggregate principal amount of \$13,320,000; and
- Sanitary Sewer System Revenue Bonds, Series 2007A outstanding in the aggregate principal amount of \$39,000,000.

The Bonds are junior and subordinate to the Outstanding Senior Bonds and are on parity with the Outstanding Parity Bonds with respect to payment of principal and interest from the Net Sanitary Sewer Revenues. The Bonds are not payable from the Combined System Revenues derived from the stormwater portion of the Combined System. In the event of any default in the payment of the Outstanding Senior Bonds, the Combined System Revenues will be applied solely to the payment of the principal of and interest on the Outstanding Senior Bonds until the default is cured.

The Ordinance establishes the accounts that will be maintained for the Bonds, including the Construction Account, the Reserve Account, the Debt Service Account and the Costs of Issuance Account. A discussion of the accounts to be established in regards to the Bonds appears in Appendix E – “DEFINITIONS AND SUMMARY OF ORDINANCE.” Copies of the Ordinance authorizing issuance of the Bonds are available upon request.

***Bond Reserve Requirement***

The Bond Ordinance requires the establishment and maintenance of a Bond Reserve Account (the “Series 2009A Reserve Account”) in an amount equal to the Bond Reserve Requirement. The Bond Reserve Requirement is defined, with respect to the Bonds, on the date of original issuance, as the aggregate amount equal to the least of (a) the maximum annual debt service with respect to the Bonds, (b) 10% of the principal amount of the Bonds; or (c) an amount equal to at least 125% of the average annual debt service with respect to the Bonds. In regards to the Bonds, the Bond Reserve Requirement is equal to the maximum annual debt service with respect to the Bonds. The Bond Reserve Account will be fully funded from the proceeds of the Bonds to meet the Bond Reserve Requirement, in the amount of \$5,008,337.50. See “SOURCES AND USES OF FUNDS.” In lieu of a cash deposit, the Bond Reserve Requirement may be satisfied by a surety bond provided in accordance with the requirements and terms of the Ordinance.

***Rate Covenant***

The City has agreed to fix, establish, maintain and collect such rates and charges for the use and services furnished by or through the Sanitary Sewer System to produce income and revenues sufficient to (a) pay the costs of the operation and maintenance of the Sanitary Sewer System; (b) pay the principal of and interest on the Bonds as and when the same become due; (c) enable the City to have in each Fiscal Year Net Sanitary Sewer Revenues Available for Debt Service (as defined in the Ordinance) plus Administrative Service Fees of not less than 110% of the amount required to be paid by the City in such Fiscal Year on account of both principal of and interest on all Sanitary Sewer System Revenue Bonds at the time outstanding, plus capital lease payments, if any, provided that interest on any SRF Program Bonds will be reduced by the SRF Subsidy, if any, and (d) provide reasonable and adequate reserves for the payment of the Bonds and the interest thereon and for the protection and benefit of the Sanitary Sewer System as provided in the Ordinance. The City has agreed to require the prompt payment of accounts for service rendered by or through the Sanitary Sewer System and promptly to take whatever action is legally permissible to enforce and collect delinquent charges.

## **ADDITIONAL PARITY BONDS**

The City has the right to issue additional parity bonds payable from the same source and secured by the same revenues as the Bonds; provided, however, that such additional bonds may be so issued only in accordance with and subject to the covenants, conditions and restrictions set forth in the Ordinance. Under the Ordinance, the City has covenanted that so long as its Bonds remain Outstanding, the City, after the date of adoption of the Ordinance, will not issue any debt obligations payable out of the Net Sanitary Sewer Revenues which are superior in lien, security or otherwise to the Bonds.

The City has also covenanted that it will not issue additional bonds or other long-term obligations payable out of Net Sanitary Sewer Revenues which are on parity with the Bonds unless the following conditions are met:

- (a) The City shall not be in default in the payment of principal of or interest on any Bonds or any Parity Bonds or in making any deposit into the respective funds and accounts created by and referred to in the Ordinance or any Parity Ordinance; and
- (b) (A) For so long as any of the Outstanding Senior Bonds, the Series 1999A Bonds, the Series 2000A Bonds, the Series 2000B Bonds, the Series 2001A Bonds, the Series 2001B Bonds, the Series 2002D Bonds and the Series 2002J Bonds remain Outstanding the City provides to the Bondowner and the Paying Agent a certificate showing either of the following:
  - (i) The average annual Net Sanitary Sewer Revenues Available for Debt Service as set forth in the two most recent annual audits for Fiscal Years preceding the issuance of additional bonds, are at least 110% of the average annual debt service on the Sanitary Sewer System Revenue Bonds (excluding subordinate revenue bonds or obligations), including the additional bonds proposed to be issued, to be paid out of the Net Sanitary Sewer Revenues Available for Debt Service in all succeeding Fiscal Years. Interest to be paid on any SRF Program Bonds may be reduced by the SRF Subsidy, if any. In determining Net Sanitary Sewer Revenues Available for Debt Service, the City may rely on a certificate of the Consultant to add the additional Net Sanitary Sewer Revenues Available for Debt Service which would have resulted if the rate increase had been in effect for the entire period to the audited Net Sanitary Sewer Revenues if the City has made any increase in rates for the use and services of the Sanitary Sewer System and the increase has not been in effect during all of the two Fiscal Years for which annual audits are available; or
  - (ii) The estimated average annual Net Sanitary Sewer Revenues Available for Debt Service for the two Fiscal Years immediately following the Fiscal Year in which the improvements to the Sanitary Sewer System being financed by the additional bonds are to be in commercial operation, as certified by the Consultant, is at least 110% of the average annual debt service on the Sanitary Sewer System Revenue Bonds (excluding subordinate revenue bonds or obligations), including the additional bonds proposed to be issued, to be paid out of the Net Sanitary Sewer Revenues Available for Debt Service in succeeding Fiscal Years following the commencement of commercial operation of the improvements. Interest to be paid on any SRF Program Bonds may be reduced by the SRF Subsidy, if any. In determining the amount of estimated Net Sanitary Sewer Revenues Available for Debt Service for the purpose of this subsection, the Consultant may adjust the estimated net income and revenues by adding the estimated increase in Net Sanitary Sewer Revenues Available for Debt Service resulting from any increase in rates for the use and services of the Sanitary Sewer System approved by the City.
- (B) For so long as any of the Series 2004A Bonds, the Series 2004H Bonds, the Series 2005B Bonds, the Series 2007A Bonds, and the Series 2009A Bonds remain Outstanding, the City provides to the Bondowner and the Paying Agent a certificate showing either of the following:

- (i) The average annual Net Sanitary Sewer Revenues Available for Debt Service plus Administrative Service Fees as set forth in the two most recent annual audits for Fiscal Years preceding the issuance of additional bonds, are at least 110% of the average annual debt service on the Sanitary Sewer System Revenue Bonds (excluding subordinate revenue bonds or obligations), including the additional bonds proposed to be issued, to be paid out of the Net Sanitary Sewer Revenues Available for Debt Service in all succeeding Fiscal Years. Interest to be paid on any SRF Program Bonds may be reduced by the SRF Subsidy, if any. In determining Net Sanitary Sewer Revenues Available for Debt Service, the City may rely on a certificate of the Consultant to add the additional Net Sanitary Sewer Revenues Available for Debt Service which would have resulted if the rate increase had been in effect for the entire period to the audited Net Sanitary Sewer Revenues if the City has made any increase in rates for the use and services of the Sanitary Sewer System and the increase has not been in effect during all of the two Fiscal Years for which annual audits are available; or
- (ii) The estimated average annual Net Sanitary Sewer Revenues Available for Debt Service plus Administrative Service Fees for the two Fiscal Years immediately following the Fiscal Year in which the improvements to the Sanitary Sewer System being financed by the additional bonds are to be in commercial operation, as certified by the Consultant, is at least 110% of the average annual debt service on the Sanitary Sewer System Revenue Bonds (excluding subordinate revenue bonds or obligations), including the additional bonds proposed to be issued, to be paid out of the Net Sanitary Sewer Revenues Available for Debt Service in succeeding Fiscal Years following the commencement of commercial operation of the improvements. Interest to be paid on any SRF Program Bonds may be reduced by the SRF Subsidy, if any. In determining the amount of estimated Net Sanitary Sewer Revenues Available for Debt Service for the purpose of this subsection, the Consultant may adjust the estimated net income and revenues by adding the estimated increase in Net Sanitary Sewer Revenues Available for Debt Service resulting from any increase in rates for the use and services of the Sanitary Sewer System approved by the City.

## **REFUNDING BONDS**

Without complying with the foregoing conditions related to the issuance of parity bonds, the City may refund any of the Bonds in a manner which provides debt service savings to the City, and the refunding bonds so issued will be on parity with any of the Bonds that are not refunded and any Outstanding Parity Bonds. Furthermore, the City may refund any of the Outstanding Senior Bonds in a manner which provides debt service savings to the City in each subsequent Fiscal Year (defined in the Ordinance) and the bonds issued to refund the Outstanding Senior Bonds may have a priority lien on the Net Sanitary Sewer System Revenues.

## **THE SANITARY SEWER SYSTEM**

The Water Services Department is responsible for the planning and construction of sewers, pump stations, and treatment facilities serving Kansas City and certain surrounding areas. It is also responsible for the operation and maintenance of all of the wastewater collection and treatment facilities, compliance with the City's wastewater discharge permits, as well as applicable state and federal environmental regulations, and the administration of an industrial waste program to regulate the quality of wastewater discharged from certain industrial activities.

The Kansas City sanitary sewer system serves an area of about 350 square miles. Wastewater collection and treatment services are provided to approximately 148,000 customers inside and outside the City on a retail basis and to 28 surrounding communities and sewage districts on a contractual basis. The Water Services Department currently maintains about 2,000 miles of sanitary sewers and about 600 miles of combined sewers, 40 wastewater

pumping stations, 18 flood pumping stations, and 7 wastewater treatment plants. The combined sewers transport both sanitary flows and, during rainfall events, stormwater flows. The combined sewers serve an area south of the Missouri River of about 56 square miles. All wastewater transported to the City's treatment plants receives secondary treatment in compliance with federal and state environmental regulations. One minor wastewater treatment plant is currently scheduled to be removed from service upon completion of ongoing wastewater collection system improvements that will transport its wastewater to other wastewater treatment facilities. This minor plant currently serves the Northland Mobile Home Park. A summary of the City's wastewater treatment plants is presented in the table below. See "CONSULTING ENGINEER'S REPORT AND FEASIBILITY STUDY" included as Appendix A to this Official Statement for additional information on the System.

***Existing Wastewater Treatment Facilities***

Treatment Facility	Approximate First Year of Operation	Current Design Capacity (mgd)	Average Flow (mgd) (a)
Blue River (b)	1964/1985	105.0	79.5
Westside (c)	1977	22.5	16.9
Birmingham (c)	1977	20.0	13.9
Todd Creek (c)	1999	3.4	1.7
Fishing River (c)	2000	1.0	0.8
Rocky Branch(c)(d)	2005	2.0	1.7
Northland Mobile(c)	-	<u>0.1</u>	<u>0.1</u>
<b>TOTAL</b>		154.0	114.6

mgd - million gallons per day

(a) Average flow for fiscal year 2008

(b) Secondary treatment provided by trickling filters.

(c) These facilities provide secondary treatment using an activated sludge treatment process.

(d) Capacity at the Rocky Branch Wastewater Treatment Plant was upgraded in 2005. Secondary treatment at this plant is provided by an activated sludge process.

The following table shows revenues generated by retail and wholesale customers of the Sanitary Sewer System for the past five years.

***Sanitary Sewer Revenues by Retail and Wholesale Customers***

Revenue (\$)	2004	2005	2006	2007	2008
Wastewater Volume Revenues	\$51,604,483	\$52,746,915	\$56,637,858	\$60,782,089	\$64,848,775
Other Operating Revenue	2,387,883	3,115,232	2,513,561	3,393,160	3,613,322
Interest Income	<u>833,203</u>	<u>941,394</u>	<u>2,288,165</u>	<u>1,849,669</u>	<u>2,779,229</u>
Total Revenue	<u>\$54,825,569</u>	<u>\$56,803,541</u>	<u>\$61,439,584</u>	<u>\$66,024,918</u>	<u>\$71,241,326</u>

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The following table shows the number of retail Sanitary Sewer System customers for the past five years.

***Number of Retail Sanitary Sewer Customers***

	<u>FY 2004</u>	<u>FY 2005*</u>	<u>FY 2006</u>	<u>FY2007</u>	<u>FY2008</u>
Residential	127,029	130,814	131,210	131,444	133,308
Commercial/Industrial	12,813	15,142	15,205	14,760	15,076
Wholesale	<u>155</u>	<u>153</u>	<u>146</u>	<u>138</u>	<u>138</u>
Total	139,997	146,109	146,561	146,342	148,522

*\*Restated from prior year*

*Because of the system conversion from Legacy to Banner in April 2004, the FY2005 numbers were calculated based on previous projections because of data clean-up from the old system that needed verification. FY2005 and FY2006 track each other and are reasonably in line from year to year. The customer numbers in the old legacy system had to be calculated based on the number of bills issued and was not as accurate as the new system.*

*In 2005 and 2006 service connections were counted and reported. FY2007 and FY2008 reflect a count of accounts which more closely correlates to the number of sanitary sewer system customers.*

***Management Initiatives***

The Water Services Department continues its efforts to improve operating efficiencies, customer services, and service reliability. The Department will require significant capital additions to the sanitary sewer system to meet infrastructure renewal and replacement needs. That consideration is one of several that caused the Department to begin developing an Asset Management Program (the “Program”). Beginning with the sewer utility, the Program will establish levels of service, best management practices, and an implementation plan that is aimed at minimizing the life cycle costs of the Department’s assets. The Program will ultimately be expanded to include the water utility.

In response to community expectations, the Department initiated a reengineering effort to match its organizational structure and functions with changing business needs. Specifically, strategies are being developed to address succession planning, organizational structure and function, and internal delivery of capital projects. These initiatives are aimed at helping the Department achieve best of class delivery of essential services.

***Security of the System***

The City continues to evaluate and address Sanitary Sewer System security matters in accordance with requirements of the U.S. Environmental Protection Agency and other applicable federal regulations and continues to seek federal funding that may become available to defray the cost of any additional security needs.

***Capital Improvement Program***

As stated above, the City’s Water Services Department has developed the CIP, which is intended to maintain and expand the Sanitary Sewer System’s capability of collecting and treating wastewater in a manner that meets or exceeds existing and anticipated federal and state water quality standards. The City expects that five bond issues totaling \$210,000,000 will be sold during the fiscal years ending 2009 through 2013 to help finance the CIP and repay an inter-fund construction loan; provided however, dependent upon issue size, the number of bond issues could be greater or smaller. The near-term CIP anticipates improvements at various wastewater treatment plants that are expected to cost approximately \$150,000,000 and improvements in the collection system for an estimated \$60,000,000.

***Overflow Control Plan***

The City Council directed the City Manager in 2003 to prepare a long range plan to manage wet weather flow in both the separate and combined sewers within Kansas City. In response, the City Water Services Department prepared an Overflow Control Plan (the “Plan”). On January 30, 2009, the City of Kansas City Missouri submitted the Plan to control overflows from the City’s combined and separate sanitary sewer system, as scheduled, to the Missouri Department of Natural Resources (“MDNR”) and the United States Environmental Protection Agency (“EPA”). The Plan is being driven by requirements of the Clean Water Act (defined below) and by EPA regulations

and policies. The Plan details the City's commitment to decrease the frequency and volume of overflows from its combined and separate sanitary sewer systems. The Plan is the largest infrastructure investment in Kansas City's history with an estimated cost of \$2.4 billion (2008 dollars) and will take around 25 years to complete.

The plan is subject to MDNR and EPA agreement, which is expected to take between six months and one year to obtain. Further, the cost stated above is an estimation based upon the current Plan and any changes required by MDNR and EPA could result in significant cost increases. Moreover, the estimated time of implementation is based upon current Plan proposals and is subject to MDNR and EPA agreement. As of the date of this Official Statement, the maximum amount of time granted by the EPA for implementation of similar plans is 20 years. After receiving EPA and MDNR agreement to the Plan, a financing plan will be prepared and implemented.

The City is proceeding with certain projects included in the Plan, including \$82.9 million of the projects financed with the Bonds. See "AUTHORITY AND PURPOSE." Failure to resolve the overflows in accordance with EPA's and MDNR's requirements could result in an enforcement action against the City by the EPA, the MDNR or any individual citizen.

The current estimated capital cost, prior to review and comment by the EPA and MDNR of the proposed Plan is \$2.4 billion in 2008 dollars. However, the wastewater utility's current capital improvements program includes an additional \$0.5 billion in other regulatory needs that must also be considered when finalizing funding and an implementation schedule for the Plan. In addition, once implementation begins, there will be a substantial increase in annual expenditures for operation and maintenance. It is anticipated that the Plan will be funded primarily from the City's sewer fund. The City does not anticipate that the City's general fund will be relied upon to assist in the financing of the Plan, however further future analysis will be required. Specifically, upon approval and implementation of the Plan, specific financing strategies to offset the cost of the Plan will be evaluated and implemented, which financing plans may include diversion of moneys from the City's general fund.

The Plan is structured to prevent as much stormwater as practicable from entering the combined sewer system and separate sewer system, while reducing sewer overflows, and to provide a platform to facilitate implementation of a comprehensive green solutions initiative in the City. The Plan for the combined sewer system will capture for treatment, approximately 88% of the existing flows in the combined sewer system during a typical year, reduce typical year CSO volume, and reduce inflows into the combined sewer system. It will provide adequate capacity to store, transport and treat wastewater in the separate sewer system during a five year, 24-hour rainfall event and reduce the frequency and severity of basement backups throughout the City.

The City is currently in negotiations with federal and state regulators concerning an enforceable mechanism whereby the Plan will be implemented. EPA and MDNR are suggesting that a consent decree be used and the City has entered into good faith negotiations for a consent decree. Consent decrees addressing overflow issues are currently in place for many large cities and sewer districts. If a consent decree cannot be negotiated, an enforcement action could result against the City, to be initiated by EPA, MDNR, or any individual citizen. Further information on the Plan can be found at <http://www.kcmo.org/water.nsf/web/home?opendocument>

## ***Regulatory Requirements***

### **General**

The City's Sanitary Sewer System operations are subject to regulatory requirements relating to the Federal Water Pollution Control Act as amended (the "Clean Water Act") and the Federal Air Pollution Prevention and Control Act, as amended (the "Clean Air Act"). The regulatory requirements are administered by the EPA through MDNR. Regulations of these agencies deal with the nature of wastewater (particularly from commercial and industrial facilities) discharged into the collection system, management of overflows from the combined (sanitary/storm) sewer system, the quality of effluent discharged from the wastewater treatment facilities into receiving streams, the quality of air emissions, and the use or disposal of residual solids generated by the wastewater treatment plants. As a condition of having received federal EPA grant funds under the Clean Water Act for planning, design, and construction of various wastewater projects, the City is subject to additional requirements. Among the grant-related requirements are guidelines that must be followed concerning planning methodologies, design criteria, procurement, construction activities, and financing of facilities.

To comply with federally mandated effluent quality and disposal criteria, the City must operate its wastewater treatment facilities according to discharge limitations and reporting requirements set forth in National Pollutant Discharge Elimination System (“NPDES”) discharge permits. With the possible exception stated below of the Westside Wastewater Treatment Plant, all wastewater treatment plants are meeting the requirements of their individual NPDES permits, as of the date of this Official Statement.

An operational issue arose in January, 2009, concerning a clarifier at the Westside Wastewater Treatment Plant. The City is pursuing an interim measure that will ensure that this plant will meet its permit requirements. The City is also pursuing its remedies against the design professional and the contractor who performed the rehabilitation work on the clarifier. The City does not expect that this issue will have any significant financial impact on the City’s ability to pay debt service on the Bonds.

To comply with other federal regulations concerning the discharge of waste materials into the combined and sanitary sewer systems, the City must administer and enforce industrial pretreatment standards upon users of the system. The City has been approved by the State and the EPA to administer its own industrial pretreatment program. In addition, any other jurisdiction contributing wastewater to the City’s wastewater collection and treatment system is required by an inter-jurisdictional agreement to either (i) permit and monitor all industries within its respective service area, or (ii) allow the City to do so.

In addition to the City’s compliance with all applicable federal laws and regulations, the City must comply with all applicable State laws and regulations. The primary State laws concerned with the control of wastewater operations are the Missouri Clean Water Law, Chapter 644, RSMo, and corresponding regulations, and the Missouri Air Conservation Law, Chapter 643, RSMo, along with corresponding regulations.

#### Evolving Regulations

The current estimated capital cost of this control plan is \$2.4 billion (2008 dollars) over twenty-five years. In addition, once implementation begins, there will be a substantial increase in annual expenditures for operation and maintenance. It is anticipated that this Plan will be funded primarily from the City’s sewer fund. At this stage of the process the City does not anticipate that the general fund of the City will be relied upon to assist in the financing of the Plan.

As stated earlier, the City submitted its Plan to control sewer overflows to EPA and MDNR for their review and comment. While the City expects the Plan, in its current form, to comply with current EPA and MDNR regulations, it is possible that changes in administration officials and policies, due to the change in federal and state administrations or other factors could result in additional, more stringent standards, which result in additional improvements and expenses in order for the Plan to comply with changing EPA and MDNR standards.

In addition to the \$2.4 billion (2008 dollars) expected to be spent to fund the Plan, the City expects to spend an additional \$0.5 billion (2008 dollars) to comply with new state regulations, such as disinfection. It is anticipated that this expenditure will be coordinated with implementation of the Plan, resulting in an overall implementation time frame of around 30 years. The City is on schedule to comply with these new regulations.

#### *Legal*

On behalf of the City, the Water Services Department entered into a cooperative agreement with the City of Lee's Summit, Missouri (“Lee’s Summit”), whereby the City would construct the East Bannister Road Interceptor by February 19, 2008. Subsequent to February 19, 2008, Lee's Summit could terminate 138 temporary residential City connections to its Boggs Hollow Interceptor. As of the date of this Official Statement, the East Bannister Road Interceptor has not yet been constructed. Despite Lee’s Summit’s ability to disconnect, the disconnections can only occur after: (i) Lee’s Summit provides the City with a 135 day written notice to disconnect; (ii) a third party has applied to Lee's Summit for development approval in the Boggs Hollow watershed; and (iii) the Lee's Summit governing body determines that said development will require capacity in the Boggs Hollow Interceptor which is not available due to consumption by the City. As of the date of this Official Statement, the City has not received notice from Lee's Summit to disconnect from the Boggs Hollow Interceptor, and to the best of the City’s knowledge there are no approved developments in Lee's Summit that would require capacity from the Boggs Hollow Interceptor, which is unavailable due to City consumption.

***Largest Users of the System***

The following table sets forth the ten largest users of the City’s Sanitary Sewer System and the percentage of total sewerage charges for service applicable to each for Fiscal Year 2008:

<u>User</u>	<u>Percentage of Total Wastewater Services Charges</u>
Johnson County, Kansas	14.8%
Liberty, Missouri	4.2
Gladstone, Missouri	3.6
North Kansas City, Missouri	2.1
Ford Motor Company	1.4
Raytown, Missouri	1.0
Trigen	0.8
Riverside, Missouri	0.6
Pleasant Valley, Missouri	0.5
Independence, Missouri	0.4

Approximately seventy percent of the sewer service charge revenues of the Water Services Department are derived from charges for retail service provided to customers located inside the city limits. Additionally five percent of the sewer service charge is billed directly by the Water Services Department on a retail basis outside of the City limits. The remaining sewer service charge revenues are for collection, transport, and treatment services provided on a wholesale basis under inter-jurisdictional agreements with 22 surrounding cities and sewer districts. The rates charged to each of the wholesale customer are based on a flat rate house count, commercial customer count with water usage, or metered sewer flow. The rates for each agreement are established in the City’s sewer rate ordinance. These rates are reviewed annually but can be changed by City Council at any time.

***Billing Procedures and Collections***

Wastewater rates are reviewed annually by the City to determine if rate adjustments are required. Charges are based on the estimated volume of wastewater discharged into the sanitary sewer system or by actual measurement for certain inter-jurisdictional customers. Billable wastewater volume charges for one and two family dwellings are based on water used during the winter period, which is defined as the billing periods most closely corresponding to the months of January through June. Billed wastewater volume for all other customers is equal to their actual metered water usage less any approved exemption allowances for water that does not enter the sanitary sewer system. In addition, all customers pay a monthly or bimonthly service charge. Commercial and industrial users that discharge wastewater having a high biochemical oxygen demand, high concentrations of suspended solids, or oil and grease pay additional charges to recover the added costs required to treat their wastewater.

Charges for wastewater collection and treatment services are combined on a single bill with applicable water and stormwater charges. A late payment service charge of 5% of the unpaid delinquent balance is applied to all metered water service, sanitary sewer service and stormwater fee bills remaining unpaid after the delinquent date. Water and wastewater services are subject to termination without further notice if a bill remains unpaid 20 days after the delinquent date. For one and two family dwellings, unpaid charges become a lien on the property if the account is six or more months delinquent, or the total amount of the delinquency is \$500 or more. For all other property classifications, unpaid charges become a lien on the property if the account is three or more months delinquent, or the total amount of the delinquency is \$1,000 or more. Water and wastewater service can be restored upon payment of the unpaid bills and a service restoration charge.

**Rate Structure**

In 1972, the City adopted a policy of annually reviewing the adequacy of its wastewater rates and adjusting them as required. Wastewater rates are developed for retail and inter-jurisdictional contract customers by determining the total costs of service and service requirements. Rate increases over the past five years have occurred each May 1 and range from 6% to 12%. On March 27, 2008 the City Council approved Ordinance No. 080260 which established the following wastewater rates effective May 1, 2008:

**Inside City Rates**

Monthly Service Charge	\$8.60 per bill
Bimonthly Service Charge	\$10.55 per bill
Volume Charge	\$2.05 per hundred cubic feet
<b>Excess Strength Surcharges</b>	
Biochemical Oxygen Demand Over 250 mg/l	\$0.225 per pound
Suspended Solids Over 250 mg/l	\$0.137 per pound
Oil & Grease Over 30 mg/l	\$0.085 per pound

**Outside City Rates**

<b>Metered Wastewater Connections</b>	
Volume Charge	\$1.39 per hundred cubic feet
<b>Unmetered Connections with Water Records</b>	
Monthly Service Charge	\$8.60 per bill
Bimonthly Service Charge	\$10.55 per bill
Volume Charge	\$1.98 per hundred cubic feet
<b>Unmetered Connections without Water Records</b>	
Monthly Service Charge	\$20.25
<b>Individual Customers Billed Directly by the City</b>	
Monthly Service Charge	\$9.69 per bill
Bimonthly Service Charge	\$15.25 per bill
Volume Charge	\$2.25 per hundred cubic feet
<b>Excess Strength Surcharges</b>	
Biochemical Oxygen Demand Over 250 mg/l	\$0.225 per pound
Suspended Solids Over 250 mg/l	\$0.137 per pound
Oil & Grease Over 30 mg/l	\$0.085 per pound

Rate increases require City Council approval and the City is not required to raise rates annually. The City makes no representation as to whether either (i) whether a rate increase will be approved in any of said future Fiscal Years, or, (ii) if a rate increase is approved in any Fiscal Year, as to the nature and extent of any such rate increase or changes in customer base and resulting revenues. Nevertheless, the City’s debt service coverage requirement will be maintained.

As noted under the caption “SECURITY” herein, the voters of the City approved a plan to change the method of charging for stormwater service and the level of revenue for stormwater service. Stormwater charges are now based on the impervious area of each property within the City. The stormwater revenues are not available to pay debt service on the Bonds or any other Parity Bonds. However, stormwater revenues could be used, if required, to pay debt service on the Outstanding Senior Bonds.

The following table lists the percentage of delinquent sewer charges for the years indicated:

<u>Fiscal Year</u> <u>Ended April 30</u>	<u>Delinquency</u> <u>Percentage</u>
2008	2.06%
2007	3.03%
2006	2.96%
2005	2.24%
2004	2.24%

## ***Sanitary Sewer System Financial Information and Coverage Statement***

### Operating Revenues and Expenses

Approximately 71% of the sewer service charge revenues of the Water Services Department are derived from charges for retail service provided to customers located either inside or outside the city limits. The remaining sewer service charge revenues are for collection, transport, and treatment services provided on a wholesale basis under inter-jurisdictional agreements with 21 surrounding cities and sewer districts. The total number of retail customers in Fiscal Year 2008 is approximately 148,000.

Annual operation and maintenance expenses of the Wastewater System are shown in Table 1 of Appendix A. These expenses consist of sewerage treatment and pumping, sewer maintenance, administrative and general, hazardous waste control, and AMR lease payments. The wastewater utility's total operation and maintenance expenses for the historical period were \$29,035,995 in 2004, \$34,612,136 in 2005, \$39,118,387 in 2006, \$40,422,112 in 2007, and \$46,565,369 in 2008.

The Wastewater System's projected operation and maintenance expenses for the period 2009 through 2014 are presented in Table 2 of Appendix A. Annual operation and maintenance expenses shown in Table 2 of Appendix A do not include depreciation and amortization expense.

In April 2008, the Water Services Department developed a Statement of Policy for Operating and Renewal and Replacement Reserves (Reserve Policy), which was reviewed by the City Council and was adopted on August 14, 2008. The Reserve Policy establishes target reserve levels for operating and renewal and replacement reserves, establishes annual contribution levels, and provides for the annual review and modification of the reserve targets and funding requirements. Reserve targets established for the Sewer System are as follows:

- (a) Operating reserves have been established in an amount equal to 20 percent of budgeted annual operating and maintenance expenses, plus budgeted administrative fees; and
- (b) A renewal and replacement reserve has been established in an amount equal to the prior year's annual depreciation. Minimum annual contributions of \$1,000,000 shall be budgeted and transferred until the required amount is established. Once the required funding level is met, annual contributions may be adjusted to amounts consistent with growth in annual depreciation. To the extent that balances are drawn down and used to fund emergency capital replacements or for other authorized purposes, annual contributions shall resume until the required funding level is met.

### Projections

Operation and maintenance expenses are assumed to increase during Fiscal Years 2009 through 2014. Projections of future operation and maintenance expense are based on analyses of historical operating data modified to recognize current and anticipated operating conditions and trends. Operation and maintenance expenses of the Sanitary Sewer System are projected to increase due to the combined effects of inflation and, to a lesser degree, increased material requirements to meet increasing wastewater volumes. Partially offsetting these anticipated increases are planned improvements in cost efficiencies. See Appendix A- "CONSULTING ENGINEER'S REPORT AND FEASIBILITY STUDY" for further information.

### Accounting, Budgeting and Auditing Procedures

The Water Services Department is an enterprise activity whose financial records are audited annually and reported in conformity with generally accepted accounting principles for governmentally-owned wastewater utilities. The Department operates the Sanitary Sewer System on the accrual basis system of accounting, where revenues are recorded when earned and expenses are recorded when incurred.

An annual budget of estimated receipts and disbursements for the coming Fiscal Year is prepared by the Director of Water Services under the direction of the City Manager and is presented to the City Council in March for approval after a public hearing. The Fiscal Year of the Sanitary Sewer System is May 1 through April 30. The budget lists estimated receipts by funds and sources and estimated disbursements by funds and purposes and includes a statement of the rates required to raise each amount shown on the budget as coming from Sanitary Sewer System revenues.

The financial records of the Sanitary Sewer System are audited annually by a firm of independent certified public accountants in accordance with generally accepted auditing standards. For the past five years, the annual audit has been performed by KPMG, LLP, Kansas City, Missouri. Copies of the audit reports of the past five years are on file in the City Clerk's office and are available for review.

#### Financial Statements

The City maintains its financial records on the basis of a Fiscal Year ending April 30. Such financial statements have been examined by KPMG, LLP, Kansas City, Missouri, independent certified public accountants. The City did not ask KPMG, LLP, to perform any additional work or any post-audit procedures more recently than the April 30, 2008 audit with respect thereto.

The tables on the following pages provide the Sewer Fund's balance sheets and income statements for the Fiscal Years ended April 30, 2004 through 2008.

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**CITY OF KANSAS CITY, MISSOURI**  
**SEWER FUND – WASTEWATER ONLY**  
**Statements of Net Assets**  
**Audited For Fiscal Years Ending April 30, 2004-2008**

Assets	2004	2005	2006	2007	2008
<b>Current assets:</b>					
Cash and short-term investments	\$12,742,444	\$10,510,955	\$10,850,229	\$13,158,121	\$11,085,415
Accounts receivable, net	10,730,119	11,327,637	10,668,796	11,236,445	12,939,765
Accrued interest receivable	2,866	17,302	53,258	19,350	125,357
Inventories	347,187	439,562	398,710	425,792	594,096
Prepaid expenses	0	199,366	204,636	259,487	326,629
Due from other governments	509,862	0	0	0	0
Due from other funds	232,937	486,575	1,301,402	517,876	313,224
Total unrestricted current assets	24,565,415	22,981,397	23,477,031	25,617,071	25,384,486
<b>Restricted assets:</b>					
Cash and short-term investments	55,791,281	49,519,035	21,196,301	42,723,675	27,761,094
Accrued interest receivable	76,078	161,880	150,634	235,693	155,489
Total restricted current assets	55,867,359	49,680,915	21,346,935	42,959,368	27,916,583
Special assessments receivable	2,288	2,288	2,288	2,288	2,288
Capital assets, depreciable, net	447,112,450	463,474,087	501,279,719	510,123,176	515,338,214
Capital assets, nondepreciable	44,047,333	57,550,522	51,132,677	65,280,259	83,645,896
Debt issuance costs, net	2,564,629	2,987,661	2,765,587	2,738,939	2,501,083
Total assets	\$574,159,474	\$596,676,870	\$600,004,237	\$646,721,101	\$654,788,550
<b>Liabilities and Net Assets</b>					
<b>Current liabilities:</b>					
Accounts payable	\$4,972,255	\$6,078,155	\$3,350,146	\$4,345,532	\$3,626,994
Compensated absences	1,098,188	1,317,984	1,404,974	82,833	80,338
Accrued payroll and related expenses	502,131	565,128	611,325	688,279	996,472
Contracts and retainage payable	234,293	108,390	84,497	79,118	114,385
Other liabilities	1,058,310	1,058,310	775,446	744,911	544,911
Due to other funds	2,219,854	3,214,007	3,800,610	903,693	1,464,144
Total current liabilities	10,085,031	12,341,974	10,026,998	6,844,366	6,827,244
<b>Liabilities payable from restricted assets:</b>					
Accrued interest and fiscal agent fees	2,227,047	2,640,334	2,504,872	2,365,411	2,822,665
Current portion of revenue bonds payable	9,516,947	10,613,433	9,244,989	9,491,124	10,805,000
Contracts and retainage payable	1,201,341	2,130,625	1,035,374	677,088	872,283
Total liabilities payable from restricted assets	12,945,335	15,384,392	12,785,235	12,533,623	14,499,948
Total current liabilities	23,030,366	27,726,366	22,812,233	19,377,989	21,327,192
Compensated absences				1,461,686	1,476,698
Claims liability					2,257,989
Due to other funds				1,981,154	0
Postretirement liability					702,275
Pension liability			1,029,955	1,075,780	672,134
Revenue bonds payable and notes payable	149,782,965	155,734,991	146,367,650	177,638,293	166,679,418
Total liabilities	172,813,331	183,461,357	170,209,838	201,534,902	193,115,706
<b>Net assets:</b>					
Invested in capital assets, net of related debt	383,661,783	398,002,765	413,527,890	426,727,275	443,698,034
Restricted	3,201,688	6,947,036	6,349,015	4,202,551	4,524,375
Unrestricted	14,482,672	8,265,712	9,917,494	14,256,373	13,450,435
Total net assets	401,346,143	413,215,513	429,794,399	445,186,199	461,672,844
Total liabilities and net assets	\$574,159,474	\$596,676,870	\$600,004,237	\$646,721,101	\$654,788,550

*FY07 includes restatements for change in depreciation method on equipment from composite to straight-line. Cumulative effect \$502,109.  
Source: City Sewer Fund audit and the Water Services Department.*

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND – WASTEWATER ONLY**

**Statements of Revenues, Expenses and Changes in Fund Net Assets  
Audited for Fiscal Years Ending April 30, 2004-2008**

	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Operating revenues:					
Retail sewer charges	\$38,002,843	\$37,569,311	\$41,161,228	\$44,881,172	\$46,125,920
Intermunicipal sewer charges	13,601,640	15,177,604	15,476,630	15,900,917	18,722,855
Other operating revenue	2,387,883	3,115,232	2,513,561	3,393,160	3,613,322
<b>Total operating revenues</b>	<b>53,992,366</b>	<b>55,862,147</b>	<b>59,151,419</b>	<b>64,175,249</b>	<b>68,462,097</b>
Operating expenses:					
Sewerage treatment and pumping	12,996,745	14,992,441	16,059,456	16,108,999	17,931,832
Sewer maintenance	8,173,238	9,632,604	11,663,977	11,676,834	13,419,209
Administrative and general	6,932,059	8,140,924	9,567,874	10,607,211	13,193,053
Industrial and household hazardous waste control	933,953	1,846,167	1,827,079	2,029,068	2,021,275
Depreciation and amortization	10,959,141	12,132,649	12,696,669	13,276,370	14,072,645
<b>Total operating expenses</b>	<b>39,995,136</b>	<b>46,744,785</b>	<b>51,815,055</b>	<b>53,698,482</b>	<b>60,638,014</b>
<b>Operating income</b>	<b>13,997,230</b>	<b>9,117,362</b>	<b>7,336,364</b>	<b>10,476,767</b>	<b>7,824,083</b>
Nonoperating revenues (expenses):					
Interest on investments	833,203	941,394	2,288,165	1,849,669	2,779,229
Grant revenue	-				
Interest expense and fiscal agent fees	(6,825,918)	(3,918,045)	(3,881,675)	(4,241,743)	(4,847,657)
Gain (loss) on disposal of fixed assets	(6,321)	18,674	16,793	60,277	(18,389)
<b>Total nonoperating revenues (expenses)</b>	<b>(5,999,036)</b>	<b>(2,957,977)</b>	<b>(1,576,717)</b>	<b>(2,331,797)</b>	<b>(2,086,817)</b>
<b>Net income before capital contributions</b>	<b>7,998,194</b>	<b>6,159,385</b>	<b>5,759,647</b>	<b>8,144,970</b>	<b>5,737,266</b>
Capital contributions	12,073,056	5,709,985	10,881,094	6,744,721	10,749,379
<b>Change in net assets</b>	<b>\$20,071,250</b>	<b>\$11,869,370</b>	<b>\$16,640,741</b>	<b>\$14,889,691</b>	<b>\$16,486,645</b>

Source: City Sewer Fund audit and the Water Services Department.

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**City of Kansas City, Missouri**  
**Debt Service Coverage - Sanitary Sewer System**  
**For Fiscal Years Ending April 30, 2004 through April 30, 2008**

	2004	2005	2006	2007	2008
<b>Revenues:</b>					
Sewer charges	\$ 51,604,483	\$ 52,746,915	\$ 56,637,858	\$ 60,782,089	\$ 64,848,775
Other operating income	2,387,883	3,115,232	2,513,561	3,393,160	3,613,322
Interest income	833,203	941,394	2,288,165	1,849,669	2,779,229
<b>Total Revenues</b>	<b>\$ 54,825,569</b>	<b>\$ 56,803,541</b>	<b>\$ 61,439,584</b>	<b>\$ 66,024,918</b>	<b>\$ 71,241,326</b>
<b>Less Expenses:</b>					
Sewerage Treatment and Pumping	\$ 12,996,745	\$ 14,992,441	\$ 16,059,456	\$ 16,108,999	\$ 17,931,832
Sewer Maintenance	8,173,238	9,632,604	11,663,977	11,676,834	13,419,209
Administration & General	6,932,059	8,140,924	9,567,874	10,607,211	13,193,053
Industrial and Household Hazardous Waste Control	933,953	1,846,167	1,827,080	2,029,068	2,021,275
Other	-	-	-	-	-
<b>Total Expenses*</b>	<b>\$ 29,035,995</b>	<b>\$ 34,612,136</b>	<b>\$ 39,118,387</b>	<b>\$ 40,422,112</b>	<b>\$ 46,565,369</b>
<b>Net Revenues Available for Debt Service</b>	<b>\$ 25,789,574</b>	<b>\$ 22,191,405</b>	<b>\$ 22,321,197</b>	<b>\$ 25,602,806</b>	<b>\$ 24,675,957</b>
<b>Gross Current Year Debt Service</b>	<b>\$ 15,198,000</b>	<b>\$ 16,635,366</b>	<b>\$18,573,698</b>	<b>\$16,750,181</b>	<b>\$17,891,805</b>
<b>Coverage of Gross Debt Service(Times)</b>	<b>1.70</b>	<b>1.33</b>	<b>1.20</b>	<b>1.53</b>	<b>1.38</b>
<b>Less SRF Subsidy</b>	<b>3,014,541</b>	<b>3,162,991</b>	<b>3,266,043</b>	<b>3,458,471</b>	<b>3,380,966</b>
<b>Net Current Year Debt Service</b>	<b>\$ 12,183,459</b>	<b>\$ 13,472,375</b>	<b>\$ 15,307,655</b>	<b>\$ 13,291,710</b>	<b>\$ 14,510,839</b>
<b>Coverage of Net Debt Service(Times)**</b>	<b>2.12</b>	<b>1.65</b>	<b>1.46</b>	<b>1.93</b>	<b>1.70</b>

\*Does not include depreciation, interest expense and fiscal agents fees.

\*\*Per the City's Ordinance, interest earnings on the reserve accounts related to SRF loans reduce the debt service requirement for the purposes of calculating annual debt service coverage.

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## RISK FACTORS

Purchasers of the Bonds are advised of certain risk factors with respect to the payment of the principal of, premium, if any and interest on the Bonds. This discussion of risk factors is not intended to be exhaustive.

### *Summary Financial Information*

Certain summarized historical financial information and certain projected revenues and expenditures of the Sanitary Sewer System are summarized in Appendix A. There can be no assurance that the financial results achieved by the City in the future will be similar to historical results or the projections contained therein. Such future results will vary from historical results, and actual variations may be material. Information as to the projected figures and the assumptions upon which they are based are contained in Appendix A of this Official Statement. No assurance can be given that assumptions used in preparing projected revenues are accurate including, but not limited to, those as to sales volumes, operating and maintenance expenses, expected rate increases and the stability of the customer base, including the potential loss of customers resulting from rate increases necessitated by the Overflow Control Plan. Significant variations in such assumptions may affect the actual operating and financial results. Therefore, the historical operating results of the City's Sanitary Sewer System contained in this Official Statement cannot be viewed as a representation that the City will be able to generate sufficient revenues in the future to make timely payment of principal of, redemption premium, if any, and interest on its Bonds.

### *Overflow Control Plan*

As stated above, the City has prepared the Plan and has submitted the Plan to the EPA and MDNR on January 30, 2009. There can be no assurance that the Plan, in its present form, adequately addresses the issues and concerns of the EPA and MDNR. Furthermore, there can be no assurances that the expenses associated with the Plan in its present form will be adequately funded by current and future Sanitary Sewer Revenues. Moreover any changes and revisions to the Plan may result in significant additional expense that may not be adequately funded by current and future Sanitary Sewer Revenues. Consequently, should the City fail to adequately fund the Plan in either its present, or revised, state, the City could face funding issues which have yet to be addressed.

### *Financial Projections*

The forecast of future operations and expected revenue bond debt service coverage contained in the Consulting Engineer's Report and included or reflected in this Official Statement are based on various assumptions concerning certain conditions, events and circumstances over which the City has no control. See "Wastewater Utility Bond Feasibility Report" in Appendix A. No representation or warranty is or can be made about the amount or timing of any future operating results, or that actual results will be consistent with the Consulting Engineer's Report or with the forecasts contained therein. **The information in the Consulting Engineer's Report is based on various assumptions, estimates and opinions. The actual results will vary from the Consulting Engineer's Report and the variations may be material. There is no assurance that actual events will correspond with the projections or the assumptions, estimates and opinions on which they are based.**

### *Forward-Looking Statements*

Certain statements included in or incorporated by reference in this Official Statement that are not purely historical are "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), and Section 27A of the United States Securities Act of 1933, as amended (the "**Securities Act**") and reflect the City's current expectations, hopes, intentions or strategies regarding the future. Such statements may be identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "intend" or other similar words. Such forward-looking statements include, among others, certain statements under this section captioned "**BONDOWNERS' RISKS.**"

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR

ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INCLUDED IN SUCH RISKS AND UNCERTAINTIES ARE (i) THOSE RELATING TO THE POSSIBLE INVALIDITY OF THE UNDERLYING ASSUMPTIONS AND ESTIMATES, (ii) POSSIBLE CHANGES OR DEVELOPMENTS IN SOCIAL, ECONOMIC, BUSINESS, INDUSTRY, MARKET, LEGAL AND REGULATORY CIRCUMSTANCES, AND (iii) CONDITIONS AND ACTIONS TAKEN OR OMITTED TO BE TAKEN BY THIRD PARTIES, INCLUDING CUSTOMERS, SUPPLIERS, BUSINESS PARTNERS AND COMPETITORS, AND LEGISLATIVE, JUDICIAL AND OTHER GOVERNMENTAL AUTHORITIES AND OFFICIALS. ASSUMPTIONS RELATED TO THE FOREGOING INVOLVE JUDGMENTS WITH RESPECT TO, AMONG OTHER THINGS, FUTURE ECONOMIC, COMPETITIVE, AND MARKET CONDITIONS AND FUTURE BUSINESS DECISIONS, ALL OF WHICH ARE DIFFICULT OR IMPOSSIBLE TO PREDICT ACCURATELY. FOR THESE REASONS, THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS INCLUDED IN THIS OFFICIAL STATEMENTS WILL PROVE TO BE ACCURATE.

**UNDUE RELIANCE SHOULD NOT BE PLACED ON FORWARD-LOOKING STATEMENTS. ALL FORWARD-LOOKING STATEMENTS INCLUDED IN THIS OFFICIAL STATEMENT ARE BASED ON INFORMATION AVAILABLE TO THE CITY ON THE DATE HEREOF, AND THE CITY ASSUMES NO OBLIGATION TO UPDATE ANY SUCH FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR OR FAIL TO OCCUR, OTHER THAN AS INDICATED UNDER THE CAPTION “CONTINUING DISCLOSURE.”**

#### ***Certain Bankruptcy Risks***

The remedies available to the Bondowner of the Bonds upon an event of default under the Ordinance are in many respects dependent upon judicial actions that are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically the United States Bankruptcy Code, 11 U.S.C. §§ 101, *et seq.* (the “Bankruptcy Code”) the remedies provided in the Ordinance may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitation imposed by general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws, affecting the rights of creditors generally.

#### ***Compliance with Securities Laws***

The Bonds may be sold by Bondowners only in compliance with the registration provisions, or certain exemptions from the Securities Act of 1933 and applicable state securities laws (which may be prohibitively expensive if registration is required and may not be possible in any event). In some states, specific conditions must be met or approval of a state securities commissioner is required in order to qualify for an exemption from registration.

#### ***Secondary Markets and Prices***

The Underwriter will not be obligated to repurchase any of the Bonds and no representation is made concerning the existence of any secondary market for the Bonds. No assurance can be given that any secondary market will develop following the completion of the offering of the Bonds, and no assurance can be given that the initial offering prices for the Bonds will continue for any period of time.

### **LITIGATION**

As of the date hereof, the City Attorney certifies there is no litigation pending seeking to restrain or enjoin the issuance or delivery of the Bonds, or questioning or affecting the legality of the Bonds or the proceedings or authority under which the Bonds are to be issued. There is no litigation pending which in any manner questions the rights of the City to construct or finance the Improvements. The City is not involved in any litigation that might affect the City’s ability to meet its obligations to pay the principal of and interest on the Bonds.

On behalf of the City, the Water Services Department entered into a cooperative agreement with Lee's Summit, whereby the City would construct the East Bannister Road Interceptor by February 19, 2008. Subsequent to February 19, 2008, Lee's Summit could terminate 138 temporary residential City connections to its Boggs Hollow Interceptor. As of the date of this Official Statement, the East Bannister Road Interceptor has not yet been constructed. Despite Lee's Summit's ability to disconnect, the disconnections can only occur after: (i) Lee's Summit provides the City with a 135 day written notice to disconnect; (ii) a third party has applied to Lee's Summit for development approval in the Boggs Hollow watershed; and (iii) the Lee's Summit governing body determines that said development will require capacity in the Boggs Hollow Interceptor which is not available due to consumption by the City. As of the date of this Official Statement, the City has not received notice from Lee's Summit to disconnect from the Boggs Hollow Interceptor, and to the best of the City's knowledge there are no approved developments in Lee's Summit that would require capacity from the Boggs Hollow Interceptor, which is unavailable due to City consumption.

### **APPROVAL OF LEGALITY**

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinion of Gilmore & Bell, P.C., Kansas City, Missouri, and The Martinez Law Firm, LLC, Liberty, Missouri, Co-Bond Counsel. The form of such opinion is attached hereto as Appendix F. Certain legal matters will be passed upon for the City by the City Attorney. The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or for the future performance of parties to such transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Co-Bond Counsel has not participated in the preparation of this Official Statement, except for the sections of this Official Statement captioned "THE BONDS", "SECURITY", "ADDITIONAL PARITY BONDS", "TAX MATTERS", Appendix E: "Definitions and Summary of Ordinance" and Appendix F: "Form of Co-Bond Counsel Opinion". The factual and financial information appearing herein has been supplied or reviewed by certain officials of the City and others as referred to herein and Co-Bond Counsel express no opinion as to the accuracy or sufficiency thereof except for the matters appearing in the sections referred to in this paragraph.

### **TAX MATTERS**

#### ***Tax Opinion of Co-Bond Counsel***

##### Federal Tax Exemption

In the opinion of Gilmore & Bell, P.C. and The Martinez Law Firm, LLC, Co-Bond Counsel, under existing law, the interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excludable from gross income for federal and Missouri income tax purposes. Interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinions set forth in this paragraph are subject to the condition that the City complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be (or continue to be) excludable from gross income for federal and Missouri income tax purposes. The City has covenanted to comply with all such requirements. Failure to comply with certain of such requirements may cause the interest on the Bonds to be includable in gross income retroactive to the date of issuance of the Bonds. The Bonds have not been designated as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code.

### Original Issue Discount Bonds

In the opinion of Co-Bond Counsel, subject to the conditions set forth above, the original issue discount in the selling price of each Bond maturing in the years 2021, 2022 and 2029 (hereinafter referred to as the “OID Bonds”), to the extent properly allocable to each owner of such Bond, is excludable from gross income for federal income tax purposes with respect to such owner. Original issue discount is the excess of the stated redemption price at maturity of an OID Bond over the initial offering price to the public (excluding underwriter(s) and intermediaries) at which price a substantial amount of the OID Bonds were sold. Under Section 1288 of the Code, original issue discount on tax-exempt bonds accrues on a compound basis. For an owner who acquires an OID Bond in this offering, the amount of original issue discount that accrues during any accrual period generally equals (i) the issue price of such OID Bond plus the amount of original issue discount accrued in all prior accrual periods, multiplied by (ii) the yield to maturity on such OID Bond (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period), less (iii) any interest payable on such OID Bond during such accrual period. The amount of original issue discount so accrued in a particular accrual period will be considered to be received ratably on each day of the accrual period, will be excluded from gross income for federal income tax purposes, and will increase the owner’s tax basis in such OID Bond. Any gain realized by an owner from a sale, exchange, payment or redemption of an OID Bond would be treated as gain from the sale or exchange of such Bond. Owners of OID Bonds should consult with their individual tax advisors to determine whether the application of the proposed original issue discount federal regulations will require them to include, for state and local income tax purposes, an amount of interest on the OID Bonds as income even though no corresponding cash interest payment is actually received during the tax year.

### Bonds Purchased at a Premium

Bonds maturing in the years 2011 through 2019 and 2023 through 2026 have an initial offering price that exceeds the stated redemption prices of such Bonds at maturity. The excess of the purchase price of a Bond over its stated redemption price at maturity constitutes premium on such Bond, and such Bonds are referred to hereafter as a “Premium Bond.” Under Section 171 of the Code, the purchaser of a Premium Bond may elect to amortize any premium over such Bond’s term using constant yield principles, based on the purchaser’s yield to maturity. A holder amortizes bond premium by offsetting the qualified stated interest allocable to an accrual period with the bond premium allocable to that accrual period. This offset occurs when the holder takes the qualified stated interest into income under the holder’s regular method of accounting. If the bond premium allocable to an accrual period exceeds the qualified stated interest for that period, the excess is treated by the holder as a deduction under Section 171(a)(1) of the Code. In addition, the purchaser’s adjusted tax basis in such Bond is reduced by the amount of bond premium amortized. Such reduction in a purchaser’s adjusted tax basis will increase the gain (or decrease loss) realized for federal income tax purposes upon a sale, exchange, redemption, or other disposition of such Bond.

### Missouri Tax Exemption

The interest on the Bonds is exempt from taxation by the State of Missouri.

### No Other Opinions

Co-Bond Counsel expresses no opinion regarding other federal, state or local tax consequences arising with respect to the Bonds.

### ***Other Tax Consequences***

Prospective purchasers of the Bonds should be aware that there may be tax consequences of purchasing the Bonds other than those discussed under the caption “Tax Opinion of Co-Bond Counsel,” including the following:

- 1) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution (within the meaning of Section 265(b)(5) of the Code), that portion of such institution’s interest expense allocable to interest on the Bonds;

- 2) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds;
- 3) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code;
- 4) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year, if greater than 25% of the gross receipts of such a Subchapter S corporation is passive investment income; and
- 5) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Bonds.

Co-Bond Counsel expresses no opinion regarding these tax consequences.

### **RATINGS**

The Bonds have been rated “Aa3” by Moody’s Investors Service (“Moody’s”), 99 Church Street, New York, New York, and “AA” by Standard & Poor’s Ratings Services (“S&P”), 55 Water Street, New York, New York. The ratings reflect only the opinion of Moody’s or S&P. Such rating reflects only the view of such organization and any desired explanation of the significance of the rating should be obtained from the rating agency. Any explanation of the significance of the ratings may be obtained only from Moody’s or S&P.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that the ratings will continue for any given period of time, or that such ratings will not be revised, suspended or withdrawn if, in the judgment of Moody’s or S&P, circumstances so warrant. A revision, suspension or withdrawal of a rating may have an adverse effect on the market price of the Bonds.

### **CO-FINANCIAL ADVISORS**

The City has retained Public Financial Management, of Des Moines, Iowa, and TKG & Associates of Chicago, Illinois, as financial advisors (the “Co-Financial Advisors”) in connection with the issuance of the Bonds. In assisting in the preparation of the Official Statement, the Co-Financial Advisors have relied upon City officials, and other parties, who have access to relevant data to provide accurate information for the Official Statement. The Co-Financial Advisors have not been engaged, nor have they undertaken, to independently verify the accuracy of such information. The Co-Financial Advisors are not public accounting firms and have not been engaged by the City to compile, review, examine or audit any information in the Official Statement in accordance with accounting or audit standards. The Co-Financial Advisors are independent advisory firms and are not engaged in the business of underwriting, trading or distributing municipal securities or other public securities. The Co-Financial Advisors will not participate in the underwriting of the Bonds. Any fees authorized for payment to the Co-Financial Advisors, with respect to the Bonds, are contingent upon the issuance and delivery of the Bonds.

### **UNDERWRITING**

The Bonds are being purchased for reoffering by George K. Baum & Co. and Morgan Stanley as representative of the Underwriters listed on the cover (collectively, the “Underwriters”). The Underwriters have agreed to purchase the Bonds at an aggregate purchase price of \$69,725,750.30 (representing the aggregate principal amount of \$69,480,000.00, plus net reoffering premium of \$597,886.90 and less the Underwriters’ discount of \$352,136.60) pursuant to a Bond Purchase Agreement among the City and the Underwriters. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds if any are purchased. The City has agreed under the Bond Purchase Agreement to indemnify the Underwriters against certain liabilities.

## MISCELLANEOUS

### *Certification and Other Matters Regarding Official Statement*

The information contained in the Official Statement and its Appendices has been compiled from official and other sources deemed to be reliable, and while not guaranteed as to completeness or accuracy, is believed to be correct as of the date of this Official Statement. The presentation of information in this Official Statement is intended to show recent historic information, but is not intended to indicate future or continuing trends in the financial position or other affairs of the City. No representation is made that past experience, as might be shown by such financial or other information, will necessarily continue or be repeated in the future.

Any statements made in the Official Statement involving matters of opinion, estimates or projections, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates or projections will be realized. The descriptions contained in this Official Statement of the Bonds and the Ordinance do not purport to be complete and reference is made to such documents for full and complete statements of their respective provisions.

Simultaneously with the delivery of the Bonds, the Director of Finance/CFO of the City, acting on behalf of the City, will furnish to the Underwriter a certificate which shall state, among other things, that to the best knowledge and belief of such officer, this Official Statement (and any amendment or supplement hereto) as of the date of sale and as of the date of delivery of the Bonds does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements herein, in light of the circumstance under which they were made, not misleading in any material respect.

The form of this Official Statement, and its distribution and use by the Underwriter, has been approved by the City. Neither the City nor any of its officers, directors or employees, in either their official or personal capacities has made any warranties, representations or guarantees regarding the financial condition of the City or the City's ability to make payments required of it; and further, neither the City nor its officers, directors or employees assumes any duties, responsibilities or obligations in relation to the issuance of the Bonds other than those either expressly or by fair implication imposed on the City by the Ordinance.

This Official Statement is not to be construed as a contract or agreement between the City and purchasers or Owners of any of the Bonds.

CITY OF KANSAS CITY, MISSOURI

By: /s/ Jeffrey A. Yates  
Jeffrey A. Yates  
Director of Finance/CFO

**CONSULTING ENGINEER'S REPORT AND FEASIBILITY STUDY**

The following report contains certain information concerning the debt service on the Bonds and incorporates the final interest rates at which the Bonds were sold.



March 27, 2009  
Page 1

Mr. Roger Lehr  
Water Services Department  
City of Kansas City, Missouri  
4800 East 63<sup>rd</sup> Street  
Kansas City, Missouri 64130

Dear Mr. Lehr:

In accordance with our agreement with the City of Kansas City, Missouri (City), Burns & McDonnell submits this Wastewater Utility Bond Feasibility Report. This report has been prepared in connection with the issuance of \$69,480,000 Sanitary Sewer System Revenue Bonds, Series 2009A (the Bonds). The purpose of this report is to present the findings concerning debt service coverage requirements for the issuance of bonds as described in the bond ordinance.

In conducting our studies, Burns & McDonnell has made such investigations and review of the facilities, books, records, and capital improvement programs of the Water Services Department (the Department) and other investigations, as we deemed necessary. Revenues and revenue requirements for the Department's Wastewater System are presented in this report for a historical five-year period. This report concludes with a summary of our major opinions regarding the Wastewater System.

The City and the Department have provided historical data presented in this report and the comprehensive annual financial reports prepared for the City. Burns & McDonnell reviewed and discussed these data with the Department. Burns & McDonnell has prepared a forecast of revenues and revenue requirements for the Wastewater System with input from the City and from Public Financial Management and TKG & Associates, the City's co-financial advisors for the Bonds. Burns & McDonnell has also prepared a forecast of expected revenue bond debt service coverage. In preparing our forecasts and in forming an opinion of the forecasts of future operations summarized in this report, Burns & McDonnell has made certain assumptions with respect to conditions, events, and circumstances that may occur in the future. Such assumptions and methodologies are summarized in this letter and are reasonable and appropriate for the purpose for which they are used. While Burns & McDonnell believes the assumptions are reasonable and the methodology valid, actual results may differ materially from those forecast, as influenced by the conditions, events, and circumstances that actually occur. The methodology utilized by Burns & McDonnell in performing the analyses follows generally accepted practices for such forecasts.

As a result of our investigations and analysis of the Department's facilities and records and based upon our continuing studies of Wastewater System operations, Burns & McDonnell is of the opinion that:

1. The Department's Wastewater System properties are and have been maintained, preserved, and kept in good working order and condition, and the Department makes, as necessary, proper repairs, replacements, and renewals.
2. The assumptions used in preparing the projections and estimates used in our analysis are reasonable. The forecast of debt service coverage is also reasonable.
3. Projected operating results are reasonably attainable by the Department.



Based on the financial projections included herein, the requirements for issuance of additional bonds have been met.

### **SYSTEM DESCRIPTION**

The Kansas City sewer system serves an area of about 350 square miles. Wastewater collection and treatment services are provided to approximately 148,000 customers inside and outside the City on a retail basis and to 28 surrounding communities and sewage districts on a contractual basis. The Water Services Department currently maintains about 2,000 miles of sanitary sewers and about 600 miles of combined sewers, 40 wastewater pumping stations, 18 flood pumping stations, and 7 wastewater treatment plants. The combined sewers transport both sanitary flows and, during rainfall events, storm water flows. The combined sewers serve an area south of the Missouri River of about 56 square miles. All wastewater transported to the City's treatment plants receives secondary treatment in compliance with federal and state environmental regulations.

A summary of principal facilities is provided in the following paragraphs.

#### Blue River Wastewater Treatment Plant

The Blue River WWTP provides secondary treatment of residential, commercial, and industrial wastewater before discharge to the Missouri River. Rated capacities for the primary and secondary treatment facilities are 120 MGD and 105 MGD respectively. Much of the wastewater received by the treatment plant originates in the combined sewers located south of the Missouri River. The plant also receives flow from sanitary sewers both north and south of the Missouri River. Wastewater is bypassed to the Blue River during certain wet weather events.

#### Westside Wastewater Treatment Plant

The Westside WWTP is an activated sludge treatment plant. Light industrial, commercial, and residential wastewater flows are treated at this facility. The rate capacity is 22.5 MGD. Biosolids generated at this plant are pumped to the Blue River WWTP for processing.

This plant serves part of the Kansas City Downtown Area and the area immediately west of downtown along the State Line. These areas are served by combined sewers. The facility also serves parts of the area north of the Missouri River including the Downtown Airport, Harlem and areas tributary to the Line Creek Pumping Station.

#### Fishing River Wastewater Treatment Plant

Fishing River WWTP provides secondary treatment of primarily domestic wastewater from the portions of the Fishing River drainage basin that are within Kansas City. This watershed extends downstream (northeast) from the City Limit and includes the northeastern-most portion of the City.

#### Rocky Branch Wastewater Treatment Plant

Rocky Branch WWTP receives domestic wastewater from Rocky Branch and First Creek Watersheds on the northern side of Kansas City. Rocky Branch is a mechanical package plant identical to the extended aeration process at Fishing River, but with a rated capacity of 0.75 mgd. Rocky Branch WWTP has two centrifugal blowers, an aeration zone, reaeration zone, and an aerobic digester.



Todd Creek Wastewater Treatment Plant

Todd Creek WWTP provides secondary treatment of a combination of domestic, commercial and industrial wastewater from the northwest part of Kansas City around Kansas City International Airport. The KCI Industrial Park WWTP was replaced with a pump station at the end of 2004 and the flows from its service area are now pumped to the Todd Creek WWTP as well.

The original treatment plant was constructed in 1972-1973 and consisted of two Smith & Loveless package units, each containing a contact aeration, reaeration, center well clarification, and chlorine disinfection zone. The facility has been rehabilitated and expanded as necessary and currently has a rated capacity of 2.7 MGD.

Birmingham Wastewater Treatment Plant

Birmingham WWTP is an activated sludge treatment plant. Light industrial, commercial, and residential wastewater flows are treated at this facility. The biosolids generated at the plant are pumped to the Blue River WWTP for processing.

Northland Mobile Home Wastewater Treatment Plant

Kansas City operates a small domestic wastewater treatment plant that serves the Northland Mobile Home Park in the far upper reach of Wilkerson Creek Watershed. The City has plans to decommission this treatment plant and pump the wastewater to the Rocky Branch WWTP. It is anticipated that the pump station will be located at the City Limit rather than at the WWTP site to accommodate future growth in the drainage area.

**UTILITY ORGANIZATION**

The Department is comprised of three utilities - water, sewer, and storm water, each with separate funding accounts. As a general statement pertaining to the Wastewater System, Burns & McDonnell found the Department to be well-run, to respond cooperatively to requirements for improved efficiencies and services, to have developed resources for future requirements, and to operate in a businesslike manner. The Department's organization structure is sound and personnel are well prepared to keep the wastewater system operating in a reliable manner.

**FINANCIAL FEASIBILITY FOR THE BONDS**

The historical financial data used in the analyses presented herein were obtained from the financial records of the City. The City's financial records are audited annually.

**OPERATING AND NON-OPERATING REVENUES**

Operating revenue of the Wastewater System is derived from wastewater and miscellaneous revenues. During the past few years the Wastewater System has experienced low to no growth in the number of customers served. Projections for future years are based on no to low volume or customer growth. Annual operating and non-operating revenues for the historical period Fiscal Year 2004 through Fiscal Year 2008 are shown in Table 1. Total revenue was \$54,825,569 in 2004, \$56,803,541 in 2005, \$61,439,584 in 2006, \$66,024,918 in 2007, and \$71,241,326 in 2008.

Projected operating and non-operating revenues are shown in Table 2. Projected operating and non-operating revenues for the Wastewater System are expected to range from \$75,325,200 in 2009 to \$138,440,500 in 2014. The projected 2009 through 2014 revenues reflect actual rate increases implemented for FY 2009 and as projected for FY 2010 through FY 2014. Projected



Table 1

**HISTORICAL WASTEWATER CUSTOMERS, VOLUMES, REVENUES, AND EXPENSES**

Water Services Department  
City of Kansas City, Missouri

	2004	2005	2006	2007	2008
<b>Wastewater Customers</b>					
Residential	127,029	130,814	131,210	131,444	133,308
Commercial/Industrial	12,813	15,142	15,205	14,760	15,076
Wholesale	155	153	146	138	138
<b>Total Wastewater Customers</b>	<b>139,997</b>	<b>146,109</b>	<b>146,561</b>	<b>146,342</b>	<b>148,522</b>
<b>Wastewater Volumes (ccf):</b>					
City Residential	9,440,000	8,945,000	8,824,000	10,240,835	9,089,159
City Commercial	12,368,000	11,874,000	12,189,000	11,848,310	11,597,393
Outside Residential	44,000	41,000	43,000	62,717	57,767
Outside Commercial	329,000	381,000	395,000	397,310	573,411
Other Accounts	11,681,000	12,701,000	11,901,000	12,020,010	12,140,210
<b>Total Wastewater Volumes</b>	<b>33,862,000</b>	<b>33,942,000</b>	<b>33,352,000</b>	<b>34,569,182</b>	<b>33,457,940</b>
<b>Revenues (\$):</b>					
Wastewater Volume Revenues	51,604,483	52,746,915	56,637,858	60,782,089	64,848,775
Other Operating Revenue	2,387,883	3,115,232	2,513,561	3,393,160	3,613,322
Interest Income	833,203	941,394	2,288,165	1,849,669	2,779,229
<b>Total Revenues</b>	<b>54,825,569</b>	<b>56,803,541</b>	<b>61,439,584</b>	<b>66,024,918</b>	<b>71,241,326</b>
<b>Operation and Maintenance Expenses (\$):</b>					
Sewerage Treatment and Pumping	12,996,745	14,992,441	16,059,456	16,108,999	17,931,832
Sewer Maintenance	8,173,238	9,632,604	11,663,977	11,676,834	13,419,209
Administrative and General	6,932,059	8,140,924	9,567,874	10,607,211	12,968,029
Hazardous Waste Control	933,953	1,846,167	1,827,079	2,029,068	2,021,275
AMR Lease Payments	0	0	0	0	225,024
<b>Total O&amp;M Expenses</b>	<b>29,035,995</b>	<b>34,612,136</b>	<b>39,118,386</b>	<b>40,422,112</b>	<b>46,565,369</b>



Table 2

**PROJECTED WASTEWATER CUSTOMERS, VOLUMES, REVENUES, AND EXPENSES**  
Water Services Department  
City of Kansas City, Missouri

	2009	2010	2011	2012	2013	2014
<b>Wastewater Customers:</b>						
Residential	133,308	133,308	133,308	133,308	133,308	133,308
Commercial/Industrial	15,076	15,076	15,076	15,076	15,076	15,076
Wholesale	138	138	138	138	138	138
Total Wastewater Customers	<u>148,522</u>	<u>148,522</u>	<u>148,522</u>	<u>148,522</u>	<u>148,522</u>	<u>148,522</u>
<b>Wastewater Sales Volumes (ccf):</b>						
City Residential	8,907,400	9,201,300	9,201,300	9,201,300	9,201,300	9,201,300
City Commercial	11,597,400	11,821,200	11,821,200	11,821,200	11,821,200	11,821,200
Outside Residential	56,600	52,200	52,200	52,200	52,200	52,200
Outside Commercial	573,400	464,000	464,000	464,000	464,000	464,000
Other Accounts	12,261,600	12,384,200	12,508,100	12,633,200	12,759,500	12,887,100
Total Wastewater Volumes	<u>33,396,400</u>	<u>33,922,900</u>	<u>34,046,800</u>	<u>34,171,900</u>	<u>34,298,200</u>	<u>34,425,800</u>
<b>Revenues:</b>						
Wastewater Volume Revenues	71,711,900	81,174,000	91,558,400	103,293,800	116,559,200	131,554,500
Other Operating Revenue	2,878,300	2,878,300	2,878,300	2,878,300	2,878,300	2,878,300
Interest Income	735,000	2,900,700	1,598,800	3,026,900	4,330,700	4,007,700
Total Revenues	<u>75,325,200</u>	<u>86,953,000</u>	<u>96,035,500</u>	<u>109,199,000</u>	<u>123,768,200</u>	<u>138,440,500</u>
<b>Operation and Maintenance Expenses:</b>						
Sewerage Treatment and Pumping	21,633,800	22,282,800	22,951,300	23,639,800	24,349,000	25,079,500
Sewer Maintenance	14,371,600	14,802,800	15,246,800	15,704,300	16,175,400	16,660,600
Administrative and General	12,589,900	11,929,100	11,365,200	11,318,000	11,288,700	11,258,800
Hazardous Waste Control	2,337,100	2,407,200	2,479,400	2,553,800	2,630,400	2,709,300
AMR Lease Payments	258,100	918,900	1,482,700	1,530,000	1,559,300	1,589,100
OCP Expenses	0	1,485,300	5,861,200	6,290,500	7,002,600	7,735,700
Total O&M Expenses	<u>51,190,500</u>	<u>53,826,100</u>	<u>59,386,600</u>	<u>61,036,400</u>	<u>63,005,400</u>	<u>65,033,000</u>



rate increases are preliminary and subject to change. All future rate adjustments are subject to the review and approval of the City Council.

**OPERATION AND MAINTENANCE EXPENSES**

Annual operation and maintenance expenses of the Wastewater System for the historical period covered by this report are shown in Table 1. These expenses consist of sewerage treatment and pumping, sewer maintenance, administrative and general, hazardous waste control, and AMR lease payments. The wastewater utility’s total operation and maintenance expenses for the historical period were \$29,035,995 in 2004, \$34,612,136 in 2005, \$39,118,386 in 2006, \$40,422,112 in 2007, and \$46,565,369 in 2008.

The Wastewater System’s projected operation and maintenance expenses for the period 2009 through 2014 are presented in Table 2. Total operation and maintenance expenses are expected to increase from \$51,190,500 in 2009 to \$65,033,000 in 2014. Annual operation and maintenance expenses shown in Table 2 do not include depreciation and amortization expense. These expenses do include the additional OCP expenditures.

**OPERATING AND RENEWAL AND REPLACEMENT RESERVES**

In April 2008, the Department developed a Statement of Policy for Operating and Renewal and Replacement Reserves (Reserve Policy), which was reviewed by the City Council and was adopted on August 14, 2008. The Reserve Policy establishes target reserve levels for operating and renewal and replacement reserves, establishes annual contribution levels, and provides for the annual review and modification of the reserve targets and funding requirements. Reserve targets established for the Wastewater System are as follows:

- Operating Reserves has been established in an amount equal to 20 percent of budgeted annual operating and maintenance expenses, plus budgeted administrative fees; and
- A Renewal and Replacement Reserve has been established in an amount equal to the prior year’s annual depreciation. Minimum annual contributions of \$1,000,000 shall be budgeted and transferred until the required amount is established. Once the required funding level is met, annual contributions may be adjusted to amounts consistent with growth in annual depreciation. To the extent that balances are drawn down and used to fund emergency capital replacements or for other authorized purposes, annual contributions shall resume until the required funding level is met.

**PURPOSE OF THE BONDS**

It is common utility practice to finance all or part of the cost of major capital improvements and acquisitions through the sale of bonds. The Bonds are being issued to provide funds to finance all or a portion of the costs of wastewater improvements, to provide a debt service reserve and to pay the expenses of issuing the Bonds.

In 2009, the Department identified a capital improvement program (CIP). This CIP is intended to provide facilities to meet existing and anticipated federal and state standards and to maintain a reliable wastewater system that can respond to changing usage patterns throughout the City’s service area. The CIP identifies an estimated \$110.1 million of general capital improvements and \$148.2 million of OCP capital improvements, which are expected to be financed primarily through a combination of annual revenues, contributions from local sources, available fund balances, and bond proceeds.



Major items to be covered through the issuance of the Bonds include the following:

- CSO Long-term Control Plan (including OCP project management and administration)
- Second Creek Interceptor
- Troost at Brush Creek
- Fishing River WWTP
- Second Creek PS, Force Main & Interceptor Land
- Infill Assessment Sewers
- East Bannister Interceptor
- Northland Mobile Home Park Pump Station & Force Main
- Todd Creek Disinfection Study
- Birmingham Creek Disinfection Study
- Fishing River WWTP
- Rocky Branch Feasibility Study
- Rocky Branch Disinfection Design
- Westside WWTP Disinfection Design
- BR Secondary Improvements – ammonia
- BR Secondary Improvements – disinfection
- Flow Monitoring
- Middle Blue River Green Solutions Pilot Project
- Blue River Watershed Plan
- Green Solutions Demonstration Project

### **ANNUAL CASHFLOW**

Table 3 presents the cashflow and revenue bond debt service coverage ratio on an annual basis. The net revenues available for coverage based on the total debt service are projected to be adequate throughout the study period. The annual coverage ratios of net revenues to gross debt service and net debt service are shown in Table 3. The City has agreed to produce income and revenue through rates and charges sufficient to maintain annual coverage of not less than 110% of the annual debt service requirement. As shown on Table 3, annual coverage is adequate throughout the forecast period.

### **ADDITIONAL BONDS**

The Bond Ordinance authorizing the Bonds sets forth requirements for issuance of additional bonds. The requirements include, among other things either:

- A certificate showing the average annual Net Sanitary Sewer Revenues Available for Debt Service set forth in the two most recent annual audits for Fiscal Years preceding the issuance of additional bonds, are at least 110% of the average annual debt service on the Sanitary Sewer System Revenue Bonds (excluding subordinate revenue bonds or obligations), including the additional bonds proposed to be issued, to be paid out of the Net Sanitary Sewer Revenues available for Debt Service in all succeeding Fiscal Years. Interest to be paid on any SRF Program Bonds may be reduced by the SRF Subsidy, if any. In determining Net Sanitary Sewer Revenues Available for Debt Service, the City may rely on a certificate of the Consultant to add the



Table 3

**WASTEWATER CASHFLOW AND REVENUE BOND DEBT SERVICE COVERAGE**

Water Services Department  
City of Kansas City, Missouri

Line No.		2009 \$	2010 \$	2011 \$	2012 \$	2013 \$	2014 \$
<u>System Operations</u>							
1	Revenue from Wastewater Usage - Existing Rates	64,028,500	64,711,400	64,592,700	64,488,400	64,398,400	64,321,500
	Proposed Revenue Increases [1]:						
	<u>Year</u> <u>Increase</u>						
2	2009 12.00%	7,683,400	7,765,400	7,751,100	7,738,600	7,727,800	7,718,600
3	2010 12.00%		8,697,200	8,681,300	8,667,200	8,655,100	8,644,800
4	2011 13.00%			10,533,300	10,516,200	10,501,600	10,489,000
5	2012 13.00%				11,883,400	11,866,800	11,852,600
6	2013 13.00%					13,409,500	13,393,400
7	2014 13.00%						15,134,600
8	Total Proposed Additional Revenues	7,683,400	16,462,600	26,965,700	38,805,400	52,160,800	67,233,000
9	Total Rate Revenue	71,711,900	81,174,000	91,558,400	103,293,800	116,559,200	131,554,500
10	Other Operating Revenue	2,878,300	2,878,300	2,878,300	2,878,300	2,878,300	2,878,300
11	Interest Income	735,000	2,900,700	1,598,800	3,026,900	4,330,700	4,007,700
12	Total Revenues	75,325,200	86,953,000	96,035,500	109,199,000	123,768,200	138,440,500
13	Operation and Maintenance Expenses	51,190,500	53,826,100	59,386,600	61,036,400	63,005,400	65,033,000
14	Senior Bond Debt Service	6,495,200	6,409,900	6,320,700	6,235,700	6,148,500	6,059,500
15	Parity Bond Debt Service [2]	12,780,900	15,002,100	17,607,600	21,179,400	23,996,400	26,736,100
16	Debt Subsidies	(3,263,700)	(2,985,400)	(2,708,200)	(2,421,900)	(2,128,100)	(1,823,000)
17	Plus: SRF Fees	481,100	443,100	404,000	363,800	322,200	279,300
18	Total Debt Service	16,493,500	18,869,700	21,624,100	25,357,000	28,339,000	31,251,900
19	Total Expenses	67,684,000	72,695,800	81,010,700	86,393,400	91,344,400	96,284,900
20	Annual Operating Balance	7,641,200	14,257,200	15,024,800	22,805,600	32,423,800	42,155,600
21	Beginning Balance - Operating Funds	11,085,400	14,735,600	10,764,900	11,877,400	12,207,400	12,601,100
22	Funds from Annual Operating Balance	7,641,200	14,257,200	15,024,800	22,805,600	32,423,800	42,155,600
23	Transfer to P&I Fund	1,219,500	(1,477,400)	(1,091,400)	(1,337,700)	(714,000)	(185,000)
24	Transfer to Construction Fund	(5,210,500)	(3,000,000)	(3,000,000)	(4,000,000)	(5,000,000)	(5,000,000)
25	Transfer to OCP		(12,750,500)	(5,243,100)	(12,349,500)	(21,307,500)	(31,342,000)
26	Renewal and Replacement Fund Deposit		(1,000,000)	(4,577,800)	(4,788,400)	(5,008,600)	(5,223,000)
27	Ending Balance - Operating Funds	14,735,600	10,764,900	11,877,400	12,207,400	12,601,100	13,006,700
28	Beginning Balance - Construction Fund	22,908,600	83,629,400	38,944,600	80,545,000	117,778,700	101,171,800
29	Bond Proceeds: General	64,500,000	45,617,800				
30	Bond Proceeds: OCP			45,617,800	42,730,700		
31	Transfer of Operating Funds	5,210,500	3,000,000	3,000,000	4,000,000	5,000,000	5,000,000
32	OCP Transfer		12,750,500	5,243,100	12,349,500	21,307,500	31,342,000
33	Total Available Construction Funds	92,619,100	144,997,700	92,805,500	139,625,200	144,086,200	137,513,800
34	Use of Funds: General	8,989,700	101,128,100				
35	Use of Funds: OCP		4,925,000	12,260,500	21,846,500	42,914,400	66,243,800
36	Ending Balance - Construction Fund	83,629,400	38,944,600	80,545,000	117,778,700	101,171,800	71,270,000
<u>Debt Service Coverage</u>							
37	Revenues Available for Debt Service	24,134,700	33,126,900	36,648,900	48,162,600	60,762,800	73,407,500
38	Gross Debt Service Coverage [3]	1.25	1.55	1.53	1.76	2.02	2.24
39	Net Debt Service Coverage [4]	1.51	1.80	1.73	1.93	2.17	2.37

[1] FY 2009 rate increase implemented by the City, FY 2010 - 2014 increases are subject to approval.

[2] Parity Bond Debt Service includes additional debt to be issued in FY 2010 - 2012 of approximately \$140 million.

[3] Gross Debt Service Coverage includes Senior Bond Debt Service (Line 14) and Parity Bond Debt Service (Line 15).

[4] Net Debt Service Coverage includes Senior Bond Debt Service (Line 14), Parity Bond Debt Service (Line 15), and Debt Subsidies (Line 16).

additional Net Sanitary Revenues Available for Debt Service which would have resulted if the rate increase had been in effect for the entire period to the audited Net Sanitary Sewer Revenues if the City has made any increase in rates for the use and services of the Sanitary Sewer System and the increase has not been in effect during all of the two Fiscal Years for which annual audits are available; or

- A certificate showing the average annual Net Sanitary Sewer Revenues Available for Debt Service for the two Fiscal Years immediately following the Fiscal Year in which the improvements to the Sanitary Sewer System being financed by the additional bonds are to be in commercial operation, as certified by the Consultant, is at least 110% of the average annual debt service on the Sanitary Sewer System Revenue Bonds (excluding subordinate revenue bonds or obligations), including the additional bonds proposed to be issued, to be paid out of the Net Sanitary Sewer Revenues Available for Debt Service in succeeding Fiscal Years following the commencement of commercial operation of the improvements. Interest to be paid on any SRF Program Bonds may be reduced by the SRF Subsidy, if any. In determining the amount of estimated Net Sanitary Sewer Revenues Available for Debt Service for the purpose of the subsection, the Consultant may adjust the estimated net income and revenues by adding the estimated increase in Net Sanitary Sewer Revenues Available for Debt Service resulting from any increase in rates for the use and services of the Sanitary Sewer System approved by the City.

Net Sanitary Sewer Revenues Available for Debt Service used in the required report are defined in the Bond Ordinance. Table 4 presents the calculation described above. Based on the annual coverage levels, Burns & McDonnell is of the opinion that the additional bonds requirements are met by the City.

### **ASSUMPTIONS**

The following assumptions were used in conducting our investigations and preparing the detailed analysis that is summarized in this Wastewater Utility Bond Feasibility Report. It is our opinion that these assumptions are reasonable.

1. Projections of sales volumes have been made based upon an analysis of historical trends and review of anticipated local growth patterns. Projections for future years are based on no to low volume growth.
2. Projected revenues are based on the current schedule of rates approved by the City which became effective May 1, 2008, and expected rate increases, to be implemented during the forecast period.
3. Projections of future operation and maintenance expenses are based on analyses of historical operating data, modified to recognize current and anticipated operating conditions and trends. Operation and maintenance expenses of the total Wastewater System are projected to increase due to the combined effects of inflation and, to a lesser degree, increased material requirements to meet increasing customer service demands.
4. Debt service on the Bonds is based on a \$69,480,000 issue amount and has been provided by Public Financial Management and TKG & Associates, the City's co-financial advisors.

Table 4

Additonal Parity Bonds Test  
City of Kansas City, Missouri  
Sanitary Sewer System Revenue Bonds  
Series 2009A

Line No.	Item	Fiscal Year Ending April 30,		Average
		2007	2008	
		\$1,000	\$1,000	\$1,000
1	Wastewater Charges for Service (a)	60,782	64,849	
2	Other Operating Revenue	3,393	3,613	
3	Interest Income	<u>1,850</u>	<u>2,779</u>	
4	Total Revenue	66,025	71,241	
5	Operating Expenses	<u>40,422</u>	<u>46,565</u>	
6	Net Revenues	25,603	24,676	
7	Average Net Revenues			25,140
8	Average Annual Debt Service (b)			13,582
9	Debt Service Coverage			185%

(a) Wastewater Charges for Service do not include adjustments for rate increases.

(b) Equal to average annual net debt service for FY2009 - FY2034.

5. The projections of wastewater sales of the existing Wastewater System will be similar to those experienced in the period 2004 to 2008. Significant variation in weather conditions and in economic and demographic conditions may affect the actual results. No such effects have been assumed for the projections or analyses presented in this report.
6. As provided by the City's Bond Ordinance, the Department will at all times fix, establish, maintain, and collect rates sufficient to provide for the payment of the expenses of operation, maintenance, and repair and to pay any bonds and interest outstanding and to apply the revenue in conformity with the Bond Ordinance.

**OPINIONS**

As a result of our investigations and analysis of the Department's facilities and records, the reviews, studies, and analyses we have outlined above, and based upon our continuing studies of Wastewater System operations, it is our opinion that:



1. The Department's Wastewater System properties are and have been maintained, preserved, and kept in good working order and condition, and the Department makes, as necessary, proper repairs, replacements, and renewals.
2. The assumptions used in preparing the projections and estimates used in our analysis are reasonable. The forecast of debt service coverage is also reasonable.
3. Projected operating results are reasonably attainable by the Department.

Based on the financial projections included herein, the requirements in the Bond Ordinance for issuance of Parity Bonds have been met.

### **BURNS & MCDONNELL QUALIFICATIONS**

Burns & McDonnell has specialized in providing engineering, operations, and financial consulting services to water, wastewater, electric, and gas utilities throughout our history of over 100-years. With over 2,900 employee-owners, consisting of experts from all engineering disciplines and business functions, Burns & McDonnell offers a comprehensive package of experience and skills for performing rate and financial analyses, feasibility studies, and negotiation services. In addition, the firm has extensive experience in assisting utilities with the issuance of debt and with management and financial aspects of their operations.

Sincerely,

BURNS & MCDONNELL

Ted J. Kelly  
Principal, Business & Technology Services

Sara K. Worrall  
Senior Project Analyst, Business & Technology Services

**FINANCIAL STATEMENTS FOR THE SEWER FUND**



**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Financial Statements and Schedule

April 30, 2008 and 2007

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 1000  
1000 Walnut Street  
Kansas City, MO 64106-2162

## Independent Auditors' Report

The Honorable Mayor and  
Members of the City Council  
Kansas City, Missouri:

We have audited the accompanying basic financial statements of the City of Kansas City, Missouri (the City) Sewer Fund (the Sewer Fund) as of and for the years ended April 30, 2008 and 2007. These financial statements are the responsibility of the Sewer Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the Sewer Fund and do not purport to, and do not, present fairly the financial position of the City of Kansas City, Missouri as of April 30, 2008 and 2007, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kansas City, Missouri Sewer Fund as of April 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the management's discussion and analysis information. However, we did not audit the information and express no opinion on it.

As described in note 1(l) to the financial statements, the Sewer Fund adopted as of May 1, 2007 the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Also described in 1(l) to the financial statements, the Sewer Fund adopted the provisions of Governmental Accounting Standards Board Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

Our 2008 audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Kansas City, Missouri  
October 31, 2008

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

This management's discussion and analysis (MD&A) of the City of Kansas City, Missouri's Sewer Fund (the Fund) provides an introduction and overview of the Fund's financial statements and activities for the fiscal years ended April 30, 2008 and 2007. The Fund is an enterprise fund of the City of Kansas City, Missouri (the City) and is supported wholly by sewer service charges. The Fund is charged with the responsibility for the administration, promotion, operation, and maintenance of the wastewater and stormwater systems.

The information contained herein should be considered in conjunction with the financial statements and notes in order to provide a complete understanding of the financial performance and activities during the years ended April 30, 2008 and 2007. The City combines the wastewater and stormwater operations into one set of financial statements.

**Overview of the Financial Statements**

The accompanying financial statements are prepared on an accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Revenues and expenses are recognized when earned and incurred, not when received or paid. Capital assets, except land, are depreciated over their useful lives. (See note 1 in the notes to the financial statements for significant accounting policies).

The statements of net assets present information of the Fund's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the Fund's financial position.

The statements of revenues, expenses, and changes in net assets present information showing how the Fund's net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The statements of cash flows relate to the flows of cash and cash equivalents. Consequently, only transactions that affect the Fund's cash accounts through operating activities, financing activities, and investing activities are listed on these statements.

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

**Financial Position and Assessment**

**Summary of Net Assets**  
(In thousands)

	Year ended April 30		
	2008	2007	2006
<b>Assets:</b>			
Current assets – unrestricted	\$ 24,355	18,696	19,335
Current assets – restricted	7,705	6,803	6,836
Noncurrent assets – unrestricted	17,180	20,113	14,579
Noncurrent assets – restricted	21,790	37,515	16,277
Capital assets	697,048	635,603	602,680
Other assets	2,552	2,783	2,786
<b>Total assets</b>	<b>\$ 770,630</b>	<b>721,513</b>	<b>662,493</b>
<b>Liabilities:</b>			
Current liabilities	\$ 8,105	7,656	7,439
Liabilities payable from restricted assets	14,900	12,902	13,151
Long-term liabilities	177,752	187,931	156,812
<b>Total liabilities</b>	<b>200,757</b>	<b>208,489</b>	<b>177,402</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	537,291	482,537	459,236
Restricted	4,908	4,464	4,355
Unrestricted	27,674	26,023	21,500
<b>Total net assets</b>	<b>569,873</b>	<b>513,024</b>	<b>485,091</b>
<b>Liabilities and net assets</b>	<b>\$ 770,630</b>	<b>721,513</b>	<b>662,493</b>

In FY2008, the Fund's assets exceeded its liabilities by \$569.9 million, an increase of \$56.8 million, or 11.1%, from the previous year. The largest portion of net assets (94.3%) was invested in capital assets (e.g. land, buildings, treatment facilities, sewer and storm lines, machinery, and equipment) less any outstanding debt related to those assets. These assets were used to provide sewer services to the customers of the system.

In FY2007, the Fund's assets exceeded its liabilities by \$513.0 million, an increase of \$27.9 million, or 5.8%, from the previous year. The largest portion of net assets (94.0%) was invested in capital assets (e.g. land, buildings, treatment facilities, sewer and storm lines, machinery, and equipment) less any outstanding debt related to those assets. These assets were used to provide sewer services to the customers of the system.

In FY2008, total assets increased by \$49.1 million, or 6.8%, from the previous year. This increase was due primarily to \$61.4 million in capital improvements made to facilities and sewer lines of the system and a decrease of \$14.8 million in restricted assets. Liabilities decreased \$7.7 million, or 3.7%, due to a decrease in bonds payable of \$9.4 million as a result of our annual principal payments.

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

In FY2007, total assets increased by \$59.0 million, or 8.9%, from the previous year. This increase was due primarily to \$32.9 million in capital improvements made to facilities and sewer lines of the system and an increase of \$21.2 million in restricted assets. Liabilities increased \$31.1 million, or 17.5%, from the issuance of the 2007 bonds of long-term bonds of \$40 million.

**Summary of Revenues, Expenses, and Changes in Net Assets**

(In thousands)

	Year ended April 30		
	2008	2007	2006
Operating revenues	\$ 79,929	74,041	68,823
Operating expenses	(69,111)	(60,602)	(59,396)
Operating income	10,818	13,439	9,427
Nonoperating expenses, net	(1,539)	(2,075)	(1,446)
Net income before capital contributions	9,279	11,364	7,981
Capital contributions	47,570	16,569	24,512
Change in net assets	56,849	27,933	32,493
Total net assets – beginning of the year	513,024	485,091	452,598
Total net assets – end of the year	\$ 569,873	513,024	485,091

**Summary of Operating Revenues**

(In thousands)

	Year ended April 30		
	2008	2007	2006
Retail sewer charges	\$ 46,126	44,882	41,161
Intermunicipal sewer charges	18,723	15,901	15,477
Stormwater fees	11,210	9,723	9,525
Other operating revenue	3,870	3,535	2,660
Total operating revenues	\$ 79,929	74,041	68,823

In FY2008, sewer rates increased 8.0%. Operating revenues increased \$5.9 million, or approximately 8.0%. Retail sewer charges increased 2.8%. Intermunicipal sewer charges increased 17.0% due to periods of wet weather increasing the flow sent to us to treat. Contributed capital increased \$31.0 million primarily due to \$5.6 million of sewer lines and \$18.5 million of storm sewer lines installed related to the construction of Sprint Arena and the KC Live District.

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

In FY2007, sewer rates increased 6.0%. Operating revenues increased \$5.2 million, or approximately 7.6%. Retail sewer charges increased 9.0% due to an increase in metered water sales of 4.8%. The increase in intermunicipal sewer charges was due to growth in our largest interjurisdictional customer and wet weather. Intermunicipal billings are based on the total flow sent to us to treat, and inflow and infiltration to those sewer systems can cause increased flow in wet weather.

**Summary of Operating Expenses**  
(In thousands)

	Year ended April 30		
	2008	2007	2006
Sewerage treatment and pumping	\$ 17,998	16,155	16,129
Sewer maintenance	17,066	14,839	15,121
Administrative and general	16,288	12,948	12,830
Industrial and household hazardous waste control	2,022	2,029	1,827
Depreciation and amortization	15,737	14,631	13,489
Total operating expenses	\$ 69,111	60,602	59,396

In FY2008, operating expenses increased \$8.5 million, or 14.0%, as a result of the following:

- Administrative and general expenses increased \$3.3 million, or 25.8%, for several reasons including, increased customer collection and billing charges for the Fund's portion of AMR (Automated Meter Reading) system of \$837,000, the settlement of a large claim of \$1,228,000, an increase in general liability insurance of \$629,000, and \$184,000 resulting from other postemployment benefits (OPEB) liability.
- Sewer maintenance expenses increased \$2.2 million, or 15.0%. These increases were related to automotive repair and maintenance \$381,000, fuel costs increased \$273,000, salaries and benefits increased \$585,000 due to the City's salary range adjustments, workman's compensation claims increased \$113,000, and OPEB liability increased \$500,000.
- Depreciation expense increased \$1.11 million, or 7.0%, due to additions of capital assets.
- Sewerage treatment and pumping increased \$1.8 million or 11.4% due to increases related to salaries and benefits of \$720,000 due to the City's salary range adjustments, OPEB liability of \$115,000, electrical costs of \$300,000 and repair and supply expenses of \$400,000.

In FY2007, operating expenses increased \$1.2 million, or 2.0%, as a result of the following:

- Household hazardous waste costs increased \$202,000, or 11%, due to increased costs for disposal of material and for operating supplies related to an increase of 85,072 pounds, or 7.5%, in material collected for disposal.
- Depreciation expense increased \$1,142,000, or 8%, due to additions of capital assets

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Management's Discussion and Analysis

April 30, 2008 and 2007

(Unaudited)

***Capital Assets***

Capital assets as of April 30, 2008 totaled \$697.0 million (net of accumulated depreciation) and accounted for 90.4% of total assets. Capital assets increased \$61.4 million from the previous year as a result of our capital improvements program. Completed projects included \$1.4 million in plant and pump station improvements, \$53.5 million in sewers, \$2.2 million in equipment, and an increase in work in process of \$19.1 million. Offsetting these increases was an increase of \$14.2 million in accumulated depreciation and retirements of \$0.5 million.

Capital assets as of April 30, 2007 totaled \$635.6 million (net of accumulated depreciation) and accounted for 88.1% of total assets. Capital assets increased \$32.9 million from the previous year as a result of our capital improvements program. Completed projects included \$2.0 million in plant and pump station improvements, \$23.6 million in sewers, \$3.2 million in equipment, and an increase in work in process of \$18.0 million. Offsetting these increases was an increase of \$12.5 million in accumulated depreciation and retirements of \$1.4 million.

***Debt Administration***

The change in long-term debt during the year ended April 30, 2008 was due to a debt service payment of \$9.8 million and a stormwater loan of \$517,300 received from the state in September 2007.

The increase in long-term debt during the year ended April 30, 2007 was due to the issuance of \$40 million in Series 2007A Sewer Revenue bonds in April 2007, offset with debt service payments of \$9.6 million.

Credit ratings for the 2007A bonds were Aa3 from Moody's and AA from Standard and Poor's. The rating agencies cited stable and diverse local economy, solid finances with historically strong debt coverage, and competitive rates as reasons for the rating. The debt of the sanitary sewer system requires annual debt coverage of 110% and a parity test of 110%.

***Request for Information***

This financial report is designed to provide the Fund's management, investors, creditors, and customers with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the funds it receives and expends. For additional information about this report, or if you need additional financial information, please contact:

Mable Ramey-Moore  
Assistant Director, Finance & Business Support  
Water Services Department  
4800 East 63<sup>rd</sup> Street  
Kansas City, MO 64130

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Statements of Net Assets

April 30, 2008 and 2007

Assets	<u>2008</u>	<u>2007</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,331,773	862,010
Investments	5,001,171	2,593,617
Accounts receivable, net	16,436,159	13,699,394
Accrued interest receivable	171,799	126,535
Prepaid expense	396,027	318,311
Inventories	627,419	499,036
Due from other funds	391,249	596,882
Total unrestricted current assets	<u>24,355,597</u>	<u>18,695,785</u>
<b>Restricted assets:</b>		
Cash and cash equivalents	3,672,894	5,773,185
Investments	3,818,998	794,404
Accrued interest receivable	213,093	235,693
Total restricted assets	<u>7,704,985</u>	<u>6,803,282</u>
Total current assets	<u>32,060,582</u>	<u>25,499,067</u>
<b>Investments</b>	17,179,777	20,113,484
<b>Restricted assets—investments</b>	21,790,353	37,514,788
<b>Special assessments receivable</b>	2,288	2,288
<b>Capital assets, depreciable, net</b>	593,730,033	551,348,486
<b>Capital assets, nondepreciable</b>	103,317,873	84,254,491
<b>Debt issuance costs, net</b>	2,549,677	2,780,281
Total assets	<u>\$ 770,630,583</u>	<u>721,512,885</u>
<b>Liabilities and Net Assets</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 4,066,494	4,787,448
Current portion of compensated absences	206,477	95,726
Accrued payroll and related expenses	1,199,153	829,274
Contracts and retainage payable	114,385	84,704
Other liabilities	544,911	744,911
Due to other funds	1,039,361	277,129
Current portion of claims liability	934,241	837,114
Total current liabilities, less liabilities payable from restricted assets	<u>8,105,022</u>	<u>7,656,306</u>
<b>Liabilities payable from restricted assets:</b>		
Accrued interest and fiscal agent fees	2,860,447	2,402,412
Current portion of revenue bonds payable	11,166,700	9,822,924
Contracts and retainage payable	872,284	677,088
Total liabilities payable from restricted assets	<u>14,899,431</u>	<u>12,902,424</u>
Total current liabilities	<u>23,004,453</u>	<u>20,558,730</u>
<b>Compensated absences</b>	1,653,238	1,699,625
<b>Claims liability</b>	2,450,689	2,141,939
<b>Other postemployment benefit obligation</b>	845,349	—
<b>Pension liability</b>	809,067	1,290,936
<b>Revenue bonds payable and notes payable, net of current portion</b>	171,994,918	182,798,193
Total liabilities	<u>200,757,714</u>	<u>208,489,423</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	537,290,784	482,536,591
Restricted	4,907,788	4,464,120
Unrestricted	27,674,297	26,022,751
Total net assets	<u>569,872,869</u>	<u>513,023,462</u>
Total liabilities and net assets	<u>\$ 770,630,583</u>	<u>721,512,885</u>

See accompanying notes to financial statements.

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended April 30, 2008 and 2007

	2008	2007
Operating revenues:		
Retail sewer charges	\$ 46,125,920	44,881,172
Intermunicipal sewer charges	18,722,855	15,900,917
Stormwater fees	11,210,134	9,723,082
Other operating revenues	3,870,231	3,534,840
Total operating revenues	79,929,140	74,040,011
Operating expenses:		
Sewerage treatment and pumping	17,998,162	16,155,222
Sewer maintenance	17,066,247	14,839,583
Administrative and general	16,287,798	12,947,561
Industrial and household hazardous waste control	2,021,275	2,029,068
Depreciation and amortization	15,736,974	14,630,688
Total operating expenses	69,110,456	60,602,122
Operating income	10,818,684	13,437,889
Nonoperating revenues (expenses):		
Interest income	3,468,255	2,278,921
Interest expense and fiscal agent fees	(4,984,772)	(4,364,623)
Gain (loss) on disposal of capital assets	(22,750)	11,047
Total nonoperating expenses, net	(1,539,267)	(2,074,655)
Net income before capital contributions	9,279,417	11,363,234
Capital contributions	47,569,990	16,569,126
Change in net assets	56,849,407	27,932,360
Net assets – beginning of the year	513,023,462	485,091,102
Net assets – end of the year	\$ 569,872,869	513,023,462

See accompanying notes to financial statements.

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Statements of Cash Flows

Years ended April 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Cash received from customers	\$ 77,398,008	74,327,019
Cash paid to employees, including benefits	(23,437,985)	(21,445,792)
Cash paid to suppliers	(29,096,718)	(23,456,375)
Net cash provided by operating activities	<u>24,863,305</u>	<u>29,424,852</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(29,899,634)	(31,945,121)
Proceeds from issuance of revenue bonds, including premium	517,300	40,792,838
Principal payments on revenue bonds	(9,822,924)	(9,571,789)
Interest paid on revenue bonds	(3,633,429)	(3,681,779)
Debt issuance costs	(148,560)	(213,170)
Net cash used in capital and related financing activities	<u>(42,987,247)</u>	<u>(4,619,021)</u>
Cash flows from investing activities:		
Investment purchases	(54,173,862)	(63,295,212)
Investment maturities and sales	67,399,857	36,002,377
Interest received on investments	3,267,419	2,184,172
Net cash provided by (used in) investing activity	<u>16,493,414</u>	<u>(25,108,663)</u>
Net decrease in cash and short-term investments	<u>(1,630,528)</u>	<u>(302,832)</u>
Cash and cash equivalents at beginning of year	<u>6,635,195</u>	<u>6,938,027</u>
Cash and cash equivalents at end of year	<u>\$ 5,004,667</u>	<u>6,635,195</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 10,818,684	13,437,889
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	15,736,974	14,630,688
Changes in assets and liabilities:		
Accounts receivable and special assessments receivable	(2,736,765)	(202,871)
Prepaid expense	(77,716)	(68,942)
Inventories	(128,383)	(2,256)
Due from other governments	—	768,627
Due from other funds	205,633	489,879
Accounts payable	(720,954)	1,055,015
Compensated absences	64,364	128,238
Accrued payroll and related expenses	369,879	82,478
Other liabilities	(200,000)	(30,534)
Due to other funds	762,232	(886,010)
Claims payable	405,877	6,159
Pension liability	(481,869)	16,492
Postretirement liability	845,349	—
Total adjustments	<u>14,044,621</u>	<u>15,986,963</u>
Net cash provided by operating activities	<u>\$ 24,863,305</u>	<u>29,424,852</u>
Components of cash and cash equivalents at end of year:		
Unrestricted	\$ 1,331,773	862,010
Restricted	<u>3,672,894</u>	<u>5,773,185</u>
	<u>\$ 5,004,667</u>	<u>6,635,195</u>
Noncash capital and related financing activity:		
Contributions of capital assets	\$ 47,569,990	16,569,126
Increase (decrease) in fair value of investments	526,382	(194,433)

See accompanying notes to financial statements.

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

**(1) Summary of Significant Accounting Policies**

The City of Kansas City, Missouri Sewer Fund (the Sewer Fund) is a fund of the City of Kansas City, Missouri (the City) and is operated by the Water Services Department. The financial statements present only the Sewer Fund and are not intended to present fairly the financial position of the City of Kansas City, Missouri, and the respective changes in its financial position and cash flows as of April 30, 2008 and 2007, and for the years then ended in conformity with U.S. generally accepted accounting principles. The Sewer Fund includes sewer and stormwater accounts. The following is a summary of the more significant accounting policies.

**(a) Basis of Accounting**

The accompanying financial statements are prepared on the accrual basis of accounting wherein revenues (including unbilled revenues) are recorded when earned and expenses are recorded when incurred. In reporting its financial activity, the Sewer Fund applies all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

**(b) Cash and Cash Equivalents**

For purposes of the statements of cash flows, the Sewer Fund's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

**(c) Accounts Receivable**

Accounts receivable balances are recorded at the invoiced amount. The allowance for doubtful accounts is the Sewer Fund's best estimate of the probable losses in the existing accounts receivable balance.

**(d) Revenue Recognition**

Revenues are recorded as earned. Unbilled revenue representing estimated consumer usage for the period between the last billing date and the end of the period is accrued by the Sewer Fund.

**(e) Inventories**

Inventories, consisting of repair parts, materials, supplies, chemicals, rock, and fuel, are valued at the lower of weighted average cost or market.

**(f) Debt Issuance Costs**

Debt issuance costs are amortized on the straight-line method over the life of the bond issue.

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

**(g) Capital Assets and Depreciation/Amortization**

Capital assets are stated at cost or estimated historical cost and include assets funded by revenue bonds, general obligation bonds, grants, and contributions. Contributed assets are valued at fair value at the date of contribution.

Depreciation is provided on the straight-line method. Sewer lines are depreciated on a composite basis with a useful life of 75 years. Treatment plants and other facilities are depreciated on a composite basis with useful lives of 40 to 75 years. Equipment is depreciated on a unit basis over useful lives of 3 to 10 years.

At the time of retirement or other disposition of assets for which depreciation is computed on the composite method, the original cost of the assets, net of any proceeds from their sale, is removed from the asset and accumulated depreciation accounts and no retirement gain or loss is recorded. For retirements of assets for which depreciation is computed on the unit method, the asset and related depreciation accounts are eliminated, and the difference between the net carrying value and any proceeds is recorded as a gain or loss.

Any conspicuous or known events, or changes in circumstances, affecting a capital asset is reviewed by the Sewer Fund to determine whether there is a significant and unexpected decline in the service utility of the capital asset, which could indicate asset impairment.

Expenses for maintenance and repairs of property are charged to operations as incurred. Renewals and betterments that increase the life of the asset, but not the value, are charged as a reduction to accumulated depreciation.

Interest costs capitalized on debt related to active projects for the years ended April 30, 2008 and 2007 totaled \$860,911 and \$829,833, respectively.

**(h) Compensated Absences**

Under the terms of the City's personnel policy, Sewer Fund employees are granted vacation and sick leave in varying amounts. Vacation is accumulated at the annual rate of 10 to 20 days depending on the employee's length of service. Sick leave is accumulated at the rate of 3.7 hours per two-week pay period. The maximum amount of vacation that may be carried forward is two times the amount earned in a year, which is accrued for in the respective funds. Sick leave with pay may be accumulated up to a limit of 2,080 hours. Upon separation from service, employees may convert accrued sick leave at the ratio of 4 hours of sick leave to 1 hour of vacation leave credit. Retiring employees 55 years or older with at least 25 years of creditable service; employees who are to receive a line-of-duty disability pension; and employees who qualify for a City pension and retire with a normal retirement, take early retirement at age 60 or thereafter, or die are entitled to sick leave credit at the rate of 2 hours of sick leave to 1 hour of vacation leave credit.

**(i) Operating vs. Nonoperating Revenues and Expenses**

Operating revenues and expenses generally result from providing services in connection with the Sewer Fund's ongoing operations. The principal operating revenues are charges to customers for

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

services. Operating expenses include the cost of service, administrative expenses, and depreciation on capital assets. All revenues and expense not meeting this definition are reported as nonoperating revenues and expenses.

**(j) Restricted Assets**

When both restricted and unrestricted resources are available for use, it is the Sewer Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

**(k) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(l) New Accounting Pronouncements**

On May 1, 2007, the City adopted Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (GASB 45). This statement establishes accounting and financial reporting standards for employers that participate in a defined benefit "other postemployment benefit" (OPEB) plan. The City and the Sewer Fund measure and disclose an amount for annual OPEB cost on the accrual basis for health and insurance benefits that will be provided to retired City employees in future years. The City and the Sewer Fund are also required to record a net OPEB obligation that is defined as the cumulative difference between annual OPEB cost and the employer's contributions to a plan. See note 10 for additional disclosure.

Effective May 1, 2007, the Sewer Fund adopted GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (GASB 48). This statement establishes criteria for governments to use to account for the exchange of an interest in their expected receivables or specific future revenues for immediate cash payments. This statement also requires disclosures pertaining to future revenues that have been pledged or sold. This statement does not impact the financial statements as it only involves disclosures. See note 6 for additional information.

**(m) Reclassifications**

Certain 2007 reclassifications have been made to conform to the 2008 presentation.

**(2) Deposits and Investments**

The City maintains a cash and investment pool that is available for use by all funds. The pool is comprised of demand and time deposits, repurchase agreements, and other investments with maturities of less than five years. At April 30, 2008 and 2007, the carrying amount (book value) of the City's deposits, including certificates of deposit and the collateralized money market account, was approximately \$76,412,012 and \$54,503,000, respectively, which was covered by federal depository insurance or by collateral held by the

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

City's agents under joint custody agreements in accordance with the City's administrative code. The Sewer Fund's allocation of deposits was \$508,992 and \$1,143,105 at April 30, 2008 and 2007, respectively.

**Investments – Pooled and Non-pooled**

The City is empowered by City Charter to invest in the following types of securities:

1. *United States Treasury Securities (Bills, Notes, Bonds, and Strips).* The City may invest in obligations of the United States government for which the full faith and credit of the United States are pledged for the payment of principal and interest.
2. *United States Agency/GSE Securities.* The City of Kansas City, Missouri may invest in obligations issued or guaranteed by any agency of the United States government and in obligations issued by any government sponsored enterprise (GSE) which has a liquid market and a readily determinable market value that are described as follows:
  - a. U.S. Govt. Agency Coupon and Zero Coupon Securities.
  - b. U.S. Govt. Agency Callable Securities. Restricted to securities callable at par only.
  - c. U.S. Govt. Agency Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed interest rate.
  - d. U.S. Govt. Agency Floating Rate Securities. Restricted to coupons with no interim caps that reset at least quarterly and that float off of only one index.
  - e. U.S. Govt. Agency Mortgage-Backed Securities (MBS, CMO, Pass-Thru Securities). Restricted to securities with final maturities of five (5) years or less or have the final projected payment no greater than four (4) years when analyzed in a +300 basis point interest rate environment. Restricted to obligations of FNMA, FHLMC, and GNMA only.
3. *Repurchase Agreements.* The City may invest in contractual agreements between the City and commercial banks or primary government securities dealers. The Bond Market Association's guidelines for the Master Repurchase Agreement will be used and will govern all repurchase agreement transactions. All repurchase agreement transactions will be either physical delivery or triparty.
4. *Bankers' Acceptances.* The City may invest in bankers' acceptances issued by domestic commercial banks possessing the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation.
5. *Commercial Paper.* The City may invest in commercial paper issued by domestic corporations which has received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation. Eligible paper is further limited to issuing corporations that have total assets in excess of five hundred million (\$500,000,000) and are not listed on Credit Watch with negative implications by any nationally recognized rating agency at the time of purchase. In addition, the

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

City's portfolio may not contain commercial paper of any one corporation, the total value of which exceeds 2% of the City's aggregate investment portfolio.

6. Any full faith and credit obligations of the State of Missouri rated at least A or A2 by Standard and Poor's or Moody's.
7. Any full faith and credit obligations of any county in which the city is located rated at least AA or Aa2 by Standard and Poor's or Moody's.
8. Any full faith and credit obligations of any school district in Kansas City, Missouri rated at least AA or Aa2 by Standard and Poor's or Moody's.
9. Any full faith and credit obligations or revenue bonds of the City of Kansas City, Missouri rated at least AA or Aa2 by Standard and Poor's or Moody's.
10. Any municipal obligation as defined in (6), (7), (8), or (9) that is not rated, but either pre-refunded or escrowed to maturity with U.S. Treasury securities as to both principal and interest.

**(a) Interest Rate Risk**

Interest rate risk is the risk that the fair value of the City's investments will decrease as a result of an increase in interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the final maturity on any security owned to a maximum of five years. In addition, the City compares the weighted average maturity of its portfolio to the weighted average maturity of the Merrill Lynch 1-3 year government/agency index, and relative to the index, may decrease the weighted average maturity of the portfolio during periods of rising interest rates or increase it during periods of declining rates. As of April 30, 2008, the City had the following investments and maturities (amounts are in thousands):

Investment type	Investment maturities (in years)					Weighted average
	Fair value	Less than 1	1 - 2	2 - 3	3 - 5	
<b>Pooled investments:</b>						
Money market account	\$ 35,043	35,043	—	—	—	0.01
Certificates of deposit	23,350	23,350	—	—	—	0.24
Commercial paper	8,000	8,000	—	—	—	0.01
Municipal securities	10,003	—	1,455	—	8,548	3.72
U.S. Treasury bills	9,931	9,931	—	—	—	0.44
U.S. Treasury notes/bonds	119,747	63,328	56,419	—	—	0.96
U.S. agencies - noncallable	281,275	157,454	21,695	44,708	57,418	1.51
U.S. agencies - callable	229,961	86,719	—	—	143,242	2.84
Mortgaged-backed agency	42,618	23,060	11,425	2,353	5,780	1.22
<b>Total pooled investments</b>	<b>759,928</b>	<b>406,885</b>	<b>90,994</b>	<b>47,061</b>	<b>214,988</b>	<b>1.70</b>
<b>Non-pooled investments:</b>						
U.S. agencies - noncallable	69,560	58,066	7,737	—	3,757	0.73
U.S. agencies - callable	16,885	—	—	2,553	14,332	4.30
	<b>86,445</b>	<b>58,066</b>	<b>7,737</b>	<b>2,553</b>	<b>18,089</b>	<b>1.43</b>
<b>Total</b>	<b>\$ 846,373</b>	<b>464,951</b>	<b>98,731</b>	<b>49,614</b>	<b>233,077</b>	<b>1.67</b>

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

The Sewer Fund's allocation of pooled investments at April 30, 2008 was \$40,958,528. The Sewer Fund's non-pooled investments at April 30, 2008 were \$3,500,802.

As of April 30, 2007, the City had the following investments and maturities (amounts are in thousands):

Investment type	Fair value	Investment maturities (in years)				Weighted average
		Less than 1	1 - 2	2 - 3	3 - 5	
<b>Pooled investments:</b>						
Money market account	\$ 25,082	25,082	—	—	—	0.01
Certificates of deposit	5,709	5,709	—	—	—	0.38
U.S. Treasury	23,642	23,642	—	—	—	0.31
U.S. Treasury notes/bonds	110,645	110,645	—	—	—	0.63
U.S. agencies - noncallable	328,146	195,127	86,691	40,954	5,374	1.02
U.S. agencies - callable	172,610	35,145	38,907	29,570	68,988	2.73
Mortgaged-backed agency	19,961	9,217	6,562	4,182	—	1.21
<b>Total pooled investments</b>	<b>685,795</b>	<b>404,567</b>	<b>132,160</b>	<b>74,706</b>	<b>74,362</b>	<b>1.33</b>
<b>Non-pooled investments:</b>						
U.S. Treasury bills	7,748	7,748	—	—	—	0.14
U.S. agencies - noncallable	112,941	104,025	6,371	—	2,545	0.50
U.S. agencies - callable	21,499	2,565	16,426	—	2,508	1.49
	<u>142,188</u>	<u>114,338</u>	<u>22,797</u>	<u>—</u>	<u>5,053</u>	<u>0.63</u>
	<u>\$ 827,983</u>	<u>518,905</u>	<u>154,957</u>	<u>74,706</u>	<u>79,415</u>	<u>1.21</u>

The Sewer Fund's allocation of pooled investments at April 30, 2007 was \$29,645,034. The Sewer Fund's non-pooled investments at April 30, 2007 were \$28,631,336.

Some of the non-pooled assets are held by a trustee associated with the proceeds from sewer state revolving bonds. The amount held by the trustee includes investments that are insured or registered or for which the securities are held by the Sewer Fund or its agent in the Sewer Fund's name or under joint custody agreements. Non-pooled assets held by the trustee were \$7,826,644 and \$8,232,013 at April 30, 2008 and 2007, respectively.

**Callable Agency Securities.** The City actively monitors its callable bond portfolio with respect to probability of call relative to market rates of interest. As of April 30, 2008 and 2007, the total fair value of the City's callable bond portfolio (pooled and non-pooled) was \$246,846,216 and \$194,109,444, respectively.

**Mortgaged-Backed Securities.** The City has invested in collateralized mortgage obligation securities issued by the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA). Details of those securities are as follows:

**FHR 2984 A, \$10,000,000 par value.** The security was purchased on June 30, 2005 and has a stated final maturity of July 15, 2010. The security has a fixed coupon rate of 5.50% and pays interest monthly. Based on current prepayment speeds using industry-standard modeling, the City's principal amount should be fully retired in September 2008. At April 30, 2008 and 2007, the security had a fair market value of \$2,876,167 and \$10,007,030, respectively.

**CITY OF KANSAS CITY, MISSOURI  
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Notes to Financial Statements

April 30, 2008 and 2007

**FHR 3149 QD, \$10,000,000 par value.** The security has a fixed coupon rate of 5.00% and pays principal interest monthly. The security was purchased on January 5, 2007, and although has a stated final maturity of September 15, 2025, the security is one of the first five tranches to begin receiving principal payments. Based on current prepayments speeds using industry-standard modeling, the City's principal amount should be fully retired in July, 2010. At April 30, 2008, the security had a remaining face value \$7,963,346, a book value of \$7,922,721, and a fair market value of \$8,003,163.

**FHR 3294CA, \$10,000,000 original par value.** The security has a fixed coupon rate of 5.50% and pays principal and interest monthly. The security was purchased on July 18, 2007, and although has a stated final maturity of April 15, 2026, the security is the first tranche to begin receiving principal payments. Based on current prepayment speeds using industry-standard modeling, the City's principal amount should be fully retired in May 2009. At April 30, 2008, the security had a remaining face value of \$5,996,748, a book value of \$5,967,611, and a fair market value of \$6,025,326.

**FHR 3388 CG, \$20,000,000 original par value.** The security was purchased on November 30, 2007, and has a stated final maturity of December 15, 2011. The security has a fixed coupon rate of 5.00% and pays principal and interest monthly. Based on current prepayment speeds using industry-standard modeling, the City's principal amount will be fully retired in December 2011. At April 30, 2008, the security had a remaining face value of \$16,731,148, a book value of \$16,731,148, and a fair market value of \$16,818,066.

**FHR 2005-101 NA, \$17,000,000 original par value.** The security has a fixed coupon rate of 5.00% and pays principal and interest monthly. The security was purchased on December 12, 2007, and although has a stated final maturity of March 23, 2024, the security is the first tranche to begin principal payments. Based on current prepayment speeds using industry-standard modeling, the City's principal amount will be fully retired in February 2010. At April 30, 2008, the security had a remaining face value of \$8,870,557, a book value of \$8,870,557, and a fair market value of \$8,895,851.

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

**(b) Credit Risk**

Credit risk is the risk that the City will not recover its investments due to the ability of the counterparty to fulfill its obligation. In order to prevent over concentration by investment type and thereby mitigate credit risk, the City's Investment Policy provides for diversification of the portfolio by investment type as follows:

Investment type	Maximum
U.S. Treasury Securities and Government	100%
Collateralized Time and Demand Deposits	100
U.S. Government Agency and GSE Securities	80
Collateralized Repurchase Agreements	50
U.S. Agency Callable Securities	30
Commercial Paper	30
Bankers Acceptances	30
Qualified Municipal Obligations	10

As of April 30, 2008, the City had the following pooled and non-pooled investment balances that are rated by both Moody's and Standard and Poor's (amounts are in thousands):

	Fair value	Moody's/ S&P ratings
U.S. treasury securities	\$ 129,678	Aaa/AAA
U.S. agency securities	640,299	Aaa/AAA
Commercial paper	8,000	A-1+/P-1
Municipal securities	10,003	Aaa/AAA
	\$ 787,980	

As of April 30, 2007, the City had the following pooled and non-pooled investment balances that are rated by both Moody's and Standard and Poor's (amounts are in thousands):

	Fair value	Moody's/ S&P ratings
U.S. treasury bills	\$ 31,390	Aaa/AAA
U.S. treasury notes/bonds	110,645	Aaa/AAA
U.S. agency discount notes	77,153	Aaa/AAA
U.S. agency securities	578,006	Aaa/AAA
	\$ 797,194	

**CITY OF KANSAS CITY, MISSOURI  
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Notes to Financial Statements

April 30, 2008 and 2007

**(c) Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its deposits, investments, or collateral securities that are in the possession of an outside party (i.e., the City's safekeeping institution).

The City's investment policy requires that all funds on deposit with any financial institution be secured with collateral securities in an amount equal to at least 102% of the deposit less any amount insured by the Federal Deposit Insurance Corporation (FDIC), or any other governmental agency performing a similar function. As of April 30, 2008 and 2007, all deposits were adequately and fully collateralized.

The City's investment policy required that all investment securities be held in the City's name in the City's safekeeping account at its safekeeping institution, thereby mitigating custodial credit risk. As of April 30, 2008 and 2007, all investment securities were in the City's name in the City's safekeeping accounts at its safekeeping institutions. In addition, all collateral securities were in the City's joint custody account(s) at the Federal Reserve Bank and were either U.S. Treasury (U.S. government guaranteed) or U.S. agency (AAA/Aaa rated) obligations.

**(d) Summary**

The following is a complete listing of cash and investments held by the Sewer Fund at April 30, 2008 and 2007:

	2008	2007
Deposits	\$ 508,992	1,143,105
Pooled investments	40,958,528	29,645,034
Non-pooled investments	3,500,802	28,631,336
Trustee accounts	7,826,644	8,232,013
Total	\$ 52,794,966	67,651,488

The deposits and investments of the Sewer Fund at April 30, 2008 and 2007 are reflected in the statements of net assets as follows:

	2008	2007
Cash and cash equivalents	\$ 1,331,773	862,010
Investments	22,180,948	22,707,101
Restricted cash and cash equivalents	3,672,894	5,773,185
Restricted investments	25,609,351	38,309,192
	\$ 52,794,966	67,651,488

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

**(3) Accounts Receivable**

A summary of accounts receivable at April 30, 2008 and 2007 is as follows:

	<u>2008</u>	<u>2007</u>
Sewer customers	\$ 8,184,693	6,798,782
Unbilled utility revenue	5,426,544	5,719,568
Intermunicipal sewer customers	4,817,917	3,886,151
Other accounts receivable	610	11,232
	<u>18,429,764</u>	<u>16,415,733</u>
Less allowance for doubtful accounts	<u>1,993,605</u>	<u>2,716,339</u>
Net accounts receivable	<u>\$ 16,436,159</u>	<u>13,699,394</u>

**(4) Capital Assets**

Capital asset activity for the year ended April 30, 2008 is as follows:

	<u>May 1, 2007</u>	<u>Additions</u>	<u>Retirements/ adjustments</u>	<u>April 30, 2008</u>
Depreciable assets:				
Sewerage treatment plant and other facilities	\$ 275,997,896	1,452,542	—	277,450,438
Sewer lines	458,547,899	53,527,040	(267)	512,074,672
Equipment	45,955,274	2,176,485	(537,034)	47,594,725
Total depreciable assets	<u>780,501,069</u>	<u>57,156,067</u>	<u>(537,301)</u>	<u>837,119,835</u>
Accumulated depreciation:				
Sewerage treatment plant and other facilities	(183,498,668)	(6,910,115)	856,942	(189,551,841)
Sewer lines	(25,604,086)	(6,098,366)	—	(31,702,452)
Equipment	(20,049,829)	(2,554,643)	468,963	(22,135,509)
Total accumulated depreciation	<u>(229,152,583)</u>	<u>(15,563,124)</u>	<u>1,325,905</u>	<u>(243,389,802)</u>
Total depreciable assets, net	<u>551,348,486</u>	<u>41,592,943</u>	<u>788,604</u>	<u>593,730,033</u>
Nondepreciable assets:				
Land	8,472,122	305,586	—	8,777,708
Construction in process	75,782,369	28,670,077	(9,912,281)	94,540,165
Total nondepreciable assets	<u>84,254,491</u>	<u>28,975,663</u>	<u>(9,912,281)</u>	<u>103,317,873</u>
Total capital assets, net	<u>\$ 635,602,977</u>	<u>70,568,606</u>	<u>(9,123,677)</u>	<u>697,047,906</u>

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

Capital asset activity for the year ended April 30, 2007 is as follows:

	<u>May 1, 2006</u>	<u>Additions</u>	<u>Retirements/ adjustments</u>	<u>April 30, 2007</u>
<b>Depreciable assets:</b>				
Sewerage treatment plant and other facilities	\$ 273,982,189	2,015,707	—	275,997,896
Sewer lines	434,974,058	23,573,841	—	458,547,899
Equipment	44,187,978	3,174,923	(1,407,627)	45,955,274
Total depreciable assets	<u>753,144,225</u>	<u>28,764,471</u>	<u>(1,407,627)</u>	<u>780,501,069</u>
<b>Accumulated depreciation:</b>				
Sewerage treatment plant and other facilities	(176,954,546)	(6,725,530)	181,408	(183,498,668)
Sewer lines	(20,028,350)	(5,582,458)	6,722	(25,604,086)
Equipment	(19,565,619)	(2,019,825)	1,535,615	(20,049,829)
Total accumulated depreciation	<u>(216,548,515)</u>	<u>(14,327,813)</u>	<u>1,723,745</u>	<u>(229,152,583)</u>
Total depreciable assets, net	<u>536,595,710</u>	<u>14,436,658</u>	<u>316,118</u>	<u>551,348,486</u>
<b>Nondepreciable assets:</b>				
Land	8,348,119	124,003	—	8,472,122
Construction in process	57,735,472	33,671,365	(15,624,468)	75,782,369
Total nondepreciable assets	<u>66,083,591</u>	<u>33,795,368</u>	<u>(15,624,468)</u>	<u>84,254,491</u>
Total capital assets, net	<u>\$ 602,679,301</u>	<u>48,232,026</u>	<u>(15,308,350)</u>	<u>635,602,977</u>

**CITY OF KANSAS CITY, MISSOURI  
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Notes to Financial Statements

April 30, 2008 and 2007

**(5) Revenue Bonds, Notes Payable, and Restricted Assets**

Revenue bonds and notes payable outstanding consist of the following at April 30, 2008 and 2007:

Issue	Interest rates	Maturing through	2008	2007
State Series 1992B	6.10% – 6.55%	July 2013	\$ 555,000	630,000
State Series 1995B	5.25% – 7.75%	January 2015	9,570,000	10,795,000
State Series 1996A	4.80% – 7.00%	January 2016	12,845,000	14,055,000
State Series 1997A	4.875% – 5.750%	January 2017	11,210,000	12,330,000
State Series 1998A	4.10% – 5.25%	January 2019	6,070,000	6,480,000
State Series 1999A	3.80% – 5.25%	January 2020	4,140,000	4,390,000
State Series 2000A	4.60% – 5.75%	July 2020	9,000,000	9,600,000
State Series 2000B	4.400% – 5.625%	July 2020	8,110,000	8,650,000
Stormwater 2000	1.70%	December 2020	875,900	935,700
Series 2001A	3.75% – 4.25%	March 2012	2,655,000	3,255,000
Stormwater 2001	2.90%	December 2021	4,284,000	4,556,000
State Series 2001C	3.00% – 5.38%	July 2022	13,405,000	14,145,000
Series 2002D-1	4.000% – 5.375%	January 2022	8,550,000	8,750,000
Series 2002D-2	4.00% – 6.00%	January 2012	1,095,000	1,360,000
State Series 2002J	2.00% – 5.50%	July 2022	7,970,000	8,420,000
Series 2004A	2.00% – 4.88%	January 2024	16,805,000	17,585,000
Series 2004C	3.00% – 5.25%	January 2025	9,145,000	9,600,000
Series 2005B	3.00% – 5.00%	January 2025	13,905,000	14,465,000
Sewer Energy Loan	4.60%	October 2007	—	11,124
Stormwater 2007	1.40%	June 2027	517,300	—
Series 2007A	4.00% – 5.00%	January 2032	40,000,000	40,000,000
			<u>180,707,200</u>	<u>190,012,824</u>
Add premiums			2,829,120	3,007,292
Less:				
Current portion			(11,166,700)	(9,822,924)
Discount			(20,418)	(373,254)
Deferred loss on refunding			(354,284)	(25,745)
Long-term revenue bonds and notes payable			<u>\$ 171,994,918</u>	<u>182,798,193</u>

Changes in revenue bonds payable and notes payable during the year ended April 30, 2008 are as follows:

	May 1, 2007	Additions	Retirements	April 30, 2008
Revenue bonds and notes payable	\$ 190,012,824	517,300	(9,822,924)	180,707,200
Less current portion	<u>(9,822,924)</u>			<u>(11,166,700)</u>
Total	<u>\$ 180,189,900</u>			<u>169,540,500</u>

**CITY OF KANSAS CITY, MISSOURI  
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Notes to Financial Statements

April 30, 2008 and 2007

Changes in revenue bonds payable and notes payable during the year ended April 30, 2007 are as follows:

	<u>May 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	<u>April 30, 2007</u>
Revenue bonds and notes payable	\$ 159,584,613	40,000,000	(9,571,789)	190,012,824
Less current portion	<u>(9,571,789)</u>			<u>(9,822,924)</u>
Total	<u>\$ 150,012,824</u>			<u>180,189,900</u>

The annual requirements to retire the bonds outstanding as of April 30, 2008 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending April 30:			
2009	\$ 11,166,700	8,561,587	19,728,287
2010	11,520,900	8,042,702	19,563,602
2011	11,890,900	7,510,204	19,401,104
2012	12,313,000	6,941,809	19,254,809
2013	11,988,100	6,804,758	18,792,858
2014 – 2018	55,907,400	23,159,485	79,066,885
2019 – 2023	41,044,800	9,971,232	51,016,032
2024 – 2028	15,075,400	3,824,664	18,900,064
2029 – 2032	<u>9,800,000</u>	<u>1,098,363</u>	<u>10,898,363</u>
	<u>\$ 180,707,200</u>	<u>75,914,804</u>	<u>256,622,004</u>

In September 2007, the City received a Stormwater Loan 2007 from the State of Missouri of \$517,300 for the purpose of improvements to the stormwater system. The interest rate is 1.4% with annual maturities ranging from \$23,000 to \$29,000 during fiscal years 2009 to 2028.

On April 26, 2007, the City issued \$40,000,000 (Series 2007A) City of Kansas City, Missouri Sewer Revenue Bonds. The bond proceeds will be used to provide funds for the purpose of extending and improving the City's sanitary sewer system. The interest rates on Series 2007A range from 4.0% to 5.0% and mature annually in amounts ranging from \$1,000,000 to \$1,760,000 during fiscal years 2009 through 2023. Term bonds due in 2026, 2029, and 2032 range from \$5,770,000 to \$7,510,000.

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

All funds raised through the issuance of sewer revenue bonds are restricted for the purpose of extending or improving the sewerage system. All debt service requirements of these bonds are payable solely from revenues generated by the Sewer Fund. The revenue bond ordinances require the Sewer Fund to maintain adequate insurance coverage and employ an independent consulting engineer to evaluate the physical condition and operation of the sewerage system on a periodic basis. In addition, the ordinance establishes the priority for the allocation of revenue generated by the sewerage system. After meeting normal operating and maintenance expenses, all remaining moneys are to be allocated to the following accounts in the order listed below:

<u>Account</u>	<u>Restriction</u>
Principal and interest	For the monthly accumulation of moneys to meet the maturing revenue bond principal and interest requirements. Each month, the Sewer Fund is to set aside 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment.
Depreciation and replacement	For the monthly accumulation of moneys, up to a maximum of \$63,250, to pay for the operating and maintenance expenses and replacements necessary to keep the system operating efficiently.
Construction	For recording bond proceeds to be used to finance construction.

The bond ordinance of the 1992 Series revenue bonds requires that the Sewer Fund establish an additional reserve account for the retirement of the bonds in an amount equal to \$3,507,157. However, in lieu of setting aside cash, the ordinance allows the Sewer Fund to obtain insurance policies. The Sewer Fund has chosen to obtain insurance policies.

Restricted accounts and special reserves are reported on the accompanying statements of net assets as restricted assets as follows:

<u>Account</u>	<u>Restricted assets</u>	
	<u>2008</u>	<u>2007</u>
Principal and interest	\$ 7,704,985	6,803,282
Depreciation and replacement	63,250	63,250
Construction	21,727,103	37,451,538
	<u>\$ 29,495,338</u>	<u>44,318,070</u>

**(6) Pledged Revenues**

The City has pledged revenues of the Sewer Fund, net of specified operating expenses, to repay sewer system revenue bonds and loans. The bonds were issued to provide improvements to the sewer system and facilities. The loans were issued to fund stormwater basin studies and improvements. The various issues and maturity dates are listed in Footnote 5.

**CITY OF KANSAS CITY, MISSOURI  
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Notes to Financial Statements

April 30, 2008 and 2007

The sewer bonds through and including 1998A are senior bonds that have claim to both sewer and stormwater revenue. Those bonds will be paid off in 2019. Total principal and interest on those bonds is \$51,431,103 which is expected to require 16 percent of net sewer and stormwater revenues. The remaining sewer bonds are subordinate bonds that have claim to only sewer revenues. Total principal and interest on those bonds is \$198,800,615 and is expected to require 34 percent of net sewer revenues. The stormwater loans are payable from stormwater revenues. Total principal and interest on those loans is \$6,390,286 and is expected to require 6 percent of net stormwater revenues. Principal and interest paid for the year ended April 30, 2008 and total net revenues were \$14,986,198 and \$30,023,913, respectively.

**(7) Due to/from Other Funds**

Amounts due to/from other funds at April 30, 2008 and 2007 were as follows:

	2008		2007	
	Due from	Due to	Due from	Due to
Water fund	\$ 49,214	829,231	59,122	66,999
General fund	342,035	210,130	537,760	210,130
	\$ 391,249	1,039,361	596,882	277,129

Amounts due from and due to the Water fund represent reimbursement of operating costs between the two funds. Amounts due from and due to the General fund represent reimbursement of operating costs between the funds.

**(8) Administrative Service Fees**

Payments to the general fund of the City for certain administrative, data processing, and accounting services for the years ended April 30, 2008 and 2007 are presented as administrative and general expenses and are as follows:

	2008	2007
Administrative, data processing, and accounting	\$ 4,346,237	4,754,443

Payments to the City of Kansas City, Missouri Water Fund for billing, collecting, and accounting services were \$2,494,871 and \$1,658,350 for the years ended April 30, 2008 and 2007, respectively.

**(9) Employee Retirement Plan**

The City sponsors a contributory, single-employer, defined benefit pension plan, The Employees' Retirement System (the Plan), covering substantially all employees of the Sewer Fund. Contributions to the Plan are made by the City and covered employees. The contributions are calculated to fund normal cost and amortization of unfunded prior service costs. The City receives an annual actuarial report on the actuarial accrued liability and net assets available for benefits.

**CITY OF KANSAS CITY, MISSOURI  
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Notes to Financial Statements

April 30, 2008 and 2007

At May 1, 2008, the actuarial accrued liability of the Plan was approximately \$934,334,000, and the net assets available for benefits of the Plan was approximately \$873,680,000; however, a determination is not made for individual funds. Although determinations of the actuarial status are not made for individual funds, the City has allocated its overall net pension obligation of approximately \$7,322,000 to each participating fund. The Sewer Fund's allocation was approximately \$809,000. Contributions to the Plan made by the Sewer Fund during the year ended April 30, 2008, were approximately \$1,883,000.

At May 1, 2007, the actuarial accrued liability of the Plan was approximately \$847,393,000, and the net assets available for benefits of the Plan were approximately \$914,460,000; however, a determination is not made for individual funds. Although determinations of the actuarial status are not made for individual funds, the City has allocated its overall net pension obligation of approximately \$13,000,000 to each participating fund. The Sewer Fund's allocation was approximately \$1,291,000. Contributions to the Plan made by the Sewer Fund during the year ended April 30, 2007, were approximately \$1,697,000.

A stand-alone financial report is issued for the Plan. The report may be obtained from the City's Retirement Division.

**(10) Other Postemployment Benefits**

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* (GASB 45), other postemployment benefits (OPEB's) are recorded in the financial statements as noncurrent accrued payroll on the statement of net assets and are included as an operating expense in salaries and wages and employee benefits on the statement of revenues, expenses, and changes in net assets.

The City sponsors a single-employer, defined benefit healthcare plan that provides healthcare benefits to retirees' and their dependents, including medical, dental, and vision coverage. The City requires the retirees to pay 100% of the same medical premium charged to active participants. The rates being paid by retirees for benefits are typically lower than those for individual health insurance policies. The difference between these amounts is the implicit rate subsidy, which is considered OPEB under GASB 45.

Retirees and spouses have the same benefits as active employees. Retiree coverage terminates either when the retiree becomes covered under another employer health plan, or when the retiree reaches Medicare eligibility age, which is currently age 65. Spousal coverage is available until the retiree becomes covered under another employer health plan, attains Medicare eligibility age, or dies.

As of April 30, 2006, the most recent (initial) actuarial valuation date, the OPEB plan was 0.0% funded. The actuarial accrued liability for benefits was \$150.4 million, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$150.4 million.

Although determinations of the actuarial status were not made for individual funds, the City has allocated its overall net OPEB obligation of approximately \$13,916,000 to each participating fund. The Sewer Fund's allocation was approximately \$845,000.

**CITY OF KANSAS CITY, MISSOURI  
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Notes to Financial Statements

April 30, 2008 and 2007

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented in the City's comprehensive annual financial report as required supplementary information following the notes to the financial statements and presents multi-year trend information over time relative to the actuarial accrued liabilities for benefits.

**(11) Commitments**

At April 30, 2008, the City had made purchase commitments, primarily for additions to plant, on behalf of the Sewer Fund of approximately \$12.6 million. These commitments will be funded by a combination of existing resources and future debt issuances.

**(12) Risk Management**

The Sewer Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is entitled to the defense of sovereign immunity against tort action that provides immunity except in two areas, motor vehicles and condition of City property; however, plaintiffs are limited to a maximum of \$250,000 per person and \$1,000,000 per occurrence in these two areas. The City has retained the risk for these amounts and the deductibles on commercial insurance for other risks of loss. Settled claims have not exceeded commercial insurance coverage for the past three years. The claims liability for the Sewer Fund, which includes an estimate of claims incurred but not reported (IBNR), totaled \$3,384,930 and \$2,979,053 for the fiscal years ended April 30, 2008 and 2007, respectively. The IBNR liability was determined based upon historical claims experience.

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Notes to Financial Statements

April 30, 2008 and 2007

**(13) Net Assets**

Invested in capital assets, net of related debt is comprised of the following:

	April 30	
	2008	2007
Capital assets:		
Land	\$ 8,777,708	8,472,122
Construction in progress	94,540,165	75,782,369
Sewerage treatment plant and other facilities	277,450,438	275,997,896
Sewer lines	512,074,672	458,547,899
Equipment	47,594,725	45,955,274
	940,437,708	864,755,560
Less accumulated depreciation	(243,389,802)	(229,152,583)
Capital assets, net	697,047,906	635,602,977
Bond issuance cost, net	2,549,677	2,780,281
Total capital assets	699,597,583	638,383,258
Less related liabilities:		
Current portion, bonds payable	11,166,700	9,822,924
Bonds payable, net of premium, discount, and unspent proceeds	151,140,099	146,023,743
Total liabilities	162,306,799	155,846,667
Invested in capital assets, net of related debt	\$ 537,290,784	482,536,591

Restricted net assets at April 30, 2008 and 2007 are as follows:

	2008		2007	
	2008	2007	2008	2007
Restricted assets:				
Cash and cash equivalents and investments, restricted	\$ 29,282,245	44,082,377		
Interest receivable, restricted	213,093	235,693		
	29,495,338	44,318,070		
Less liabilities from restricted assets:				
Contracts and retainages payable	872,284	677,088		
Debt related to unspent bond proceeds	20,854,819	36,774,450		
Accrued interest and fiscal agent fees	2,860,447	2,402,412		
	24,587,550	39,853,950		
Restricted net assets	\$ 4,907,788	4,464,120		

**CITY OF KANSAS CITY, MISSOURI  
SEWER FUND**

Combining Statement of Revenues, Expenses, and Changes in Net Assets

Year ended April 30, 2008

	<u>Wastewater</u>	<u>Stormwater</u>	<u>Total</u>
<b>Operating revenues:</b>			
Retail sewer charges	\$ 46,125,920	—	46,125,920
Intermunicipal sewer charges	18,722,855	—	18,722,855
Stormwater fees	—	11,210,134	11,210,134
Other operating revenue	3,613,321	256,910	3,870,231
Total operating revenues	<u>68,462,096</u>	<u>11,467,044</u>	<u>79,929,140</u>
<b>Operating expenses:</b>			
Sewerage treatment and pumping	17,931,832	66,330	17,998,162
Sewer maintenance	13,419,209	3,647,038	17,066,247
Administrative and general	13,193,053	3,094,745	16,287,798
Industrial and household hazardous waste control	2,021,275	—	2,021,275
Depreciation and amortization	14,072,644	1,664,330	15,736,974
Total operating expenses	<u>60,638,013</u>	<u>8,472,443</u>	<u>69,110,456</u>
Operating income	<u>7,824,083</u>	<u>2,994,601</u>	<u>10,818,684</u>
<b>Nonoperating revenues (expenses):</b>			
Interest income	2,779,229	689,026	3,468,255
Interest expense and fiscal agent fees	(4,847,657)	(137,115)	(4,984,772)
Loss on disposal of capital assets	(18,389)	(4,361)	(22,750)
Total nonoperating revenues (expenses), net	<u>(2,086,817)</u>	<u>547,550</u>	<u>(1,539,267)</u>
Net income before capital contributions	5,737,266	3,542,151	9,279,417
<b>Capital contributions</b>	<u>10,749,379</u>	<u>36,820,611</u>	<u>47,569,990</u>
Change in net assets	<u>\$ 16,486,645</u>	<u>40,362,762</u>	<u>56,849,407</u>

See accompanying independent auditors' report.

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**INFORMATION CONCERNING THE CITY OF KANSAS CITY, MISSOURI**

# INFORMATION CONCERNING THE CITY OF KANSAS CITY, MISSOURI

## GENERAL INFORMATION

### Location, Size and Demographics

Kansas City, Missouri (the "City") is the largest City in Missouri and is the central city of a fifteen county Metropolitan Statistical Area (MSA) which includes Bates, Caldwell, Cass, Clay, Clinton, Lafayette, Ray, Jackson and Platte counties in the State of Missouri and Johnson, Franklin, Linn, Wyandotte, Miami and Leavenworth counties in the State of Kansas. The City is located in parts of Jackson, Clay, Platte and Cass counties on the western border of the State of Missouri, and is situated at the confluence of the Kansas and Missouri rivers on Interstate Highways I-29, I-35 and I-70.

Historically, the City has pursued a policy of annexation, and is today the 13th largest city in land area in the United States with a total area of approximately 319 square miles.

According to the Department of City Planning and Development of Kansas City, Missouri, estimate, year 2008 population of the City and the Kansas City MSA are estimated at 480,534 and 2,006,565, respectively. There is excellent quality and reasonably priced housing available in Kansas City. The cost of an existing home in Kansas City is approximately twenty-six percent (26%) below the average for comparable homes in the United States as of second quarter in 2008.

### Municipal Government and Services

The City was incorporated on June 3, 1850. The City is a constitutional home rule city and adopted its present Charter by popular vote on August 8, 2006, pursuant to Article VI, Section 19 of the Missouri Constitution.

The City has a Council-Manager form of government. There are 13 members of the Council, including the Mayor. All are elected for four-year terms, with the Mayor and six Council members elected at large and the other six Council members elected by the residents of their districts. The City Manager is appointed by the Council. The Council determines City policy and oversees City affairs. All resolutions and most ordinances can be passed by the affirmative vote of seven Council members. However, emergency measures for the immediate preservation of the public peace, property, health, safety or morals and ordinances to expel a council member, to amend the zoning law when under protest, or to borrow money require nine affirmative votes.

As of September 9, 2008, the City has approximately 6,938 employees including the Police Department. The police are not unionized. Certain Fire personnel are union-eligible; however, not all Fire Department employees are represented by a bargaining unit. Along, with the Fire Chief, and his Principal Assistant, the Fire Department has administrative, clerical, and Deputy Chiefs that are not represented by any bargaining unit. The fire personnel are represented by the Local 42 IAFF (approximately 943) and the 3808 IAFF Union (approximately 23 members). Approximately 1,787 City employees, in labor classifications, are represented by the AFSCME Local 500. The Local 500 Memorandum of Understanding (MOU) expired on April 30, 2005, with the exception of provisions related to Variable Pay Plan, which expires on April 30, 2008. The new MOU has been ratified, submitted to Council and was implemented September 14, 2008.

The City's tax structure is diverse compared to most large cities, and includes the Earnings and Profits Tax, Sales and Use Tax, Convention and Tourism Tax, General Property Tax, Gaming Tax, Motor Fuel Tax, Utility Tax which includes Telephone, Natural Gas, Steam, Cable Television and Electric taxes, Cigarette and Occupational License Tax.

The City provides all basic municipal services, including fire protection, water and sewage treatment, street construction and maintenance, traffic regulation and control, refuse collection, street lighting, public health protection, planning and maintenance of City parks and boulevards, tree planting, municipal golf courses, public swimming pools and tennis courts, a municipal correctional institution, emergency aid to needy persons, management of two municipal airports, administration of zoning and subdivision regulations, and operation of the City's convention facilities. The Police Department, although financed primarily by General Funds of the City, is a separate governmental entity. School districts which serve Kansas City are also separate governmental entities. Truman Medical Center and the Metropolitan Ambulance Services Trust are run by separate boards, but receive substantial funds from the City.

### SELECTED DEMOGRAPHIC STATISTICS

Kansas City, Missouri			Metropolitan Statistical Area		
Year	Population <sup>(1)</sup>	Per Capita Personal Income	Year	Population (1)	Per Capita Personal Income
1999	437,764	20,372	1999	1,815,318	22,962
2000	441,851	20,295	2000	1,842,912	22,506
2001	442,713	21,587	2001	1,864,148	24,574
2002	443,416	22,755	2002	1,887,074	24,560
2003	443,070	20,026	2003	1,904,209	24,907
2004	443,268	22,405	2004	1,922,640	24,914
2005	443,702	24,567	2005	1,940,120	26,251
2006	446,808	24,180	2006	1,961,684	26,848
2007	475,830 <sup>(2)</sup>	24,299	2007	1,985,429	27,650
2008	480,534	25,716	2008	2,006,565	Not Available

- (1) The Federal Office of Management and Budget changed Kansas City, Missouri's Metropolitan Statistical Area (MSA) from eleven (11) to fifteen (15) counties in 2003. All fifteen (15) counties are included in the MSA population numbers. Population estimates from 1999 to 2007 were obtained from the U.S. Census Bureau. Calendar Year 2008 population number was estimated by the City Planning and Development Department of Kansas City, Missouri.
- (2) In February 2009, due to a successful City appeal to the U.S. Census Bureau, the 2007 official population of Kansas City, MO was changed from 450,375 to 475,830.

Sources: Census Bureau; City Planning and Development Department, Mid-America Regional Council, Census Bureau's Annual America Community Survey, and Claritas.

## COMPARISON of METROPOLITAN AREAS

	<b>ACCRA Cost of Living Index 2008 1<sup>st</sup> Quarter (1)</b>	<b>Median Price, Existing Homes 2008 2nd Quarter (2)</b>	<b>Per Capita Retail Sales (2007) (3)</b>
Kansas City	96.1	\$152,800	\$15,818
U.S.	100.0	206,500	15,961
Atlanta	97.6	158,300	16,285
Charlotte	94.7	201,300	17,520
Chicago	111.5	257,600	15,655
Columbus	98.6	145,700	15,747
Dallas	91.9	151,000	15,652
Denver	105.1	225,200	17,650
Los Angeles	150.3	417,800	15,323
Memphis	89.0	131,600	15,506
Minneapolis	109.3	210,800	17,697
New York	218.8	453,400	15,052
Phoenix	101.6	205,100	18,684
Saint Louis	90.0	148,600	16,075
Salt Lake City	98.7	234,200	19,148
San Francisco	173.6	684,900	15,823

Sources:

All information in the above table was obtained from the Kansas City Area Development Council (KCADC). For comparability to other City MSA's, Kansas City information is based on fifteen (15) county areas for the "Per Capita Retail Sales" and "Home Price Index." Reference is further made by KCADC to the following sources:

- (1) The Council for Community and Economic Research, ACCRA Cost of Living Index.
- (2) National Association of Realtors.
- (3) Claritas / Market Statistics.

### ***THE KANSAS CITY ECONOMY***

The City is a regional center for transportation, telecommunications, manufacturing, health care, trade, financial services, and government. Major companies headquartered in metropolitan Kansas City, Missouri include Sprint Nextel Corporation, HCA-Midwest Health Systems and DST Systems, Inc. Other major employers include the Public School Systems, State/County/City Government, Federal Government, Hallmark Cards, McDonald's USA LLC, St. Luke's Health System, Cerner Corporation and Ford Motor Company.

The City's economy provides for a consistent and well distributed earnings and employment environment for its business sectors.

The City's proximity and ready access to geographical and population centers throughout the nation make the area an attractive location for industrial product distribution and trade. The City's central location is advantageous for commuting to all parts of the United States and has enhanced its development and posture as a major transportation center with a complete range of transportation facilities, including a major highway network, eleven railroad trunk lines, and the Kansas City International Airport (KCI). KCI handled 11.3 million passengers in fiscal year 2008. As of September 2008, there are 25 airlines, 12 mainline and 13 regional/commuter serving 48 cities with nonstop service. Flight times from KCI are about three hours to either coastline.

## MAJOR KANSAS CITY METROPOLITAN STATISTICAL AREA EMPLOYERS

### *Kansas City Metropolitan Area Principal Employers*

<b>Employer</b>	<b>Type of Business</b>	<b>Number of Employees *</b>
Federal Government	Government	38,906
Public School System (1)	Education	31,857
State/County/City Government (2)	Government	25,606
Sprint Nextel Corp.	Wireless Telecommunication	13,200
HCA Midwest Health System	Health Care Provider	7,000
McDonald's USA LLC	Quick-Service Restaurant	6,400
Saint Luke's Health System	Health Care Provider	5,454
Cerner Corp.	Health Care Information Technology	4,700
DST Systems, Inc.	Information Processing and Computer Software Services	4,500
Ford Motor Co. Kansas City Assembly Plant	Car and Truck Manufacturing	4,400
Hallmark Cards, Inc.	Greeting Cards, Expression Products Television Programming	4,200
Children's Mercy Hospitals & Clinics	Pediatric Specialty Health Care	4,108
AT&T	Telecommunications	4,013
Embarq Corp	Telecommunications	3,809
Black & Veatch	Global Engineering Consulting and Construction Company	3,800

- (1) The number of local employees for the public school system is made up of twelve (12) public school systems and school districts.
- (2) The number of local employees for the State/County/City Government is made up of seven (7) employers.

Source: Top Public-Sector Employers, Kansas City Business Journal, April 18, 2008 and Top 100 Area Private-Sector Employers, Kansas City Business Journal, April 25, 2008.

\* Note: The City does not undertake continuously to update this table at regular intervals. The information presented in this table speaks only as of the date indicated in the source. Layoffs or developments after this date are not presented, and they may render some information in the table to be inaccurate. In general, employment has sharply declined in recent months as reported by the Bureau of Labor Statistics of the U.S. Department of Labor. In December, 2008 to March, 2009, job losses were widespread across most major industry sectors.

## Employment Information

The following table shows the annual average non-agricultural employment for the metropolitan area for 2003 to 2007 using the North American Industry Classification System (NAICS).

### ANNUAL AVERAGE NON-AGRICULTURAL EMPLOYMENT METROPOLITAN AREA

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Manufacturing	82,600	83,700	82,900	83,300	82,500
Trade, Transport & Utilities	201,600	202,200	203,600	205,000	207,800
Information	47,800	45,300	42,600	42,000	42,200
Finance	70,900	70,900	71,100	73,100	74,900
Professional & Business Services	122,600	127,700	137,700	141,600	148,100
Educational & Health Services	107,700	108,900	111,700	114,500	118,600
Leisure & Hospitality	90,700	92,300	93,000	94,600	95,500
Government	142,500	143,900	144,300	145,800	150,400
Natural Resources & Construction	50,900	50,800	52,900	54,400	53,400
Other Services	41,400	40,400	40,200	39,900	41,200
<b>Total, Non-farm</b>	<b>958,700</b>	<b>966,100</b>	<b>980,000</b>	<b>994,200</b>	<b>1,014,600</b>

Source: Missouri Department of Economic Development, Missouri Economic Research & Information Center in Cooperation with U.S. Department of Labor, Bureau of Labor Statistics. These figures were based upon the North American Industry Classification System (NAICS).

The following table depicts average annual unemployment rates for the last ten years:

### AVERAGE ANNUAL UNEMPLOYMENT RATES

<b>Year</b>	<b>Kansas City</b>	<b>MSA</b>	<b>United States</b>
1999	3.6	3.1	4.2
2000	3.8	3.3	4.0
2001	5.3	4.4	4.7
2002	6.6	5.5	5.8
2003	7.2	6.0	6.0
2004	7.7	6.1	5.5
2005	7.1	5.6	5.1
2006	6.3	5.0	4.6
2007	6.4	5.0	4.6
2008	7.6 <sup>(1)</sup>	5.7 <sup>(1)</sup>	5.8

(1) Average of unemployment rate from January to November 2008.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

The following table shows the valuation of building construction for the last ten fiscal years:

**BUILDING CONSTRUCTION VALUATION**  
*(Amounts Expressed in Thousands)*

<b>Fiscal Year</b>	<b>Commercial Valuation</b>	<b>Residential Valuation</b>	<b>Total</b>
1999	586,945	235,386	822,331
2000	643,246	232,500	875,746
2001	482,427	244,223	726,650
2002	685,120	306,693	991,813
2003	426,447	397,062	823,509
2004	372,238	394,758	766,996
2005	600,068	471,313	1,071,381
2006	1,095,063	417,816	1,512,879
2007	749,898	345,252	1,095,150
2008	482,072	204,173	686,245

Sources: Division of Development Services, Department of City Planning and Development, City of Kansas City, Missouri.

The following table shows the locally assessed value of both real and personal taxable property for the last ten fiscal years:

**City of Kansas City, Missouri**  
**Assessed Value and Actual Value of Taxable Property**  
**Last Ten Fiscal Years**  
*(Amounts Expressed in Thousands)*

<b>Fiscal Year</b>	<b>Real Property</b>	<b>Personal Property</b>	<b>Total Taxable Assessed Value</b>
1999	3,297,036	1,487,171	4,784,207
2000	3,538,437	1,515,046	5,053,483
2001	3,589,296	1,596,472	5,185,768
2002	3,899,050	1,596,366	5,495,416
2003	3,850,565	1,526,968	5,377,533
2004	4,242,606	1,425,531	5,668,137
2005	4,488,998	1,428,914	5,917,912
2006	5,021,849	1,432,570	6,454,419
2007	5,185,697	1,438,517	6,624,214
2008	5,512,212	1,771,702	7,283,914

Sources: Original data obtained from aggregate assessed valuation reports provided by each county clerk and on file with the State of Missouri and the Statistical Data Section of the City of Kansas City, Missouri Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2008.

Principal taxpayers for fiscal year 2008 are shown in the following table:

**CITY OF KANSAS CITY, MISSOURI  
TOP TEN TAXPAYERS**

<b>Taxpayer</b>	<b>Type of Business</b>	<b>Assessed Value</b>	<b>Percent of Valuation (1)</b>
Kansas City Power & Light	Electrical Utility	139,502,548	1.92%
Zona Rosa Development LLC	Real Estate	99,854,270	1.37%
Hallmark / Crown Center	Greeting Card, Retail Sales	75,174,534	1.03%
AT&T	Telecommunications	55,903,698	0.77%
Ameristar Casino Kansas City	Gaming	50,703,587	0.70%
Citicorp Credit Services	Financial Services	33,087,556	0.45%
Liberty Mutual Insurance Company	Insurance Services	32,788,800	0.45%
Kansas City Star	News Media	32,779,478	0.45%
JC Nichols & Highwoods Realty Limited	Real Estate	30,256,275	0.42%
DST Systems	Computer Software Services	25,555,330	0.35%
		<b>\$575,606,076</b>	<b>7.90%</b>

(1) The total assessed valuation for fiscal year 2008 is \$7,283,914,645.

Source: Division of Accounts and Treasury Division, Finance Department, City of Kansas City, Missouri.

**FORM OF CONTINUING DISCLOSURE UNDERTAKING**

## CONTINUING DISCLOSURE UNDERTAKING

### CITY OF KANSAS CITY, MISSOURI \$69,480,000 SANITARY SEWER SYSTEM REVENUE BONDS SERIES 2009A

This Continuing Disclosure Undertaking (the “Disclosure Undertaking”) is executed and delivered by the City of Kansas City, Missouri (the “City”), in connection with the issuance of \$69,480,000 principal amount of Sanitary Sewer System Revenue Bonds, Series 2009A (the “Bonds”). The Bonds are being issued pursuant to Ordinance No. 090087 (the “Ordinance”).

In order to permit the Underwriters to comply with the provisions of Rule 15c2-12 of the Securities Exchange Commission, as amended, in connection with the public offering of the Bonds, the City, in consideration of the mutual covenants herein contained and other good and lawful consideration, hereby covenants and agrees, for the sole and exclusive benefit of holders and Beneficial Owners of the Bonds, as follows:

**Section 1. Definitions.** Capitalized terms used but not defined herein as follows shall have the meaning ascribed to them in the Ordinance.

“Annual Information” shall mean the information specified in Section 3 hereof.

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

“Bonds” shall mean the Sanitary Sewer System Revenue Bonds, Series 2009A of the City.

“City” shall mean the City of Kansas City, Missouri, a municipality of the State of Missouri constituting a political subdivision, and any successor thereto.

“Central Post Office” means Disclosure USA, any successor thereto, or any other conduit entity recognized, authorized or approved by the Securities and Exchange Commission for the submission of Annual Information and material event notices to the nationally recognized municipal securities information repositories.

“EMMA” shall mean the Electronic Municipal Market Access system for municipal securities disclosures, accessible at [www.emma.msrb.org](http://www.emma.msrb.org).

“Fiscal Year” or “fiscal year” shall mean, with respect to the City, the fiscal year then in effect for the City at the time information is being provided hereunder.

“GAAP” shall mean generally accepted accounting principles as prescribed from time to time for governmental units by the Governmental Accounting Standards Board.

“GAAS” shall mean generally accepted auditing standards as in effect from time to time in the United States.

“MSRB” shall mean the Municipal Securities Rulemaking Board established in accordance with the provisions of Section 15B(b)(1) of the Securities Exchange Act of 1934, as amended.

“Obligated Person” shall mean the person (including an issuer of separate securities) that is committed by contract or other arrangements structured to support payment of all or part of the obligations under the municipal securities.

“Official Statement” shall mean the Official Statement relating to the Bonds dated March 26, 2009.

“Ordinance” shall mean the ordinance of the City authorizing the Bonds, as originally executed or as it may be supplemented or amended from time to time.

“Repository” shall mean, until June 30, 2009, each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12, and on and after July 1, 2009, the MSRB via EMMA or such other repository then authorized by the Securities and Exchange Commission to receive disclosure submissions under Rule 15c2-12.

“Rule 15c2-12” shall mean Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended and as in effect on the date of this Disclosure Undertaking, including any official interpretations thereof issued either before or after the effective date of this Disclosure Undertaking which are applicable to this Disclosure Undertaking.

“Underwriters” shall mean George K. Baum & Company and Morgan Stanley, as representatives of the underwriters.

## **Section 2. Obligations to Provide Continuing Disclosure.**

### **(i) Obligations of the City.**

(a) The City hereby undertakes, for the benefit of the holders and Beneficial Owners of the Bonds, to provide, no later than 270 days after the end of each of its fiscal years, commencing with the fiscal year ending April 30, 2009, to each Repository, the Annual Information relating to such fiscal year.

(b) The City hereby undertakes, for the benefit of the holders and Beneficial Owners of the Bonds, to provide, no later than 270 days after the end of each of its fiscal years, commencing with the fiscal year ending April 30, 2009, audited financial statements to each Repository, provided, however, that if audited financial statements are not then available, unaudited financial statements shall be provided no later than 270 days after the end of each of its fiscal years and the audited financial statements shall be delivered to each Repository if and when they become available.

(c) The City hereby undertakes, for the benefit of the holders and Beneficial Owners of the Bonds, to provide to each Repository, in a timely manner, notice of any of the following eleven events with respect to the Bonds, if material:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;

- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to the rights of holders of the Bonds;
- (8) Bond calls;
- (9) Defeasance;
- (10) Release, substitution, or sale of property securing repayment of the securities;  
and
- (11) Rating changes.

(d) The City shall also provide to the Repository, as promptly as practicable, notice of any failure of the City to provide the Repository, the Annual Information required by paragraphs (a) and (b) of this Section 2(i) on or before the date specified.

(ii) Termination or Modification of Disclosure Obligation. The obligations of the City hereunder may be terminated if the City is no longer an “obligated person” with respect to the Bonds within the meaning of Rule 15c2-12, as amended from time to time. Upon any such termination, the City shall provide written notice thereof to each Repository.

(iii) Other Information. Nothing herein shall be deemed to prevent the City from disseminating any other information in addition to that required hereby in the manner set forth herein or in any other manner. If the City should disseminate any such additional information, the City shall have no obligation hereunder to update such information or include it in any future materials disseminated hereunder.

### **Section 3. Annual Information.**

(i) Specified Information. The Annual Information shall consist of (a) the financial data of the type included in Appendix B to the Official Statement under the heading “FINANCIAL STATEMENTS FOR THE SEWER FUND” and (b) the data of the type included in the Official Statement under the heading “THE SANITARY SEWER SYSTEM”.

(ii) Incorporation by Reference. All or any portion of the Annual Information of the City may be provided in the Annual Information by specific incorporation by reference to any other documents which have been filed with the Repository and the Securities and Exchange Commission.

(iii) Informational Categories. The requirements contained in this Disclosure Undertaking under Section 3(i) are intended to set forth a general description of the type of financial information and operating data to be provided by the City and such descriptions are not intended to state more than general categories of financial information and operating data; and where the provisions of Section 3(i) call for information that no longer can be generated or relates to operations that have been materially changed or discontinued, a statement to that effect shall be provided.

#### **Section 4. Financial Statements.**

The annual financial statements of the City for each fiscal year shall be prepared in accordance with GAAP (unless applicable accounting principles are otherwise disclosed) and audited by an independent accounting firm in accordance with GAAS (but only if audited financial statements are otherwise available for such fiscal year). The annual financial statements may be provided by specific incorporation by reference to any other documents which have been filed with the Repository and the Securities and Exchange Commission.

#### **Section 5. Remedies.**

If the City should fail to comply with any provision of this Disclosure Undertaking, then any holder or Beneficial Owner of Bonds may enforce, for the equal benefit and protection of all the holders or Beneficial Owners of the Bonds similarly situated, by mandamus or other suit or proceeding at law or in equity, against such party and any of its officers, agents and employees, and may compel such party or any such officers, agents or employees to perform and carry out their duties under this Disclosure Undertaking; provided that the sole and exclusive remedy for breach of this Disclosure Undertaking shall be an action to compel specific performance of the obligations of such party hereunder, and no person or entity shall be entitled to recover monetary damages hereunder under any circumstances. Failure of any party to perform its obligations hereunder shall not constitute an Event of Default under the Ordinance or any agreement executed and delivered in connection with the issuance of the Bonds.

#### **Section 6. Parties in Interest.**

The provisions of this Disclosure Undertaking shall inure solely to the benefit of holders and Beneficial Owners from time to time of the Bonds, the City and the Paying Agent and shall create no rights in any other person or entity.

#### **Section 7. Amendments.**

(i) Without the consent of any of the holders or Beneficial Owners of the Bonds, the City, and the Paying Agent, at any time and from time to time, may together enter into amendment or changes to this Disclosure Undertaking for any purpose, if:

(a) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City or any type of business or affairs it conducts;

(b) the undertakings set forth herein, as amended, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of Rule 15c2-12 on the date hereof, after taking into account any amendments to, or interpretation by the staff of the Securities and Exchange Commission of, Rule 15c2-12, as well as any change in circumstances; and

(c) the amendment, in the opinion of nationally recognized bond counsel, does not materially impair the interests of the holders or Beneficial Owners of the Bonds.

(ii) Annual Information for any fiscal year containing any amended operating data or financial information for such fiscal year shall explain, in narrative form, the reasons for such amendment and the impact of the change in the type of operating data or financial information in the Annual

Information being provided for such fiscal year. If a change in accounting principles is included in any such amendment, such Annual Information shall present a comparison between the financial statements or information prepared on the basis of the amended accounting principles and those prepared on the basis of the former accounting principles. Such comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information. To the extent reasonably feasible such comparison shall also be quantitative. A notice of any such change in accounting principles shall be sent in a timely manner by the City to each Repository.

**Section 8. Termination.**

This Disclosure Undertaking shall remain in full force and effect until such time as all principal, redemption premiums, if any, and interest on the Bonds shall have been paid in full or the Bonds shall have otherwise been paid or legally defeased pursuant to the Ordinance; provided, however, that if Rule 15c2-12 (or successor provision) shall be amended, modified or changed so that all or any part of the information currently required to be provided thereunder shall no longer be required to be provided thereunder, then such information shall no longer be required to be provided hereunder; and provided, further, that if and to the extent Rule 15c2-12 (or successor provision), or any provision thereof, shall be declared by a court of competent and final jurisdiction to be, in whole or in part, invalid, unconstitutional, null and void, or otherwise inapplicable to the Bonds, then the information required to be provided hereunder, insofar as it was required to be provided by a provision of Rule 15c2-12 so declared, shall no longer be required to be provided hereunder. Upon any legal defeasance, the City shall provide notice of such defeasance to each Repository, and such notice shall state whether the Bonds have been defeased to maturity or to redemption and the timing of such maturity or redemption.

**Section 9. Central Post Office.**

The City currently is authorized to use the Central Post Office for the submission of Annual Information and material events notices for so long as the Central Post Office is recognized, authorized or approved by the Securities and Exchange Commission to receive such disclosure submissions in satisfaction of the requirements under Rule 15c2-12.

As of the execution date of this Disclosure Undertaking, the Securities and Exchange Commission has approved amendment of Rule 15c2-12, effective on and after July 1, 2009, requiring filing of disclosure submissions with the MSRB via EMMA. On and after such effective date, it is anticipated that the filing of disclosure submissions with the Central Post Office, or directly to the current nationally recognized municipal securities information repositories, will no longer satisfy the requirements of Rule 15c2-12.

**Section 10. Notices.**

Any notices or communications to the City may be given as follows:

City of Kansas City, Missouri  
414 E. 12th Street, 1st Floor  
Kansas City, Missouri 64106  
Attention: City Treasurer  
Telephone: (816) 513-1019  
Fax: (816) 513-1020

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

**Section 11. Governing Law.**

**THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF MISSOURI DETERMINED WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAW; PROVIDED, HOWEVER THAT TO THE EXTENT THIS AGREEMENT ADDRESSES MATTERS OF FEDERAL SECURITIES LAWS, INCLUDING RULE 15c2-12, THIS AGREEMENT SHALL BE GOVERNED BY SUCH FEDERAL SECURITIES LAWS AND OFFICIAL INTERPRETATIONS THEREOF.**

**Section 12. Counterparts.**

This Disclosure Undertaking may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

**IN WITNESS WHEREOF**, the undersigned has duly authorized, executed and delivered this Disclosure Undertaking.

**DATED:** April 8, 2009.

**CITY OF KANSAS CITY, MISSOURI**  
as the Issuer of the Bonds  
and Obligated Person

By: \_\_\_\_\_  
Name: Jeffrey A. Yates  
Title: Director of Finance

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**DEFINITIONS AND SUMMARY OF ORDINANCE**

## SUMMARY OF CERTAIN PROVISIONS OF THE ORDINANCE

*In addition to terms defined elsewhere in this Official Statement, the following are definitions of certain terms used in the Ordinance and this Official Statement. Reference is hereby made to the Ordinance for complete definitions of all terms.*

**“Administrative Service Fees”** means that portion of the Current Sanitary Sewer Expenses paid to the general fund of the City for office space and certain administrative, data processing, accounting and other support services provided to the Sanitary Sewer System of the City.

**“Bond Counsel”** means Gilmore & Bell, P.C. and The Martinez Law Firm, LLC, or other attorney or firm of attorneys with a nationally recognized standing in the field of municipal bond financing.

**“Bond Reserve Requirement”** means, on the date of original issuance, with respect to the Series 2009A Bonds, an aggregate amount equal to the least of (a) the maximum annual debt service with respect to the Series 2009A Bonds, (b) 10% of the principal amount of the Bonds or (c) an amount equal to 125% of the average annual debt service with respect to the Series 2009A Bonds.

**“Bondowner”** or **“Registered Owner”** means the individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof in whose name a bond is registered in the Bond Register.

**“Bond Register”** means the books for the registration, transfer and exchange of Bonds kept at the office of the Paying Agent.

**“Cede & Co.”** means Cede & Co., as nominee name of The Depository Trust Company, New York, New York.

**“Certificate of Final Terms”** means Exhibit B of the Ordinance, executed and delivered by the Mayor.

**“City”** means the City of Kansas City, Missouri.

**“Combined System”** means the City’s Sanitary Sewer System and the City’s stormwater sewer system, serving the City, its inhabitants and others, including connected and related appurtenances and facilities and extensions, improvements, additions and enlargements hereafter made or acquired by the City.

**“Combined System Revenue Fund”** refers to and identifies the Sewer Fund and the stormwater fund as a single combined fund for purposes of the Ordinance, as ratified and confirmed by Section 401.

**“Combined System Revenues”** means all income and revenues derived by the City from the Combined System, including any amounts deposited in the Combined System Revenue Fund, but excluding any profits or losses on the early extinguishment of debt or on the sale or other disposition of investments or fixed or capital assets not in the ordinary course of business.

**“Consultant”** means the Consulting Engineer, an independent certified public accountant or a firm of independent certified public accountants.

**“Consulting Engineer”** means each independent engineer or engineering firm with experience in designing and constructing wastewater treatment, sanitary sewerage or water pollution control facilities and retained by the City.

**“Current Sanitary Sewer Expenses”** means all reasonable and necessary expenses of ownership, operation, maintenance and repair of the Sanitary Sewer System and keeping the Sanitary Sewer System in good repair and working order, determined in accordance with generally accepted accounting principles, including current maintenance charges, expenses of reasonable upkeep and repairs, salaries, wages, costs of materials and supplies, Paying Agent fees and expenses, annual audits, periodic Consultant’s reports, properly allocated share of charges for

insurance, the cost of purchased water, gas and power, obligations (other than for borrowed money or for rents payable under capital leases) incurred in the ordinary course of business, liabilities incurred by endorsement for collection or deposit of checks or drafts received in the ordinary course of business, short-term obligations incurred and payable within a particular Fiscal Year, obligations incurred for the purpose of leasing (pursuant to a true or operating lease) equipment, fixtures, inventory or other personal property, and all other expenses incident to the ownership and operation of the Sanitary Sewer System, but excluding capital lease payments, if any, and interest paid on Sanitary Sewer System Revenue Bonds and depreciation and amortization charges (including payments into the Sanitary Sewer System Depreciation and Replacement Account).

**“Fiscal Year”** means the City’s fiscal year then in effect.

**“Fitch”** means Fitch, Inc. or, if such corporation is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the City.

**“Global Bond Certificate”** means one or more Bond certificates of the City, representing the entire principal amount of a particular Series due on a particular Stated Maturity, immobilized from general circulation in the Depository.

**“Interest Payment Date”** means each January 1 and July 1, commencing July 1, 2009.

**“Moody’s”** means Moody’s Investors Service or, if such corporation is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the City.

**“Net Sanitary Sewer Revenues”** means Sanitary Sewer Revenues less Current Sanitary Sewer Expenses.

**“Net Sanitary Sewer Revenues Available for Debt Service”** means, for the period of determination, Sanitary Sewer Revenues less Current Sanitary Sewer Expenses.

**“Ordinance”** means the Ordinance as from time to time amended in accordance with its terms.

**“Outstanding”** means, as of the date of determination, all Bonds issued and delivered under the Ordinance, except:

- (1) Bonds cancelled by the Paying Agent or delivered to the Paying Agent for cancellation;
- (2) Bonds for the payment of the principal or redemption price of and interest on which money or Defeasance Securities are held under Section 1101;
- (3) Bonds in exchange for which, or in lieu of which, other Bonds have been registered and delivered pursuant to the Ordinance; and
- (4) Bonds allegedly mutilated, destroyed, lost, or stolen and paid under Section 208.

**“Outstanding Parity Bonds”** means collectively, the Series 1999A Bonds, the Series 2000A Bonds, the Series 2000B Bonds, the Series 2001A Bonds, the Series 2001B Bonds, the Series 2002D Bonds, the Series 2002J Bonds, the Series 2004A Bonds and the Series 2004H Bonds, the Series 2005B Bonds, the Series 2007A Bonds and the Bonds.

**“Outstanding Parity Bond Ordinance”** means collectively, the Series 1999A Ordinance, the Series 2000A Ordinance, the Series 2000B Ordinance, the Series 2001A Ordinance, the Series 2001B Ordinance, the Series 2002D Ordinance, the Series 2002J Ordinance, the Series 2004A Ordinance, the Series 2004H Ordinance, the Series 2005B Ordinance, the Series 2007A Ordinance and the Ordinance.

**“Outstanding Senior Bonds”** means collectively, the Series 1992B Bonds, the Series 1995A Bonds, the Series 1996A Bonds, the Series 1997A Bonds and the Series 1998A Bonds.

**“Outstanding Senior Bond Ordinance”** means collectively, the Series 1992B Ordinance, the Series 1995A Ordinance, the Series 1996A Ordinance, the Series 1997A Ordinance and the Series 1998A Ordinance.

**“Parity Bonds”** means the Outstanding Parity Bonds and any parity bonds issued under Section 902 of the Ordinance payable from the Net Sanitary Sewer Revenues on a parity basis with the Bonds.

**“Parity Ordinance”** means the Outstanding Parity Bond Ordinance and the ordinance under which any other Parity Bonds are issued.

**“Participants”** means those financial institutions for whom the Depository effects book-entry transfers and pledges of securities deposited with the Depository.

**“Paying Agent”** means the paying agent for the Series 2009A Bonds appointed by the Director of Finance.

**“Permitted Investments”** means any of the following securities, if and to the extent the same are at the time legal for investment of the moneys held in the funds and accounts listed in Section 401 of the Ordinance:

- (a) United States Treasury Securities (Bills, Notes, Bonds and Strips).
- (b) United States Agency/GSE Securities. Obligations issued or guaranteed by any agency of the United States Government and obligations issued by any government sponsored enterprise (GSE) which have a liquid market and a readily determinable market value that are described as follows:
  - (i) U.S. Govt. Agency Coupon and Zero Coupon Securities.
  - (ii) U.S. Govt. Agency Discount Notes.
  - (iii) U.S. Govt. Agency Callable Securities.
  - (iv) U.S. Govt. Agency Step-Up Securities. The coupon rate is fixed for an initial term. At coupon date, the coupon rate rises to a new, higher fixed interest rate.
  - (v) U.S. Govt. Agency Floating Rate Securities. Restricted to coupons with no interim caps that reset at least quarterly and that float off of only one index.
  - (vi) U.S. Govt. Agency Mortgage Backed Securities (MBS, CMO, Pass-Thru Securities). Restricted to securities with final maturities of five (5) years or less or have the final projected payment no greater than four (4) years when analyzed in a +300 basis point interest rate environment. Restricted to obligations of FNMA, FHLMC and GNMA only.
- (c) Repurchase Agreements. Contractual agreements between the City and commercial banks or primary government securities dealers. The Securities Industry and Financial Markets Association’s (or any successor association) guidelines for the Master Repurchase Agreement will be used and will govern all repurchase agreement transactions. All repurchase agreement transactions will be either physical delivery or tri-party.
- (d) Bankers’ Acceptances. Bankers’ acceptances issued by domestic commercial banks possessing the highest credit rating issued by Moody’s Investor Services, Inc. or Standard and Poor’s Corporation.
- (e) Commercial Paper. Commercial paper issued by domestic corporations, which have received the highest short-term credit rating issued by Moody’s Investor Services, Inc. or Standard and Poor’s Corporation. Eligible paper is further limited to issuing corporations that have total assets in excess of five hundred million dollars (\$500,000,000) and are not listed on Credit Watch with

negative implications by any nationally recognized credit rating agency at the time of purchase. In addition, the City's portfolio may not contain commercial paper of any one corporation the total value of which exceeds 2% of the City's aggregate investment portfolio.

- (f) Any full faith and credit obligations of the State of Missouri rated at least A or A2 by Standard and Poor's or Moody's.
- (g) Any full faith and credit obligations of any county in which the City is located rated at least AA or Aa2 by Standard and Poor's or Moody's.
- (h) Any full faith and credit obligations of any school district in Kansas City, Missouri rated at least AA or Aa2 by Standard and Poor's or Moody's.
- (i) Any full faith and credit obligations or revenue bonds of the City of Kansas City, Missouri rated at least AA or Aa2 by Standard and Poor's or Moody's.
- (j) Any municipal obligation as defined in (f), (g), (h) or (i) that is not rated but either pre-refunded or escrowed to maturity with U.S. Treasury Securities as to both principal and interest.
- (k) Money market mutual funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, rated in either of the two highest categories by Moody's and Standard & Poor's (in either case without regard to any modifier).
- (l) Such other investments not described above that are allowed pursuant to Missouri law.

References to particular ratings and rating categories in this definition are applicable only at the time of purchase of the Permitted Investment.

**“Rating”** means a rating in one of the categories by a Rating Agency, disregarding pluses, minuses, and numerical gradations.

**“Rating Agencies”** or **“Rating Agency”** means Fitch, Moody's, and Standard & Poor's or any successors thereto and any other nationally recognized credit rating agency then maintaining a rating on any Bonds at the request of the City. If at any time a particular Rating Agency does not have a rating outstanding with respect to the relevant Bonds, then a reference to Rating Agency or Rating Agencies shall not include such Rating Agency.

**“Record Date”** means the 15<sup>th</sup> day (whether or not a Business Day) of the calendar month next preceding the applicable Interest Payment Date.

**“Sewer Fund”** means the account created by Section 401.

**“Sanitary Sewer Revenues”** means all income and revenues derived by the City from the Sanitary Sewer System, including any amounts deposited in the Sewer Fund of the Combined System Revenue Fund, but excluding any profits or losses on the early extinguishment of debt or on the sale or other disposition of investments or fixed or capital assets not in the ordinary course of business.

**“Sanitary Sewer System”** or **“System”** means the City's sanitary sewerage system, including sanitary sewers, combined sewers, lift and pumping stations, treatment plants, with the appurtenances necessary, useful and convenient for the collection, treatment, purification and disposal of the sewage and shall include any part of the system located outside of the corporate limits of the City, and shall also include all extensions and improvements in and to the system hereafter made or acquired by the City, wherever located.

**“Sanitary Sewer System Revenue Bonds”** means collectively the Outstanding Senior Bonds, the Bonds, Parity Bonds and all other revenue bonds which are payable from the Net Sanitary Sewer Revenues.

**“Securities Depository”** means initially, The Depository Trust Company, New York, New York, and its successors and assigns.

**“Series 2009A Bonds”** or **“Bonds”** means the City of Kansas City, Missouri, Sanitary Sewer System Revenue Bonds, Series 2009A.

**“SRF Program Bonds”** means the Series 1992B Bonds, the Series 1995A Bonds, the Series 1996A Bonds, the Series 1997A Bonds, the Series 1998A Bonds, the Series 1999A Bonds, the Series 2000A Bonds, the Series 2000B Bonds, the Series 2001B Bonds, the Series 2002J Bonds, the Series 2004H Bonds and any additional bonds issued under the State Revolving Fund Program administered jointly by the Missouri Department of Natural Resources and the State Environmental Improvement and Energy Resources Authority of the State.

**“SRF Subsidy”** means the amount of investment earnings which will accrue on the reserve account for any SRF Program Bonds during each Fiscal Year.

**“Standard & Poor’s”** or **“S&P”** means Standard & Poor’s Rating Services or, if such corporation is dissolved or liquidated or otherwise ceases to perform securities rating services, such other nationally recognized securities rating agency as may be designated in writing by the City.

**“State”** means the State of Missouri.

**“State Revolving Fund Program”** means the Missouri Leveraged State Water Pollution Control Revolving Fund Program of the Missouri Department of Natural Resources.

**“Stated Maturity”** when used with respect to any Bond or any installment of interest thereon means the date specified in the Ordinance as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

**“Underwriter”** means collectively, George K. Baum & Co. and Morgan Stanley & Co. Incorporated, co-senior managing underwriters, as representative of the underwriters of the Bonds as defined in the Purchase Contract.

\* \* \*

*The following is a summary of certain provisions contained in the Ordinance. The following is not a comprehensive description, however, and is qualified in its entirety by reference to the Ordinance for a complete recital of the terms thereof.*

**Disposition of Bond Proceeds.**

The net proceeds received from the sale of the Bonds, including any premium and accrued interest, will be deposited simultaneously with the delivery of the Bonds as set forth in the Ordinance.

Amounts remaining in the Costs of Issuance Account on June 30, 2009, shall be transferred to the Series 2009A Construction Account. Upon the completion of the extensions and improvements to the Sanitary Sewer System, the plans and specifications for which have been approved by the Governing Body, any surplus remaining in the Construction Account shall be deposited in and credited to the Debt Service Account created by Section 401 (d)(3) of the Ordinance. Any surplus credited to the Debt Service Account shall be applied by the Paying Agent as directed by the City solely to the payment of principal of, redemption premium, if any, and interest on the Bonds through the payment or redemption thereof at the earliest date permissible under the terms of the Ordinance. The balance transferred to the Debt Service Account may first be used to pay any principal payment on the Bonds coming due in that current bond year. If the balance transferred is greater than the current bond year principal payment, the excess shall be used to call Bonds for redemption in accordance with subsection 301 (b) of the Ordinance. Any Bonds purchased by the Paying Agent pursuant to this provision with moneys from the Debt Service Account will be deemed cancelled.

**Combined System Revenue Fund and Sewer Fund.**

(a) The City covenants and agrees that prior to the termination of Section 601A, all Combined System Revenues will be deposited into the Combined System Revenue Fund when received. The Combined System Revenues will be segregated from all other moneys, revenues, funds and accounts of the City.

(b) All moneys deposited in the Combined System Revenue Fund will be designated as having been derived from the ownership and operation of either the stormwater sewers portion of the Combined System or the Sanitary Sewer System. All Sanitary Sewer System Revenues will be deposited in the Sewer Fund. All revenues of the stormwater sewers portion of the Combined System will be transferred to the stormwater fund.

(c) From and after the termination of Section 601A, the Sewer Fund will be administered and applied solely for the purposes and in the manner provided in the Ordinance and any Parity Ordinance.

**Application of Moneys Under Outstanding Senior Bond Ordinance.**

(a) The provisions of Section 601A will remain in effect as long as the Outstanding Senior Bonds remain outstanding within the meaning of the Outstanding Senior Bond Ordinance.

(b) Prior to the payment in full of the Outstanding Senior Bonds, the City will apply moneys in the Sewer Fund on the first day of each month, the amounts required by the Outstanding Senior Bond Ordinance in the order as follows: FIRST, the estimated cost of operating and maintaining the Combined System during the ensuing 30-day period (after the application of moneys in the stormwater fund to the operation and maintenance of the stormwater sewers portion of the Combined System), SECOND, to the Outstanding Senior Bond Debt Service Account, and THIRD, to the Outstanding Senior Bond Debt Service Reserve Account.

(c) If moneys in the Sewer Fund are not sufficient to make the transfers described in clauses SECOND and THIRD of paragraph (b), the City will apply moneys in the stormwater fund for such transfers in the order stated.

**Ratification of Funds and Accounts.**

(a) The separate funds and accounts ratified and confirmed by the Series 1992B Ordinance and redesignated the Combined Sewer System Revenue Fund (the “Combined System Revenue Fund”) and the Combined System Surplus Account (the “Combined System Surplus Account”), are ratified and confirmed.

(b) The separate accounts created or acknowledged by the Outstanding Senior Bond Ordinance are hereby acknowledged.

(1) The Series 1998A Reserve Account, the Series 1997A Reserve Account, the Series 1996A Reserve Fund, the Series 1995A Reserve Fund and the Series 1992B Reserve Account are collectively the “Outstanding Senior Bond Debt Service Reserve Account”; and

(2) The Series 1998A Interest Account, the Series 1998A Principal Account, the Series 1998A Debt Service Account, the Series 1997A Interest Account, the Series 1997A Principal Account, the Series 1997A Debt Service Account, the Series 1996A Interest Account, the Series 1996A Principal Account, the Series 1996A Debt Service Fund, the Series 1995A Interest Account, the Series 1995A Principal Account, the Series 1995A Debt Service Fund, the Series 1992B Interest Account, the Series 1992B Principal Account and the Series 1992B Debt Service Account are collectively the “Outstanding Senior Bond Debt Service Account”.

(c) The separate accounts and funds created or acknowledged by the Outstanding Parity Bond Ordinance are hereby acknowledged.

(d) There are created the following accounts to be administered and maintained pursuant to the Ordinance.

(1) Series 2009A Construction Account; and

(2) Series 2009A Reserve Account (the “Series 2009A Reserve Account,” the Series 2007A Reserve Account, the Series 2005B Reserve Account, the Series 2004H Reserve Account, the Series 2004A Reserve Account, the Series 2002J Reserve Account, the Series 2002D Reserve Account, the Series 2001B Reserve Account, the Series 2001A Reserve Account, the Series 2000B Reserve Account, the Series 2000A Reserve Account and the Series 1999A Reserve Account are collectively the “Outstanding Parity Bond Debt Service Reserve Account”); and

(3) Debt Service Account (the “Series 2009A Debt Service Account,” the Series 2007A Debt Service Account, the Series 2005B Debt Service Account, the Series 2004H Interest Account, the Series 2004H Principal Account, the Series 2004A Debt Service Account, the Series 2002J Interest Account, the Series 2002J Principal Account, the Series 2002J Debt Service Account, the Series 2002D Debt Service Account, the Series 2001B Interest Account, the Series 2001B Principal Account, the Series 2001B Debt Service Account, the Series 2001A Debt Service Account, the Series 2000B Interest Account, the Series 2000B Principal Account, the Series 2000B Debt Service Account, the Series 2000A Interest Account, the Series 2000A Principal Account, the Series 2000A Debt Service Account, the Series 1999A Interest Account, the Series 1999A Principal Account and the Series 1999A Debt Service Account, are collectively the “Outstanding Parity Bond Debt Service Account”);

(4) Costs of Issuance Account; and

(5) Renewal and Replacement Account.

**Administration of Funds and Accounts.**

(a) The Combined System Revenue Fund, the Combined System Surplus Account and the Combined System Depreciation and Replacement Account will be maintained and administered by the City while any of the Bonds, the Outstanding Senior Bonds and the Outstanding Parity Bonds are Outstanding.

(b) The separate funds and accounts created or acknowledged under the Outstanding Senior Bond Ordinance will be maintained and administered by the City while the applicable series of bonds, for which such funds and accounts were created, are Outstanding, all in accordance with the terms of the Outstanding Senior Bond Ordinance.

(c) The Sewer Fund, the Sanitary Sewer System Depreciation and Replacement Account and the Sanitary Sewer System Surplus Account, each within the Combined System Revenue Fund, will be maintained and administered by the City while any of the Bonds and the Outstanding Parity Bonds are Outstanding.

(d) The other separate funds and accounts created or acknowledged under the Outstanding Parity Bond Ordinance will be maintained and administered by the City while the applicable series of bonds, for which such funds and accounts were created, are Outstanding, all in accordance with the terms of the Outstanding Parity Bond Ordinance.

**Series 2009A Reserve Account.**

Simultaneously with the issuance of the Series 2009A Bonds, the City shall provide that the Series 2009A Reserve Account shall contain an amount equal to the Bond Reserve Requirement. In lieu of a cash deposit, the Bond Reserve Requirement may be satisfied by a surety bond.

The Director of Finance is authorized to execute any and all agreements with a bond surety company (the "Indemnitor") in order to effectuate the issuance of the surety bond, specifically including, but not limited to, any agreement necessary in order to reimburse the Indemnitor for moneys advanced under the surety bond. In the event moneys are advanced by the Indemnitor, the City shall reimburse the Indemnitor from all funds legally available in the Sewer Fund, subject only to the payments required by Section 601A and Section 602(a) (1) and (2).

As long as the surety bond shall be in full force and effect, the City and Paying Agent agree to comply with the following provisions:

(i) In the event and, if appropriate, to the extent that moneys on deposit in the 2009A Debt Service Account plus all amounts on deposit in the 2009A Reserve Account in excess of the amount of the surety bond are insufficient to pay the amount of principal and interest coming due, then upon the later of: (A) one (1) day after receipt by the general counsel of the Indemnitor of a demand for payment in the form attached to the surety bond as Attachment 1 (the "Demand for Payment"), duly executed by the Paying Agent certifying that funds are not available in the 2009A Debt Service Account or the 2009A Reserve Account to pay both principal and interest on the Bonds becoming due on the next Stated Maturity; or (B) the Stated Maturity of the Bonds as specified in the Demand for Payment presented by the Paying Agent to the general counsel of the Indemnitor, the Indemnitor will make a deposit of funds in an account with the Paying Agent, sufficient for the payment to the Paying Agent, of amounts which are then required to pay the principal of and interest becoming due on the Bonds on such Stated Maturity of the Bonds (as specified in the Demand for Payment) up to but not in excess of the surety bond Coverage, as defined in the surety bond;

(ii) The Paying Agent shall after submitting to the Indemnitor the demand for Payment as provided in (i) above, make available to the Indemnitor all records relating to the funds and accounts maintained under the Ordinance; and the Paying Agent shall, upon receipt of moneys received from the draw on the surety bond, as specified in the Demand for Payment, credit the 2009A Reserve Account to the extent of moneys received pursuant to such Demand.

All moneys in any Outstanding Parity Bond Reserve Account shall be used for the payment of principal of and interest on the related Series of bonds for which funds might not otherwise be available, or to pay a like amount of the last maturing bonds of such Series; provided, however, that the City shall not make a Demand for Payment under the surety bond for the purpose of paying the last maturing Bonds. Should the City expend any portion of the 2009A Reserve Account and thereby reduce the amount therein below the Bond Reserve Requirement, except for the purpose for retiring all Outstanding Bonds, or should a valuation of the 2009A Reserve Account indicate that it is below the Bond Reserve Requirement, the City shall, subject to the provisions of the last paragraph of this

Section, transfer monthly to such 2009A Reserve Account, all available funds after providing for the payments and transfers set forth above, until such 2009A Reserve Account shall have again attained the Bond Reserve Requirement. Any amounts in the 2009A Reserve Account in excess of the Bond Reserve Requirement on any valuation date shall be transferred (i) during the period of construction of the extensions and improvements to the System, to the 2009A Construction Account, and (ii) after such construction period, to the 2009A Debt Service Account.

If at any time the moneys in the Sanitary Sewer Revenue Fund shall be insufficient to make in full any payments and credits at the time required to be made by the City to the bond reserve accounts established by the City to protect the payment of the Outstanding sewerage system revenue bonds of the City including only the Bonds, the Outstanding Parity Bonds and other sewerage system revenue bonds of the City hereafter issued and standing on a parity with the Bonds and the Outstanding Parity Bonds, the available moneys in the Sanitary Sewer Revenue Fund shall be divided among such bond reserve accounts in proportion to the respective principal amounts of said Series of sewerage system revenue bonds of the City at the time Outstanding which are payable from the moneys in such bond reserve accounts.

**Application of Moneys in Sanitary Sewer System Funds and Accounts.**

(a) After the application of moneys under Section 601A, the City will apply moneys in the Sewer Fund on the dates, in the amounts and in the order as follows:

(1) after the termination of Section 601A, on the first day of each month the estimated cost of operating and maintaining the Sanitary Sewer System during the ensuing 30-day period, excluding Administrative Service Fees;

(2) to the Outstanding Parity Bond Debt Service Account, on a parity basis, the amount required under the Outstanding Parity Bond Ordinance at the time specified therein. In the case of the Series 2009A Bonds, the City shall transfer to the Paying Agent for the Series 2009A Bonds on the second Business Day prior to any Interest Payment Date the amounts of principal and interest due on the Series 2009A Bonds on the next Interest Payment Date.;

(3) on the first day of each month, to the Series 2009A Reserve Account and the Outstanding Parity Bond Debt Service Reserve Account as required by the Ordinance and the Outstanding Parity Bond Ordinance, respectively, and, in the event the trustee or the Paying Agent has withdrawn moneys from the Series 2009A Reserve Account (other than investment earnings or the amount transferred from the Series 2009A Reserve Account upon the payment of principal on the Bonds), to the Series 2009A Reserve Account all available moneys until the Series 2009A Reserve Account has been replenished;

(4) on the first day of each month the Administrative Service Fees for the ensuing 30-day period;

(5) to deposit to the Renewal and Replacement Account an amount determined by the Operating and Capital Reserves Policy established and approved by the Water Services Department and the City Council, as may be amended from time to time, to be applied in accordance with the Ordinance; and

(6) on the first day of each month the remaining balance to the Sanitary Sewer Surplus Account.

(b) If the amount in the Sewer Fund is not sufficient to make the payments at the time required to be made by the City to the Series 2009A Reserve Account and to the Outstanding Parity Bond Debt Service Reserve Account, the City will divide the balance in the Sewer Fund between the Series 2009A Reserve Account and the Outstanding Parity Bond Debt Service Reserve Account on a proportionate basis (based upon the outstanding principal amounts of the Bonds and the Outstanding Parity Bonds).

(c) Except as otherwise provided in this section, all sums accumulated and retained in the Renewal and Replacement Account shall be used to meet the costs of capital improvements to the System, necessary to keep

the same in good operating condition or as is required by any governmental agency having jurisdiction over the System, and such sums may be encumbered by an estimation and appropriation ordinance of the City Council to accomplish the same. All unencumbered sums accumulated and retained in the Renewal and Replacement Account, if any, shall be used first to prevent a default in the payment of interest on or principal of any Outstanding Senior Bonds when due and then shall be applied by the City from time to time, as and when the City shall determine, to the following purposes and, prior to the occurrence and continuation of an Event of Default, in the order of priority determined by the City in its sole discretion: (a) to maintain and improve the System as described above and (b) to pay the principal of and interest on any Sanitary Sewer System Revenue Bonds and any other obligations payable from Net Sanitary Sewer Revenues. No moneys credited to the Renewal and Replacement Account shall ever be directed or applied to the general governmental or municipal functions of the City so long as any of the Series 2009A Bonds remain Outstanding. The total amount of money credited to the Renewal and Replacement Account shall not exceed the maximum amount established by the Operating and Capital Reserves Policy approved by the Water Services Department and the City Council, as may be amended from time to time.

(d) Moneys in the Sanitary Sewer Surplus Account are to be expended for the following purposes as determined by the Governing Body:

(1) paying the cost of the operation, maintenance and repair of the Sanitary Sewer System to the extent necessary after the application of the moneys in the Sanitary Sewer Depreciation and Replacement Account;

(2) paying the cost of extending, enlarging or improving the Sanitary Sewer System;

(3) preventing default in, anticipating payments into or increasing the amounts in the accounts confirmed or established in Section 401, the Principal Account, the Interest Account, the Reserve Account or the Sanitary Sewer System Depreciation and Replacement Account, or establishing or increasing the amount of any debt service account or debt service reserve account created by the City for the payment of any Sanitary Sewer System Revenue Bonds subsequently issued; or

(4) redeeming and paying prior to maturity, or, at the option of the City, purchasing in the open market at the best price obtainable not exceeding the call price (if any bonds are callable), the Bonds, the Outstanding Senior Bonds, the Outstanding Parity Bonds or any other Sanitary Sewer System Revenue Bonds of the City hereafter issued under the conditions hereinafter specified and standing on a parity with the Bonds, including principal, redemption premium, if any, and interest; or

(5) making payments on capital lease obligations; or

(6) any other lawful purpose in connection with the operation of the System and beneficial to the System.

(e) No moneys derived by the City from the Sanitary Sewer System will be diverted to the general governmental or municipal functions of the City.

**Deficiency of Payments into Funds and Accounts.**

(a) If the Sanitary Sewer Revenues are insufficient to make any payment on any date specified in this Article, the City will make good the amount of the deficiency by making additional payments out of the first available Sanitary Sewer Revenues for application in the order specified in Section 602.

(b) If the moneys in the Outstanding Senior Bond Debt Service Account, the Outstanding Senior Bond Debt Service Reserve Account, the Outstanding Parity Bond Debt Service Account, the Outstanding Parity Bond Debt Service Reserve Account, the Principal Account, the Interest Account or the Series 2009A Reserve Account are not sufficient to pay the principal of and interest on the Outstanding Senior Bonds, the Outstanding Parity Bonds and the Bonds as and when the same become due, the City will apply moneys in the Sanitary Sewer Surplus Account and

the Depreciation and Replacement Account first to the Outstanding Senior Bond Debt Service Account and the balance on a proportionate basis (based upon the outstanding principal amounts of the Bonds and the Outstanding Parity Bonds) to the Principal Account, the Interest Account and the Outstanding Parity Bond Debt Service Account to prevent any default in the payment of the principal of and interest on the Outstanding Senior Bonds, the Bonds and the Outstanding Parity Bonds.

**Investment of Moneys.**

(a) Moneys in each of the other funds and accounts created or ratified and confirmed by the Ordinance may be invested by the City in Permitted Investments, but no investment will be made for a period extending longer than the date when the moneys invested may be needed. Unless stated otherwise, all earnings on any investments held in any fund or account will accrue to the Sewer Fund of the Combined System Revenue Fund. Notwithstanding the preceding sentence, all earnings on amounts in the Construction Account will accrue to the Series 2009A Debt Service Account. In determining the amount held in any fund or account under the Ordinance, obligations will be valued at the lower of cost or market value. If the amount in any fund or account held within the Treasury of the City is greater than the required amount, the City may transfer the excess to the Sewer Fund.

(b) So long as the Outstanding Senior Bonds and the Outstanding Parity Bonds are outstanding, any investments made pursuant to this Section are subject to the applicable restrictions in the Outstanding Senior Bond Ordinance and the Outstanding Parity Bond Ordinance.

**Efficient and Economical Operation.**

The City will continuously own and will operate the Sanitary Sewer System in an efficient and economical manner and will keep and maintain the Sanitary Sewer System in good repair and working order.

**Prior Lien Bonds.**

Except as provided in Section 904, the City will not issue any debt obligations payable out of the Net Sanitary Sewer Revenues which are superior in lien, security or otherwise to the Bonds.

**Parity Lien Bonds or Obligations.**

(a) The City will not issue any additional bonds or other long-term obligations payable out of the Net Sanitary Sewer Revenues which stand on a parity or equality with the Bonds unless the following conditions are met:

(1) The City is not in default in the payment of principal or interest on the Bonds or the Parity Bonds or in making any deposit into the funds and accounts under the Ordinance or any Parity Ordinance; and

(2) For so long as any of the Series 2009A Bonds remain Outstanding, the City provides to the Bondowner and the Paying Agent a certificate showing either of the following:

(i) The average annual Net Sanitary Sewer Revenues Available for Debt Service plus Administrative Service Fees as set forth in the two most recent annual audits for Fiscal Years preceding the issuance of additional bonds, are at least 110% of the average annual debt service on the Sanitary Sewer System Revenue Bonds (excluding subordinate revenue bonds or obligations), including the additional bonds proposed to be issued, to be paid out of the Net Sanitary Sewer Revenues Available for Debt Service in all succeeding Fiscal Years. Interest to be paid on any SRF Program Bonds may be reduced by the SRF Subsidy, if any. In determining Net Sanitary Sewer Revenues Available for Debt Service, the City may rely on a certificate of the Consultant to add the additional Net Sanitary Sewer Revenues Available for Debt Service which would have resulted if the rate increase had been in effect for the entire period to the audited Net Sanitary Sewer Revenues if the City has made any increase in rates for the use and services of the Sanitary Sewer

System and the increase has not been in effect during all of the two Fiscal Years for which annual audits are available; or

(ii) The estimated average annual Net Sanitary Sewer Revenues Available for Debt Service plus Administrative Service Fees for the two Fiscal Years immediately following the Fiscal Year in which the improvements to the Sanitary Sewer System being financed by the additional bonds are to be in commercial operation, as certified by the Consultant, is at least 110% of the average annual debt service on the Sanitary Sewer System Revenue Bonds (excluding subordinate revenue bonds or obligations), including the additional bonds proposed to be issued, to be paid out of the Net Sanitary Sewer Revenues Available for Debt Service in succeeding Fiscal Years following the commencement of commercial operation of the improvements. Interest to be paid on any SRF Program Bonds may be reduced by the SRF Subsidy, if any. In determining the amount of estimated Net Sanitary Sewer Revenues Available for Debt Service for the purpose of this subsection, the Consultant may adjust the estimated net income and revenues by adding the estimated increase in Net Sanitary Sewer Revenues Available for Debt Service resulting from any increase in rates for the use and services of the Sanitary Sewer System approved by the City.

(b) If the conditions set forth in this Section are satisfied, the City (i) may issue additional revenue bonds or other obligations of the City on a parity with the Bonds and that enjoy complete equality of the lien on the Net Sanitary Sewer Revenues with the Bonds, (ii) may make equal provision for paying the additional revenue bonds or other obligations from the Sewer Fund, and (iii) may secure the additional revenue bonds or other obligations by funding reasonable System debt service accounts and debt service reserve accounts from the Net Sanitary Sewer Revenues.

(c) The City has covenanted in the ordinances applicable to the Outstanding Senior Bonds and the Outstanding Parity Bonds to comply with the additional bonds test set forth in the applicable ordinance so long as such bonds are outstanding.

#### **Junior Lien Bonds.**

Nothing in this Article prohibits or restricts the right of the City to issue additional revenue obligations, including revenue bonds, for the purpose of extending, improving, enlarging, repairing or altering the Sanitary Sewer System, that are subordinate to the Bonds if at the time of the issuance of the additional revenue obligations the City is not in default in the performance of any covenant or agreement in the Ordinance. If the City is in default in paying either interest on or principal of the Bonds, or if the Reserve Account is not fully funded, the City shall not make any payments on the subordinate revenue obligations until the default is cured. Subject to the limitations in this Section, the City may make provision for paying the principal of and interest on the subordinate revenue bonds or obligations from moneys in the Sewer Fund.

#### **Refunding Bonds.**

(a) The City may, without complying with the provisions of Section 902, refund any of the Bonds in a manner which provides debt service savings to the City, and the refunding bonds so issued will be on a parity with any of the Bonds that are not refunded and any Outstanding Parity Bonds.

(b) The City may refund any of the Outstanding Senior Bonds in a manner which provides debt service savings to the City in each subsequent Fiscal Year, and the refunding bonds so issued may have a priority lien on the Net Sanitary Sewer System Revenues.

#### **Acceleration of Maturity in Event of Default.**

The City covenants and agrees that if it shall default in the payment of the principal of or interest on any of the Bonds as the same shall become due on any bond payment date, or if the City or the Council of the City or any of the officers, agents, or employees thereof shall fail or refuse to comply with any of the provisions of the Ordinance or of the constitution or statutes of the State, and such default continues for a period of sixty (60) days after written notice specifying such default has been given to the City by the Registered Owner of any Bond then

Outstanding, then, at any time thereafter and while such default continues, the Registered Owners of twenty-five percent (25%) in principal amount of the Bonds then Outstanding may, by written notice to the City filed in the office of the City Clerk or delivered in person to the City Clerk, declare the principal of all Bonds then Outstanding to be due and payable immediately, and upon any such declaration given as aforesaid, all of the Bonds shall become and be immediately due and payable, anything in the Ordinance or in the Bonds contained to the contrary notwithstanding. This provision, however, is subject to the condition that if at any time after the principal of the Outstanding Bonds has been so declared to be due and payable, all arrears of interest upon all Outstanding Bonds, except interest accrued but not yet due on such Bonds, and all arrears of principal upon all of said Bonds shall have been paid in full, and all other defaults, if any, by the City under the provisions of the Ordinance and under the provisions of the statutes of the State shall have been cured, then and in every such case, the Registered Owners of a majority in principal amount of the Bonds then Outstanding, by written notice to the City given as hereinbefore specified, may rescind and annul such declaration and its consequences, but no such rescission or annulment shall extend to or affect any subsequent default or impair any rights consequent thereon.

### **Remedies.**

(a) The provisions of the Ordinance constitute a contract between the City and the Owners of the Bonds. The Owner or Owners of not less than 25% in principal amount of the Bonds at the time Outstanding have the right for the equal benefit and protection of all Owners of Bonds similarly situated:

(1) by any proceeding at law or in equity to enforce the rights of the Owner or Owners against the City and its officers, agents and employees, and to compel the performance by the City of its duties and obligations under the Ordinance, the Constitution and the laws of the State;

(2) by any proceeding at law or in equity to require the City, its officers, agents and employees to account as if they were the Paying Agents of an express trust; and

(3) by any proceeding at law or in equity to enjoin any act or thing which is unlawful or in violation of the rights of the Owners of the Bonds.

(b) Any amounts paid on the Bonds to the Owners will be applied first to interest and second to principal, to the extent due and payable.

### **Defeasance.**

When all of the Bonds have been paid and discharged, the provisions of the Ordinance will terminate. Bonds will be treated as paid and discharged within the meaning of the Ordinance if the City has deposited with the Paying Agent, or other bank or trust company located in the State, having full trust powers and meeting the requirements of a successor paying agent, (i) moneys and non-callable Defeasance Securities which, together with interest to be earned, as evidenced by the written report of an independent certified public accountant, will be sufficient for the payment of the principal and redemption premium, if any, of and interest to accrue on the Bonds to the date of maturity or redemption, and (ii) an opinion of Bond Counsel, addressed to the Paying Agent, that providing for the payment of the Bonds by depositing moneys or Defeasance Securities with the Paying Agent in accordance with this Section will not cause the interest on the Bonds to be included in gross income for federal income tax purposes. If any Bonds will be redeemed prior to maturity, the City must have given irrevocable instructions to the Paying Agent to redeem the Bonds. Any moneys and obligations which at any time are deposited with the Paying Agent or other bank by or on behalf of the City, for the purpose of paying and discharging any of the Bonds, are assigned, transferred and set over in trust for the applicable Owners, and the moneys and obligations are irrevocably appropriated to the payment and discharge of the applicable Bonds.

### **Amendments.**

(a) The provisions of Article XIII of the Ordinance are not applicable to the Certificate of Final Terms.

(b) Any provision of the Bonds or of the Ordinance may be amended by an ordinance, provided however, that the prior written consent of the Bondowners is required for any amendment which would:

- (1) extend the maturity of any payment of principal or interest on any Bond;
- (2) reduce the amount of principal or interest payable on any Bond; or
- (3) permit the priority of any Bond over any other Bond.

(c) No amendment will be effective until (i) the City has received an opinion of Bond Counsel stating that the amendment is permitted by the Ordinance and the Act, complies with their respective terms, is valid and binding upon the City in accordance with its terms and does not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes, and (ii) the City Clerk has on file a copy of the amendment and all required consents.

**Governing Law.**

The Ordinance is governed by and will be construed in accordance with the laws of the State of Missouri.

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**FORM OF CO-BOND COUNSEL OPINION**

[FORM OF CO-BOND COUNSEL OPINION]

[Closing Date]

City of Kansas City, Missouri  
Kansas City, Missouri

[Purchaser]  
[Purchaser City, State]

RE: City of Kansas City, Missouri, \$[principal amount] Sanitary Sewer System Revenue Bonds, Series 2009A

Ladies and Gentlemen:

We have acted as co-bond counsel in connection with the issuance by the City of Kansas City, Missouri (the "Issuer"), of the above-captioned bonds (the "Bonds"), pursuant to Committee Substitute for Ordinance No. 090087 (the "Ordinance"), adopted by the governing body of the Issuer. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Ordinance.

We have examined the law and such certified proceedings and other documents as we deem necessary to render this opinion. As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion, under existing law, as follows:

1. The Bonds have been duly authorized, executed and delivered by the Issuer and are valid and legally binding special obligations of the Issuer, payable solely from the Net Sanitary Sewer Revenues (as defined in the Ordinance), and on parity with any Parity Bonds issued or to be issued as provided in the Ordinance. The Bonds do not constitute general obligations of the Issuer nor do they constitute an indebtedness of the Issuer within the meaning of any constitutional or statutory provision, limitation or restriction, and the taxing power of the Issuer is not pledged to the payment of the Bonds.

2. The Ordinance has been duly adopted by the Issuer and constitutes the valid and legally binding obligation of the Issuer enforceable against the Issuer.

3. The interest on the Bonds (including any original issue discount properly allocable to an owner thereof) is excluded from gross income for federal and Missouri income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations and is not taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations. The opinions set forth in this paragraph are subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal and Missouri income tax purposes. The Issuer has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in

gross income for federal and Missouri income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

We have not been engaged or undertaken to review the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

The rights of the owners of the Bonds and the enforceability of the Bonds and the Ordinances may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent applicable and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

