

**BOOK-ENTRY ONLY**

**S&P Rating: “AA”; Moody’s Rating: “Aa3”  
See “BOND RATINGS” herein.**

*Subject to compliance by the Authority, the Council, the Districts and others with certain covenants, in the opinion of Bond Counsel, under present law, interest on the Series 2010-A Bonds (i) is excludible from gross income of the owners thereof for federal income tax purposes, (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations and (iii) is not taken into account in computing adjusted current earnings, which is used as an adjustment in determining the federal alternative minimum tax for certain corporations. See “TAX MATTERS” herein for a more complete discussion. Interest on the Series 2010-B Bonds and Series 2010-C Bonds is includible in gross income of the owners thereof for federal income tax purposes. See “TAX MATTERS” herein for a more complete discussion. Under the laws of the State of Illinois, as presently enacted and construed, the interest on the Bonds is exempt from the income tax imposed by the State of Illinois pursuant to the Illinois Income Tax Act. See “TAX MATTERS” herein for a more complete discussion.*

**SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY**

<b>\$64,015,000</b>	<b>\$9,050,000</b>	<b>\$21,130,000</b>
<b>Local Government Program Revenue Bonds, Series 2010-A</b>	<b>Taxable Local Government Program Revenue Bonds, Series 2010-B</b>	<b>Taxable Local Government Program Revenue Bonds, Series 2010-C</b>
<b>(Southwestern Illinois Flood Prevention District Council Project – Tax Exempt Bonds)</b>	<b>(Southwestern Illinois Flood Prevention District Council Project – Build America Bonds)</b>	<b>(Southwestern Illinois Flood Prevention District Council Project – Recovery Zone Economic Development Bonds)</b>

**Dated: Date of Delivery**

**Due: As shown on the inside cover**

The Bonds (as defined herein) are issuable only as fully-registered bonds, in denominations of \$5,000 or any integral multiples thereof. Interest on the Bonds will be payable semiannually on each April 15 and October 15, beginning April 15, 2011. The Bonds are payable only from the revenues derived from the payment of the principal and interest by the

**SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL,  
MADISON, ST. CLAIR AND MONROE COUNTIES, ILLINOIS**

(the “Council”) on its Local Government Securities (as described herein) which are to be purchased with the proceeds of the Bonds. The Council anticipates paying the debt service on the Local Government Securities from Flood Prevention District Revenues (as such term is defined herein), including a flood prevention retailers’ occupation tax and a flood prevention service occupation tax imposed by each County (as defined herein) at a rate of 0.25% of the gross receipts from all taxable sales as described in the Flood Prevention District Act of the State of Illinois, as amended, such tax being authorized for the improvement of levees along the Mississippi River in a three-county area.

The Bonds shall not constitute a debt of the State of Illinois (the “State”), and shall not constitute an indebtedness or an obligation, general or moral, or a pledge of the faith or loan of credit of the Authority or the State, within the meaning of any constitutional or statutory limitation. Neither the faith and credit nor the taxing power, if any, of the Authority or the State is pledged to the payment of the principal of and interest on the Bonds or other costs incidental thereto. The Authority has no taxing power. The Bonds are special, limited obligations of the Authority, payable solely from the sources described in the Resolutions (as such term is defined herein). The members of the Board of Directors of the Authority have determined that Section 7(f) of the SWIDA Act (as defined herein), relating to the moral obligation of the State, does not apply to the Bonds.

The Local Government Securities do not constitute an indebtedness of the Council within the meaning of any constitutional or statutory provision or limitation. No owner of the Local Government Securities shall have the right to compel the exercise of any taxing power of the Council for payment of the principal of, or premium, if any, or interest on any Local Government Security.

The Bonds are subject to optional and extraordinary optional redemption prior to maturity in certain circumstances. See “**THE BONDS – Redemption Provisions**” herein.

The Bonds are offered when, as and if issued by the Authority, subject to the approval of legality by Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed upon for the Authority by Chapman and Cutler LLP, Chicago, Illinois, for the Council by Sprague & Urban, Belleville, Illinois, and Chapman and Cutler LLP, Chicago, Illinois, and for the Underwriters by Gilmore & Bell, P.C., St. Louis, Missouri. It is expected that the Bonds will be available for delivery at The Depository Trust Company on or about November 23, 2010.

**MORGAN KEEGAN**

**STIFEL, NICOLAUS & COMPANY,  
INCORPORATED**

**HUTCHINSON, SHOCKEY,  
ERLEY & CO.**

**LOOP CAPITAL MARKETS, LLC**

The date of this Official Statement is November 10, 2010.

**SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY**

**MATURITY SCHEDULE**

**BASE CUSIP: 84552Y**

**\$64,015,000**

**Local Government Program Revenue Bonds,  
Series 2010-A**

**(Southwestern Illinois Flood Prevention District Council Project – Tax Exempt Bonds)**

**SERIAL BONDS**

<u>Maturity (April 15)</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Price</u>	<u>CUSIP</u>	<u>Maturity (April 15)</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Price</u>	<u>CUSIP</u>
2012	\$2,455,000	2.00%	101.088%	KH 3	2018	\$2,950,000	4.00%	107.133%	KP 5
2013	2,505,000	2.00	101.289	KJ 9	2019	3,070,000	3.00	98.463	KQ 3
2014	2,555,000	2.00	100.819	KK 6	2020	3,160,000	3.25	98.404	KR 1
2015	2,605,000	3.00	104.014	KL 4	2021	3,265,000	3.50	97.861	KS 9
2016	2,685,000	5.00	113.404	KM 2	2022	3,380,000	3.75	98.808	KT 7
2017	2,070,000	5.00	113.862	KY 6	2023	3,505,000	4.00	99.899	KU 4
2017	750,000	4.00	108.012	KN 0	2024	95,000	5.00	106.954	KV 2

**TERM BONDS**

<u>Maturity</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Price</u>	<u>CUSIP</u>
April 15, 2025	\$ 7,345,000	4.00%	97.852%	KW 0
April 15, 2030	11,620,000	4.25	96.157	KX 8
April 15, 2030	10,000,000	5.00	103.404	KZ 3

**\$9,050,000**

**Taxable Local Government Program Revenue Bonds,  
Series 2010-B**

**(Southwestern Illinois Flood Prevention District  
Council Project – Build America Bonds)**

**TERM BONDS**

<u>Maturity</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Price</u>	<u>CUSIP</u>
April 15, 2032	\$9,050,000	7.03%	100.000%	LA 7

**\$21,130,000**

**Taxable Local Government Program Revenue Bonds,  
Series 2010-C**

**(Southwestern Illinois Flood Prevention District Council Project –  
Recovery Zone Economic Development Bonds)**

**TERM BONDS**

<u>Maturity</u>	<u>Principal Amount</u>	<u>Rate</u>	<u>Price</u>	<u>CUSIP</u>
October 15, 2035	\$21,130,000	7.23%	100.000%	LB 5

No dealer, broker, salesman or other person has been authorized by the Authority or the Council 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 sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Except for information concerning the Authority contained under the captions "THE AUTHORITY" and "ABSENCE OF LITIGATION," none of the information in this Official Statement has been supplied or verified by the Authority, and the Authority makes no representation or warranty, express or implied, as to the accuracy or completeness of such information. Certain information set forth herein has been furnished by the Council and other sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Authority. 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 affairs of the Authority or the Council since the date hereof. For the purpose of enabling the Underwriters to comply with the requirements of Rule 15c2-12(b)(1) of the Securities and Exchange Commission, the Council will deem the information in this Official Statement to be "final" as of its date. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors 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.

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

**The Bonds have not been registered with the Securities and Exchange Commission under the Securities Act of 1933, as amended, or under any state securities or "blue sky" laws. The Bonds are offered pursuant to an exemption from registration with the Securities and Exchange Commission. In making an investment decision, investors must rely on their own examination of the terms of this offering, including the merits and risks involved. These securities 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.**

#### **CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference in this Official Statement constitute "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, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "anticipate," "projected," "budget" or other similar words.

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. THESE FUTURE RISKS AND UNCERTAINTIES INCLUDE THOSE DISCUSSED IN THE "BONDOWNERS' RISKS" SECTION OF THIS OFFICIAL STATEMENT. NEITHER THE COUNCIL NOR ANY OTHER PARTY PLANS TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN THEIR EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES UPON WHICH SUCH STATEMENTS ARE BASED, OCCUR.

#### **CIRCULAR 230**

This Official Statement contains tax advice written to market the Bonds. This subsection is informing Bondholders of the following as required under Treas. Reg. §10.35 which is contained in the rules of practice before the Internal Revenue Service, commonly known as Circular 230.

The tax advice contained in this Official Statement is not intended or written by the Authority, its Bond Counsel, or any other person to be used, and it cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax advice contained in this Official Statement was written to support the promotion or marketing of the Bonds. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

The Authority, the Council, the Districts and Bond Counsel impose no restrictions or limitations on disclosing the content of this Official Statement or of any details of the structure of the Bonds or on the tax treatment or tax structure of the Bonds and the use of proceeds thereof.

**THE COUNTY OF  
MADISON, ILLINOIS**

Alan J. Dunstan  
Chairman

**THE COUNTY OF  
ST. CLAIR, ILLINOIS**

Mark Kern  
Chairman

**THE COUNTY OF  
MONROE, ILLINOIS**

Delbert Wittenauer  
Chairman

**SOUTHWESTERN ILLINOIS FLOOD PREVENTION DISTRICT COUNCIL**

**Board of Directors**

Dan Maher, President and Director  
John Conrad, Vice President and Director  
Jim Pennekamp, Secretary/Treasurer and Director  
Dave Baxmeyer, Director  
Paul Bergkoetter, Director  
Bruce Brinkmann, Director  
J. Thomas Long, Director  
Ronald Motil, Director  
Alvin Parks, Jr., Director

**Administration**

Les Sterman, Chief Supervisor of Construction and the Works

**PROFESSIONAL SERVICES**

**Financial Advisors**

ButcherMark Financial Advisors LLC  
New York, New York

Scott Balice Strategies  
Chicago, Illinois

**Council Counsel**

Sprague & Urban  
Belleville, Illinois

**Bond Counsel**

Chapman and Cutler LLP  
Chicago, Illinois

**Underwriters**

Morgan Keegan & Company, Inc.

Stifel, Nicolaus & Company,  
Incorporated

Hutchinson, Shockey,  
Erley & Co.

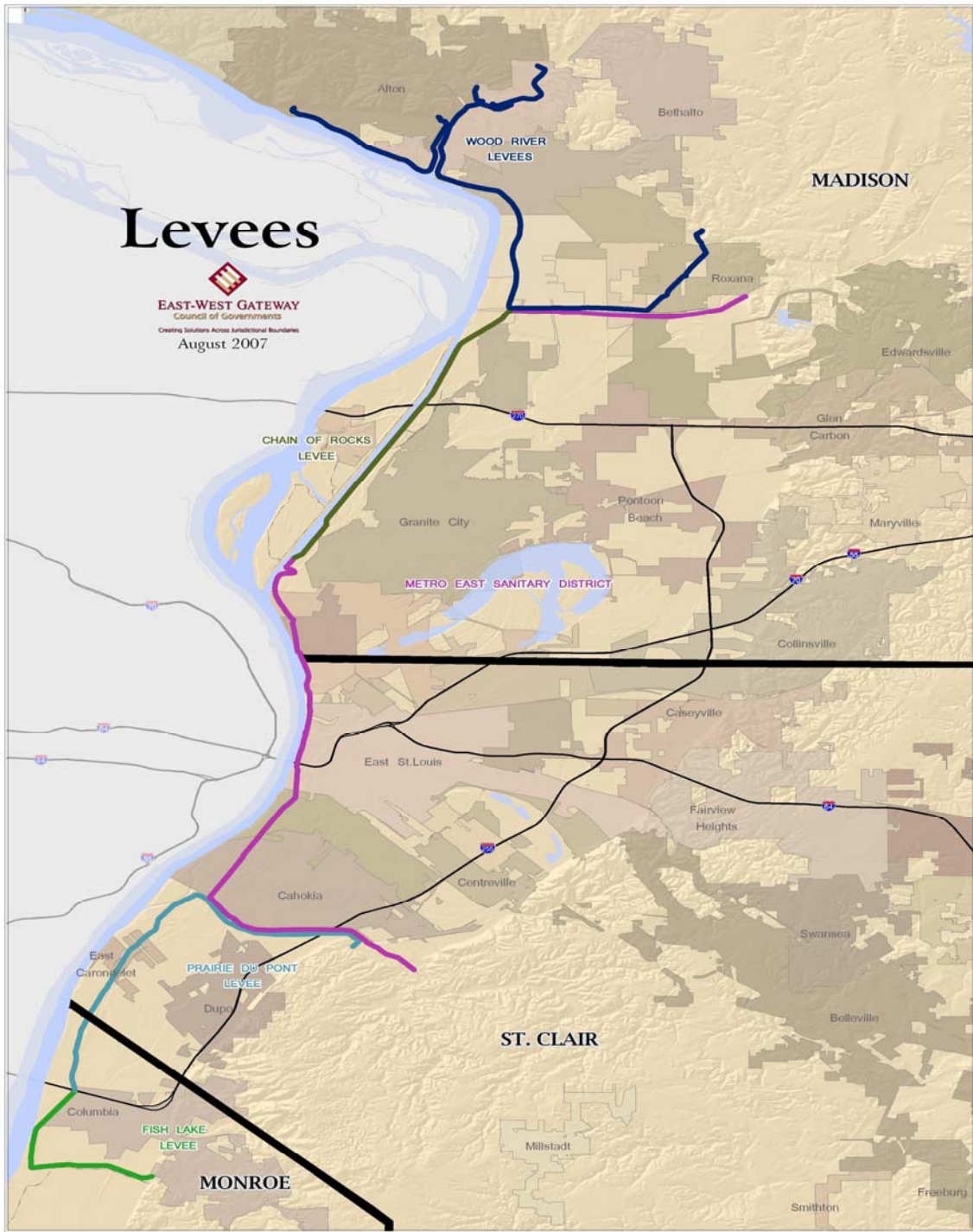
Loop Capital Markets, LLC

**Underwriters' Counsel**

Gilmore & Bell, P.C.  
St. Louis, Missouri

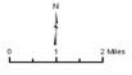
**Registrar/Trustee**

UMB Bank, N.A.  
St. Louis, Missouri

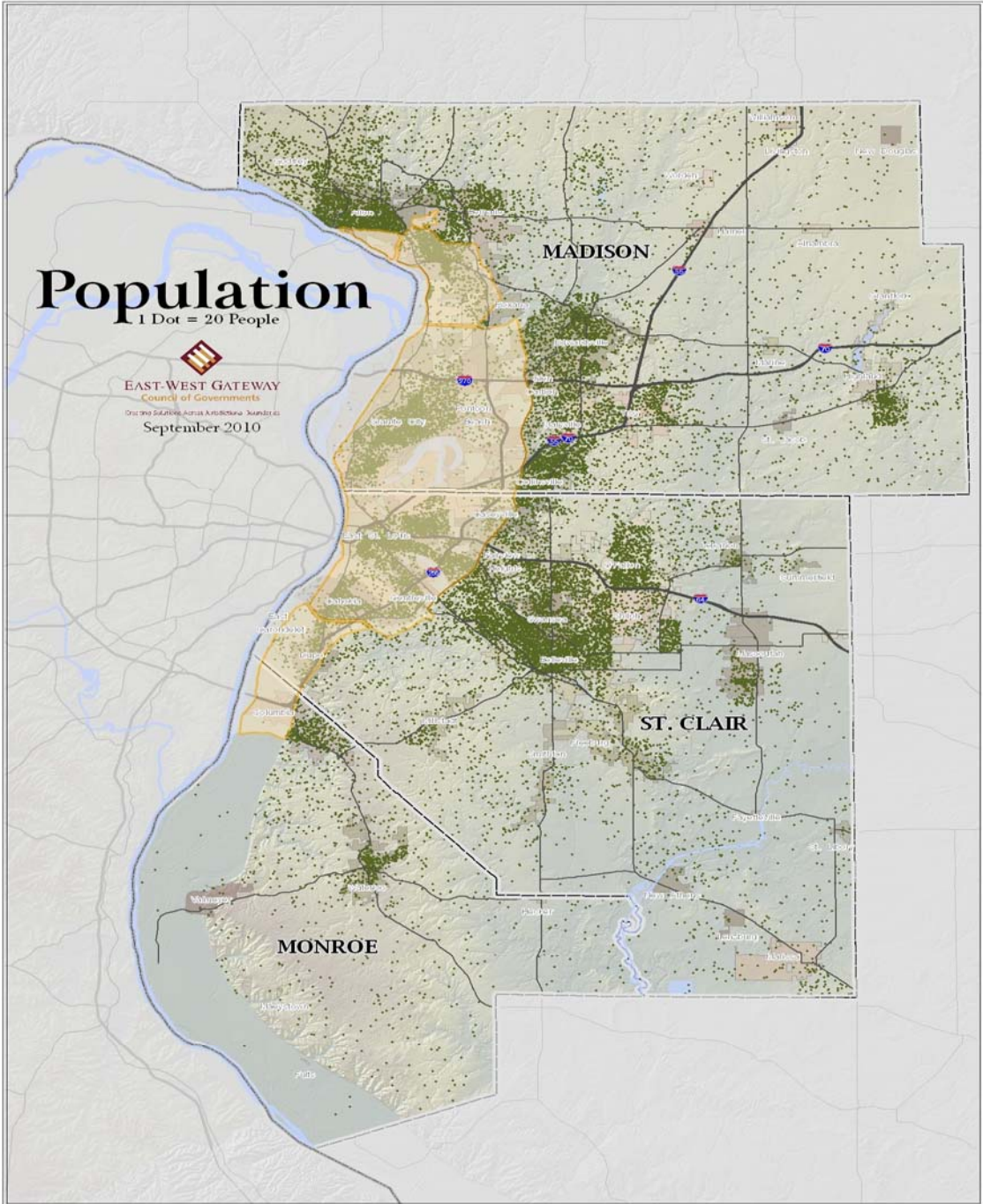


**Legend**

- CHAIN OF ROCKS LEVEE
- FISH LAKE LEVEE
- METRO EAST SANITARY DISTRICT LEVEE
- PRAIRIE DU PONT LEVEE
- WOOD RIVER LEVEES
- LEVEES
- WATER FEATURE
- INTERSTATE HIGHWAY
- COUNTY BOUNDARY







# Population

1 Dot = 20 People

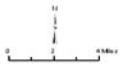
**EAST-WEST GATEWAY**  
 Council of Governments  
 Direction: Sudaires Actes Antideltaire, Janvier 2010  
 September 2010

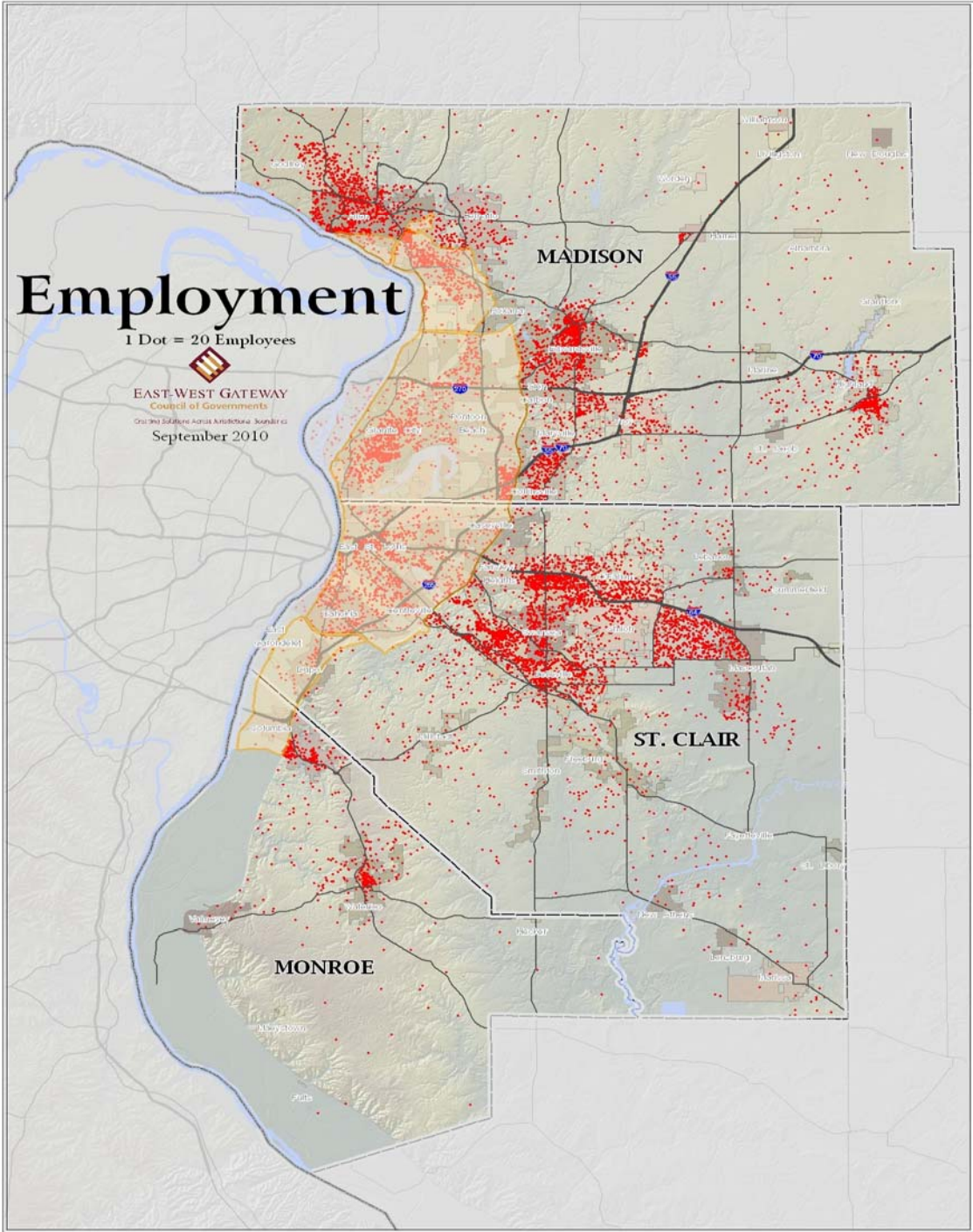


### Legend

- Levee Protected Area (approximate)
- Population: 1 dot equals 20 people (2000 Census)

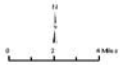
- Major Roads
- ~ Water Features
- County Boundary





**Legend**

- Levee Protected Area (approximate)
- Employment: 1 dot equals 20 employees (Reference USA, August 2010)
- Major Roads
- Water Features
- County Boundary



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## TABLE OF CONTENTS

<u>Page</u>	<u>Page</u>
INTRODUCTION.....	1
Purpose of the Official Statement .....	1
The Authority .....	2
The Council.....	2
The Bonds .....	2
Security for the Bonds.....	3
Bondowners’ Risks .....	4
Definitions and Summaries of the Principal	
Documents.....	4
Continuing Disclosure.....	4
THE AUTHORITY.....	4
Organization and Powers .....	4
Indebtedness of the Authority .....	5
THE COUNCIL .....	5
Background .....	5
The Flood Prevention District Act and the	
Districts .....	6
District/Council Intergovernmental Agreement ....	7
County/Council Intergovernmental Agreements.....	8
Chief Supervisor of Construction and the	
Works .....	8
THE BONDS .....	8
Authorization; Description of the Bonds.....	8
Registration, Transfer and Exchange of Bonds.....	9
Redemption Provisions .....	9
Book–Entry Only System.....	13
Debt Service Requirements .....	15
SOURCES OF PAYMENT AND SECURITY	
FOR THE BONDS.....	17
Limited Obligations; Sources of Payment.....	17
THE LOCAL GOVERNMENT SECURITIES ..	17
General .....	17
County/Council Intergovernmental Agreements.....	18
Build America Bonds .....	18
Recovery Zone Economic Development Bonds.....	18
Indenture Flow of Funds .....	18
Bond Fund.....	20
Reserve Fund.....	21
Surplus Fund .....	22
Investments .....	22
Redemption Provisions of the Local Government	
Securities .....	23
Additional and Subordinate Local Government	
Securities .....	23
Discharge and Payment.....	24
ESTIMATED SOURCES AND USES OF	
FUNDS.....	25
FLOOD PREVENTION DISTRICT SALES	
TAXES.....	25
General .....	25
Collection .....	26
Flood Prevention District Sales Tax Receipts .....	27
Flood Prevention District Sales Tax Base .....	28
THE LEVEE SYSTEM.....	28
THE PROJECT .....	30
BONDOWNERS’ RISKS .....	32
Nature of the Obligations .....	32
No Mortgage of the Property.....	32
Limitations on Remedies.....	32
Changes in Market Conditions .....	33
Deaccreditation of Levees .....	33
Risk of Construction.....	34
Risk of Flood.....	34
Reserve Fund.....	34
Additional Local Government Securities .....	35
Subsidy Risk.....	35
Determination of Taxability .....	35
Risk of Audit.....	35
ABSENCE OF LITIGATION.....	36
LEGAL MATTERS .....	36
TAX MATTERS .....	36
Tax Exemption of Series 2010-A Bonds.....	36
Taxable Series 2010-B Bonds and Series 2010-C	
Bonds .....	39
BUILD AMERICA BONDS AND RECOVERY	
ZONE ECONOMIC DEVELOPMENT	
BONDS .....	39
CIRCULAR 230.....	41
UNDERWRITING.....	41
BOND RATINGS .....	42
CERTAIN RELATIONSHIPS.....	42
MISCELLANEOUS.....	43
Appendix A - General, Economic and Financial	
Information regarding the Counties	
Appendix B - Definition of Words and Terms and	
Summary of the Principal Documents	
Appendix C - Forms of Opinions of Bond Counsel	
Appendix D - General Discussion of Underseepage	
and Impact to the Levee System	

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## OFFICIAL STATEMENT

### SOUTHWESTERN ILLINOIS DEVELOPMENT AUTHORITY

**\$64,015,000**

**Local Government Program  
Revenue Bonds, Series 2010-A  
(Southwestern Illinois Flood Prevention  
District Council Project – Tax Exempt Bonds)**

**\$9,050,000**

**Taxable Local Government Program  
Revenue Bonds, Series 2010-B  
(Southwestern Illinois Flood Prevention District  
Council Project – Build America Bonds)**

**\$21,130,000**

**Taxable Local Government Program  
Revenue Bonds, Series 2010-C  
(Southwestern Illinois Flood Prevention District  
Council Project – Recovery Zone Economic  
Development Bonds)**

## INTRODUCTION

*This introduction is only a brief description and summary of certain information contained in this Official Statement and is qualified in its entirety by reference to the more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement.*

### **Purpose of the Official Statement**

The purpose of this Official Statement is to furnish information relating to (1) the Southwestern Illinois Development Authority (the “**Authority**”), (2) the Southwestern Illinois Flood Prevention District Council, Madison, St. Clair and Monroe Counties, Illinois (the “**Council**”), and (3) the Authority’s (a) Local Government Program Revenue Bonds, Series 2010-A (Southwestern Illinois Flood Prevention District Council Project – Tax Exempt Bonds) (the “**Series 2010-A Bonds**”) issued in the original principal amount of \$64,015,000, (b) Taxable Local Government Program Revenue Bonds, Series 2010-B (Southwestern Illinois Flood Prevention District Council Project – Build America Bonds) (the “**Series 2010-B Bonds**”) issued in the original principal amount of \$9,050,000, and (c) Taxable Local Government Program Revenue Bonds, Series 2010-C (Southwestern Illinois Flood Prevention District Council Project – Recovery Zone Economic Development Bonds) (the “**Series 2010-C Bonds**”) and, together with the Series 2010-A Bonds and the Series 2010-B Bonds, the “**Bonds**”) issued in the original principal amount of \$21,130,000.

The Series 2010-A Bonds are being issued for the purpose of providing funds to purchase the Council’s Flood Prevention District Council Sales Tax Revenue Bonds, Series 2010A (the “**Series 2010A Local Government Securities**”) issued in the original principal amount of \$64,015,000. The Series 2010-B Bonds are being issued for the purpose of providing funds to purchase the Council’s Taxable Flood Prevention District Council Sales Tax Revenue Bonds (Build America Bonds – Direct Pay), Series 2010B (the “**Series 2010B Local Government Securities**”) issued in the original principal amount of \$9,050,000. The Series 2010-C Bonds are being issued for the purpose of providing funds to purchase the Council’s Taxable Flood Prevention District Council Sales Tax Revenue Bonds (Recovery Zone Economic Development Bonds), Series 2010C (the “**Series 2010C Local Government Securities**”) and, together with the Series 2010A Local Government Securities and the Series 2010B Local Government Securities, the “**Local Government Securities**”) issued in the original principal amount of \$21,130,000. The Local Government Securities are being issued to finance emergency levee repair and flood protection (the “**Project**”), fund a debt service reserve fund for the Local Government Securities, and pay costs of issuance.

For the definition of certain capitalized terms used herein and not otherwise defined, see “**Appendix B – Definition of Words and Terms and Summary of the Principal Documents**” hereto.

### **The Authority**

The Authority is a political subdivision, body politic and municipal corporation organized and existing under the Southwestern Illinois Development Authority Act of the State of Illinois (the “**State**”), 70 *Illinois Compiled Statutes 2008, 520/1 et seq.*, as amended and supplemented (the “**SWIDA Act**”). See the caption “**THE AUTHORITY**” herein.

### **The Council**

The Council is a governmental entity duly created and existing under the laws of the State pursuant to an intergovernmental cooperation agreement among the Madison County Flood Prevention District, Madison County, Illinois (the “**Madison County District**”), the St. Clair County Flood Prevention District, St. Clair County, Illinois (the “**St. Clair County District**”) and the Monroe County Flood Prevention District, Monroe County, Illinois (the “**Monroe County District**” and, together with the Madison County District and the St. Clair County District, the “**Districts**”). The Council was created to undertake the construction, financing, management, design and oversight of the levee improvement project described in this Official Statement. See the captions “**THE COUNCIL**” and “**THE PROJECT**” herein.

The boundaries of the Council are coterminous with the boundaries of the Counties of Madison, St. Clair and Monroe, Illinois (collectively, the “**Counties**”). The Counties are located across the Mississippi River from the City of St. Louis and St. Louis County Missouri and cover approximately 1,787 square miles. According to recent population estimates, over 560,000 people live within the boundaries of the Counties. The Counties are part of the St. Louis Metropolitan Statistical Area. See **Appendix A – “General, Economic and Financial Information of the Counties”** hereto.

The levee system located in Southwestern Illinois and described in this Official Statement (the “**Levee System**”) protects an area called the American Bottom, which according to the East-West Gateway Council of Governments (“**EWGCG**”), is an area that encompasses economic assets with a value of approximately \$20 billion and generates annual direct economic output of \$2.6 billion.<sup>(1)</sup> EWGCG was established in 1965 to provide a forum for cooperative planning and problem-solving for eight of the counties comprising the St. Louis metropolitan area, consisting of the City of St. Louis; Jefferson, Franklin, St. Charles and St. Louis in Missouri; Madison, Monroe, and St. Clair in Illinois. According to EWGCG, approximately 55,000 people are employed in the American Bottom and 156,000 people reside in the American Bottom. According to published reports, including reports by the Leadership Council Southwestern Illinois, an economic development organization for Madison and St. Clair Counties, major employers located within the flood-protected area include ConocoPhillips, which is currently in the process of a \$3.6 billion refinery expansion; U.S. Steel, which employs approximately 2,000 people; Afton Chemical, a maker of gasoline additives; and Solutia, a major chemical manufacturer. More than 40 rail lines and 4 Interstate Highways are located in the Counties, including 30 rail yard facilities and 9 trunk line railroads.

### **The Bonds**

The Bonds are being issued pursuant to the SWIDA Act and resolutions duly adopted by the members of the Board of Directors of the Authority (the “**Resolutions**”) on October 21, 2010. The proceeds of the Series 2010-A Bonds will be used to purchase the Series 2010A Local Government Securities, the proceeds of the Series 2010-B Bonds will be used to purchase the Series 2010B Local Government Securities, and the proceeds

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<sup>(1)</sup> Economic output is defined as the amount of value added by a firm to supplies or raw materials. For example, if a factory purchases \$1 million of raw materials and transforms those materials into finished products worth \$1.5 million, then the economic output would be valued at \$500,000.

of the Series 2010-C Bonds will be used to purchase the Series 2010C Local Government Securities. The Authority has assigned and pledged (a) the Series 2010A Local Government Securities to the Registrar (as hereinafter defined) on behalf and for the benefit of the owners of the Series 2010-A Bonds, (b) the Series 2010B Local Government Securities to the Registrar on behalf and for the benefit of the owners of the Series 2010-B Bonds, and (c) the Series 2010C Local Government Securities to the Registrar on behalf and for the benefit of the owners of the Series 2010-C Bonds.

A description of the Bonds is contained in this Official Statement under the caption **“THE BONDS.”** All references to the Bonds are qualified in their entirety by the definitive form thereof and the provisions with respect thereto included in the Resolutions. A description of the Local Government Securities is contained in this Official Statement under the caption **“THE LOCAL GOVERNMENT SECURITIES.”** All references to the Local Government Securities are qualified in their entirety by the definitive form thereof and the provisions with respect thereto included in the Indenture of Trust dated as of November 23, 2010 (the **“Indenture”**), between the Council and UMB Bank, N.A., St. Louis, Missouri (the **“Trustee”**), authorizing the issuance of the Local Government Securities.

### **Security for the Bonds**

The Bonds and the interest thereon are special, limited obligations of the Authority, payable solely from the revenues derived from the payment of the principal of and interest on the Local Government Securities. The Authority has assigned and pledged the Local Government Securities to the Registrar on behalf and for the benefit of the owners of the Bonds as described above. See **“SOURCES OF PAYMENT AND SECURITY FOR THE BONDS”** herein.

Payments of the principal of and interest on the Local Government Securities are payable from a pledge of the Flood Prevention District Revenues, which include a flood prevention retailers’ occupation tax and a flood prevention service occupation tax imposed by each County at a rate of 0.25% of the gross receipts from all taxable sales as described in the Flood Prevention District Act of the State, as amended, and any substitute therefor as provided by the State in the future (the **“Flood Prevention District Sales Taxes”**). Since the Flood Prevention District Sales Taxes became effective on January 1, 2009, over \$16.5 million of Flood Prevention District Sales Taxes have been collected by the Counties, with \$10,840,748 of such amount collected in the twelve month period of November 2009 to October 2010. All Flood Prevention District Sales Taxes collected to date have been or will be used to pay for improvements to the Levee System and are not available for payment of the principal of and interest on the Local Government Securities. See **“FLOOD PREVENTION DISTRICT SALES TAXES”** herein. Payments of the principal of and interest on the Series 2010B Local Government Securities are also payable from a pledge of the Build America Payments (as hereinafter defined). Payments of the principal of and interest on the Series 2010C Local Government Securities are also payable from a pledge of the Recovery Zone Payments (as hereinafter defined). Additional Local Government Securities ranking on a parity with the Local Government Securities may be issued under the terms specified in the Indenture. See **“THE LOCAL GOVERNMENT SECURITIES”** herein.

“Flood Prevention District Revenues” is defined in the Indenture as (a) the Flood Prevention District Sales Taxes, (b) Build America Payments, which are pledged only to the Series 2010B Local Government Securities, and Recovery Zone Payments, which are only pledged to the Series 2010C Local Government Securities, and (c) any other revenues of the Districts and the Council which are permitted to be used to pay debt service on Local Government Securities.

A debt service reserve fund will be funded in the amount of \$6,194,424.22 from proceeds of the Local Government Securities as security for the repayment of the Local Government Securities.



## **Bondowners' Risks**

The Bonds involve a certain degree of risk, and prospective purchasers should read the section captioned "**BONDOWNERS' RISKS**" herein. The Bonds may not be suitable investments for all persons, and prospective purchasers should carefully evaluate the risks and merits of an investment in the Bonds, should confer with their own legal and financial advisors and should be able to bear the risk of loss of their investment in the Bonds before considering a purchase of the Bonds.

## **Definitions and Summaries of the Principal Documents**

Definitions of certain words and terms used in this Official Statement and a summary of certain provisions of the principal documents are included in this Official Statement in "**Appendix B – Definition of Words and Terms and Summary of the Principal Documents**" hereto. Such definitions and summaries do not purport to be comprehensive or definitive. All references herein to the Resolutions, the Indenture and the Continuing Disclosure Agreement are qualified in their entirety by reference to the definitive form of such documents, copies of which may be obtained from the Trustee at UMB Bank, N.A., 2 South Broadway, Suite 600, St. Louis, Missouri 63102.

## **Continuing Disclosure**

The Council covenants in the Continuing Disclosure Agreement to provide its audited financial statements and certain financial information within 180 days after the end of the Council's fiscal year, commencing with the fiscal year ending September 30, 2010, and to provide notices of the occurrence of certain enumerated events, if deemed by the Council to be material. See "**Appendix B – Definition of Words and Terms and Summary of the Principal Documents – Summary of the Continuing Disclosure Agreement**" hereto.

## **THE AUTHORITY**

### **Organization and Powers**

The Authority is a political subdivision, body politic and municipal corporation duly organized and validly existing under the laws of the State, including particularly the SWIDA Act. The Authority is authorized under the SWIDA Act, among other things, to issue its revenue bonds and to use the proceeds thereof for the purpose of purchasing "local government securities," within the meaning of the SWIDA Act.

THE BONDS SHALL NOT CONSTITUTE A DEBT OF THE STATE, AND SHALL NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION, GENERAL OR MORAL, OR A PLEDGE OF THE FAITH OR LOAN OF CREDIT OF THE AUTHORITY OR THE STATE, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER, IF ANY, OF THE AUTHORITY OR THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE BONDS OR OTHER COSTS INCIDENTAL THERETO. THE AUTHORITY HAS NO TAXING POWER. THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE SOURCES DESCRIBED IN THE RESOLUTIONS. THE MEMBERS OF THE BOARD OF DIRECTORS OF THE AUTHORITY HAVE DETERMINED THAT SECTION 7(f) OF THE SWIDA ACT, RELATING TO THE MORAL OBLIGATION OF THE STATE OF ILLINOIS, DOES **NOT** APPLY TO THE BONDS.

The Authority has a Board of Directors in which the powers of the Authority are vested, which consists of thirteen directors and two ex officio members. The address of the Authority is 1022 Eastport Plaza Drive, Collinsville, Illinois 62234. The phone number of the Authority is (618) 345-3400.

The Authority has three full-time employees, including Michael J. Lundy, who serves as executive director, and Joe Gasparich, who serves as Assistant Executive Director.

### **Indebtedness of the Authority**

The Authority is authorized to issue and may issue other series of bonds and notes secured by instruments separate and apart from the Resolutions. The owners of such bonds and notes will have no claim on the assets, funds or revenues of the Authority securing the Bonds. The owners of the Bonds will have no claim on the assets, funds or revenues of the Authority securing such other bonds and notes.

## **THE COUNCIL**

### **Background**

In response to certain natural disasters involving levees over the past 20 years, including the Midwest flood in 1993 causing approximately fifty deaths and \$15 billion in damage and Hurricane Katrina in 2005 causing approximately fourteen hundred deaths and \$80 billion in damage, Congress directed the Federal Emergency Management Agency (“**FEMA**”) to update all flood insurance rate maps to show the base flood elevation of a flood with a 1% chance of occurring in any given year (i.e. a 100-year flood).

FEMA is now in the process of revising and digitizing its flood insurance maps nationwide. As part of the process of producing new maps, FEMA must ascertain whether the flood protection system for any developed or undeveloped area meets the standards described in federal regulation 44 CFR 65.10 for adequate protection from catastrophic floods. A critical component of the FEMA standards is the ability of the existing levees to protect from a 100-year flood event without the use of “floodfighting” techniques such as sand bagging to control underseepage or raise the height of levees.

As part of the mapping process, FEMA has asked the U.S. Army Corps of Engineers (the “**Corps**”) to determine whether levees and other flood control facilities are likely to meet the FEMA standard. The existing Levee System was originally designed and built by the Corp to exceed the 500-year level of flood protection (a 0.20% chance of occurring in any given year). High water events, such as the flood of record in 1993 (a 300-year event), have tested the Levee System. The 1993 flood required some level of floodfighting. With the change in the application of FEMA standards, the Corps is uncertain that the Levee System can meet the requirements of 44 CFR 65.10 without the use of floodfighting techniques. The Levee System has never failed since it was originally constructed, and it has never received an unsatisfactory inspection rating from the Corps as part of the Corps’ annual inspection process. Local levee districts provide maintenance to the Levee System and such maintenance has been determined to be adequate by the Corps. The uncertainty about certification of the Levee System is a result of changes in engineering standards, measurement techniques, and a better understanding of the risks of levee failures, and not a result of any significant physical change in the Levee System.

In August 2007, FEMA announced that the Levee System would likely not meet the minimum criteria for flood protection from the 100-year flood even though there has never been a breach or structural failure of the Levee System resulting in a flood. According to initial reports by the Corps, all the levees in question exhibited underseepage problems that, if left uncorrected, increase the risk of a levee failure and major flood. The potential risk of a major flood is a serious threat to public safety and the economic growth in Southwestern Illinois. For more information regarding underseepage, see **Appendix D – “General Discussion of Underseepage and Impact to the Levee System”** herein.

The Levees System protects an area known as the American Bottom, which is a broad floodplain area situated in the Counties along the eastern bank of the Mississippi River. The American Bottom contains approximately 156,000 residents and numerous heavy industries and businesses. Most of the levees were built

in the 1940s and improved during the 1950s using design standards in place at that time. See the caption **“THE LEVEE SYSTEM”** herein. According to EWGCG, the American Bottom is an area that encompasses economic assets with a value of approximately \$20 billion and generates annual direct economic output of \$2.6 billion.<sup>(1)</sup>

When the new flood insurance rate maps are finalized (currently predicted to occur in December 2011), the owner of any property in a special flood hazard area that secures a loan from a federally regulated financial institution will be required to have flood insurance. Flood insurance purchased before the new maps are officially adopted by FEMA is significantly less expensive than it will be once the maps are finalized, because the property is still officially protected by a FEMA accredited levee. Beginning on or about January 1, 2012, FEMA will offer up to two years’ eligibility for the National Flood Insurance Program’s Preferred Risk Policy to businesses and homeowners affected by a flood risk map changes across the country. So long as the improvements to the Levee System are completed within time standards established by FEMA, FEMA will extend such offer of insurance beyond two years while the levees are under construction. Thereafter flood insurance offered at standard rates will be approximately four to five times higher than preferred risk rates. Larger businesses requiring greater than \$500,000 protection on real property or building contents must buy insurance in the private market at very costly rates. EWGCG has estimated that total increases in insurance premiums after new flood insurance rate maps go into effect will be about \$50 million annually from the three-county area protected by the Levee System. The issuance of new maps may also trigger very restrictive changes in local building regulations and decreases in the value of property.

On November 3, 2009, the Council requested documentation from FEMA under the Freedom of Information Act to support the agency’s decision to deaccredit the Levee System. While FEMA has provided information to the Council, the Council does not believe such information provides any evidence of structural deficiencies in the Levee System that would demonstrate that it would be unable to protect the American Bottom from a 100-year flood event. On October 21, 2010 the Council approved a resolution to be part of a lawsuit against FEMA challenging the agency’s decision to deaccredit the Levee System. The Council will join the Counties, local levee districts and several municipalities located within the boundaries of the Council in filing the lawsuit. The current deadline for filing such lawsuit is the middle of November 2010. The Council recognizes the need to make improvements to the Levee System to meet modern flood prevention standards and has employed engineering design consultants to identify enhancements to the Levee System to improve protection to meet FEMA standards. Regardless of the outcome of discussions or litigation with FEMA to certify the Levee System, the Council intends to make improvements to the Levee System and the Counties are required to continue imposing the Flood Prevention District Sales Taxes to pay the principal of and interest on the Local Government Securities.

### **The Flood Prevention District Act and the Districts**

In response to the safety and economic concerns mentioned above and at the urging of local leaders of Southwestern Illinois, the General Assembly of the State of Illinois passed and the Governor of Illinois signed into law the Flood Prevention District Act, 70 ILCS 750/1 *et seq.* (as amended, the **“Flood Prevention Act”**) giving the Counties the authority to create flood prevention districts for the purpose of performing emergency levee repair and flood prevention in order to prevent the loss of life or property and the authority to impose the Flood Prevention District Sales Taxes.

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<sup>(1)</sup> Economic output is defined as the amount of value added by a firm to supplies or raw materials. For example, if a factory purchases \$1 million of raw materials and transforms those materials into finished products worth \$1.5 million, then the economic output would be valued at \$500,000.

Each duly created District is coterminous with the boundaries of the County in which the District is situated and is governed by a board of three commissioners who are appointed by the chairman of the county board in which the District is situated. Of the initial appointments, one commissioner shall serve for a one-year term, one commissioner shall serve for a 2-year term, and one commissioner shall serve for a 3-year term, as determined by lot. Their successors shall be appointed for 3-year terms. The following are the commissioners of each of the Districts:

<u>Madison County District</u>	<u>Principal Employment</u>	<u>Term Expires</u>
J. Thomas Long	Attorney	2011
Ronald Motil	Attorney	2013
Jim Pennekamp	Special Assistant to the Southern Illinois University –Edwardsville Chancellor for Regional Economic Development	2012

<u>St. Clair County District</u>	<u>Principal Employment</u>	<u>Term Expires</u>
Paul Bergkoetter	Owner of Automobile Dealership	2012
Dan Maher	St. Clair County Administration Director	2011
Alvin Parks, Jr.	Mayor of East St. Louis, Illinois	2013

<u>Monroe County District</u>	<u>Principal Employment</u>	<u>Term Expires</u>
Dave Baxmeyer	Owner of Construction Company	2012
Bruce Brinkmann	Farmer	2011
John Conrad	Editor and Publisher of the <i>Monroe County Independent</i>	2013

#### **District/Council Intergovernmental Agreement**

Pursuant to the Flood Prevention Act, the Districts were given the power to join together through an intergovernmental agreement to provide any services described in the Flood Prevention Act, including the issuance of bonds. The Districts determined that it was in the best interest of the Counties and the public for the Districts to join together to complete the Project in concert, instead of trying to improve the Levee System as three separate projects with each project approved by a different governing body. On June 11, 2009, the Districts entered into an Intergovernmental Agreement (the “**Original District/Council Intergovernmental Agreement**”) to create the Council in order to coordinate the design, construction, financing, management and oversight of the levee improvement project. The Council is governed by a Board of Directors, which shall have no more than nine voting members comprised of the three commissioners of each District. The Board of Directors shall elect a President, Vice President and Secretary/Treasurer, with each officer from a different District, to serve a one-year term. The current officers of the Board of Directors of the Council are as follows:

<u>Name</u>	<u>Title</u>
Dan Maher	President
John Conrad	Vice President
Jim Pennekamp	Secretary/Treasurer

Pursuant to the Original District/Council Intergovernmental Agreement, the Council is required to adopt its annual budget on or before July 31 of each year for the fiscal year beginning October 1, to allow time for the budget to be reviewed and approved by each District and each County. Also, the financial records of

the Council must be audited by a certified public accountant at least once per fiscal year. The Council is in the process of selecting a certified public accountant to audit its financial records for the fiscal year ended October 1, 2010, which audit will be the first audit of the Council and will cover the period commencing with the creation of the Council and ending October 1, 2010.

The Districts entered into an Amendment to the Original District/Council Intergovernmental Agreement (the “**Amendment to District/Council Intergovernmental Agreement**” and, together with the Original District/Council Intergovernmental Agreement, the “**District/Council Intergovernmental Agreement**”) to provide for the issuance of bonds and the application of the Flood Prevention District Revenues as described under the caption “**THE LOCAL GOVERNMENT SECURITIES – Indenture Flow of Funds**” herein.

The District/Council Intergovernmental Agreement will end on the later of October 1, 2014 or the date on which all bonds or other obligations issued by the Council have been paid or discharged in full. No District may withdraw from the District/Council Intergovernmental Agreement unless all bonds or other obligations issued by the Council have been paid or discharged in full.

### **County/Council Intergovernmental Agreements**

The Council has also entered into a separate intergovernmental agreement with each County and its related flood prevention district (collectively, the “**County/Council Intergovernmental Agreements**”). Pursuant to the County/Council Intergovernmental Agreements, the Counties have agreed that the Flood Prevention District Sales Taxes will be directly deposited by the Comptroller of the State directly with the Trustee for deposit into the Council Sales Tax Fund and applied as provided in the Indenture. See the caption “**THE LOCAL GOVERNMENT SECURITIES – Indenture Flow of Funds**” and “**FLOOD PREVENTION DISTRICT SALES TAXES**” herein.

### **Chief Supervisor of Construction and the Works**

Pursuant to the District/Council Intergovernmental Agreement, the Council shall hire a Chief Supervisor of Construction and the Works (the “**Chief Supervisor**”) to manage the activities of the Council, including coordinating the restoration of the levees. On June 26, 2009, the Council hired Les Sterman to serve as the Chief Supervisor. Prior to becoming the Chief Supervisor, Mr. Sterman served as Executive Director of EWGCG, a position Mr. Sterman held since 1983. EWGCG assisted with setting up the Districts and preliminary work on the levee restoration initiative. Mr. Sterman has also served as a transportation planning consultant and civil engineer for six years prior to joining EWGCG in 1978 as director of transportation planning. Mr. Sterman has also served as president of the Missouri Association of Councils of Government, Co-Chair and Founding Member of the National Association of Metropolitan Planning Organizations, and served in many capacities for the National Academy of Sciences and the Surface Transportation Policy Project. In addition, Mr. Sterman has chaired the Government Division of the United Way Campaign and has served on the boards of many local community and civic groups, including the St. Louis for Kids, the Jewish Federation, the Downtown Children’s Center, Downtown St. Louis, Inc. and RegionWise. Currently, Mr. Sterman is the sole employee of the Council. EWGCG serves as fiscal agent for the Council, providing payroll, accounting, billing and procurement support.

## **THE BONDS**

*The following is a summary of certain terms and provisions of the Bonds. Reference is hereby made to the Bonds and the provisions with respect thereto in the Resolutions for the detailed terms and provisions thereof.*

### **Authorization; Description of the Bonds**

The Bonds are being issued pursuant to and in full compliance with the Constitution and statutes of the State, including particularly the SWIDA Act. The Bonds will be issued as fully-registered bonds, without



coupons. Purchases of the Bonds will be made in book–entry form only (as described below) in denominations of \$5,000 or any integral multiples thereof. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds purchased. The Bonds will be dated as of the date of initial issuance thereof, and will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The Bonds will bear interest at the rates per annum set forth on the inside cover page hereof, which interest will be payable semiannually on April 15 and October 15 in each year, beginning on April 15, 2011.

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

The Authority shall cause books (the “**Bond Register**”) for the registration and for the transfer of the Bonds as provided in the Resolutions to be kept at the corporate trust office of UMB Bank, N.A. (the “**Registrar**”) in Kansas City, Missouri.

Upon surrender for transfer of any Bond at the principal corporate trust office of the Registrar duly endorsed by, or accompanied by a written instrument or instruments of transfer in form satisfactory to the Registrar duly executed by, the registered owner thereof or his, her or its attorney duly authorized in writing, the Authority shall execute and the Registrar shall authenticate, date and deliver in the name of the transferee or transferees a new fully registered Bond or Bonds of the same series, maturity and interest rate, of authorized denomination or denominations, for a like aggregate principal amount. Any fully registered Bond or Bonds may be exchanged at said office of the Registrar for a like aggregate principal amount of the Bond or Bonds of the same series, maturity and interest rate, of other authorized denominations. The execution by the Authority of any fully registered Bond shall constitute full and due authorization of such Bond, and the Registrar shall thereby be authorized to authenticate, date and deliver such Bond; *provided, however*, that the principal amount of the outstanding Bonds authenticated by the Registrar shall never exceed the authorized aggregate principal amount of the Bonds, less previous retirements.

The Registrar shall not be required to transfer or exchange any Bond during the period of fifteen (15) days next preceding any interest payment date on such Bond, nor to transfer or exchange any Bond after notice calling such Bond for redemption prior to maturity has been mailed nor during the period of fifteen (15) days next preceding mailing of a notice of redemption of any Bonds prior to maturity.

The person in whose name any Bond shall be registered on the Bond Register shall be deemed and regarded as the absolute owner thereof for all purposes, and the payment of the principal of or interest on any Bond shall be made only to or upon the order of the registered owner thereof or his, her or its legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

No service charge shall be made for any transfer or exchange of Bonds, but the Authority or the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Bonds, except in the case of the issuance of a Bond or Bonds for the unredeemed portion of a Bond surrendered for redemption prior to maturity.

### **Redemption Provisions**

#### Optional Redemption

The Bonds due on and after April 15, 2021, shall be subject to redemption prior to maturity at the option of the Authority from any legally available funds, in whole or in part on any date on and after April 15, 2020, and if in part, from such maturity or maturities as the Authority may determine, and if less than an entire maturity, in integral multiples of \$5,000, selected by the Registrar as provided in the Resolutions and described below under the caption “**Partial Redemption**,” at the redemption price of the principal amount to be redeemed.

Extraordinary Optional Redemption

**Series 2010-B Bonds and the Series 2010-C Bonds.** The Series 2010-B Bonds and the Series 2010-C Bonds shall be subject to redemption prior to maturity upon a redemption of the Series 2010B Local Government Securities and the Series 2010C Local Government Securities, respectively, at the option of the Council upon the occurrence of an Extraordinary Event, in whole or in part and if in part in such principal amounts and from such maturities and mandatory sinking fund redemption, if any, and units corresponding to the redemption of such Local Government Securities on any date on or before April 15, 2020, at the “Extraordinary Optional Redemption Price,” which is the greater of: (i) one hundred percent (100%) of the principal amount of the Series 2010-B Bonds or Series 2010-C Bonds to be redeemed, and (ii) the sum of the present value of the remaining scheduled payments of principal and interest to the Stated Maturity of the Series 2010-B Bonds or Series 2010-C Bonds to be redeemed, not including any portion of those payments of interest accrued and unpaid as of the date on which the Series 2010-B Bonds or Series 2010-C Bonds are to be redeemed, discounted to the date on which the Series 2010-B Bonds or Series 2010-C Bonds are to be redeemed on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at a rate which is equal to the adjusted Treasury Rate plus 100 basis points, plus, in each case, accrued and unpaid interest on the Series 2010-B Bonds or Series 2010-C Bonds to be redeemed on the redemption date. The Trustee shall confirm and transmit the Extraordinary Optional Redemption Price on such dates and to such parties as shall be necessary to effectuate such extraordinary optional redemption.

“Extraordinary Event” means that a change has occurred to Section 54AA or 6431 of the Internal Revenue Code of 1986, as amended (the “Code”) or there is any guidance published by the Internal Revenue Service or the United States Treasury or the United States Congress with respect to such sections or any other determination by the Internal Revenue Service or the United States Treasury, pursuant to which the Council’s cash subsidy payment from the United States Treasury is reduced or eliminated, and which is not the result of any act or omission by the Council to satisfy the requirements to qualify to receive the cash subsidy payment from the United States Treasury.

Mandatory Redemption

**Series 2010-A Bonds.** The Series 2010-A Bonds maturing in the years 2025 and 2030 shall be subject to mandatory sinking fund redemption in part, on April 15 of the years and in the aggregate principal amounts shown below, at a redemption price of 100% of the principal amount thereof being redeemed (unless any such principal amount shall have been reduced by reason of the earlier optional redemption of such Series 2010-A Bonds). If such Series 2010-A Bonds shall have been called for optional redemption in part, then the amount of the remaining annual sinking fund installments (including the final maturity amount) shall be reduced in such order as shall be specified by the Authority.

**Series 2010-A Bonds maturing on April 15, 2025**

<u>Year</u>	<u>Principal Amount</u>
2024	\$3,550,000
2025 <sup>+</sup>	3,795,000

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<sup>+</sup> Final Maturity

**Series 2010-A Bonds maturing on April 15, 2030  
with interest accruing at 4.25%**

<u>Year</u>	<u>Principal Amount</u>
2026	\$2,120,000
2027	2,215,000
2028	2,320,000
2029	2,425,000
2030 <sup>+</sup>	2,540,000

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<sup>+</sup> Final Maturity

**Series 2010-A Bonds maturing on April 15, 2030  
with interest accruing at 5.00%**

<u>Year</u>	<u>Principal Amount</u>
2026	\$1,825,000
2027	1,910,000
2028	1,995,000
2029	2,090,000
2030 <sup>+</sup>	2,180,000

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<sup>+</sup> Final Maturity

**Series 2010-B Bonds.** The Series 2010-B Bonds shall be subject to mandatory sinking fund redemption in part, on April 15 of the years and in the aggregate principal amounts shown below, at a redemption price of 100% of the principal amount thereof being redeemed (unless any such principal amount shall have been reduced by reason of the earlier optional redemption of the Series 2010-B Bonds). If Series 2010-B Bonds shall have been called for optional redemption in part, then the amount of the remaining annual sinking fund installments (including the final maturity amount) shall be reduced in such order as shall be specified by the Authority.

<u>Year</u>	<u>Principal Amount</u>
2031	\$4,930,000
2032 <sup>+</sup>	4,120,000

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<sup>+</sup> Final Maturity

**Series 2010-C Bonds.** The Series 2010-C Bonds shall be subject to mandatory sinking fund redemption in part, on the dates and in the aggregate principal amounts shown below, at a redemption price of 100% of the principal amount thereof being redeemed (unless any such principal amount shall have been reduced by reason of the earlier optional redemption of the Series 2010-C Bonds). If Series 2010-C Bonds shall have been called for optional redemption in part, then the amount of the remaining annual sinking fund installments (including the final maturity amount) shall be reduced in such order as shall be specified by the Authority.

<u>Date</u>	<u>Principal Amount</u>
April 15, 2032	\$1,045,000
April 15, 2033	5,390,000
April 15, 2034	5,605,000
April 15, 2035	5,825,000
October 15, 2035 <sup>+</sup>	3,265,000

<sup>+</sup> Final Maturity

See “**THE LOCAL GOVERNMENT SECURITIES – Redemption Provisions of the Local Government Securities**” herein.

***Partial Redemption of Bonds.*** The Bonds shall be redeemed only in the principal amount of \$5,000 each and integral multiples of \$5,000. For purposes of any redemption of less than all of the outstanding Bonds of a single maturity, the particular Bonds or portions of Bonds to be redeemed prior to maturity shall be selected not more than sixty (60) days prior to the date fixed for redemption by the Registrar from the outstanding Bonds by lot (except as described below), and which may provide for the selection for redemption of Bonds or portions of Bonds in principal amounts of \$5,000 and integral multiples of \$5,000 per maturing value; provided, that in the case of any redemption of Series 2010-B Bonds or Series 2010-C Bonds, the Registrar shall select Series 2010-B Bonds or Series 2010-C Bonds for redemption on a pro-rata basis through the distribution of principal basis in accordance with the procedures of the Securities Depository (as defined in the Resolutions), unless a Securities Depository is not in place with respect to the Series 2010-B Bonds or Series 2010-C Bonds or no longer has such procedures, in which case the Registrar shall select Series 2010-B Bonds or Series 2010-C Bonds for redemption by lot.

***Notice of Redemption.*** Unless waived by any owner of Bonds to be redeemed prior to maturity, notice of the call for any such redemption prior to maturity shall be given by the Registrar on behalf of the Authority by mailing the redemption notice by first class mail, postage prepaid, at least thirty (30) days and not more than sixty (60) days prior to the date fixed for redemption to the registered owner of the Bond or Bonds to be redeemed at the address shown on the Registrar or at such other address as is furnished in writing by such registered owner to the Registrar.

All notices of redemption shall state:

- (1) the date fixed for redemption,
- (2) the redemption price,
- (3) if less than all outstanding Bonds are to be redeemed, the identification number (and, in the case of partial redemption, the respective principal amounts) of the Bonds to be redeemed,
- (4) that on the date fixed for redemption the redemption price will become due and payable upon each such Bond or portion thereof called for redemption prior to maturity, and that interest thereon shall cease to accrue from and after said date, and
- (5) the place where such Bonds are to be surrendered for payment of the redemption price, which place of redemption shall be the principal corporate trust office of the Registrar.

On or prior to any date fixed for redemption, the Authority shall deposit with the Registrar an amount of money sufficient to pay the redemption price of all Bonds or portions of Bonds which are to be redeemed prior to maturity on that date. With respect to an optional redemption of any Bonds, unless moneys sufficient to pay the principal of and interest on the Bonds to be redeemed shall have been received by the Registrar prior

to the giving of such notice of redemption, such notice may, at the option of the Authority, state that said redemption shall be conditional upon the receipt of such moneys by the Registrar on or prior to the date fixed for redemption. If such moneys are not received, such notice shall be of no force and effect, the Authority shall not redeem such Bonds and the Registrar shall give notice, in the same manner in which the notice of redemption was given, that such moneys were not so received and that such Bonds will not be redeemed.

Notice of redemption having been given as described above, the Bonds or portions of Bonds so to be redeemed prior to maturity shall, on the date fixed for redemption, become due and payable at the redemption price therein specified, except in the case of a conditional call pursuant to which the notice of redemption is rescinded, and from and after such date (unless the Authority shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon surrender of such Bonds for redemption in accordance with said notice, such Bonds shall be paid by the Registrar at the redemption price. Installments of interest due on and prior to the date fixed for redemption shall be payable as provided in the Resolutions for the payment of interest. Upon surrender for any partial redemption of any Bond, there shall be prepared for the registered owner a new Bond or Bonds of the same maturity and interest rate in the amount of the unpaid principal. All Bonds which have been redeemed shall be cancelled and destroyed by the Registrar in accordance with its customary procedures, and shall not be reissued.

***Additional Notice.*** In addition to the redemption notice required above, further notice of redemption (the “**Additional Redemption Notice**”) shall be given by the Registrar as described below, but no defect in the Additional Redemption Notice nor any failure to give all or any portion of the Additional Redemption Notice shall in any manner affect the effectiveness of a call for redemption if notice thereof is given as described above.

Each Additional Redemption Notice given under the Resolutions shall contain the information described above, plus (i) the CUSIP numbers of all Bonds being redeemed; (ii) the date such notice required above has been or will be mailed; (iii) the date of issuance of the Bonds being redeemed, as originally issued; (iv) the maturity date of each Bond (or portion thereof) to be redeemed; and (v) any other descriptive information needed to identify accurately the Bonds being redeemed prior to maturity.

Each Additional Redemption Notice shall be sent at least thirty (30) days before the date fixed for redemption by legible facsimile transmission, registered or certified mail (postage prepaid) or overnight delivery service to The Depository Trust Company of New York, New York, and to at least two (2) national information services that disseminate notices of redemption of obligations such as the Bonds.

### **Book-Entry Only System**

***General.*** The Bonds are available in book-entry only form. Purchasers of the Bonds will not receive certificates representing their interests in the Bonds. Ownership interests in the Bonds will be available to purchasers only through a book-entry system (the “**Book-Entry System**”) maintained by The Depository Trust Company (“**DTC**”), New York, New York.

**The following information concerning DTC and DTC’s book-entry system has been obtained from DTC. The Authority and the Council take no responsibility as to the accuracy or completeness thereof and neither the Indirect Participants nor the Beneficial Owners should rely on the following information with respect to such matters, but should instead confirm the same with DTC or the Direct Participants, as the case may be. There can be no assurance that DTC will abide by its procedures or that such procedures will not be changed from time to time.**

DTC 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 Bond certificate will be issued for each maturity of the Bonds and will be deposited with DTC or the Registrar as its agent.



***DTC and its Participants.*** 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 both 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 Ownership Interests.*** 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 Securities, except in the event that use of the book-entry system for the Bonds is discontinued.

***Transfers.*** 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 may be 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.

***Notices.*** 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of 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 notices be provided directly to them.

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

**Voting.** Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 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 Authority 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

**Payments of Principal, Redemption Price and Interest.** Payments of redemption proceeds, principal of, premium, if any, and interest 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 Authority or the Trustee, 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 Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, 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.

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

If the system of book-entry-only transfers has been discontinued and a Direct Participant has elected to withdraw its Bonds from DTC (or such successor securities depository), Bond certificates may be delivered to Beneficial Owners in the manner described in the Resolutions.

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## Debt Service Requirements

The following schedule shows the yearly principal and interest requirements for the Bonds. The Bonds will initially be structured to have approximately 1.75 times debt service coverage net of any Build America Payments or Recovery Zone Payments and approximately 1.50 times gross debt service coverage based on a revenue assumption of annual receipts of Flood Prevention District Sales Taxes in the amount of \$10,840,748, which is the amount of Flood Prevention District Sales Taxes collected from November 2009 to October 2010. See the caption “**THE LOCAL GOVERNMENT SECURITIES - Additional and Subordinate Local Government Securities**” herein.

<u>Bond Year Ending</u>	<u>Total Principal</u>	<u>Total Interest</u>	<u>Gross Debt Service</u>	<u>Gross Debt Service Coverage</u>	<u>Total Subsidy<sup>(1)</sup></u>	<u>Net Debt Service</u>	<u>Net Debt Service Coverage</u>
04/15/2011	-	\$1,832,801.49	\$ 1,832,801.49	5.91x	\$ (358,999.58)	\$ 1,473,801.91	7.36x
04/15/2012	\$2,455,000.00	4,646,539.00	7,101,539.00	1.53x	(910,139.78)	6,191,399.22	1.75x
04/15/2013	2,505,000.00	4,597,439.00	7,102,439.00	1.53x	(910,139.78)	6,192,299.22	1.75x
04/15/2014	2,555,000.00	4,547,339.00	7,102,339.00	1.53x	(910,139.78)	6,192,199.22	1.75x
04/15/2015	2,605,000.00	4,496,239.00	7,101,239.00	1.53x	(910,139.78)	6,191,099.22	1.75x
04/15/2016	2,685,000.00	4,418,089.00	7,103,089.00	1.53x	(910,139.78)	6,192,949.22	1.75x
04/15/2017	2,820,000.00	4,283,839.00	7,103,839.00	1.53x	(910,139.78)	6,193,699.22	1.75x
04/15/2018	2,950,000.00	4,150,339.00	7,100,339.00	1.53x	(910,139.78)	6,190,199.22	1.75x
04/15/2019	3,070,000.00	4,032,339.00	7,102,339.00	1.53x	(910,139.78)	6,192,199.22	1.75x
04/15/2020	3,160,000.00	3,940,239.00	7,100,239.00	1.53x	(910,139.78)	6,190,099.22	1.75x
04/15/2021	3,265,000.00	3,837,539.00	7,102,539.00	1.53x	(910,139.78)	6,192,399.22	1.75x
04/15/2022	3,380,000.00	3,723,264.00	7,103,264.00	1.53x	(910,139.78)	6,193,124.22	1.75x
04/15/2023	3,505,000.00	3,596,514.00	7,101,514.00	1.53x	(910,139.78)	6,191,374.22	1.75x
04/15/2024	3,645,000.00	3,456,314.00	7,101,314.00	1.53x	(910,139.78)	6,191,174.22	1.75x
04/15/2025	3,795,000.00	3,309,645.00	7,104,564.00	1.53x	(910,139.78)	6,194,424.22	1.75x
04/15/2026	3,945,000.00	3,157,764.00	7,102,764.00	1.53x	(910,139.78)	6,192,624.22	1.75x
04/15/2027	4,125,000.00	2,976,414.00	7,101,414.00	1.53x	(910,139.78)	6,191,274.22	1.75x
04/15/2028	4,315,000.00	2,786,776.50	7,101,776.50	1.53x	(910,139.78)	6,191,636.72	1.75x
04/15/2029	4,515,000.00	2,588,426.50	7,103,426.50	1.53x	(910,139.78)	6,193,286.72	1.75x
04/15/2030	4,720,000.00	2,380,864.00	7,100,864.00	1.53x	(910,139.78)	6,190,724.22	1.75x
04/15/2031	4,930,000.00	2,163,914.00	7,093,914.00	1.53x	(910,139.78)	6,183,774.22	1.75x
04/15/2032	5,165,000.00	1,817,335.00	6,982,335.00	1.55x	(788,837.14)	6,193,497.86	1.75x
04/15/2033	5,390,000.00	1,452,145.50	6,842,145.50	1.58x	(653,465.46)	6,188,680.04	1.75x
04/15/2034	5,605,000.00	1,062,448.50	6,667,448.50	1.63x	(478,101.82)	6,189,346.68	1.75x
04/15/2035	5,825,000.00	657,207.00	6,482,207.00	1.67x	(295,743.14)	6,186,463.86	1.75x
04/15/2036	<u>3,265,000.00</u>	<u>118,029.75</u>	<u>3,383,029.75</u>	3.20x	<u>(53,113.38)</u>	<u>3,329,916.37</u>	3.26x
	<u>\$94,195,000.00</u>	<u>\$80,029,722.24</u>	<u>\$174,224,722.24</u>		<u>\$(20,831,056.12)</u>	<u>\$153,393,666.12</u>	

<sup>(1)</sup> Represents a 35% interest subsidy expected to be paid to the Council by the U.S. Government with respect to the Series 2010B Local Government Securities and a 45% interest subsidy expected to be paid to the Council by the U.S. Government with respect to the Series 2010C Local Government Securities.

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## **SOURCES OF PAYMENT AND SECURITY FOR THE BONDS**

### **Limited Obligations; Sources of Payment**

The Bonds and the interest thereon shall be special, limited obligations of the Authority, payable only from the revenues derived from the payment of the principal of and interest on the Local Government Securities. The Authority has assigned and pledged (a) the Series 2010A Local Government Securities to the Registrar on behalf and for the benefit of the owners of the Series 2010-A Bonds, (b) the Series 2010B Local Government Securities to the Registrar on behalf and for the benefit of the owners of the Series 2010-B Bonds, and (c) the Series 2010C Local Government Securities to the Registrar on behalf and for the benefit of the owners of the Series 2010-C Bonds. THE BONDS SHALL NOT CONSTITUTE A DEBT OF THE STATE, AND SHALL NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION, GENERAL OR MORAL, OR A PLEDGE OF THE FAITH OR LOAN OF CREDIT OF THE AUTHORITY OR THE STATE, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY LIMITATION. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER, IF ANY, OF THE AUTHORITY OR THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF AND INTEREST ON THE BONDS OR OTHER COSTS INCIDENTAL THERETO. THE AUTHORITY HAS NO TAXING POWER. THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE SOURCES DESCRIBED IN THE RESOLUTIONS. THE MEMBERS OF THE BOARD OF DIRECTORS OF THE AUTHORITY HAVE DETERMINED THAT SECTION 7(f) OF THE SWIDA ACT, RELATING TO THE MORAL OBLIGATION OF THE STATE OF ILLINOIS, DOES **NOT** APPLY TO THE BONDS.

THE LOCAL GOVERNMENT SECURITIES DO NOT CONSTITUTE AN INDEBTEDNESS OF THE COUNCIL, THE COUNTIES OR THE DISTRICTS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION. NO OWNER OF THE LOCAL GOVERNMENT SECURITIES SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF ANY TAXING POWER OF THE COUNCIL, THE COUNTIES OR THE DISTRICTS FOR PAYMENT OF THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON ANY LOCAL GOVERNMENT SECURITY.

Pursuant to separate Depository Agreements dated as of November 1, 2010 between the Authority and the Registrar for each series of Bonds (the **“Depository Agreements”**), and as security for the due and punctual payment of the principal of and interest on each respective series of Bonds, the Authority assigns and pledges all of its right, title and interest in and to, including without limitation its rights to payment of any and all amounts which may become due under, (a) the respective series of Local Government Securities, (b) the respective Local Purchase Agreement (except the right of the Authority to receive certain fees and expenses), (c) the respective Debt Service Fund established with the Registrar pursuant to the respective Depository Agreement, (d) all other rights and remedies to enforce such payment of any amount due to the Authority (except the right to exercise any such right or remedy to enforce performance of any right which the Authority has not assigned or pledged under the Depository Agreements), and (e) all other property from time to time assigned or pledged by the Authority to the Registrar on behalf and for the benefit of the owners of the respective series of Bonds.

## **THE LOCAL GOVERNMENT SECURITIES**

### **General**

The Local Government Securities are being issued pursuant to the Indenture to finance the Project, fund a debt service reserve fund for the Local Government Securities, and pay costs of issuance of the Bonds and the Local Government Securities. In addition to approval by the Council, the issuance of the Local Government Securities have been approved by an ordinance duly adopted by each of the Counties and a resolution duly adopted by each of the Districts.

The Council pledges the Flood Prevention District Revenues to the Trustee on behalf of the owners of the Local Government Securities, as provided in the Indenture, for the prompt payment of the principal of, premium, if any, and interest on the Local Government Securities when due. "Flood Prevention District Revenues" is defined in the Indenture as (a) the Flood Prevention District Sales Taxes, (b) Build America Payments, which are pledged only to the Series 2010B Local Government Securities, and Recovery Zone Payments, which are only pledged to the Series 2010C Local Government Securities, and (c) any other revenues of the Districts and the Council which are permitted to be used to pay debt service on Local Government Securities.

THE LOCAL GOVERNMENT SECURITIES DO NOT CONSTITUTE AN INDEBTEDNESS OF THE COUNCIL, THE COUNTIES OR THE DISTRICTS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION OR LIMITATION. NO OWNER OF THE LOCAL GOVERNMENT SECURITIES SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF ANY TAXING POWER OF THE COUNCIL, THE COUNTIES OR THE DISTRICTS FOR PAYMENT OF THE PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON ANY LOCAL GOVERNMENT SECURITY.

### **County/Council Intergovernmental Agreements**

Pursuant to the County/Council Intergovernmental Agreements, the Counties have agreed that the Flood Prevention District Sales Taxes will be directly deposited by the Comptroller of the State directly with the Trustee for deposit into the Council Sales Tax Fund and applied as provided in the Indenture. See the caption "**Indenture Flow of Funds**" below.

### **Build America Bonds**

Sections 54AA and 6431 of the Code, as amended by the American Recovery and Reinvestment Act of 2009, Public Law 111-5 (the "**Recovery Act**"), authorize the Council to issue taxable bonds known as "Build America Bonds" to finance capital expenditures for which it could otherwise issue tax-exempt bonds and to elect to receive subsidy payments from the U.S. Treasury equal to 35% of the amount of interest payable on those bonds (the "**Build America Payments**"). The Series 2010B Local Government Securities are being issued as qualified Build America Bonds under the Code. The Build America Payments will be paid directly to the Trustee for deposit into the Council Sales Tax Fund and applied as provided in the Indenture. See the caption "**Indenture Flow of Funds**" below.

### **Recovery Zone Economic Development Bonds**

Sections 54AA, 1400U-2 and 6431 of the Code, as further amended by the Recovery Act, authorize the Council to issue taxable bonds known as "Recovery Zone Economic Development Bonds" to finance capital expenditures for certain "qualified" economic development purposes for which it could otherwise issue tax-exempt bonds and to elect to receive subsidy payments from the U.S. Treasury equal to 45% of the amount of interest payable on those bonds (the "**Recovery Zone Payments**"). The Council and each County have designated its boundaries as a "Recovery Zone" under the Code. The Council has received an allocation from the Counties in the amount of \$21,130,000 for the issuance of Recovery Zone Economic Development Bonds and will designate and issue the Series 2010C Local Government Securities as Recovery Zone Economic Development Bonds under the Code. The Recovery Zone Payments for the Series 2010C Local Government Securities will be paid directly to the Trustee for deposit into the Council Sales Tax Fund and applied as provided in the Indenture. See the caption "**Indenture Flow of Funds**" below.

### **Indenture Flow of Funds**

Pursuant to the Indenture, the Council Sales Tax Fund is established as a trust fund to be held by the Trustee. Pursuant to each Council/County Intergovernmental Agreement each County has directed the Comptroller of the State of Illinois to, for the period during which any of the Local Government Securities are Outstanding, pay the respective County's Flood Prevention District Sales Taxes directly to the Trustee rather



than to the respective County. Upon receipt by the Trustee of Flood Prevention District Sales Taxes, the Trustee shall deposit such taxes directly to the Council Sales Tax Fund. All other Flood Prevention District Revenues legally available to pay debt service on the Local Government Securities shall also be deposited to the Council Sales Tax Fund as and when received. The following sub-funds have been created pursuant to the Indenture in the Council Sales Tax Fund: “Bond Fund,” the “Reserve Fund,” the “Subordinate Lien Bond Fund,” the “Rebate Fund,” the “Council Administrative Fund” and the “Surplus Fund.”

Upon immediate receipt of any Flood Prevention District Revenues, the Trustee shall deposit such receipts into the Council Sales Tax Fund. Commencing with the first month following the date of issuance of the Local Government Securities, the Trustee shall deposit the money in the Council Sales Tax Fund into the following accounts in the order and at the times as follows:

(a) immediately upon receipt, (i) all Build America Payments into the Series 2010B Bond Fund Account, and (ii) all Recovery Zone Payments into the Series 2010C Bond Fund Account;

(b) immediately upon receipt, Flood Prevention District Sales Taxes and other Flood Prevention District Revenues, (i) into the Series 2010A Bond Fund Account an amount equal to one-sixth of the interest becoming due on the next succeeding interest payment date on all Outstanding Series 2010A Local Government Securities and one-twelfth of the principal becoming due on the next succeeding principal maturity or mandatory redemption date of all Outstanding Series 2010A Local Government Securities, plus an amount necessary to make up for any existing deficiencies in the Series 2010A Bond Fund Account caused by prior deposits that did not fully meet the requirements of this provision; (ii) into the Series 2010B Bond Fund Account an amount equal to one-sixth of the interest becoming due on the next succeeding interest payment date on all Outstanding Series 2010B Local Government Securities and one-twelfth of the principal becoming due on the next succeeding principal maturity or mandatory redemption date of all Outstanding Series 2010B Local Government Securities, plus an amount necessary to make up for any existing deficiencies in the Series 2010B Bond Fund Account caused by prior deposits that did not fully meet the requirements of this provision; (iii) into the Series 2010C Bond Fund Account an amount equal to one-sixth of the interest becoming due on the next succeeding interest payment date on all Outstanding Series 2010C Local Government Securities and one-twelfth of the principal becoming due on the next succeeding principal maturity or mandatory redemption date of all Outstanding Series 2010C Local Government Securities, plus an amount necessary to make up for any existing deficiencies in the Series 2010C Bond Fund Account caused by prior deposits that did not fully meet the requirements of this provision. If there are insufficient funds to make such deposits in any month the Trustee shall make deposits to each Bond Fund Account so that each Bond Fund Account receives an equal percentage of the amount otherwise required to be deposited thereto pursuant to the Indenture. For purposes of this subsection (b), the phrase “next succeeding interest payment date” means the next interest payment date occurring more than 15 days after the date of such deposit, and the phrase “next succeeding principal maturity or mandatory redemption date” means the next principal maturity date or mandatory redemption date occurring more than 15 days after the date of such deposit. Any moneys deposited into the Council Sales Tax Fund during the month in which the Local Government Securities are issued shall be treated as received on the first Business Day of the first month following the date of issuance of the Local Government Securities. During the period from the date of issuance of the Local Government Securities until the first interest payment date, the amount “one-sixth” shall mean a fraction the numerator of which is one (1) and the denominator of which is the number of whole months between the Closing Date and the first Interest Payment Date, and the amount “one-twelfth” shall mean a fraction the numerator of which is one (1) and the denominator of which is the number of whole months between the Closing Date and the first principal maturity or mandatory redemption date.

(c) on the last Business Day of the month, money in the Council Sales Tax Fund, into the Reserve Fund an amount which, together with the moneys then on deposit in the Reserve Fund (taking into account the principal amount of any Reserve Fund Credit Instrument) equals the Reserve

Requirement or an amount necessary to reimburse the provider of any Reserve Fund Credit Instrument;

(d) on the last Business Day of the month, money in the Council Sales Tax Fund, into the Subordinate Lien Bond Fund as set forth in a Supplemental Indenture;

(e) on the last Business Day of the month, money in the Council Sales Tax Fund, into any other accounts created pursuant to a supplemental indenture for the security of Subordinate Local Government Securities;

(f) on the last Business Day of the month, money in the Council Sales Tax Fund, into the Rebate Fund such amount as is required to be deposited therein pursuant to the Tax Certificate or any tax certificate or agreement executed and delivered relating to Additional Local Government Securities or Subordinate Local Government Securities;

(g) on the last Business Day of the month, money in the Council Sales Tax Fund, into the Council Administrative Fund the amount necessary to provide for all expenses of the Council as set forth in the approved Council budget, as such budget may be amended, for such Fiscal Year; and

(h) on the last Business Day of the month, money in the Council Sales Tax Fund, into the Surplus Fund.

## **Bond Fund**

The Bond Fund is a trust fund to be held by the Trustee in trust for the benefit of the holders of the Bonds. Created within the Bond Fund are three accounts designated as the "Series 2010A Bond Fund Account," the "Series 2010B Bond Fund Account" and the "Series 2010C Bond Fund Account." Commencing with the first month following the date of issuance of the Local Government Securities, the Trustee shall deposit into the three Bond Fund Accounts, immediately upon receipt, the amounts set forth and described in sections (a) and (b) under the caption "**Indenture Flow of Funds**" above.

In computing the fractional amount to be set aside each month in each Bond Fund Account, the fraction shall be so computed that a sufficient amount will be set aside in said Account and will be available for the prompt payment of such principal of and interest on the relative series of Local Government Securities and shall be not less than one-sixth of the interest becoming due on the next succeeding interest payment date and not less than one-twelfth of the principal becoming due on the next succeeding principal payment date on the relative series of Local Government Securities until there is sufficient money in each Bond Fund Account to pay such principal or interest, or both.

The Trustee shall also deposit in each Bond Fund Account in any month an amount necessary to make up for any existing deficiencies in the Bond Fund Account caused by prior deposits that did not fully meet the requirements of the Indenture described under this caption.

If there are insufficient funds to make such deposits in any month the Trustee shall make deposits to each Bond Fund Account so that each Bond Fund Account receives an equal percentage of the amount otherwise required to be deposited thereto pursuant to the Indenture and described under this caption.

Except during the month of April, payments to the Bond Fund Accounts may be suspended in any Bond Year at such time as there shall be a sufficient sum, held in cash and investments, in each said Account to meet principal and interest requirements in said Account for the balance of such Bond Year, but such credits shall again be resumed on April 1 of each year, or, if for any reason whatsoever, the amounts on deposit are at anytime insufficient to meet said principal and interest requirements.

The Council covenants and agrees with the purchasers and the owners of the Local Government Securities that so long as the Local Government Securities remain outstanding, the Council will take no action or fail to take any action which in any way would adversely affect the ability of each County to impose and apply the Flood Prevention District Sales Taxes or the ability of the Council to collect the Flood Prevention District Revenues to the payment of the Local Government Securities. The Council and its officers will comply with all present and future applicable laws in order to assure that the Flood Prevention District Revenues will be available as provided herein and deposited in the Bond Fund.

### **Reserve Fund**

The Reserve Fund is a trust fund to be held by the Trustee as long as any of the Local Government Securities remain outstanding. All amounts on deposit in the Reserve Fund shall be held in trust for the sole benefit of the holders of the Local Government Securities and shall be applied and used solely for the payment of principal of the Local Government Securities, at maturity or on any mandatory redemption date, and for payment of interest on the Local Government Securities as it falls due whenever there are not sufficient funds to pay such principal and interest on the Local Government Securities when due. There shall be credited to the Reserve Fund upon the issuance of the Local Government Securities the amount equal to the Reserve Requirement. Thereafter, no additional funds need be credited to the Reserve Fund except (i) that when money to the credit of the Reserve Fund is disbursed, then the Council shall immediately cause deposits to be made to the Reserve Fund until the Reserve Fund has been restored to the Reserve Requirement and (ii) that when money to the credit of the Reserve Fund is determined to be deficient on any Valuation Date (defined below) as a result of a decline in market value of the securities therein, then the Council shall cause deposits to be made to the Reserve Fund so that such deficiency has been restored no later than the next succeeding Valuation Date, except in the case of a deficiency caused by a decline in the rating of a Reserve Fund Credit Instrument, then the Council shall cause proportional monthly deposits to be made to the Reserve Fund so that such deficiency has been restored within five years. The monies credited to the Reserve Fund shall be used to pay principal and interest or either of them of any of the Outstanding Local Government Securities and Additional Local Government Securities at any time when there are insufficient funds available and to the credit of the Bond Fund to pay such interest as the same becomes due and to redeem and pay the principal of and applicable premium as the same become due.

Investments in the Reserve Fund shall be valued on every principal payment date of the Local Government Securities (the “**Valuation Date**”), at the market value thereof, inclusive of accrued interest and interest then on deposit in the Reserve Fund. Amounts to the credit of the Reserve Fund in excess of the Reserve Requirement shall be transferred to the Project Fund on each Valuation Date and be used for the Project or other capital expenditures of the Council.

The Reserve Fund will be initially funded with proceeds of the Local Government Securities in the amount of \$6,194,424.22. However, all or any part of the Reserve Requirement may be met by deposit with the Trustee of a Reserve Fund Credit Instrument. “Reserve Fund Credit Instrument” is defined in the Indenture as a non-cancellable insurance policy, a non-cancellable surety bond or an irrevocable letter of credit which may be delivered to the Trustee in lieu of or in partial substitution for cash or securities required to be on deposit in the Reserve Fund. In the case of an insurance policy or surety bond, the company providing the policy or bond shall be an insurer which, at the time of the issuance of the policy or surety bond, has been assigned a credit rating which is within one of the two highest ratings accorded insurers by at least two of the Rating Agencies. In the case of a letter of credit, it shall be issued by a banking institution which has, or the parent of which has, or the holding corporation of which it is the principal bank has, at the time of the issuance of the letter of credit, a credit rating on its long-term unsecured debt within one of the two highest rating categories from at least two of the Rating Agencies. The insurance policy, surety bond or letter of credit shall grant to the Trustee the right to receive payment for the purposes for which the Reserve Fund may be used and shall be irrevocable during its term.

If at any time the credit rating on a Reserve Fund Credit Instrument declines below one of the two highest credit ratings assigned by the Rating Agencies rating such series of Local Government Securities, the

insured value of such Reserve Fund Credit Instrument shall be deemed to have declined by 20% annually. The Council may at any time fully replace an impaired Reserve Fund Credit Instrument. At such time as a replacement Reserve Fund Credit Instrument or cash funded Reserve Fund is provided, the impaired Reserve Fund Credit Instrument shall be terminated.

### **Surplus Fund**

At such time as all other Council Sales Tax Fund requirements have been fully satisfied in any month, the Trustee shall deposit Flood Prevention District Sales Taxes and Flood Prevention District Revenues to the Surplus Fund. Funds to the credit of the Surplus Fund shall be used first by the Trustee to make up any deficiencies in any of the prior sub-Funds and then shall be distributed to the Counties for deposit to their respective County Flood Prevention Occupation Tax Fund unless, upon approval of the Counties, a Designated Representative of the Council notifies the Trustee to suspend or reduce such distribution and retain moneys in the Surplus Fund. In such event, funds to the credit of the Surplus Fund shall be used, at the discretion of the Council, upon the request of the Council and upon approval of the Counties for one or more of the following purposes without any priority among them:

1. For the purpose of acquiring or constructing repairs, replacements, improvements or extensions to the Project; or
2. For the purpose of calling and redeeming Outstanding Local Government Securities payable from the Flood Prevention District Sales Taxes and Flood Prevention District Revenues which are callable at the time; or
3. For the purpose of purchasing Outstanding Local Government Securities payable from the Flood Prevention District Sales Taxes and Flood Prevention District Revenues, at a price not in excess of par; or
4. For the purpose of paying principal of and interest on any Local Government Securities or obligations issued by the Council, the Counties or the Districts for the purpose of acquiring or constructing repairs, replacements, improvements or extensions to the Project and payable from the Flood Prevention District Sales Taxes; or
5. For any purpose enumerated in any future bond resolution of the Council; or
6. For any other lawful Council, County or District purpose.

Transfers to the Counties from the Surplus Fund shall be made monthly, on the last business day of the month. The amount that the Trustee shall transfer from the Surplus Fund to each County shall be determined by the Council, and informed by the Council to the Trustee, by multiplying the total amount to be transferred to the Counties by the percentage of Flood Prevention District Sales Taxes collected by each County in relation to the entire Flood Prevention District Sales Taxes collected in all three Counties during the immediately preceding calendar year ending more than ten months prior to the date of the transfer.

### **Investments**

Moneys to the credit of the Council Sales Tax Fund and the Project Fund may be invested from time to time by the Trustee in investments authorized by the Public Funds Investment Act of the State, as amended, for the investment of funds of the Districts. Investment earnings on moneys invested in the Bond Fund Accounts shall be retained in the Bond Fund Accounts, investment earnings on moneys invested in the Project Fund shall be retained in the Project Fund and investment earnings on moneys invested in any account of the Council Sales Tax Fund (except any Bond Fund Account) shall be deposited into the Council Sales Tax Fund.

## **Redemption Provisions of the Local Government Securities**

The Local Government Securities may be redeemed pursuant to provisions consistent with those of the Bonds. See “**THE BONDS – Redemption Provisions**” herein.

## **Additional and Subordinate Local Government Securities**

As long as there are any Outstanding Local Government Securities, the Council shall not incur any indebtedness which is payable from the Flood Protection District Revenues except upon compliance with any one of the following:

(a) Additional Local Government Securities may be issued for the purposes set forth in the Flood Prevention Act or for refunding Outstanding Local Government Securities upon compliance with any of the following conditions:

(i) The amounts required to be credited monthly to the Bond Fund have been credited in full up to the date of the delivery of such Additional Local Government Securities.

(ii) The Reserve Fund is fully funded.

(iii) The Flood Protection District Revenues for 12 months prior to the issuance of the Additional Local Government Securities must equal at least 150% of Maximum Annual Debt Service computed immediately after the issuance of the proposed Additional Local Government Securities, but only for those Bond Years in which the Outstanding Local Government Securities immediately prior to such issuance will continue to be outstanding as provided in the Indenture.

(b) Additional Local Government Securities may be issued to refund Outstanding Local Government Securities if the principal and interest payments due on such Additional Local Government Securities in each Bond Year are less than those of the Outstanding Local Government Securities to be refunded.

(c) Additional Local Government Securities may be issued to refund Outstanding Local Government Securities in order to avoid default in the payment of principal or interest on Outstanding Local Government Securities; *provided*, they are issued to avoid such default within three months of the date of the anticipated default. Other than such refunding Additional Local Government Securities issued pursuant to the provisions described in this paragraph (c), Additional Local Government Securities shall not be issued if an event of default has occurred and is continuing under the Indenture.

(d) Subordinate Local Government Securities may be issued by the Council for the Project or to refund Local Government Securities, Additional Local Government Securities or Subordinate Local Government Securities. Acceleration will not be a permissible remedy upon an event of default under the documents authorizing Subordinate Local Government Securities.

All Additional Local Government Securities issued under the Indenture shall mature as to principal on April 15 and as to interest on April 15 and/or October 15 and all subordinate bonds shall mature at such times as the issuer thereof may determine.

The Council reserves the right and option, in the issuance of any series of Additional Local Government Securities, to cause such series to be issued in any alternative form, including, but not by way of limitation, Discount Bonds, capital appreciation bonds, variable rate demand obligations, optional and mandatory tender bonds, commercial paper, tax credit bonds, and bonds secured or not secured by credit facilities, liquidity facilities, letters and liens of credit, guarantees and bond insurance agreements, all as may

be provided in the Supplemental Indenture authorizing any such series of Additional Local Government Securities.

### **Discharge and Payment**

***Discharge of Indebtedness.*** If the Council shall pay or cause to be paid or there shall be otherwise paid or provision shall be made for the payment of, the principal, premium, if any, and interest due or to become due on Local Government Securities or Additional Local Government Securities at the times and in the manner stipulated therein; and if the Council shall not then be in default under any of the other covenants and promises in such Local Government Securities or Additional Local Government Securities and the Indenture to be kept, performed, and observed by it or on its part; and if the Council shall pay or cause to be paid to the Trustee all sums of money due or to become due according to the provisions of the Indenture or of the Local Government Securities or Additional Local Government Securities; then, except for certain rights of the Trustee as provided in the Indenture, the interests in the Trust Estate and rights granted pursuant to the Indenture shall cease, determine, and be void; and the Trustee shall take such actions, at the request of the Council, as may be necessary to evidence the cancellation and discharge of the lien of the Indenture.

***Provision for Payment.*** A Local Government Security shall be deemed to be paid within the meaning of the Indenture when (1) payment of the principal of and the applicable redemption premium, if any, on such Local Government Security plus interest thereon to Maturity shall have been provided to the Trustee by irrevocably depositing with the Council and the Trustee, in trust, and the Trustee shall have irrevocably set aside exclusively for such payment, any combination of (a) funds sufficient to make such payment, and/or (b) Government Obligations (except for those obligations described in the Indenture) not subject to redemption or prepayment and maturing as to principal and interest in such amounts and at such times as will, in the opinion of an independent certified public accountant delivered to the Council and the Trustee, provide sufficient moneys, without reinvestment of any matured amounts, to make such payment without reinvestment; (2) the Trustee shall have been given irrevocable written instructions to call all outstanding Local Government Securities for redemption on a date certain, if such Local Government Securities are to be called for redemption prior to Stated Maturity; (3) the Trustee shall have received a Favorable Bond Counsel Opinion as to the effect of such deposit (and the payment of the Local Government Securities therefrom); and (4) all necessary and proper fees, compensation, and expenses of the Trustee pertaining to the Local Government Securities shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

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**ESTIMATED SOURCES AND USES OF FUNDS**

Following is a summary of the anticipated sources and uses of funds in connection with the issuance of the Bonds:

	<u>Bonds</u>			
	<u>Series 2010-A</u>	<u>Series 2010-B</u>	<u>Series 2010-C</u>	<u>Total</u>
<i>Sources of Funds:</i>				
Principal of the Bonds	\$64,015,000.00	\$9,050,000.00	\$21,130,000.00	\$94,195,000.00
Plus: Net Original Issue Premium	<u>633,235.90</u>	<u>0.00</u>	<u>0.00</u>	<u>633,235.90</u>
Total sources of funds	<u>\$64,648,235.90</u>	<u>\$9,050,000.00</u>	<u>\$21,130,000.00</u>	<u>\$94,828,235.90</u>
<i>Uses of Funds:</i>				
Purchase of Local Government Securities	\$64,219,335.40	\$8,989,365.00	\$20,988,429.00	\$94,197,129.40
Less: Underwriting Discount	<u>428,900.50</u>	<u>60,635.00</u>	<u>141,571.00</u>	<u>631,106.50</u>
Total uses of funds	<u>\$64,648,235.90</u>	<u>\$9,050,000.00</u>	<u>\$21,130,000.00</u>	<u>\$94,828,235.90</u>

Following is a summary of the anticipated sources and uses of funds in connection with the issuance of the Local Government Securities:

	<u>Local Government Securities</u>			
	<u>Series 2010A</u>	<u>Series 2010B</u>	<u>Series 2010C</u>	<u>Total</u>
<i>Sources of Funds:</i>				
Proceeds of the Local Government Securities	\$64,219,335.40	\$8,989,365.00	\$20,988,429.00	\$94,197,129.40
Total sources of funds	<u>\$64,219,335.40</u>	<u>\$8,989,365.00</u>	<u>\$20,988,429.00</u>	<u>\$94,197,129.40</u>
<i>Uses of Funds:</i>				
Deposit to Project Fund	\$59,552,142.90	\$8,330,228.89	\$19,449,473.64	\$87,331,845.43
Deposit to Reserve Fund	4,209,735.83	595,143.47	1,389,544.92	6,194,424.22
Costs of Issuance	<u>457,456.67</u>	<u>63,992.64</u>	<u>149,410.44</u>	<u>670,859.75</u>
Total uses of funds	<u>\$64,219,335.40</u>	<u>\$8,989,365.00</u>	<u>\$20,988,429.00</u>	<u>\$94,197,129.40</u>

**FLOOD PREVENTION DISTRICT SALES TAXES**

**General**

The Flood Prevention District Sales Taxes consist of a flood prevention retailers' occupation tax and a flood prevention service occupation tax imposed by each County throughout its boundaries at a rate of 0.25% of the gross receipts from all taxable sales. Taxable sales includes the sale of all general merchandise, except qualifying food, drugs and medical appliances and items required to be titled or registered with an agency of the State government, such as vehicles, watercraft, aircraft, trailers and mobile homes. "Qualifying Food" includes food that has not been prepared for immediate consumption, such as most food sold at grocery stores, excluding hot foods, alcoholic beverages and soft drinks. The Flood Prevention District Sales Taxes will be imposed for a period not to exceed 25 years or as required to repay the bonds, notes, and other indebtedness issued under the Flood Prevention Act. Several sales are specifically exempt from the Flood Prevention District Sales Taxes, including sales to state, local and federal governments and sales to not-for-profit organizations that are exclusively charitable, religious, or educational.

## Collection

The Illinois Department of Revenue (the “**Department**”) collects all of the Flood Prevention District Sales Taxes and immediately pays over to the State Treasurer all Flood Prevention District Sales Taxes for deposit into a special fund called the Flood Prevention Occupation Tax Fund, which shall be an unappropriated trust fund held outside the State Treasury. On or before the 25th day of each calendar month, the Department shall prepare and certify to the Comptroller of the State the disbursement of stated sums of money to the Counties from which retailers or servicemen have paid taxes or penalties to the Department during the second preceding calendar month. The amount to be paid to each County is equal to the amount of Flood Prevention District Sales Taxes collected from such County during the second preceding calendar month by the Department, less certain withholdings, including a 2% withholding by the Department for administrating and enforcing such tax. Within 10 days after receipt by the Comptroller of the State from the Department of the disbursement certification to the Counties, the Comptroller of the State shall cause the orders to be drawn for the respective amounts in accordance with directions contained in the certification. Historically, the proceeds of the Flood Prevention District Sales Taxes have been sent directly from the State to the Counties for deposit into separate flood prevention occupation tax funds created by each County, which funds may only be used to pay the costs of providing emergency levee repair and flood prevention and to secure the payment of bonds, notes and other evidences of indebtedness issued under the Flood Prevention Act. However, upon issuance of the Local Government Securities and the Bonds, the proceeds of the Flood Prevention District Sales Taxes will be sent directly from the State to the Trustee for deposit into the Council Sales Tax Fund. See the caption “**THE LOCAL GOVERNMENT SECURITIES – Intergovernmental Agreements**” herein.

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## Flood Prevention District Sales Tax Receipts

The following table shows the historical receipts of Flood Prevention District Sales Tax, since the Counties began imposing such tax on January 1, 2009, as distributed by the Comptroller of the State to the Counties and exclusive of the 2% administrative charge withheld by the Department. The Counties receive the Flood Prevention District Sales Tax receipts approximately three months after the month in which the tax is paid on retail purchases. See the caption **“Collection”** above. Collections for the most recent 12 months (i.e., November 2009 to October 2010) were \$10,840,748. Collections for the period April 2010 to October 2010 have increased by more than 8.5% over the same period from the prior year (i.e., April 2009 to October 2009). All Flood Prevention District Sales Taxes collected to date have been or will be used to pay for improvements to the Levee System and are not available for payment of the principal of and interest on the Local Government Securities.

<u>Month Received</u>	<u>Madison County</u>	<u>Monroe County</u>	<u>St. Clair County</u>	<u>Monthly Total</u>	<u>Cumulative Total</u>
April 2009	\$321,968	\$31,641	\$337,979	\$ 691,588	\$ 691,588
May 2009	336,765	32,903	362,696	732,364	1,423,952
June 2009	397,425	37,831	424,556	859,812	2,283,764
July 2009	387,385	38,757	398,395	824,537	3,108,301
August 2009	414,350	41,327	419,126	874,802	3,983,103
September 2009	421,402	40,848	438,231	900,481	4,883,584
October 2009	399,616	37,817	411,968	849,401	5,732,985
November 2009	401,189	37,497	410,484	849,170	6,582,155
December 2009	400,090	38,652	429,852	868,593	7,450,748
January 2010	404,847	42,270	412,637	859,754	8,310,502
February 2010	405,930	40,332	446,806	893,068	9,203,570
March 2010	492,814	49,755	581,721	1,124,290	10,327,860
April 2010	353,146	36,770	367,458	757,374	11,085,234
May 2010	374,416	34,324	399,480	808,220	11,893,455
June 2010	456,795	39,884	464,089	960,768	12,854,223
July 2010	462,697	43,769	439,748	946,214	13,800,437
August 2010	440,815	44,358	439,139	924,312	14,724,749
September 2010	452,308	43,102	458,299	953,709	15,678,458
October 2010	427,330	46,499	421,447	895,276	16,573,734

See **Appendix A – “General, Economic and Financial Information of the Counties”** for the tax collection history of other sales taxes imposed within the Counties.

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**Flood Prevention District Sales Tax Base**

The boundaries of the Council are coterminous with the boundaries of the Counties, which cover approximately 1,787 square miles. According to recent population estimates, over 560,000 people live within the boundaries of the Counties. The median household income and median family income for each of the Counties, are as follows:

	<u>Median Household Income</u>	<u>Median Family Income</u>
Madison County	\$41,541	\$50,862
Monroe County	55,320	62,397
St. Clair County	39,148	47,409

Source: United States Census Bureau, 2000 U.S. Census.

The table below includes a sample of some of the larger cities within the Counties and the sales taxes imposed on most general merchandise sold within such city. Cities and overlapping governmental entities have the ability to add new sales taxes or increase existing sales taxes. There is no guarantee that the tax rates listed below will not increase, decrease or remain in effect for any period of time.

<u>City</u>	<u>Population</u> <sup>(1)</sup>	<u>County</u>	<u>Tax Rate</u> <sup>(2)</sup>
Alton	29,264	Madison	7.85%
Belleville	41,285	St. Clair	7.85
Collinsville	26,016	Madison and St. Clair	8.60
Columbia	9,460	Monroe and St. Clair	7.35
East St. Louis	28,753	St. Clair	8.85
Edwardsville	24,475	Madison	6.85
Fairview Heights	16,706	St. Clair	7.85
Granite City	30,695	Madison	8.35
O'Fallon	27,778	St. Clair	7.85
Waterloo	9,980	Monroe	6.50

<sup>(1)</sup> Estimate as of July 1, 2009.

<sup>(2)</sup> The tax rates include the Flood Prevention District Sales Tax, but do not include any sales taxes imposed by business districts. Business districts are special taxing districts created by municipalities which may impose up to a 1.0% sales tax within its boundaries. Cities located in more than one county have different sales tax rates. The portion of such city with the higher sales tax rate is listed above.

Source: United States Census Bureau, Annual Estimates for Incorporated Places in Illinois for Population; Illinois Department of Revenue for Tax Rates.

See **Appendix A – “General, Economic and Financial Information of the Counties”** hereto.

**THE LEVEE SYSTEM**

The Levee System protects an area known as the American Bottom, which is a broad floodplain area situated in the Counties along the eastern bank of the Mississippi River. The American Bottom contains approximately 156,000 residents and numerous heavy industries and businesses, including the following business with more than 500 employees US Steel, Granite City Works, Midcoast Aviation, Southern Illinois Healthcare Foundation, Global Brass and Copper, Inc., Gateway Regional Medical Center, ConocoPhillips, Casino Queen Hotel and Casino, Argosy Casino, Kraft Foods and ASF-Keystone. The levees were originally designed and built by the Corps to protect against a 500-year flood. Most of the levees were built in the 1940s and improved during the 1950s using design standards in place at that time. In August 2007, the Corps

announced that due to design deficiencies and reconstruction needs it did not have confidence that the levees could protect against a base flood (i.e., a 100-year flood). The “design deficiencies” are a result of improvements in engineering practice and higher factors of safety and not a result of inadequate maintenance. See “**THE COUNCIL – Background**” above. Four of the levee systems are operated and maintained by separate units of government known as drainage and levee districts: the Wood River Drainage and Levee District, the Metro-East Sanitary District, the Prairie Du Pont Sanitary District and the Fish Lake Drainage and Levee District. A fifth levee, the Chain of Rocks Levee, is owned and maintained by the Corps. The drainage and levee districts have been responsible for levee maintenance since construction of the levees by the Corps. It is anticipated that these districts will continue to maintain the levees after improvements are made. The following is a short description of each levee:

**Wood River Drainage and Levee District.** The Wood River Drainage and Levee District is governed by a Board of Commissioners consisting of three people appointed by the Madison County Board to three year staggered terms. The Wood River Drainage and Levee District employs a secretary-treasurer and a superintendent, who hires full time and several part time maintenance workers.

The Wood River Drainage and Levee District is located in Madison County and is just upstream from the City of Granite City. The communities of Alton, East Alton, Hartford, Roxana, South Roxana, and Wood River are within the district. The Wood River Drainage and Levee District includes approximately 21 miles of mainline levee, 164 relief wells, 24 closure structures, 64 gravity drains and 7 pump stations. There are approximately 21 square miles (13,700 acres) of bottomland and 7 square miles (4,700 acres) of hill land within the district. The Wood River Drainage and Levee District assesses property within its boundaries on the proportionate value received from levee protection facilities in order to pay for its operations.

In April 2009, the Corps disclosed that the building of Lock and Dam 26 in 1989 by the Corps was causing uncontrolled underseepage under the Wood River Drainage and Levee District in an area just south of Alton, Illinois. Because the problem was caused by the Corps, the Corps has accepted full responsibility for corrective action. The Corp is considering either a landside berm or cutoff wall to address the problem. The current estimate to fix this underseepage is \$30 million, which will be paid entirely from Federal funds.

**Metro-East Sanitary District.** The Metro-East Sanitary District is governed by a Board of Commissioners consisting of five people. Three of the Commissioners are residents of that portion of the district in the county having the greater equalized assessed valuation of the district (currently Madison County), and two are residents of that portion of the district having the lesser valuation (currently St. Clair County). The board hires an executive director and the district employs over 50 staff members.

The largest of the four locally maintained districts, the Metro-East Sanitary District protects 96.32 square miles (61,645 acres). The district owns approximately 37.5 miles of mainline levee, including north and south flanks; 16,425 feet of floodwall; 52.5 miles of canals; and 14 miles of sanitary sewers in service at the present time. The Metro-East Sanitary District includes the Cities of Collinsville, Edwardsville, Glen Carbon, Granite City, Madison, Pontoon Beach and Venice in Madison County; and Alorton, Brooklyn, Cahokia, Caseyville, Centreville, East St. Louis, Fairmont City, Sauget and Washington Park in St. Clair County. The Metro-East Sanitary District levies a property tax to pay for its operations.

**Prairie Du Pont Sanitary District.** The Prairie Du Pont Sanitary District is governed by a five-member board, elected in a general election with each member serving four-year terms. The district has two full time and six part time staff.

The district protects 15 square miles (9,560 acres) and its mainline levee is 10.3 miles in length. Structures include 5 steel gates and 9 gravity drains. Prairie Du Pont Sanitary District protects portions of the communities of Dupo, East Carondelet and Columbia in St. Clair County and a portion of Monroe County. The Prairie Du Pont Sanitary District levies a property tax to pay for its operations.

***Fish Lake Drainage and Levee District.*** The Fish Lake Drainage and Levee District is governed by a three member board, elected from the district and from Monroe County and the City of Columbia. The Fish Lake Drainage District protects 4 square miles (2,440 acres) and has 4.9 miles of mainline levee. It has no gates and currently has 9 gravity drains. The Fish Lake Drainage and Levee District levies assessments to pay for its operations.

***Chain of Rocks Levee.*** The Chain of Rocks Levee is approximately 8 miles long and is owned and maintained by the Corps. It is contiguous with the levee owned by the Metro-East Sanitary District. The Corps has made improvements to this levee over the past several years and it can now be certified to protect from a 100-year flood. The Corps is continuing to improve the Chain of Rocks Levee to 500-year level of protection.

## **THE PROJECT**

***Overview.*** The Council will use the proceeds from the sale of the Local Government Securities to finance emergency levee improvements and increase the factor of safety of flood protection within the boundaries of each County. The goal of the Council is to utilize proceeds of obligations issued pursuant to the Flood Prevention Act, which obligations are secured by the Flood Prevention District Sales Taxes, to pay costs of improvements to the Levee System necessary to achieve the 100-year level of protection.

***Levee System Design Firm.*** The Council has selected AMEC Earth and Environmental, Inc. (“AMEC”) of Philadelphia, Pennsylvania, one of the AMEC family of companies, to design the project, manage construction and provide certification information to FEMA. AMEC is one of the largest engineering design companies in the world. The Council used a two-step competitive design process in selecting AMEC. In November 2009, the Council issued a Request for Qualifications for Levee System Design Services requesting statements of qualifications from firms or individuals interested in providing design services for the Project. Responding firms were required to indicate their willingness to certify that the Levee System will meet FEMA’s guidelines for the 100-year level of protection. As part of the selection process, the Council paid each proposing firm a stipend of \$75,000 to cover proposal expenses, including the preparation of a conceptual design and cost estimate. The Council provided detailed information on the current condition of the Levee System to prospective respondents, including data from the Council and the Corps from borings performed approximately every 330 feet along the length of the entire Levee System. This information was used by proposers to determine the extent of deficiencies and the extent and nature of underseepage control measures. Conceptual designs and cost estimates were submitted by three interested firms in May 2010 with final selection of AMEC on June 16, 2010 by the Council.

AMEC is a multi-disciplinary engineering firm licensed in all 50 states and throughout Canada. The AMEC family of companies employs more than 23,000 people located in 30 countries around the globe and over 150 office locations in North America. AMEC’s Midwest offices, located in Collinsville, Illinois, St. Louis, Missouri and Topeka, Kansas, specialize in geotechnical, water resources, environmental and civil engineering. AMEC is a national leader in the design, inspection and certification of levees. AMEC has completed design projects for cities on major rivers including Nashville and Louisville. More recently, AMEC has been supporting levee evaluations and designs in California, Kansas, Arkansas, New Mexico, Arizona and Massachusetts, which often require interfacing with the Corps and FEMA to achieve recertification.

Pursuant to AMEC’s proposal, AMEC intends to engage the following companies to assist in completing the Project: URS Corporation, a provider of engineering, construction and technical services for public agencies and private sector companies around the world; Sheppard, Morgan & Schwaab, Inc., an engineering and land surveying firm; Juneau Associates, a local engineering firm; SCI Engineering, a local geotechnical and environmental consulting firm; Hoelscher Engineering, a local engineering firm; Volkert and Associates Inc., an engineering, planning and environmental consulting firm; ABNA Engineering, Inc., a civil engineering services firm; Inquip Associates, Inc., a geotechnical contractor; and Arturo Ressi di Cervia, a firm specializing in slurry wall design and construction.

FEMA will accept certification information from the Corps or from a licensed professional engineer. The Council has chosen to use a private firm to develop certification information because it believes a private firm will be quicker and more efficient than the Corps. The Council believes that using a private firm will avoid lengthy delays in the Project that will drive up costs and increase any negative economic impact of any delay. Upon completion of sufficient improvements to the Levee System to meet the 100-year level of protection, AMEC has agreed to certify that the Levee System meets the FEMA requirements for levee safety in accordance with 44 CFR 65.10.

**Corps.** The Council maintains a cooperative working relationship with the Corps. The Corps conducts annual inspections of the Levee System to spot deficiencies or maintenance issues. Every three years the Corps conducts a thorough “periodic” inspection of the Levee System to determine whether the Levee System continues to qualify for emergency assistance in accordance with federal law (PL 84-99). The Levee System has never had an unacceptable Corps inspection, although there are typically recommendations dealing with maintenance or other issues that require attention by the levee districts.

The Corps is currently improving the Chain of Rocks levee system to meet FEMA’s 100-year flood protection standards. All improvements related to the Chain of Rocks levee system will be performed by the Corps and paid from Federal monies. Sufficient improvements to meet FEMA standards for certification have already been made, and the Corps is continuing to improve the Chain of Rocks Levee to 500-year standards as authorized by Congress.

The Corps and the Council have performed hundreds of soil borings and other tests to determine the subsurface condition of the entire Levee System.

Original estimates by the Corps to improve the Levee System have been as high as \$500 million. The Council recognizes that the Flood Prevention District Sales Taxes are insufficient to produce sufficient funds to improve the Levee System in a reasonable time period. Due to such limitation, the Council sought alternative design and construction approaches that would yield an affordable project. The AMEC conceptual design selected by the Council is estimated to cost approximately \$150 million. There are a number of reasons for the difference between the Corps’ cost estimate and the Council’s cost estimate. The Corps’ estimate includes costs sufficient to meet the 500-year level of protection as determined by the Corps. Because the Corps is dealing with an uncertain federal funding stream, it included a very large contingency (36%) in its cost estimates. Other cost differences include design approaches, procurement methods, and construction techniques. The Council believes its design and cost estimate will be sufficient to satisfy FEMA’s standards for accreditation. The Council also believes that it can afford to improve the Levee System to satisfy FEMA’s standards for accreditation within five years.

The Council intends to enter into an agreement with the Corps to qualify all expenditures on the Levee System to achieve the 100-year flood protection, including expenditures paid with proceeds of the Local Government Securities, as matching funds for federal funds to improve the Levee System to the 500-year level of protection.

**Budget.** In part based on AMEC’s conceptual design and cost proposal, the Council estimates that the cost of the improvements to the Levee System to gain certification from the 100-year flood is approximately \$150 million. AMEC’s proposal included a cost estimate of approximately \$130 million based on the information provided by the Council and non-binding bids for certain components. The \$130 million proposal includes approximately \$11.9 million for program management, design and construction management and approximately \$10.3 million in contingency. The Council has added approximately \$20 million to AMEC’s proposed costs estimate to account for unplanned contingencies such as delays caused by weather, permitting, approvals, etc. The Council expects to have 30% of the design completed by April 2011, which should allow for a more refined and certain cost estimate at that time. However, until the Project is designed the final cost of the Project remains somewhat uncertain.

The Council currently expects that to achieve the 100-year level of protection (a) the Council will issue Subordinate Local Government Securities or Additional Local Government Securities or (b) the Counties will issue subordinate obligations payable from the Flood Prevention District Sales Taxes received by the Counties from the Surplus Fund. See the caption “**THE LOCAL GOVERNMENT SECURITIES – Additional and Subordinate Local Government Securities**” and “**- Indenture Flow of Funds**” herein. The Council also expects that all costs paid by the Council to improve the Levee System, including costs paid from proceeds of the Local Government Securities, will qualify as a matching contribution for work to be done by the Corps to achieve the 500-year level of protection.

*Schedule.* The Council estimates that it will achieve the 100-year level of protection and FEMA certification within five years from the commencement of the Project. While the AMEC proposal showed a 2.5 year schedule for certification, the AMEC’s proposal was based on optimal conditions in completing the Project, an assumption that the Council believes is optimistic. The Project is expected to commence in September, 2010.

## **BONDOWNERS’ RISKS**

*An investment in the Bonds is subject to a number of significant risk factors. The following is a discussion of certain risks that could affect payments to be made with respect to the Bonds. Such discussion is not, and is not intended to be, exhaustive and should be read in conjunction with all other parts of this Official Statement and should not be considered as a complete description of all risks that could affect such payments. Prospective purchasers of the Bonds should analyze carefully the information contained in this Official Statement, including the Appendices hereto, and additional information in the form of the complete documents summarized herein, copies of which are available as described herein.*

### **Nature of the Obligations**

The Bonds are special, limited obligations of the Authority and are payable solely from funds pledged under the respective Resolutions and Depository Agreements and from Bond proceeds, including payments of principal of and interest on the Local Government Securities.

The Local Government Securities are special, limited obligations of the Council and are payable solely from funds pledged under the Indenture and from Bond proceeds, including amounts in the Reserve Fund established under the Indenture. The realization of such revenues is dependent upon, among other things, future economic and other conditions that are unpredictable and cannot be determined at this time.

### **No Mortgage of the Project**

Payment of the principal of and interest on the Bonds is not secured by any deed of trust, mortgage or other lien on the Project nor any other property of the Authority or the Council, nor by any pledge of the revenues to be derived from the operation of the Project.

### **Limitations on Remedies**

The remedies available to the Owners upon a default under the respective Resolutions are in many respects dependent upon judicial action, which is often subject to discretion and delay under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the “**Federal Bankruptcy Code**”). The various legal opinions to be delivered concurrently with delivery of the Bonds will be qualified as to enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally, now or hereafter in effect; to usual equity principles which shall limit the specific enforcement under laws of the State as to certain remedies; to the exercise by the United States of America of the powers delegated to it by the United States Constitution; and to the reasonable and necessary exercise, in certain exceptional situations, of the police

power inherent in the sovereignty of the State and its governmental bodies, in the interest of serving an important public purpose.

### **Changes in Market Conditions**

Sales tax revenues historically have been sensitive to changes in local, regional and national economic conditions. For example, sales tax revenues have historically declined during economic recessions, when high unemployment adversely affects consumption. Demographic changes in the population of the Counties may adversely affect the level of sales tax revenues. A decline in the population of any of the Counties, or reductions in the level of commercial activity within the boundaries of the Counties, could reduce the number and value of taxable transactions and thus reduce the amount of sales tax revenues. It is not possible to predict whether or to what extent any such changes in economic conditions, demographic characteristics, population or commercial activity will occur, and what impact any such changes would have on sales tax revenues.

Increases in sales tax rates within the jurisdiction of the Counties may create incentives for certain purchases to be made in jurisdictions with lower overall sales tax rates. As a result, increasing sales tax rates may prompt certain commercial activities to relocate to jurisdictions with lower sales tax rates.

Various different sales taxes have been imposed and collected within the Counties for many years. See **Appendix A – “General, Economic and Financial Information of the Counties”** hereto for the sales tax collection history of a sales tax imposed by the State, which includes sales taxes imposed and collected during the most recent economic recession.

### **Deaccreditation of Levees**

Should FEMA succeed in finalizing the preliminary flood insurance rate maps issued in July 2009 (currently predicted by FEMA to occur in December 2011) and should the Levee System be officially deaccredited, owners of property in flood risk areas that secures a loan from a federally regulated financial institution will be required to have flood insurance. The additional costs of flood insurance may be cost prohibitive for many new businesses or residents to locate in such area or for any existing business to expand its operations within such area. The flood insurance requirement may result in either a slowdown or contraction of any population and economic growth in such area until the levees are certified by AMEC and accredited by FEMA. In addition, the issuance of new flood insurance rate maps will require all communities that participate in the federal flood insurance program to adopt new building regulations requiring new structures to be built above the base flood elevation. Elevating new structures to this level will substantially increase building costs, and diminish the likelihood of new development. Such a slow down or contraction may result in a decrease in Flood Prevention District Sales Taxes collected in that portion of the Counties in the American Bottom. Any decrease in the amount of Flood Prevention District Sales Taxes collected could adversely affect the Council’s ability to make timely payments of principal of and interest on the Local Government Securities.

Completion of the improvements to the levees necessary for the levees to be certified for protection from the 100-year flood is expected to occur in 2015. However, the requirement to obtain flood insurance will stay in place until FEMA accredits the levees for protection from the 100-year flood. Such accreditation process may take several months to several years after the improvements to the levees have been completed.

Legislation has been introduced in Congress to freeze flood insurance requirements in areas where local officials have adequate financing and are pursuing FEMA approved plans to correct the levee deficiencies. The legislation is not expected to be adopted this year and may be reintroduced next year.

On October 21, 2010 the Council approved a resolution to be part of a lawsuit against FEMA challenging the agency’s decision to deaccredit the Levee System. The Council will join the Counties, local levee districts and several municipalities located within the boundaries of the Council in filing the lawsuit. The current deadline for filing such lawsuit is the middle of November 2010. Regardless of any lawsuit filed

by the Council, the Council intends to complete improvements to the Levee System and the Counties are required to continue imposing the Flood Prevention District Sales Taxes to pay the principal of and interest on the Local Government Securities.

### **Risk of Construction**

Construction of the Project may be impeded by events beyond the control of the Council. These events could include strikes in any industry which supplies labor or material for the construction of the Project, shortages or unavailability of materials, bad weather, unfavorable soil or subsurface conditions, unanticipated environmental conditions or other unforeseen site problems, and nonperformance by the design engineer, subcontractors or material suppliers. Although the Council may have legal remedies to pursue against its contractors, there can be no assurance that such remedies would be adequate to complete construction of the Project.

In addition, the construction costs of the improvements to the Levee System, which are necessary to enable accreditation of the Levee System for the 100-year level protection, have not been finalized. If costs of the improvements exceed the Council's ability to finance the necessary repairs, the Council may need to delay or scale back the Project.

Other construction risks may include schedule delays for permitting from the Corps, environmental approvals from regulatory agencies, the process of property acquisition or extended periods of high water that impede construction. These risks have been incorporated into the Project schedule and cost estimate as contingencies, but should the delays increase beyond the levels incorporated in the Council's schedule and cost estimate, the time to complete the Project may increase beyond the five year schedule and the cost may increase beyond the \$150 million budget.

### **Risk of Flood**

Until improvements to the Levee System are completed to enable accreditation of the Levee System for the 100-year level protection, all businesses and residents located in the American Bottom may be at risk of a major flood. Any major flood that breaches the levees may result in the destruction of numerous businesses and homes. Businesses may be forced to temporarily or permanently close and residents may be forced to temporarily or permanently relocate. Any temporary or permanent closure of businesses or relocation of residents may result in a decrease in the amount of Flood Prevention District Sales Taxes generated and thus increase the likelihood that insufficient funds will be available to make timely payment of the principal of interest on the Bonds. Since the original construction of the levees in the 1940s, there has never been a breach or structural failure resulting in flooding.

Since construction affecting the levee structures will not be done during periods of high water, the Council believes that the risk of flooding during construction will not be increased by the construction of the Project.

### **Reserve Fund**

At the time of issuance of the Local Government Securities, the Reserve Fund will be established in an amount equal to \$6,194,424.22 (the "**Reserve Requirement**"). There can be no assurance that the amounts on deposit in the Reserve Fund will be available if needed for payment of the Local Government Securities in the full amount of the Reserve Requirement because (1) of fluctuations in the market value of the securities deposited therein and/or (2) if funds are transferred to Bond Fund established under the Indenture, sufficient revenues may not be available to replenish the Reserve Fund to the Reserve Requirement.



## **Additional Local Government Securities**

The Indenture provides that Additional Local Government Securities may be issued by the Council, subject to satisfaction of certain conditions provided in the Indenture. Additional Local Government Securities may be secured under the Indenture on a parity with the Local Government Securities. If issued on a parity with the Local Government Securities, the debt service requirements of the Council may increase, which would increase the likelihood that the Council will have insufficient funds to cover its debt service requirements. See **“THE LOCAL GOVERNMENT SECURITIES - Additional and Subordinate Local Government Securities”** herein and **“Appendix B – Definition of Words and Terms and Summary of the Principal Documents”** hereto.

## **Subsidy Risk**

The Council will designate (a) the Series 2010B Local Government Securities as Build America Bonds in order to receive Build America Payments, and (b) the Series 2010C Local Government Securities as Recovery Zone Economic Development Bonds in order to receive Recovery Zone Payments. The receipt of the Build America Payments and the Recovery Zone Payments by the Council is subject to certain requirements, including the filing of forms with the Internal Revenue Service prior to each interest payment date and compliance with federal tax law regarding the investment and use of the Series 2010B Local Government Security proceeds and the Series 2010C Local Government Security proceeds and use of the facilities financed with those proceeds. In addition, the Build America Payments and the Recovery Zone Payments are not full faith and credit obligations of the United States and are subject to offset due to any amounts owed by the Council to the U.S. Treasury. If the Council does not receive all of the Build America Payments and Recovery Zone Payments expected to be received, then there may be insufficient funds to pay the principal of and interest on the Local Government Securities when due.

## **Determination of Taxability**

The Series 2010-A Bonds are not subject to redemption, nor are the interest rates on the Series 2010-A Bonds subject to adjustment, in the event of a determination by the Internal Revenue Service (the **“Service”**) or a court of competent jurisdiction that the interest paid or to be paid on any Series 2010-A Bond or the Series 2010A Local Government Securities is or was includible in the gross income of the owner of any Series 2010-A Bond or any Series 2010A Local Government Security for federal income tax purposes. Such determination may, however, result in a breach of the Authority’s tax covenants set forth in the applicable Resolution or the Council’s tax covenants set forth in the Indenture. ***It may be that owners would continue to hold their Series 2010-A Bonds, receiving principal and interest as and when due, but would be required to include such interest payments in gross income for federal income tax purposes.***

## **Risk of Audit**

The Service has established an ongoing program to audit tax-exempt obligations, Build America Bonds and Recovery Zone Economic Development Bonds. No assurance can be given that the Service will not commence an audit of the Bonds. Owners of the Bonds are advised that, if an audit of the Bonds were commenced, in accordance with its current published procedures, the Service is likely to treat the Authority as the taxpayer, and the Owners of the Bonds may not have a right to participate in such audit. Public awareness of any audit could adversely affect the market value and liquidity of the Bonds during the pendency of the audit, regardless of the ultimate outcome of the audit.

## ABSENCE OF LITIGATION

There is no controversy, suit or other proceeding of any kind pending or, to the Authority's knowledge, threatened wherein or whereby any question is raised or may be raised, questioning, disputing or affecting in any way the legal organization of the Authority or the right or title of any of its officers to their respective offices, the constitutionality or legality of the Bonds, or the legality of any official act shown to have been done in connection with the issuance of the Bonds, or any of the proceedings had in relation to the authorization, issuance or sale thereof.

There is no controversy, suit or other proceeding of any kind pending or, to the Council's knowledge, threatened wherein or whereby any question is raised or may be raised, questioning, disputing or affecting in any way the legal organization of the Council or the right or title of any of its officers to their respective offices, the constitutionality or legality of the Local Government Securities, or the legality of any official act shown to have been done in connection with the issuance of the Local Government Securities, including the imposition by the Counties of the Flood Prevention District Sales Taxes, or any of the proceedings had in relation to the authorization, issuance or sale thereof.

## LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the approving legal opinions of Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel, whose approving opinions will be delivered with the Bonds and who has been retained by, and acts as, Bond Counsel to the Authority. The expected forms of such opinions are attached as **Appendix C** hereto. In addition, all legal matters incident to the authorization, issuance and sale of the Local Government Securities are subject to the approving legal opinion of Bond Counsel, whose approving opinion will be delivered with the Local Government Securities and who has been also retained by, and acts as, Bond Counsel to the Council. Bond Counsel has not been retained or consulted on disclosure matters, and has not undertaken to review or verify the accuracy, completeness or sufficiency of this Official Statement or other offering material relating to the Bonds, and assumes no responsibility for the statements or information contained or incorporated by reference in this Official Statement, except in its capacity as Bond Counsel, Chapman and Cutler LLP has, at the request of the Underwriters, supplied the information under the headings "TAX MATTERS," "BUILD AMERICA BONDS AND RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS" and "CIRCULAR 230" and has reviewed the information contained under the captions "THE BONDS" (excluding the information under the caption "Book-Entry Only System"), "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" and the "THE LOCAL GOVERNMENT SECURITIES" and **Appendix B** and **Appendix C** solely to determine whether such descriptions are accurate summaries in all material respects. This review was undertaken solely at the request of the Underwriters, and it did not include any obligation to establish or confirm factual matters set forth therein. Certain legal matters will be passed upon for (a) the Authority by Chapman and Cutler LLP, Chicago, Illinois, (b) the Council by Sprague & Urban, Belleville, Illinois, (c) The County of Madison, Illinois by its State's Attorney, (d) The County of St. Clair, Illinois by its State's Attorney, (e) The County of Monroe, Illinois by its State's Attorney, (f) the Madison County District by the State's Attorney of The County of Madison, Illinois, (g) the St. Clair County District by the State's Attorney of The County of St. Clair, Illinois, (h) the Monroe County District by the State's Attorney of The County of Monroe, Illinois, and (i) the Underwriters by Gilmore & Bell, P.C., St. Louis, Missouri.

## TAX MATTERS

### **Tax Exemption of Series 2010-A Bonds**

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States of America, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other

matters. The Authority, the Council, the Districts and others have covenanted to comply with all requirements that must be satisfied in order for the interest on the Series 2010-A Bonds to be excludible from gross income for federal income tax purposes. Failure to comply with certain of such covenants by the Authority, the Council, the Districts or others could cause interest on the Series 2010-A Bonds to become includible in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2010-A Bonds.

Subject to compliance by the Authority, the Council, the Districts and others with the above-referenced covenants, under present law, in the opinion of Bond Counsel, interest on the Series 2010-A Bonds (i) is excludible from the gross income of the owners thereof for federal income tax purposes, (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations and (iii) is not taken into account in computing “adjusted current earnings” as described below.

In rendering its opinion, Bond Counsel will rely upon certifications of the Authority, the Council, the Districts and others with respect to certain material facts within the respective knowledge of the Authority, the Council, the Districts and others. Bond Counsel’s opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of result.

The Code, includes provisions for an alternative minimum tax (“AMT”) for corporations in addition to the corporate regular tax in certain cases. The AMT for a corporation, if any, depends upon the corporation’s alternative minimum taxable income (“AMTI”), which is the corporation’s taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation’s “adjusted current earnings” over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). “Adjusted current earnings” would generally include certain tax-exempt interest, but not interest on the Series 2010-A Bonds.

Ownership of the Series 2010-A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Series 2010-A Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the “**Issue Price**”) for each maturity of the Series 2010-A Bonds is the price at which a substantial amount of such maturity of the Series 2010-A Bonds is first sold to the public. The Issue Price of a maturity of the Series 2010-A Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the inside cover page of this Official Statement.

If the Issue Price of a maturity of the Series 2010-A Bonds is less than the principal amount payable at maturity, the difference between the Issue Price of each such maturity, if any, of the Series 2010-A Bonds (the “**OID Bonds**”) and the principal amount payable at maturity is original issue discount.

For an investor who purchases an OID Bond in the initial public offering at the Issue Price for such maturity and who holds such OID Bond to its stated maturity, subject to the condition that the Authority, the Council, the Districts and others comply with the covenants discussed above, (a) the full amount of original issue discount with respect to such OID Bond constitutes interest which is excludible from the gross income of the owner thereof for federal income tax purposes; (b) such owner will not realize taxable capital gain or market discount upon payment of such OID Bond at its stated maturity; (c) such original issue discount is not included as an item of tax preference in computing the alternative minimum tax for individuals and corporations under the Code; (d) such original issue discount is not taken into account in computing an adjustment used in determining the alternative minimum tax for certain corporations under the Code, as described above; and (e) the accretion of original issue discount in each year may result in certain other collateral federal income tax consequences in each year even though a corresponding cash payment may not be

received until a later year. Owners of OID Bonds should consult their own tax advisors with respect to the state and local tax consequences of original issue discount on such OID Bonds.

Owners of Series 2010-A Bonds who dispose of Series 2010-A Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Series 2010-A Bonds in the initial public offering, but at a price different from the Issue Price or purchase Series 2010-A Bonds subsequent to the initial public offering should consult their own tax advisors.

If a Series 2010-A Bond is purchased at any time for a price that is less than the Series 2010-A Bond's stated redemption price at maturity or, in the case of an OID Bond, its Issue Price plus accreted original issue discount (the "**Revised Issue Price**"), the purchaser will be treated as having purchased a Series 2010-A Bond with market discount subject to the market discount rules of the Code (unless a statutory *de minimis* rule applies). Accrued market discount is treated as taxable ordinary income, and is recognized when a Series 2010-A Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's election, as it accrues. Such treatment would apply to any purchaser who purchases an OID Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Series 2010-A Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Series 2010-A Bonds.

An investor may purchase a Series 2010-A Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Series 2010-A Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Series 2010-A Bond. Investors who purchase a Series 2010-A Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Series 2010-A Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Series 2010-A Bond.

There are or may be pending in the Congress of the United States of America legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Series 2010-A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Series 2010-A Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "**Service**") has an ongoing program of auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includible in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Series 2010-A Bonds. If an audit is commenced, under current procedures the Service may treat the Authority as a taxpayer and the owners of the Series 2010-A Bonds may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Series 2010-A Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax-exempt obligations, including the Series 2010-A Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner of a Series 2010-A Bond who fails to provide an accurate Form W-9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Series 2010-A Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup

withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

The Series 2010-A Bonds are treated as issued in 2010 for purposes of Section 265(b)(7) of the Code relating to interest expense deductibility for financial institutions. The treatment of interest expense for financial institutions owning the Series 2010-A Bonds may be more favorable than the treatment provided to owners of tax-exempt bonds issued before January 1, 2009, but may be less favorable than treatment provided to owners of bank qualified bonds. Financial institutions should consult their tax advisors concerning such treatment.

Under the laws of the State of Illinois, as presently enacted and construed, the interest on the Series 2010-A Bonds is exempt from the income tax currently imposed by the State of Illinois pursuant to the Illinois Income Tax Act. No opinion is expressed regarding taxation of the interest on the Series 2010-A Bonds under any other provisions of Illinois law. Ownership of the Series 2010-A Bonds may result in other Illinois tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Series 2010-A Bonds. Prospective purchasers of the Series 2010-A Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

### **Taxable Series 2010-B Bonds and Series 2010-C Bonds**

Interest on the Series 2010-B Bonds and Series 2010-C Bonds is includible in gross income for federal income purposes. Ownership of the Series 2010-B Bonds and Series 2010-C Bonds may result in other federal income tax consequences to certain taxpayers. Owners of the Series 2010-B Bonds and the Series 2010-C Bonds should consult their tax advisors with respect to the inclusion of interest on the Series 2010-B Bonds and Series 2010-C Bonds in gross income for federal income tax purposes and any collateral tax consequences.

Under the laws of the State of Illinois, as presently enacted and construed, the interest on the Series 2010-B Bonds and Series 2010-C Bonds is exempt from the income tax currently imposed by the State of Illinois pursuant to the Illinois Income Tax Act. No opinion is expressed regarding taxation of the interest on the Series 2010-B Bonds and Series 2010-C Bonds under any other provisions of Illinois law. Ownership of the Series 2010-B Bonds and Series 2010-C Bonds may result in other Illinois tax consequences to certain taxpayers, and Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Series 2010-B Bonds and Series 2010-C Bonds. Prospective purchasers of the Series 2010-B Bonds and Series 2010-C Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

### **BUILD AMERICA BONDS AND RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS**

The Series 2010-B Bonds and Series 2010-C Bonds are taxable bonds that are supported by the revenues derived from the payment of principal and interest by the Council on the Series 2010B Local Government Securities and the Series 2010C Local Government Securities, respectively, which are to be purchased by the Authority with the proceeds of the Series 2010-B Bonds and Series 2010-C Bonds, respectively. The Series 2010B Local Government Securities and the Series 2010C Local Government Securities are expected to be issued as build America bonds and recovery zone economic development bonds, respectively. As part of the security for the Series 2010B Local Government Securities and the Series 2010C Local Government Securities, the Council will pledge payments received by the Council under Section 6431 of the Code as a result of the Series 2010B Local Government Securities being build America bonds and the Series 2010C Local Government Securities being recovery zone economic development bonds (the “**Build America and Recovery Zone Payments**”) to the payment of the Series 2010B Local Government Securities and the Series 2010C Local Government Securities. These Payments will be included in the revenues the Authority will receive from the Council from the payment of the Series 2010B Local Government Securities and the Series 2010C Local Government Securities. Below is a discussion of build America Bonds and recovery zone economic development bonds.

As part of the American Recovery and Reinvestment Act of 2009 (the “**Recovery Act**”), Congress added provisions to the Code that permit state or local governments to obtain certain tax advantages when issuing certain taxable obligations, referred to as “*Build America Bonds*.” A Build America Bond must satisfy certain requirements, including that the interest on the Build America Bonds would be, but for the Council’s election to treat the Series 2010B Local Government Securities as Build America Bonds, excludible from gross income under Section 103 of the Code. Prior to the issuance of the Series 2010B Local Government Securities, the Council must make an irrevocable election to treat the Series 2010B Local Government Securities as Build America Bonds. The Council must make an additional irrevocable election prior to the issuance of the Series 2010B Local Government Securities to treat the Series 2010B Local Government Securities as Build America Bonds that are “qualified bonds.” A separate Code provision added by the Recovery Act allows certain Build America Bonds to be treated as “*Recovery Zone Economic Development Bonds*.” Prior to the issuance of the Series 2010C Local Government Securities, the Council must designate the Series 2010C Local Government Securities as Recovery Zone Economic Development Bonds. As a result of these elections and designations, interest on the Series 2010B Local Government Securities and the Series 2010C Local Government Securities will be includible in gross income of the owners thereof for federal income tax purposes, and the owners of the Series 2010B Local Government Securities and the Series 2010C Local Government Securities will not be entitled to any tax credits as a result either of ownership of the Series 2010B Local Government Securities and the Series 2010C Local Government Securities or of receipt of any interest payments on the Series 2010B Local Government Securities or the Series 2010C Local Government Securities.

Federal tax law contains a number of requirements and restrictions that apply to the Series 2010B Local Government Securities and the Series 2010C Local Government Securities in order for them to be Build America Bonds and “qualified bonds” or to be Recovery Zone Economic Development Bonds, respectively. Such requirements and restrictions include investment restrictions, periodic payments of arbitrage profits to the United States of America, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. Failure to comply with certain of such covenants could cause the Series 2010B Local Government Securities to not be qualified Build America Bonds or for Series 2010C Local Government Securities to not be qualified bonds or Recovery Zone Economic Development Bonds (and consequently could prevent the allowance of the Build America and Recovery Zone Payments) retroactively to the date of issuance of the Series 2010B Local Government Securities and the Series 2010C Local Government Securities.

As a consequence of the Series 2010B Local Government Securities and the Series 2010C Local Government Securities being Build America Bonds that are “qualified bonds” under Section 54AA of the Code and Recovery Zone Economic Development Bonds under Section 1400U-2 of the Code, respectively, the Council will be entitled to apply for the Build America and Recovery Zone Payments. If for any reason the Series 2010B Local Government Securities and the Series 2010C Local Government Securities cease to be Build America Bonds under Section 54AA of the Code or cease to be Build America Bonds that are “qualified bonds” under Section 54AA of the Code, or cease to be Recovery Zone Economic Development Bonds under Section 1400U-2 of the Code, the Council will not be entitled to receive such Build America and Recovery Zone Payments.

Recovery Zone Economic Development Bonds may only be issued pursuant to a volume cap allocation and in an amount not to exceed such allocation.

Generally, Recovery Zone Economic Development Bonds must be used for “qualified economic development purposes” within a “recovery zone” (“**Recovery Zone**”). A Recovery Zone is (i) any area designated by the issuer as having significant poverty, unemployment, rate of home foreclosures, or general distress; (ii) any area designated by the issuer as economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990; and (iii) any area for which a designation as an empowerment zone or renewal community is in effect as of the

effective date of the Recovery Act. An issuer must designate a Recovery Zone before the issuance of the Recovery Zone Economic Development Bonds.

The amount of each Build America and Recovery Zone Payment is set in Section 1400U-2 of the Code at 45 percent of the corresponding interest payable on the related Recovery Zone Economic Development Bond and in Section 6431 of the Code at 35 percent of the corresponding interest payable on the related qualified Build America Bond.

To receive a Build America and Recovery Zone Payment, under currently existing procedures, the Council is required to file a form between 90 and 45 days prior to each interest payment date. Depending on the timing of the filing, the Build America and Recovery Zone Payment may be received before or after the corresponding interest payment.

No assurances are provided that the Council will receive Build America and Recovery Zone Payments. The amount of any Build America and Recovery Zone Payment is subject to legislative changes by Congress. Also, Build America and Recovery Zone Payments are subject to offset against certain amounts that may, for unrelated reasons, be owed by the Council to an agency of the United States of America.

In addition, the Council may deposit moneys or securities with the Trustee in escrow in such amount and manner as to cause the Series 2010B Local Government Securities and the Series 2010C Local Government Securities to be deemed to be no longer outstanding under the Indenture (a “*defeasance*”). A defeasance of the Series 2010B Local Government Securities and Series 2010C Local Government Securities may be treated as an exchange of the Series 2010B Local Government Securities and Series 2010C Local Government Securities by the owners thereof, and may therefore result in gain or loss to the owners. In that event, the Council may not be entitled to receive the Build America or Recovery Zone Payments, as the case may be. The Council is required to provide notice of defeasance of the Local Government Securities as a material event under its Continuing Disclosure Agreement, and the Trustee is required to give notice of such defeasance under the Indenture.

### **CIRCULAR 230**

This Official Statement contains tax advice written to market the Bonds. This subsection is informing Bondholders of the following as required under Treas. Reg. §10.35 which is contained in the rules of practice before the Internal Revenue Service, commonly known as Circular 230.

The tax advice contained in this Official Statement is not intended or written by the Authority, its Bond Counsel, or any other person to be used, and it cannot be used by any taxpayer for the purpose of avoiding penalties that may be imposed on the taxpayer. The tax advice contained in this Official Statement was written to support the promotion or marketing of the Bonds. Each taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.

The Authority, the Council, the Districts and Bond Counsel impose no restrictions or limitations on disclosing the content of this Official Statement or of any details of the structure of the Bonds or on the tax treatment or tax structure of the Bonds and the use of proceeds thereof.

### **UNDERWRITING**

The Series 2010 Bonds are being purchased by the Underwriters listed on the cover page this Official Statement, subject to certain conditions contained in a Purchase Contract among the Authority, the Council and the Underwriters, at an aggregate purchase price of \$94,197,129.40 (which is equal to the aggregate principal amount of the Bonds, plus net original issue premium of \$633,235.90, and less an underwriting discount of

\$631,106.50). The Underwriters will be obligated to accept delivery and pay for all of the Bonds if any are delivered.

The Bonds are being purchased by the Underwriters from the Authority in the normal course of the Underwriters' business activities. The Underwriters intend to offer the Bonds to the public at prices not in excess of the offering prices set forth on the inside cover page of this Official Statement. The Underwriters may allow concessions from the public offering prices to certain dealers, banks and others. After the initial public offering, the public offering prices may be varied from time to time by the Underwriters.

## **BOND RATINGS**

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("**S&P**") has assigned a rating to the Bonds of "AA" and Moody's Investor Services Inc. ("**Moodys**" and, together with S&P, the "**Rating Agencies**") has assigned a rating to the Bonds of "Aa3". The ratings reflect only the view of the Rating Agencies at the time such ratings are given, and the Underwriters and the Council make no representation as to the appropriateness of such ratings. An explanation of the significance of such ratings may be obtained from the Rating Agencies.

The Council has furnished the Rating Agencies with certain information and materials relating to the Bonds and the Council that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies and assumptions made by the rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the rating agency originally establishing such rating, circumstances so warrant. The Underwriters have not undertaken any responsibility to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of any rating of the Bonds or to oppose any such proposed revision or withdrawal. Pursuant to the Continuing Disclosure Agreement, the Council is required to bring to the attention of the holders of the Bonds any proposed revision or withdrawal of any rating of the Bonds but has not undertaken any responsibility to oppose any such proposed revision or withdrawal. See "**Appendix B – Definition of Words and Terms and Summary of the Principal Documents – Summary of the Continuing Disclosure Agreement**" hereto. Any such revision or withdrawal of any rating could have an adverse effect on the market price and marketability of the Bonds.

## **CERTAIN RELATIONSHIPS**

Chapman and Cutler LLP is serving as bond counsel to the Council in connection with the issuance of the Local Government Securities and is serving as bond counsel to the Authority and counsel to the Authority in connection with the issuance of the Bonds. Chapman and Cutler LLP also serves as general counsel to the Authority. Chapman and Cutler LLP has served as counsel to one or more of the Underwriters and the Counties in transactions unrelated to the issuance of the Bonds, but is not representing any of the Underwriters or Counties in connection with the issuance of the Bonds.

Stifel, Nicolaus & Company, Incorporated has served as underwriter for obligations previously issued by The County of Madison, Illinois and The County of Monroe, Illinois and other political subdivisions in the Counties.

Hutchinson, Shockey, Erley & Co. has served as underwriter for obligations previously issued by The County of St. Clair, Illinois.

Gilmore & Bell, P.C. has served as bond counsel to the Authority in transactions unrelated to the issuance of the Bonds, but is not representing the Authority in connection with the issuance of the Bonds.



**MISCELLANEOUS**

Information set forth in this Official Statement has been furnished or reviewed by the Council and other sources, as referred to herein, which are believed to be reliable. Any statements made in this 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 do not purport to be complete and are qualified in their entirety by reference thereto.

The form of this Official Statement, and its distribution and use, has been approved by the Council.

**SOUTHWESTERN ILLINOIS FLOOD PREVENTION  
DISTRICT COUNCIL, MADISON, ST. CLAIR AND  
MONROE COUNTIES, ILLINOIS**

By: /s/ Dan Maher  
President

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## APPENDIX A

### GENERAL, ECONOMIC AND FINANCIAL INFORMATION REGARDING THE COUNTIES

#### Madison County

Madison County, which was founded in September 1812, is the 8<sup>th</sup> most populated county in the State and encompasses an area of approximately 725 square miles in the southwest portion of the State. Madison County is northeast of downtown St. Louis, Missouri and is immediately east of the Mississippi River. The City of Edwardsville, which is located in the central portion of Madison County, is the county seat. There are 29 incorporated municipalities within Madison County, seven which have a population in excess of 10,000 residents. In addition, Southern Illinois University – Edwardsville, which is located in Madison County, has a student enrollment of nearly 14,000.

#### Monroe County

Monroe County was formed in 1780 and is the 46<sup>th</sup> most populated county in the State encompassing an area of approximately 389 square miles in the southwest portion of the State. Monroe County is southeast of downtown St. Louis, Missouri and is immediately east of the Mississippi River. The City of Waterloo is the county seat. There are 6 incorporated municipalities within Monroe County, none of which have a population in excess of 10,000 residents.

#### St. Clair County

St. Clair County, which was established on April 27, 1790, is the 9<sup>th</sup> most populated county in the State and encompasses an area of approximately 673 square miles in the southwest portion of the State. St. Clair County is east of downtown St. Louis, Missouri and is immediately east of the Mississippi River. The City of Belleville is the county seat. There are 28 incorporated municipalities within St. Clair County, eight of which have a population in excess of 10,000 residents. St. Clair County is home to Scott Air Force Base, which currently is an active military base providing employment for approximately 14,150 government, civilian and military personal.

#### Population, Housing, and Income Data

*Population Trends.* The following table shows the population for the Counties, the St. Louis Metropolitan Statistical Area (the “**St. Louis MSA**”) the State and the United States:

	<u>1980 Population</u>	<u>1990 Population</u>	<u>2000 Population</u>	<u>Current Population</u> <sup>(1)</sup>
Madison County	247,691	249,238	258,941	268,457
Monroe County	20,117	22,422	27,619	33,236
St. Clair County	<u>267,531</u>	<u>262,852</u>	<u>256,082</u>	<u>263,617</u>
TOTAL	<u>535,339</u>	<u>534,512</u>	<u>542,642</u>	<u>565,310</u>
St. Louis MSA	2,521,822	2,444,099	2,603,607	2,828,990
Illinois	11,426,518	11,430,602	12,419,293	12,910,409
United States	226,545,805	248,709,872	281,421,906	307,006,550

<sup>(1)</sup> Estimate as of July 1, 2009.

Source: United States Census Bureau, 2000 Census and Illinois Department of Commerce and Community Affairs.

**Population by Age.** The following table shows population by age categories for the areas indicated:

	<u>Madison County</u>	<u>Monroe County</u>	<u>St. Clair County</u>	<u>Total all Counties</u>	<u>Illinois</u>	<u>United States</u>
0-4 years	16,277	1,809	17,769	35,855	876,549	19,175,798
5-14 years	36,740	4,198	40,823	81,761	1,834,955	41,077,577
15-19 years	18,831	2,049	19,463	40,343	894,002	20,219,890
20-24 years	16,869	1,281	15,678	33,828	850,843	18,964,001
25-44 years	74,940	8,452	74,715	158,107	3,795,544	85,040,251
45-64 years	58,361	6,129	53,925	118,415	2,667,375	61,952,636
65 years and over	36,923	3,701	33,709	74,333	1,500,025	34,991,753

Source: United States Census Bureau, 2000 Census.

**Median Age of the Population.** The following table shows the median age of the populations of the Counties, the State and the St. Louis MSA:

	<u>Median Age</u>
Madison County	36.9
Monroe County	37.5
St. Clair County	35.3
State of Illinois	34.7
St. Louis MSA	36.1

Source: United States Census Bureau, 2000 Census.

**Household Income and Home Value.** The following table shows the median home value and median household income for the Counties, the State, the St. Louis MSA and the United States:

	<u>Median Home Value</u>	<u>Median Household Income</u>
Madison County	\$ 77,200	\$41,541
Monroe County	125,500	55,320
St. Clair County	77,700	39,148
Illinois	130,800	46,590
St. Louis MSA	93,800	43,365
United States	119,600	41,994

Source: United States Census Bureau, 2000 Census.

**Specified Owner-Occupied Housing Value.** The following table shows the value of specified owner-occupied housing units of the Counties:

<b>Value</b>	<b><u>Madison County</u></b>		<b><u>Monroe County</u></b>		<b><u>St. Clair County</u></b>		<b><u>Total all Counties</u></b>	
	<b><u>Number</u></b>	<b><u>Percent</u></b>	<b><u>Number</u></b>	<b><u>Percent</u></b>	<b><u>Number</u></b>	<b><u>Percent</u></b>	<b><u>Number</u></b>	<b><u>Percent</u></b>
Under \$50,000	13,756	20.6%	139	2.1%	12,890	23.3%	26,785	20.8%
\$50,000 to \$99,999	32,635	48.8	2,033	30.1	25,069	45.3	59,737	46.3
\$100,000 to \$149,999	12,354	18.5	2,560	38.0	10,072	18.2	24,986	19.4
\$150,000 to \$199,999	4,861	7.3	1,135	16.8	4,357	7.9	10,353	8.0
\$200,000 to \$299,999	2,518	3.8	730	10.8	2,192	4.0	5,440	4.2
\$300,000 or more	<u>753</u>	<u>1.2</u>	<u>147</u>	<u>2.1</u>	<u>781</u>	<u>1.4</u>	<u>1,681</u>	<u>1.3</u>
Total	<u>66,877</u>	<u>100.0%</u>	<u>6,744</u>	<u>100.0%</u>	<u>55,361</u>	<u>100.0%</u>	<u>128,982</u>	<u>100.0%</u>

Source: United States Census Bureau, 2000 Census.

**Building Permits.** The following table shows the number of building permits issued by the Counties for the years 2005 through 2009:

	<b><u>Madison County</u></b>		<b><u>Monroe County</u></b>		<b><u>St. Clair County</u></b>		<b><u>Total all Counties</u></b>	
	<b><u>Residential</u></b>	<b><u>Commercial</u></b>	<b><u>Residential</u></b>	<b><u>Commercial</u></b>	<b><u>Residential</u></b>	<b><u>Commercial</u></b>	<b><u>Residential</u></b>	<b><u>Commercial</u></b>
2005	761	26	86	7	168	13	1,015	46
2006	607	23	81	3	263	20	951	46
2007	421	26	52	4	137	12	610	42
2008	454	14	30	2	101	21	585	37
2009	<u>277</u>	<u>21</u>	<u>20</u>	<u>1</u>	<u>80</u>	<u>6</u>	<u>377</u>	<u>28</u>
TOTAL	<u>2,520</u>	<u>110</u>	<u>269</u>	<u>17</u>	<u>749</u>	<u>72</u>	<u>3,538</u>	<u>199</u>

Source: The Counties.

**Median Family Income.** The median family income for the Counties, the State, the St. Louis MSA and the United States, are as follows:

**Median Family Income**

Madison County	\$50,862
Monroe County	62,397
St. Clair County	47,409
State of Illinois	55,545
St. Louis MSA	52,958
United States	50,046

Source: United States Census Bureau, 2000 Census.

**Per Capita Personal Income.** The following tables set forth per capita personal income<sup>(1)</sup> for the Counties for 2004 through 2008, the most recent years for which figures are available:

	<u>Madison County</u>		<u>Monroe County</u>		<u>St. Clair County</u>	
	<u>Income</u>	<u>% Change</u>	<u>Income</u>	<u>% Change</u>	<u>Income</u>	<u>% Change</u>
2004	\$25,808	N/A	\$34,183	N/A	\$29,723	N/A
2005	26,112	+1.2%	34,411	+0.7%	30,663	+3.1%
2006	27,430	+4.8	36,536	+5.8	32,298	+5.1
2007	29,040	+5.6	38,955	+6.2	34,095	+5.3
2008	30,333	+4.3	40,355	+3.5	35,437	+3.8

<sup>(1)</sup> Per Capita Personal Income is the annual total Personal Income of residents divided by resident population as of July 1. "Personal Income" is the sum of Net Earnings by place of residence, rental income of persons, personal dividend income, personal interest income, and transfer payments. "Net Earnings" is earnings by place of work - the sum of wage and salary disbursements (payrolls), other labor income, and proprietors' income - less personal contributions for social insurance, plus an adjustment to convert earnings by place of work to a place-of-residence basis. Personal income is measured before the deduction of personal income taxes and other personal taxes and is reported in current dollars (no adjustment is made for price changes).

Source: Bureau of Economic Analysis.

## Employment

**Major Employers.** The top 10 employers as of June 2010 in Madison County are as follows:

	<u>Name</u>	<u>Product or Service</u>	<u>Approximate Number of Employees</u>
1.	Southern Illinois University – Edwardsville	Higher Education	2,451
2.	U.S. Steel, Granite City Works	Steel manufacturing	2,225
3.	Olin Corporation	Manufacturing	1,821
4.	Global Brass & Copper	Manufacturing	1,240
5.	Southwestern Illinois Health Facilities, Inc.	Healthcare	1,130
6.	Alton Community Unit School District	Education	1,044
7.	Madison County Government	Government	1,032
8.	Edwardsville School District	Education	1,009
9.	Gateway Regional Medical Center	Healthcare	950
10.	Collinsville School District	Education	877

Source: Madison County.

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The top 10 employers as of January 1, 2010 in Monroe County are as follows:

	<u>Name</u>	<u>Product or Service</u>	<u>Approximate Number of Employees</u>
1.	Walmart	Retail	366
2.	Waterloo School District #5	School	340
3.	Columbia School District #4	School	228
4.	Oak Hill	Nursing Home	190
5.	Monroe County Government	County Government	160
6.	Harrisonville Telephone Co.	Telecommunications	144
7.	Rock City	National Archives Storage	130
8.	Maverick	Business Mgt Services	88
9.	First National Bank of Waterloo	Banking	80
10.	Columbia Quarry	Quarry	80

Source: Monroe County.

The top 10 employers as of June 2010 in St. Clair County are as follows:

	<u>Name</u>	<u>Product or Service</u>	<u>Approximate Number of Employees</u>
1.	Scott Air Force Base	Military	14,150
2.	Memorial Hospital	Health care	2,400
3.	St. Elizabeth Hospital	Health care	1,750
4.	Southwestern Illinois College	Education	1,700
5.	Midcoast Aviation	Aircraft repair/maintenance	1,600
6.	Southern Illinois Healthcare Foundation	Health care	1,400
7.	Regions Bank	Financial services	1,200
8.	East St. Louis Schools	Education	1,000
9.	St. Clair County	County government	1,000
10.	Casino Queen	Leisure/hospitality	745

Source: St. Clair County.

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**Employment by Industry.** The following table represents employees by industry in the Counties:

<b>Classification</b>	<b>Madison County</b>		<b>Monroe County</b>		<b>St. Clair County</b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
Agriculture, forestry, fishing, hunting and mining	1,085	0.9%	483	3.3%	1,043	0.9%
Construction	7,190	5.8	1,139	7.8	6,330	5.7
Manufacturing	19,847	16.1	1,974	13.6	12,363	11.2
Wholesale trade	3,851	3.1	578	4.0	2,992	2.7
Retail trade	14,521	11.8	1,478	10.2	13,348	12.1
Transportation and warehousing and utilities	7,844	6.4	960	6.6	7,627	6.9
Information	2,749	2.2	512	3.5	2,720	2.5
Finance, insurance, real estate, and rental and leasing	8,228	6.7	1,183	8.1	7,967	7.2
Professional, scientific, management, administrative and waste management services	9,602	7.8	1,177	8.1	10,043	9.1
Educational, health and social services	27,057	21.9	2,909	20.0	23,813	21.5
Arts, entertainment, recreation, accommodation and food services	10,894	8.8	946	6.5	10,152	9.2
Other services (except public administration)	6,215	5.0	683	4.7	5,797	5.2
Public administration	<u>4,385</u>	<u>3.6</u>	<u>504</u>	<u>3.5</u>	<u>6,310</u>	<u>5.7</u>
Total	<u>123,468</u>	<u>100.0%</u>	<u>14,526</u>	<u>100.0%</u>	<u>110,505</u>	<u>100.0%</u>

Source: United States Census Bureau, 2000 Census.

**Employment by Occupation.** The following table represents workforce by occupation in the Counties:

<b>Classification</b>	<b>Madison County</b>		<b>Monroe County</b>		<b>St. Clair County</b>	
	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>	<b>Number</b>	<b>Percent</b>
Management, professional and related occupations	38,144	30.9%	4,848	33.4%	33,259	30.1%
Service occupations	19,881	16.1	1,948	13.4	19,649	17.8
Sales and office occupations	33,122	26.8	3,921	27.0	31,308	28.3
Farming, fishing and forestry occupations	275	0.2	142	1.0	258	0.2
Construction, extraction and maintenance	11,591	9.4	1,733	11.9	9,779	8.8
Production, transportation and material moving	<u>20,455</u>	<u>16.6</u>	<u>1,934</u>	<u>13.3</u>	<u>16,252</u>	<u>14.7</u>
Total	<u>123,468</u>	<u>100.0%</u>	<u>14,526</u>	<u>100.0%</u>	<u>110,505</u>	<u>100.0%</u>

Source: United States Census Bureau, 2000 Census.



**Unemployment Rates.** The following table represents the unemployment rates for the Counties and the State as of August 2010:

	<u>Madison County</u>	<u>Monroe County</u>	<u>St. Clair County</u>	<u>Total for all Counties</u>	<u>State of Illinois</u>
Labor Force	144,046	19,021	129,835	292,902	6,679,533
Employment	130,052	17,554	115,156	262,762	6,016,642
Unemployment	13,994	1,467	14,679	30,140	663,191
Unemployment Rate	9.7%	7.7%	11.3%	10.3%	9.9%

Source: Illinois Department of Employment Security, Economic Information and Analysis Division.

**Historical Unemployment Rates.** The following table represents the unemployment rates for the Counties and the State for the last 5 years:

<u>Year</u>	<u>Madison County</u>	<u>Monroe County</u>	<u>St. Clair County</u>	<u>State of Illinois</u>
2005	5.7%	4.4%	6.5%	5.8%
2006	5.2	4.1	6.1	5.6
2007	5.7	4.5	6.4	5.3
2008	6.7	5.4	7.7	6.2
2009	10.2	7.8	10.9	8.7

Source: Illinois Department of Employment Security, Economic Information and Analysis Division.

### **Tax Collection History of State Sales Taxes**

The State imposes several separate taxes, including the Illinois Retailers' Occupation Tax Act, 35 ILCS 120/1 et seq., the Illinois Service Occupation Tax Act, 35 ILCS 115/1 et seq., the Use Tax Act, 35 ILCS 105/1 et seq., and the Service Use Tax Act, 35 ILCS 110/1 et seq. (collectively, the "**State Sales Taxes**"). Most general merchandise is taxed at a rate of 6.25%. Unlike the Flood Prevention District Sales Taxes, which impose no tax on qualifying food, drugs and medical appliances or items required to be titled or registered, the State Sales Taxes are imposed on such items. Qualifying food, drugs and medical appliances are taxed at a rate of 1% and items required to be titled or registered are taxed at a rate of 6.25%. Similar to the Flood Prevention District Sales Taxes, several sales are specifically exempt from the State Sales Taxes, including sales to state, local and federal governments and sales to not-for-profit organizations that are exclusively charitable, religious, or educational.

The Illinois Department of Revenue pays into a special fund, the Local Government Tax Fund, (1) all of the revenues received from the State Sales Tax imposed on qualifying food, drugs and medical appliances, and (2) 16% of the revenues received from the State Sales Tax imposed on items required to be titled or registered and all other general merchandise. The Illinois Department of Revenue distributes revenues in the Local Government Tax Fund to Illinois cities, counties, villages and incorporated towns in an amount determined by the amount of sales which occur in each jurisdiction. On or before the 25th day of each month, the Illinois Department of Revenue certifies the disbursement of such moneys. The amount to be paid is the amount collected during the second preceding calendar month and paid into the Local Government Tax Fund.

The following table shows the amount of State Sales Tax collected by the Counties. The State Sales Tax are not pledged to and are not available for the payment of the Local Government Securities or the Bonds. The receipt of State Sales Tax by the Counties are only shown to provide an indication of consumer spending by individuals and companies.

<u>Year</u>	<u>Madison County</u>	<u>Monroe County</u>	<u>St. Clair County</u>	<u>Total</u>	<u>Percent Change</u>
2000	\$5,229,099	\$510,695	\$5,579,071	\$11,318,865	N/A
2001	5,316,895	566,125	5,686,429	11,569,449	+2.21%
2002	5,586,394	650,827	5,901,811	12,139,032	+4.92
2003	5,582,411	646,583	5,859,784	12,088,778	-0.41
2004	5,928,598	665,427	6,075,001	12,669,025	+4.80
2005	6,099,429	681,877	6,341,953	13,123,259	+3.59
2006	6,203,791	692,531	6,589,851	13,486,173	+2.77
2007	6,360,941	681,901	6,819,924	13,862,767	+2.79
2008	6,364,836	717,281	6,667,102	13,749,219	-0.82
2009	5,952,965	672,522	6,227,837	12,853,324	-6.52
2010 <sup>(1)</sup>	5,251,972	603,707	5,433,767	11,289,446	N/A

<sup>(1)</sup> Includes figures from January 2010 through October 2010.

Source: Illinois Department of Revenue.

#### **Tax Collection History of Metro-East Park and Recreation District Tax**

The Metro-East Park and Recreation District (the “**Park District**”) imposes a retailers’ occupation tax and a service occupation tax at a rate of 0.10% of the gross receipts from all taxable sales (the “**Park District Sales Taxes**”) within its boundaries. The boundaries of the Park District are coterminous with the boundaries of Madison County and St. Clair County. The Park District Sales Taxes are imposed on the same taxable sales as the Flood Prevention District Sales Taxes. See the caption “**FLOOD PREVENTION DISTRICT SALES TAXES**” herein. The Park District Sales Taxes have been imposed since 2001. The following table shows the amount of Park District Sales Taxes collected by the Park District. The Park District Sales Taxes are not pledged to and are not available for the payment of the Local Government Securities or the Bonds. The receipt of Park District Sales Taxes by the Park District are only shown to provide an indication of consumer spending by individuals and companies.

<u>Year</u>	<u>Madison County</u>	<u>St. Clair County</u>	<u>Total</u>	<u>Percent Change</u>
2001 <sup>(1)</sup>	\$ 376,761	\$ 421,561	\$ 798,322	N/A
2002	1,637,177	1,839,036	3,476,213	N/A
2003	1,708,714	1,896,688	3,605,401	+3.72%
2004	1,836,874	1,978,746	3,815,620	+5.83
2005	1,914,163	2,069,841	3,984,004	+4.41
2006	2,013,297	2,186,738	4,200,035	+5.42
2007	2,045,251	2,237,950	4,283,201	+1.98
2008	2,089,415	2,226,846	4,316,261	+0.77
2009	1,970,782	2,090,306	4,061,087	-5.91
2010 <sup>(1)</sup>	1,749,271	1,813,646	3,562,917	N/A

<sup>(1)</sup> Includes figures from January 2010 through October 2010.

## Major Property Taxpayers

The 10 largest property taxpayers within Madison County in 2009 are listed below. These taxpayers represent 4.43% of Madison County's 2009 equalized assessed valuation.

<u>Name</u>	<u>Product or Service</u>	<u>2009 Equalized Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
WRB Refining LLC	Oil refinery	\$76,108,610	1.34%
United States Steel Corporation	Steel manufacturer	55,041,970	0.97
Illinois Power Company	Electric utility	26,401,730	0.47
Lakeview Edwardsville Distribution Center LLC	Warehouse	16,889,180	0.30
The Premcor Refining Croup	Oil refinery	16,592,300	0.29
Illinois American Water Company	Water utility	13,271,370	0.23
Hershey Food Corporation	Warehouse	12,831,660	0.23
Edwardsville Crossing LLC	Retail Development	12,288,240	0.22
Prologis Pontoon LLC	Warehouse	10,579,860	0.19
Granite City Illinois Hospital Company LLC	Medical	<u>10,524,960</u>	<u>0.19</u>
<b>TOTAL</b>		<b><u>\$250,529,880</u></b>	<b><u>4.43%</u></b>

Source: Madison County.

The 10 largest property taxpayers within Monroe County in 2009 are listed below. These taxpayers represent 3.47% of Monroe County's 2009 equalized assessed valuation.

<u>Name</u>	<u>Product or Service</u>	<u>2009 Equalized Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
1. Admiral Parkway	Commercial Office	\$6,430,336	0.73%
2. SM Properties (Schnucks)	Retail Properties	3,688,217	0.42
3. Missouri Pacific Railroad	Railroad	3,629,488	0.41
4. Walmart Property	Retail Properties	2,846,937	0.32
5. Harrisonville Telephone Co.	Telecommunications	2,767,633	0.31
6. Columbia Centre Market	Retail Properties	2,559,526	0.29
7. Brems Realty	Repackaging Industry	2,550,540	0.29
8. St. Elizabeth Columbia	Medical Facility	2,152,111	0.24
9. Luhr Bros	Waterway Construction Industry	2,109,242	0.24
10. Maverick Real Estate	Business Mgt Services	<u>2,024,095</u>	<u>0.23</u>
<b>TOTAL</b>		<b><u>\$30,758,125</u></b>	<b><u>3.47%</u></b>

Source: Monroe County.

The 10 largest property taxpayers within St. Clair County in 2009 are listed below. These taxpayers represent 4.15% of St. Clair County's 2009 equalized assessed valuation.

<u>Name</u>	<u>Product or Service</u>	<u>2009 Equalized Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
St. Clair Square LLC	Shopping Mall	\$38,122,206	1.03%
Scott Air Force Base Properties LLC	Military Base	31,412,215	0.85
Ruth Franke	Raceway	20,280,778	0.55
Casino Queen Inc.	Casino/Hotel	19,263,801	0.52
Green Mount Crossing LLC	Strip Mall	9,700,927	0.26
Center Ethanol Company LLC	Chemical plant	9,363,462	0.25
TDG Belleville Crossing LLC	Retail Development	6,575,066	0.18
Winchester Place LLC	Apartments	6,280,713	0.17
THF Green Mount Developers LLC	Retail Development	6,215,552	0.17
Central Illinois Public Service Co.	Utility	<u>6,108,522</u>	<u>0.17</u>
<b>TOTAL</b>		<b><u>\$153,323,242</u></b>	<b><u>4.15%</u></b>

Source: St. Clair County.

### Composition of Equalized Assessed Valuation

The following table shows the equalized assessed valuation for all property located in the Counties for which tax levies are extended:

<u>Tax Year</u>	<u>Madison County</u>	<u>Monroe County</u>	<u>St. Clair County</u>	<u>Total Assessed Valuation</u>	<u>Percentage Change</u>
2005	\$4,524,883,252	\$707,518,573	\$2,884,869,811	\$ 8,117,271,636	N/A
2006	4,925,593,445	770,124,454	3,167,564,886	8,863,282,785	+8.42%
2007	5,060,695,592	834,151,776	3,500,760,978	9,395,608,346	+5.67
2008	5,565,289,210	853,073,127	3,669,726,718	10,088,089,055	+6.86
2009	5,660,028,831	886,574,213	3,698,077,582	10,244,680,626	+1.53

2009 is the latest year for which Equalized Assessed Valuation is available. Taxes levied in 2009 are collected in 2010.  
Source: The Counties.

\* \* \*

## APPENDIX B

### DEFINITION OF WORDS AND TERMS AND SUMMARY OF THE PRINCIPAL DOCUMENTS

#### DEFINITIONS AND SUMMARY OF THE RESOLUTIONS

In addition to the information under the caption “**THE BONDS**” and “**SOURCES OF PAYMENT AND SECURITY FOR THE BONDS,**” the following is a brief summary of the Resolutions pursuant to which the Bonds will be issued. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Resolutions, copies of which are on file with the Authority and the Registrar.

#### **Definitions from the Resolution**

“*Authority*” shall mean the Southwestern Illinois Development Authority and any successor to the duties or the functions of the Authority.

“*Bond*” or “*Bonds*” shall mean the Series 2010A Bonds, the Taxable Local Government Program Revenue Bonds, Series 2010-B (Southwestern Illinois Flood Prevention District Council Project – Build America Bonds) and the Taxable Local Government Program Revenue Bonds, Series 2010-C (Southwestern Illinois Flood Prevention District Council Project – Recovery Zone Economic Development Bonds) of the Authority, authorized by the Resolutions.

“*Bond Purchase Agreement*” shall mean the Purchase Contract to be entered into by and among the Authority, the Council and the Underwriter.

“*Bond Register*” shall mean the books of the Authority kept by the Registrar to evidence the registration and transfer of the Bonds.

“*Code*” shall mean the Internal Revenue Code of 1986, as amended.

“*Council*” shall mean the Southwestern Illinois Flood Prevention District Council, Madison, St. Clair and Monroe Counties, Illinois and any successor to the duties or functions of the Council.

“*Depository Agreement*” shall mean each Depository Agreement dated as of November 1, 2010, by and between the Authority and the Registrar, as from time to time supplemented and amended.

“*Local Government Securities*” shall mean the Flood Prevention District Council Sales Tax Revenue Bonds, Series 2010 of the Council.

“*Local Purchase Agreement*” shall mean the Local Government Securities Purchase Agreement to be entered into by and between the Authority and the Council, as from time to time supplemented and amended.

“*Registrar*” shall mean UMB Bank, National Association, in Kansas City, Missouri, or any successor designated as Registrar under each Resolution.

“*Resolutions*” shall mean each Resolution authorizing the issuance of a series of the Bonds as adopted by the members of the Board of Directors of the Authority.

“*Series 2010A Bonds*” shall mean the Local Government Program Revenue Bonds, Series 2010A (Southwestern Illinois Flood Prevention District Council Project – Tax Exempt Bonds) of the Authority, authorized by a Resolution.

“*State*” shall mean the State of Illinois.

“*Underwriter*” shall mean Morgan Keegan & Company, Inc., on its own behalf and on behalf of others.

### **Limited Liability**

The Bonds and the interest thereon shall be special, limited obligations of the Authority, payable only from the revenues derived from the payment of the principal of and interest on the Local Government Securities, and shall not constitute a debt of the State, and shall not constitute an indebtedness or an obligation, general or moral, or a pledge of the faith or loan of credit of the Authority or the State, within the meaning of any constitutional or statutory limitation. Neither the Authority nor the State shall be obligated to pay the principal of and interest on the Bonds, or other costs incidental thereto, except from the payments received from the Local Government Securities. Neither the faith and credit nor the taxing power, if any, of the Authority or the State is pledged to the payment of the principal of and interest on the Bonds or other costs incidental thereto. The Authority has no taxing power. No recourse shall be had for the payment of the principal of and interest on the Bonds or for any claim based thereon or upon any obligation, covenant or agreement contained in any Resolution against any past, present or future member, officer or employee of the Authority, or any incorporator, member, officer, employee, director or trustee of any successor corporation, as such, either directly or through the Authority or any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such incorporator, member, officer, employee, director or trustee as such is expressly waived and released as a condition of and consideration for the adoption of each Resolution and the issuance of the Bonds.

### **Debt Service Fund**

All collections of principal of and interest on the Local Government Securities shall be placed and segregated in special sinking funds created in each Resolution (each a “*Debt Service Fund*”), to be used only for the payment of the principal of the related Bonds and the interest thereon to the owners of such Bonds. Each Debt Service Fund shall be in the custody of the Registrar, pursuant to the terms and conditions of the related Depository Agreement. Any surplus in a Debt Service Fund remaining after all of the related series of Bonds and the interest thereon have been fully paid, shall be paid to the Authority.

### **Investments**

The Authority has authorized the temporary investment of moneys on deposit in each Debt Service Fund, to the extent permitted by law, in: (i) any bonds, notes, certificates of indebtedness, treasury bills or securities now or hereafter issued, which are guaranteed by the full faith and credit of the United States of America as to principal and interest (the “*Federal Securities*”); (ii) interest-bearing savings accounts, interest-bearing certificates of deposit or interest-bearing time deposits or any other investments constituting direct obligations of any bank, as defined by the Illinois Banking Act, which deposits are insured by the Federal Deposit Insurance Corporation, including without limitation the Registrar; and (iii) money market mutual funds registered under the Investment Company Act of 1940, as from time to time amended, *provided* that the portfolio of any such money market fund is limited to Federal Securities or agreements to repurchase such Federal Securities. Each such investment shall mature on a date prior to the date on which said amounts are needed to pay the principal of and interest on the related series of Bonds; *provided*, that such investments shall be made in accordance with the Tax Exemption Certificate and Agreement of the Authority, delivered in connection with the issuance of the Bonds. All interest earned on said investments shall accrue to the related Debt Service Fund.

## **Assignment of Local Government Securities and Local Purchase Agreement; Depository Agreements**

As security for the due and punctual payment of the principal of and interest on each series of the Bonds, the Authority has assigned and pledged to the Registrar on behalf of and for the benefit of the owners of such Bonds, all of its right, title and interest in and to (i) the related Local Government Securities, (ii) the related Local Purchase Agreement (except for the right of the Authority to receive certain fees and expenses), (iii) the related Debt Service Fund and (iv) all other property from time to time assigned or pledged to the Registrar to secure such series Bonds. As evidence of such assignment and pledge, the Authority is authorized to enter into the Depository Agreements with the Registrar.

## **Use of Proceeds; No Arbitrage; Bonds to Remain in Registered Form**

The principal proceeds of and accrued interest on the Bonds shall be used on the date of delivery of the Bonds to purchase the Local Government Securities from the Council, upon the terms and conditions set forth in the Local Purchase Agreement.

The Authority recognizes that the purchasers and owners of the Series 2010A Bonds will have accepted them on, and paid therefor a price which reflects, the understanding that the interest thereon is excludible from gross income of the owners thereof for Federal income tax purposes under laws in force at the time the Series 2010A Bonds shall have been delivered. In this connection, the Authority has agreed that it shall take no action which may render the interest on any of the Series 2010A Bonds includible in gross income of the owners thereof for Federal income tax purposes and that the principal proceeds from the sale of the Series 2010A Bonds shall be devoted to and used with due diligence for the purpose for which the Series 2010A Bonds are authorized to be issued.

The Authority has further recognized that Section 149(a) of the Code requires the Series 2010A Bonds to be issued and to remain in fully registered form in order that the interest thereon is excludible from gross income of the owners thereof for Federal income tax purposes under laws in force at the time the Series 2010A Bonds are delivered. In this connection, the Authority has agreed that it will not take any action to permit the Series 2010A Bonds to be issued in, or converted into, bearer or coupon form.

## **Successor Registrars**

Any corporation or association into which the Registrar may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its corporate trust business as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, merger or consolidation to which it is a party, shall be and become successor Registrar under the related Resolution, and vested with all the duties, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the related Resolution, anything in the related Resolution to the contrary notwithstanding. Any such successor Registrar shall give notice thereof to the Authority, the Council and the registered owners of the related Bonds.

The Registrar may be removed at any time, by the Authority by an instrument in writing delivered to the Registrar.

In case the Registrar shall be removed, or be dissolved, or shall be in the course of dissolution or liquidation, or otherwise become incapable of acting under a Resolution, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, a successor may be appointed by the Authority by an instrument in writing, a copy of which shall be delivered to the retiring Registrar, the successor Registrar, the Council and the registered owners of the Bonds. Every such Registrar appointed as described under this subcaption shall (i) be a trust company or bank in good standing or be authorized to act as a fiduciary under the laws of the State, (ii) be duly authorized to exercise trust powers, (iii) be subject to

examination by federal or state authorities, and (iv) have a reported capital and surplus of not less than \$50,000,000.

## **SUMMARY OF THE DEPOSITORY AGREEMENTS**

*The following is a brief summary of the Depository Agreements between the Authority and the Registrar. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Depository Agreements, copies of which are on file with the Authority and the Registrar.*

### **Assignment**

As security for the due and punctual payment of the principal of and interest on each series of the Bonds, the Authority has assigned and pledged all of its right, title and interest in and to, including without limitation its rights to payment of any and all amounts which may become due under, (a) the related Local Government Securities, (b) the related Local Purchase Agreement, as it relates to the Bonds (except the right of the Authority to receive certain fees and expenses), (c) the related Debt Service Fund, (d) all other rights and remedies to enforce such payment of any amount due to the Authority (except the right to exercise any such right or remedy to enforce performance of any right which the Authority has not assigned or pledged under the related Depository Agreement), and (e) all other property from time to time assigned or pledged by the Authority to the Registrar on behalf and for the benefit of the owners of such series of Bonds.

### **Debt Service Fund**

There is established with the Registrar, as depository of the Authority, special trust funds in the name of the Authority (each a “*Debt Service Fund*”) separate and apart from all other funds of the Authority or of the Registrar for each series of Bonds. All payments of principal of and interest on the related Local Government Securities shall be paid to the Registrar for deposit into the related Debt Service Fund. The Registrar shall hold, disburse and account for all moneys in the Debt Service Funds as provided in the Resolutions, the Tax Exemption Certificate and Agreement dated as of the delivery of the Bonds (the “*Tax Exemption Agreement*”) and the Depository Agreements.

The Registrar shall keep and maintain adequate records pertaining to the Debt Service Funds and all deposits therein and disbursements therefrom, and shall deliver copies of such records to the Authority.

### **Moneys and Documents to Be Held in Trust**

All moneys required to be deposited with or paid to the Registrar for the account of the Debt Service Funds and all documents and instruments which have been assigned and pledged to the Registrar under the Depository Agreements shall be held by the Registrar in trust for the owners from time to time of the related Bonds for the purposes specified in each Resolution, and shall be held by the Registrar for the benefit of the owners of the related Bonds as security for such Bonds.

### **Investments**

Subject to the provisions of the Tax Exemption Agreement, any moneys held as part of the Debt Service Funds shall be invested or reinvested by the Registrar in such investments and securities as are specified in the Resolutions. The Authority and the Registrar have agreed that any such investment shall have a maturity not later than the estimated time when the funds so invested will be needed to pay disbursements from the related Debt Service Fund, and the interest accruing thereon and any profit realized from such investments shall be credited to the related Debt Service Fund, and any loss resulting from such investment shall be charged to the related Debt Service Fund. The Registrar shall sell and reduce to cash a sufficient portion of the investments held for the account of each Debt Service Fund whenever the cash in such Debt



Service Fund is insufficient to pay any principal of or interest on the related Bonds required to be made from the applicable Debt Service Fund pursuant to the related Depository Agreement. Investments of moneys on deposit in the Debt Service Funds shall be made only upon the written direction of the Authority. The Registrar, when authorized by the Authority, may trade with itself in the purchase and sale of securities for such investment. The Registrar shall not be liable or responsible for any loss resulting from any such investments.

## DEFINITIONS AND SUMMARY OF THE INDENTURE

In addition to the information under the caption “THE LOCAL GOVERNMENT SECURITIES,” the following is a brief summary of the Indenture pursuant to which the Local Government Securities will be issued. The summary does not purport to be complete or definitive and is qualified in its entirety by reference to the Indenture, a copy of which is on file with the Council and the Trustee.

### Definitions from the Indenture

“*Act*” means the Flood Prevention District Act of the State of Illinois, as amended.

“*Additional Local Government Securities*” means additional bonds authorized to be issued by the Council on a parity with the Local Government Securities, pursuant to the Indenture.

“*Authorized Denomination*” means \$5,000 or any integral multiple thereof.

“*Board of Commissioners*” means the Board of Commissioners of each District.

“*Board of Directors*” means the Board of Directors of the Council.

“*Bond Counsel*” means, with respect to the original issuance of the Series 2010 Local Government Securities, Chapman and Cutler LLP, Chicago, Illinois, and thereafter, Chapman and Cutler LLP, or any firm of attorneys whose opinions are generally acceptable to purchasers of tax-exempt obligations of political subdivisions of state and local government, selected by the Council, and acceptable to the Trustee.

“*Bond Fund*” means the Southwestern Illinois Flood Prevention District Council Sales Tax Revenue Bond and Interest Fund created and established by the Indenture.

“*Bond Insurance Policy*” means the municipal bond insurance policy issued by the Bond Insurer guaranteeing the scheduled payment of principal of and interest on the Local Government Securities.

“*Bond Insurer*” means any bond insurer issuing a credit facility for Local Government Securities issued under the Indenture.

“*Bond Register*” means the books of the Council kept by the Trustee to evidence the registration and transfer of the Local Government Securities.

“*Bond Resolution*” means the resolution, duly adopted by the Board of Directors on October 21, 2010, authorizing the issuance, sale, and delivery of the Series 2010 Local Government Securities.

“*Bond Year*” means a twelve month period commencing with April 16 of the calendar year (or the dated date of the Local Government Securities, as applicable) and ending on the next succeeding April 15. The first Bond Year will end on April 15, 2011.

“*Bondholder*” or “*bondholder*,” when used with respect to a Series 2010 Local Government Security, means the person or entity in whose name such Series 2010 Local Government Security shall be registered.

“*Build America Payments*” means payments received by the Council directly from the Secretary of the U.S. Treasury as more fully set forth and described in the Indenture.

“*Build America Bonds*” means taxable bonds as defined in Section 54AA of the Code.

“*Business Day*” means any day which is not (i) a Saturday or a Sunday, (ii) a day on which banking institutions in the cities of New York, New York or Chicago, Illinois (or, if different, in the city in which the principal corporate trust office of the Trustee is located) are authorized or required by law or executive order to close, or (iii) a day on which the New York Stock Exchange is closed.

“*Closing Date*” means the date upon which the Series 2010 Local Government Securities are delivered to the Underwriters against payment therefor pursuant to the Purchase Contract as authorized and defined in the Bond Resolution.

“*Code*” means the Internal Revenue Code of 1986, as amended.

“*Construction Account*” means the account of that name established in the Indenture.

“*Costs of Issuance Account*” means the account of that name established in the Indenture.

“*Council*” means the Southwestern Illinois Flood Prevention District Council, Madison, St. Clair and Monroe Counties, Illinois.

“*Council Administrative Fund*” means the sub-fund of that name established by the Indenture.

“*Council Sales Tax Fund*” means the Southwestern Illinois Flood Prevention District Council Sales Tax Fund created and established by the Indenture.

“*Counties*” means the Counties of Madison, St. Clair and Monroe, Illinois.

“*Counties Code*” means the Counties Code of the State of Illinois, as amended.

“*County Board*” means the County Board of each County.

“*County/Council Intergovernmental Agreement*” means each agreement among each County, each District and the Council providing for the direct deposit of the Flood Prevention District Sales Taxes with the Trustee.

“*County Flood Prevention Occupation Tax Fund*” means the special fund established by each County pursuant to Section 25(j) of the Act.

“*Credit Facility*” means the Bond Insurance Policy, any letter of credit, line of credit, bank bond purchase agreement, revolving credit agreement, surety bond, other bond insurance policy, or other agreement or instrument under which any Person other than the Council undertakes to make or provide funds to make payment of the principal or premium, if any, and interest on Local Government Securities, delivered to and received by the Trustee.

“*Designated Representative*” means the President of the Board of Directors, the Chief Supervisor of Construction and any other official so designated by the Board of Directors.

“*Discount Local Government Security*” means (i) any Local Government Security offered for sale to the public or sold to the initial purchaser thereof at the time of sale thereof at an initial reoffering price or initial principal amount of less than ninety-eight percent (98%) of the principal amount due at maturity thereof, without reduction to reflect underwriter’s discount or placement agent’s fees, and (ii) any other Local Government Security designated as a Discount Local Government Security by Supplemental Indenture.

“*District/Council Intergovernmental Agreement*” means the agreement the Districts have entered into to finance, design, manage and oversee the Project and to create the Council.

“*Districts*” means the Madison County Flood Prevention District, Madison County, Illinois, the St. Clair County Flood Prevention District, St. Clair County, Illinois and the Monroe County Flood Prevention District, Monroe County, Illinois.

“*Event of Default,*” used with respect to the Indenture, means any event of default specified in the Indenture.

“*Extraordinary Event*” means that a change has occurred to Section 54AA or 6431 of the Code or there is any guidance published by the Internal Revenue Service or the United States Treasury or the United States Congress with respect to such sections or any other determination by the Internal Revenue Service or the United States Treasury, pursuant to which the Council’s cash subsidy payment from the United States Treasury is reduced or eliminated, and which is not the result of any act or omission by the Council to satisfy the requirements to qualify to receive the cash subsidy payment from the United States Treasury.

“*Favorable Bond Counsel Opinion*” means an opinion of Bond Counsel to the effect that a given action is authorized and permitted under applicable State law and the Indenture or related documents and will not adversely affect the Tax-exempt, Build America Bond or Recovery Zone Bond status of the Local Government Securities.

“*Fiscal Year*” means any 12-month period beginning on October 1 of any calendar year and ending on the last day of September of the following calendar year.

“*Flood Prevention District Revenues*” means (i) the Flood Prevention District Sales Taxes, (ii) Build America Payments and Recovery Zone Payments and (iii) any other revenues of the Districts and the Council which are permitted to be used to pay debt service on Local Government Securities.

“*Flood Prevention District Sales Taxes*” means the Flood Prevention District Retailers’ Occupation Tax and the Flood Prevention District Service Occupation Tax imposed by each County pursuant to Section 25 of the Act and any substitute therefor as provided by the State in the future.

“*Government Obligations*” means (i) direct obligations of the United States of America or any agency or instrumentality of the United States of America, (ii) obligations on which the timely payment of principal and interest is fully guaranteed by the United States of America or any agency or instrumentality of the United States of America, or (iii) evidences of a direct ownership interest in amounts payable upon any of the obligations set forth in (i) or (ii) of this definition.

“*Indenture*” means the Indenture of Trust by and between the Council and the Trustee dated as of November 23, 2010, including all amendments and supplements thereto.

“*Interest Payment Date*” means each April 15 and October 15 commencing April 15, 2011.

“*Interest Requirement*” means, for any Bond Year, the aggregate amount of interest on Outstanding Local Government Securities due and payable during such Bond Year. The calculation of interest on Local Government Securities bearing a variable rate of interest shall be made on the assumption that the rate of

interest applicable for such period will be the same as the average annual rate of interest on such Local Government Securities for the 12-month period immediately preceding the date of calculation or, if such Local Government Securities were not Outstanding during such entire 12-month period, the average interest rate for the portion of such period during which such Local Government Securities were Outstanding, or if such Local Government Securities were not Outstanding during any part of such 12-month period, at a fixed rate equal to the Bond Buyer Revenue Index or such similar index if the Bond Buyer Revenue Index is no longer available.

“*Local Government Security*” or “*Local Government Securities*” means one or more, as applicable, of the Flood Prevention District Council Sales Tax Revenue Bonds, Series 2010, and any Additional Local Government Securities issued under the Indenture.

“*Maturity*” means the date the principal of any Local Government Security becomes due and payable, either by redemption or at Stated Maturity.

“*Maximum Annual Debt Service*” means an amount of money equal to the highest future Principal Requirement and Interest Requirement in any Bond Year, including and subsequent to the Bond Year in which the computation is made. Any Outstanding Local Government Securities required to be redeemed pursuant to mandatory redemption from the Bond Fund shall be treated as falling due on the date required to be redeemed (except in the case of failure to make any such mandatory redemption or in the case of a Credit Facility specifically designated to pay such mandatory redemption) and not on the stated maturity date of such Outstanding Local Government Securities.

“*Moody’s*” shall mean Moody’s Investors Service, Inc., its successors and assigns, and, if dissolved or liquidated or no longer performing the functions of a securities rating agency, shall refer to any other nationally recognized securities rating organization designated by the Council, by notice to the Trustee.

“*OID*” means the original issue discount in connection with the sale of the Local Government Securities by the Underwriter to the public.

“*Outstanding*” or “*Local Government Securities outstanding*” or “*Local Government Securities then outstanding*,” at the time in question, means all Local Government Securities which have been executed and delivered by the Council and authenticated by the Trustee under the Indenture, except:

- A. Local Government Securities theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;
- B. Local Government Securities paid or deemed to be paid pursuant to the Indenture; and
- C. Local Government Securities in lieu of or in exchange for which other Local Government Securities shall have been executed and delivered by the Council and authenticated by the Trustee pursuant to the Indenture.

“*Outstanding Local Government Securities*” means Series 2010 Local Government Securities and Additional Local Government Securities which are outstanding and unpaid; *provided, however*, such term shall not include Local Government Securities or Additional Local Government Securities (i) which have matured and for which moneys are on deposit with proper paying agents, or are otherwise properly available, sufficient to pay all principal thereof and interest thereon, or (ii) the provision for payment of which has been made by the Council by the deposit in an irrevocable trust or escrow of funds or direct, full faith and credit obligations of the United States of America, the principal of and interest on which will be sufficient to pay at maturity or as called for redemption all the principal of and interest on and premium, if any, such Series 2010 Local Government Securities or Additional Local Government Securities, as provided in the Indenture.

“*Person*” means an individual, a corporation, a partnership, an association, a trust, or any other entity or organization, including a governmental or political subdivision or any agency or instrumentality thereof.

“*Principal Requirement*” means, for any Bond Year, the aggregate principal amount of Outstanding Local Government Securities due and payable during such Bond Year.

“*Project*” means the provision of emergency levee repair and flood protection, within or outside of each District’s corporate limits.

“*Project Fund*” means the Southwestern Illinois Flood Prevention District Council Project Fund created and established by the Indenture.

“*Purchase Contract*” means the Purchase Contract among the Underwriter, the Purchaser and the Council, relating to the sale of the Series 2010 Local Government Securities.

“*Purchaser*” means the Southwestern Illinois Development Authority.

“*Qualified Investments*” means any lawful investment under the Public Funds Investment Act of the State of Illinois, as amended.

“*Qualified Tax Exempt Obligations*” means (a) any obligation described in Section 103(a) of the Code, the interest on which is excludable from gross income of the owner thereof for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax imposed by Section 55 of the Code; (b) an interest in a regulated investment company to the extent that at least ninety-five percent of the income to the holder of the interest is interest which is excludable from gross income under Section 103 of the Code of any owner thereof for federal income tax purposes and is not an item of tax preference for purposes of the alternative minimum tax imposed by Section 55 of the Code; and (c) certificates of indebtedness issued by the United States Treasury pursuant to the Demand Deposit State and Local Government Series program described in 31 C.F.R. part 344.

“*Rating Agencies*” means S&P, Moody’s, or any national rating agency, according to which of such rating agencies then rates the Local Government Securities; and, *provided*, that, if at any time only one Rating Agency then rates the Local Government Securities, “*Rating Agencies*” shall at that time mean only such Rating Agency as is then rating the Local Government Securities.

“*Rebate Fund*” means the sub-fund by that name established under the Indenture and funded as provided in the Tax Certificate.

“*Record Date*” means the close of business on the first day of the calendar month of an Interest Payment Date.

“*Recovery Zone Payments*” means payments received by the Council directly from the Secretary of the U.S. Treasury as more fully described and set forth in the Indenture.

“*Recovery Zone Bonds*” means taxable bonds as defined in Section 1400U-2 of the Code.

“*Regulations*” means the temporary and permanent Income Tax Regulations promulgated or proposed by the Department of the Treasury pursuant to the Code, as applicable to the Local Government Securities.

“*Reserve Fund*” means the Southwestern Illinois Flood Prevention District Council Sales Tax Revenue Bond Debt Service Reserve Sub-Fund created and established by the Indenture.

*“Reserve Fund Credit Instrument”* shall mean a non-cancellable insurance policy, a non-cancellable surety bond or an irrevocable letter of credit which may be delivered to the Trustee in lieu of or in partial substitution for cash or securities required to be on deposit in the Reserve Fund. In the case of an insurance policy or surety bond, the company providing the policy or bond shall be an insurer which, at the time of the issuance of the policy or surety bond, has been assigned a credit rating which is within one of the two highest ratings accorded insurers by at least two of the Rating Agencies. In the case of a letter of credit, it shall be issued by a banking institution which has, or the parent of which has, or the holding corporation of which it is the principal bank has, at the time of the issuance of the letter of credit, a credit rating on its long-term unsecured debt within one of the two highest rating categories from at least two of the Rating Agencies. The insurance policy, surety bond or letter of credit shall grant to the Trustee the right to receive payment for the purposes for which the Reserve Fund may be used and shall be irrevocable during its term.

*“Reserve Fund Credit Instrument Coverage”* shall mean, with respect to any Reserve Fund Credit Instrument, at any date of determination, the amount available to pay principal or redemption price of and interest on the Local Government Securities secured by such Reserve Fund Credit Instrument.

*“Reserve Requirement”* shall mean as of any date of calculation, the least of (i) 10% of the original principal amount of the Local Government Securities (less any OID); (ii) the Maximum Annual Debt Service (net of Build America Payments and Recovery Zone Payments) and (iii) 125% of the average annual debt service on the Local Government Securities (net of Build America Payments and Recovery Zone Payments).

*“S&P”* means Standard & Poor’s, a division of The McGraw Hill Companies, Inc., its successors and assigns, and, if dissolved or liquidated or no longer performing the functions of a securities rating agency, shall refer to any other nationally recognized securities rating organization designated by the Council, by notice to the Trustee.

*“Series 2010A Bond Fund Account”* means the account of that name established in the Indenture.

*“Series 2010B Bond Fund Account”* means the account of that name established in the Indenture.

*“Series 2010C Bond Fund Account”* means the account of that name established in the Indenture.

*“Series 2010 Local Government Securities”* means the three series of Local Government Securities issued by the Council and defined in the Indenture: (i) Series 2010A, (ii) Taxable Series 2010B (Build America Bonds) and (iii) Taxable Series 2010C (Recovery Zone Economic Development Bonds).

*“State”* means the State of Illinois.

*“Stated Maturity”* means the stated date of final maturity with respect to the Local Government Securities.

*“Subordinate Local Government Securities”* means Local Government Securities issued by the Council payable from Flood Prevention District Revenues on a subordinate basis with respect to the Local Government Securities and Additional Local Government Securities.

*“Subordinate Lien Bond Fund”* means the sub-fund of that name established in the Indenture.

*“Supplemental Indenture”* means a supplemental indenture executed and delivered in accordance with the Indenture.

*“Surplus Fund”* means the sub-fund of that name established in the Indenture.

“*Tax Certificate*” means, collectively, the Tax Exemption Certificate and Agreement and the Tax Compliance Certificate and Agreement to be executed and delivered by the Council and the Trustee in connection with the issuance of the Local Government Securities.

“*Tax-exempt*” when used with respect to the Local Government Securities means the status of interest paid and received thereon as exempt from federal income taxation as provided in Section 103 of the Code.

“*Treasury Rate*” means as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available on the Determination Date (excluding inflation indexed securities) (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to the Stated Maturity of the Series 2010B Local Government Securities or Series 2010C Local Government Securities to be redeemed; *provided, however*, that if the period from the redemption date to such Stated Maturity is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used. The “Determination Date” shall be four (4) Business Days prior to the redemption date.

“*Trust Estate*” means the property conveyed to the Trustee pursuant to the Granting Clause of the Indenture.

“*Trustee*” means UMB Bank, N.A., St. Louis, Missouri, as bond registrar, paying agent and trustee, and successors and assigns.

“*Underwriter*” means Morgan Keegan & Company, Inc., Memphis, Tennessee, on behalf of itself and as representative of Stifel, Nicolaus & Company, Incorporated, St. Louis, Missouri, Hutchinson, Shockey, Erley & Co., Chicago, Illinois, and Loop Capital Markets, LLC, Chicago, Illinois.

### **Covenants of the Council and the Trustee**

The Council will duly and punctually pay or cause to be paid the principal of, premium, if any, and interest on the Local Government Securities issued under the Indenture at the place, on the dates, and in the manner provided therein according to the true intent and meaning thereof. The Local Government Securities are payable solely from the Flood Prevention District Revenues and, with respect to the Series 2010B Local Government Securities only, any Build America Payments and, with respect to the Series 2010C Local Government Securities only, any Recovery Zone Payments, and for the purpose of providing funds required to pay the principal and interest on the Outstanding Local Government Securities promptly when and as the same falls due, the Council covenants and agrees with the purchasers and the owners of the Outstanding Local Government Securities that the Outstanding Local Government Securities shall have a first and prior claim on and a security interest in all Flood Prevention District Revenues, the Project Fund and all accounts of the Council Sales Tax Fund. The Flood Prevention District Revenues are appropriated pursuant to the Bond Resolution for the purpose of paying the principal of and interest on the Outstanding Local Government Securities when and as the same come due.

The Council will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in the Indenture, in any and every Local Government Security executed, authenticated, and delivered under the Indenture, and in all proceedings of its members pertaining thereto. The Council is duly authorized under the Constitution and laws of the State to issue the Local Government Securities authorized by the Indenture and to execute the Indenture and to pledge the amounts pledged under the Indenture in the manner and to the extent set forth in the Indenture; that all action on its part necessary for the issuance of the Local Government Securities and the execution and delivery of the Indenture has been duly and effectively taken; and that the Local Government Securities in the hands of the Bondholders are and will be valid and enforceable obligations of the Council according to the import thereof.

The Council will do, execute, acknowledge, and deliver or cause to be done, executed, acknowledged, and delivered, such indentures supplemental the Indenture and such further acts, instruments, and transfers as the Trustee may reasonably require for the better assuring, transferring, conveying, pledging, assigning, and confirming unto the Trustee amounts pledged under the Indenture to the payment of the principal of, premium, if any, and interest on the Local Government Securities.

The Council, if necessary, shall cause the Indenture and all supplements thereto as well as such other security instruments, financing statements, and all supplements thereto, and other instruments as may be required from time to time to be kept recorded and filed in such manner and in such places as may be required by law in order to fully preserve and protect the lien thereof and the security of the holders and owners of the Local Government Securities and the rights of the Trustee under the Indenture.

The Council will at all times maintain its legal existence and will duly procure any necessary renewals and extensions thereof; will use its best efforts to maintain, preserve, and renew all the rights, powers, privileges, and franchises owned by it; and will comply with all valid acts, rules, regulations, and orders of any legislative, executive, judicial, or administrative body applicable to the Council in connection with the Local Government Securities.

The Council and the Trustee will commit or suffer no act within its control that would, to its actual knowledge, alter the status or character of the Series 2010 Local Government Securities as Tax-exempt Bonds, Build America Bonds or Recovery Zone Bonds.

The Council will not to sell, transfer, assign, pledge, release, encumber, or otherwise diminish or dispose of, directly or indirectly, by merger or otherwise, or cause or suffer the same to occur, or create or allow to be created or to exist any lien upon, all or any part of its interests in the Trust Estate, except as expressly permitted by the Indenture.

The Trustee will keep proper books for the registration of, and transfer of ownership of, each Local Government Security, and proper books, records, and accounts in which complete and correct entries shall be made of all transactions relating to the receipt, disbursement, investment, allocation, and application of the proceeds received from the sale of the Local Government Securities, the documents executed by the Council in connection therewith, the Funds and accounts created pursuant to the Indenture, and all other moneys held by the Trustee under the Indenture. The Trustee shall, during regular business hours and upon reasonable prior notice, make such books, records, and accounts available for inspection by the Council.

The Trustee will provide the Rating Agencies with prompt written notice following the effective date of (i) the appointment of any successor Trustee; (ii) any supplement to or amendment of, the Indenture or the Bond Resolution; (iii) the delivery of a Credit Facility; (iv) the payment in full of all of the Local Government Securities; (v) the giving of a notice of mandatory redemption of the Local Government Securities; or (vi) the provision for payment of all or a portion of the Local Government Securities in accordance with the Indenture.

### **Project Fund**

Pursuant to the Indenture, the Project Fund is established as a trust fund to be held by the Trustee. Created within the Project Fund are two accounts designated as the "Costs of Issuance Account" and the "Construction Account," which each contain three subaccounts corresponding to the three series of Series 2010 Local Government Securities. Principal proceeds and any premium received on the delivery of the Series 2010 Local Government Securities in the amounts set forth in the Indenture will be deposited into each Sub-Account of the Costs of Issuance Account and the Construction Account.

Any moneys received by any District or the Council from any source and designated as being for the purpose of paying costs of the Project shall be transferred to the Trustee and deposited in the Construction



Account. The moneys in the Construction Account shall be held in trust by the Trustee, shall be applied to the payment of the costs of the Project and, pending such application, shall be held as trust funds under the Indenture until paid out or transferred as provided in the Indenture. The Local Government Securities are secured by a pledge of all of the moneys on deposit in the Project Fund, and such pledge is irrevocable until the obligations of the Council are discharged under the Indenture. The Trustee may, in its discretion, establish such other accounts within the Project Fund, and sub-accounts within any of such accounts, as the Trustee may deem necessary or useful for the purpose of identifying more precisely the sources of payments into and disbursements from the Project Fund and its accounts, or, if directed by the Council, for the purpose of complying with the requirements of the Code, but the establishment of any such account or sub-account shall not alter or modify any of the requirements of the Indenture with respect to the deposit or use of money or result in commingling of funds not permitted under the Indenture. In establishing such accounts or sub-accounts, the Trustee may at any time request, receive and rely with full acquittance upon an opinion of Bond Counsel, addressed to the Trustee, that the establishment of such accounts or sub-accounts will not adversely affect any exemption from federal income taxation to which interest on the Local Government Securities would otherwise be entitled. Moneys deposited into the Project Fund shall be held in the Project Fund and disbursed as provided the Indenture. The Trustee shall administer the Project Fund as follows:

1. *Withdrawals for Costs of Issuance.* Amounts on deposit in each sub-account shall be used and disbursed by the Trustee to pay the costs of issuance of the related series of Series 2010 Local Government Securities upon written request of a Designated Representative. Amounts remaining on deposit in the Costs of Issuance Account shall be transferred by the Trustee to the Construction Account upon direction by a Designated Representative at such time as all costs of issuance have been paid.

2. *Withdrawals for Project Costs.* Except for withdrawals made in accordance with the Tax Certificate, moneys deposited into the Construction Account shall be paid out from time to time by the Trustee in order to pay, or to reimburse the Council for payment made, for the costs of the Project (including any expense of planning, construction, renovation, equipping, improving, design, financing or other services constituting a cost of the Project), in each case only upon receipt by the Trustee of the Written Statement of the Chief Supervisor of Construction of the Council or any other official so designated by the Board of Directors (the "*Written Request*").

3. *Disposition of Project Fund Moneys After Completion.* Upon receipt of a Written Request directing that any balance of moneys in the Series 2010A Construction Sub-Account shall be transferred to the Series 2010A Sub-Account of the Bond Fund, the Trustee shall make such transfer; *provided* that there be delivered to the Trustee an opinion of Bond Counsel to the effect that such application will not adversely affect the validity of the Series 2010A Local Government Securities or any exemption from federal income taxation to which the interest on the Series 2010A Local Government Securities would otherwise be entitled. All proceeds of the Series 2010B Local Government Securities and the Series 2010C Local Government Securities, including investment earnings, shall be retained in the Series 2010B Construction Account and the Series 2010C Construction Account and be used for the Project or other capital expenditures of the Council.

4. *Investment of Project Fund Moneys.* Pending disbursement, money in the Project Fund may be invested in lawful investments and such investment earnings shall be retained in the account of the Project Fund from which the investment was made and used for purposes of the Project Fund. The Trustee shall be entitled to rely upon a schedule of anticipated payments of construction and equipment costs approved by the Council, in scheduling such investments. The Trustee shall not be obligated to invest any moneys held by it under the Indenture except as directed by the Council, but shall as soon as practicable inform the Council of any amounts that remain uninvested but are eligible for investment. Notwithstanding any other provisions of the Indenture, all investment earnings shall be subject to the provisions of the Tax Certificate.

## **Build America Payments and Recovery Zone Payments**

As additional security for the payment of the Series 2010B Local Government Securities and the Series 2010C Local Government Securities, the Council pledges pursuant to Section 13 of the Local Government Reform Act of the State of Illinois, the Build America Payments and Recovery Zone Payments to the Local Government Securities. All Build America Payments and Recovery Zone Payments received by the Council shall promptly be transferred to the Trustee and deposited into the related Bond Fund Account and be used to pay principal of and interest on the Series 2010B Local Government Securities and the Series 2010C Local Government Securities on the next interest payment date for the Local Government Securities. Build America Payments shall be used to pay principal and interest on the Series 2010B Local Government Securities and Recovery Zone Payments shall be used to pay principal and interest on the Series 2010C Local Government Securities. All Build America Payments and Recovery Zone Payments received by the Council shall be fully spent to pay the principal and interest on the Series 2010B Local Government Securities and Series 2010C Local Government Securities prior to use of any Flood Prevention District Revenues.

## **Council Administrative Expense Fund**

The Board of Directors and each County Board shall approve the Council's annual budget prior to the beginning of each Fiscal Year and supply it to the Trustee. The budget may be amended during any Fiscal Year. Any amended budget must be approved by each County Board. There shall be paid to the Council Administrative Fund and held by the Trustee an amount sufficient to provide for administrative expenses of the Council as set forth in the Council's approved annual budget. Upon written request by a Designated Representative of the Council, amounts on deposit in the Council Administrative Expense Fund shall be paid by the Trustee to the Council for the payment of expenses of the Council set forth in the Council's approved budget, as such budget may be amended. Deposits to the Council Administrative Expense Fund shall be suspended in any Fiscal Year at such time as there shall be a sufficient sum, held in cash and investments, in said Fund to meet the Council administrative expenses contained in the Council's approved budget, as such budget may be amended, for such Fiscal Year.

## **Repayment to Council from Indenture Funds**

Any amounts remaining in any fund or account created under the Indenture, after payment or provision for payment in full of the Local Government Securities, Additional Local Government Securities and Subordinate Local Government Securities in accordance with the Indenture, the fees, charges, and expenses of the Trustee and any co-trustee appointed under the Indenture, and after and to the extent that the Council shall determine that the payment of such remaining amounts may be made without violation of the provisions of the Tax Certificate, shall be paid, upon the expiration of, or upon the sooner termination of, the terms of the Indenture, to the Council.

## **Events of Default and Remedies**

Subject to the provisions of the Indenture regarding waiver described below, each of the following events is defined as, and constitutes, an "Event of Default" under the Indenture:

- A. A default in the payment when due of interest on any Local Government Security.
- B. A default in the payment of principal of, or premium, if any, on any Local Government Security when due, whether at maturity, redemption, or otherwise.
- C. The Council fails to perform any of its agreements in the Indenture or the Series 2010 Local Government Securities (except a failure that results in an Event of Default under the Indenture as described in subparagraph (A) or (B) above), the performance of which, in the opinion of the Trustee, is material to the Bondholders, and which failure continues after the giving of

the notice of default and the expiration of the grace period specified in the Indenture and described below.

D. The Council shall (i) commence a voluntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law, (ii) make an assignment for the benefit of its creditors, (iii) consent to the appointment of a receiver of itself or of the whole or any substantial part of its property, or (iv) be adjudicated a bankrupt or any petition for relief shall be filed in respect of an involuntary case under the Federal bankruptcy laws, as now or hereafter constituted, or any other applicable Federal or state bankruptcy, insolvency or other similar law and such order continue in effect for a period of 60 days without stay or vacation.

E. A court of competent jurisdiction shall enter an order, judgment or decree appointing a receiver of the Council, or of the whole or any substantial part of its property, or approving a petition seeking reorganization of the Council under the Federal bankruptcy laws or any other applicable Federal or state law or statute and such order, judgment or decree shall not be vacated or set aside or stayed within 60 days from the date of the entry thereof.

F. Under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Council or of the whole or any substantial part of its property, and such custody or control shall not be terminated or stayed within 60 days from the date of assumption of such custody or control.

Upon the occurrence of any Event of Default, the Trustee may pursue any available remedy by suit at law or in equity to enforce the payment of the principal or purchase price of, premium, if any, and interest on the Local Government Securities then Outstanding, and the performance by the Council of its obligations under the Indenture, including, without limitation, the following:

A. by mandamus, or other suit, action, or proceeding at law or in equity, to enforce all rights of the Bondholders, and require the Council to carry out its obligations under the Indenture and the Act;

B. bring suit upon the Local Government Securities;

C. by action, suit, or proceeding at law or in equity require the Council to account for any moneys received by the Council as if it were the trustee of an express trust for the Bondholders; and

D. by action, suit, or proceeding at law or in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

Subject to the prior rights of the Bondholders, the Council shall be entitled to reimbursement for any of its expenses in connection with such proceeding from any available funds in the Trust Estate. If an Event of Default shall have occurred, and if requested to do so by the Bondholders of not less than 50% in aggregate principal amount of the Local Government Securities then Outstanding, and if indemnified as provided in the Indenture, the Trustee shall be obligated to exercise one or more of the rights and powers described by this Section as the Trustee, being advised by counsel, shall deem most expedient in the interests of the Bondholders. No remedy conferred upon or reserved to the Trustee or the Bondholders by the terms of the Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or the Bondholders under the Indenture or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default or an acquiescence therein; and every such right and power may be exercised from time to time as often as may be deemed expedient. No waiver of any default or Event of

Default under the Indenture, whether by the Trustee or the Bondholders, shall extend to or shall affect any subsequent default or Event of Default or shall impair any right or remedy consequent thereon.

Anything in the Indenture to the contrary notwithstanding, upon the occurrence of an Event of Default, the Bondholders of a majority in aggregate principal amount of the Local Government Securities then Outstanding shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or for any other proceedings under the Indenture, other than for the payment of the principal or purchase price of, premium, if any, and interest on the Local Government Securities, or any part thereof; *provided, however*, that direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and the Bondholders under the Indenture, the Trustee shall be entitled, as a matter of right, to request the appointment of a receiver or receivers of the Trust Estate and of the revenues, issues, earnings, income, products, and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Upon the occurrence of an Event of Default, to the extent that such rights may then lawfully be waived neither the Council, nor anyone claiming through or under it, shall claim or seek to take advantage of any appraisal, valuation, stay, extension, or redemption laws now or hereafter in force, in order to prevent or hinder the enforcement of the Indenture. The Council, for itself and all who may claim through or under it, waives, to the extent that it lawfully may do so, the benefit of all such laws.

Subject to the provisions of the Tax Certificate, all moneys relating to the Local Government Securities received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture as described in this Section (after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees and expenses, liabilities, and advances of the Trustee, it being understood that payment of such costs and expenses shall not be made from any moneys already held for the payment of principal of, premium, if any, interest on and/or purchase price for Local Government Securities that were not presented for payment when due in accordance with the terms of the Indenture) be deposited into the Bond Fund and all moneys in the Bond Fund shall be applied as follows:

A. First, to the payment of all reasonable costs and expenses of collection, fees, and other amounts due to the Trustee under the Indenture; and thereafter,

B. All such monies shall be applied as follows:

1. FIRST, to the payment to the persons entitled thereto of all installments of interest on Outstanding Local Government Securities then due, in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference;

2. SECOND, to the payment to the persons entitled thereto of the unpaid principal of any of the Outstanding Local Government Securities which shall have become due (other than Local Government Securities called for redemption for the payment of which monies are held pursuant to the provisions of the Indenture), in the order of their due dates, with interest upon such Outstanding Local Government Securities from the respective dates upon which they became due, and, if the amount available shall not be sufficient to pay in full Outstanding Local Government Securities due on any particular date, together with such interest, then to the payment first of such interest, ratably according to the amount of such interest due on such date, and then to the payment of such principal ratably according to the

amount of such principal due on such date, to the persons entitled thereto without any discrimination or preference; and

3. THIRD, to the payment of the redemption premium, if any, on and the principal of any Outstanding Local Government Securities called for redemption pursuant to the provisions of the Indenture.

4. FOURTH, to fund the Council Administrative Expense fund as set forth in the Indenture.

Whenever the Trustee shall apply such funds it shall fix the date of application, which shall be an Interest Payment Date unless it shall deem, in the reasonable exercise of its discretion, another date more suitable. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date.

All rights of action (including the right to file proofs of claim) under the Indenture and under the Local Government Securities or any Local Government Security may be enforced by the Trustee without the possession of any Local Government Security or the production thereof in any trial or proceedings related thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its name as Trustee without the necessity of joining as plaintiff or defendant the Bondholder.

No Bondholder shall have any right to institute any suit, action, or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust of the Indenture or for the appointment of a receiver or any other remedy under the Indenture, unless:

A. an Event of Default has occurred of which the Trustee has been notified as provided in, or of which by the Trustee is deemed to have notice pursuant to, the Indenture;

B. the Bondholders of not less than 50% in aggregate principal amount of the Local Government Securities then Outstanding shall have made written request to the Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted by the Indenture or to institute such action, suit or proceeding in the name or names of such Bondholders, and shall have offered to the Trustee indemnity as provided in the Indenture; and

C. the Trustee shall thereafter fail or refuse to exercise the powers granted by the Indenture, or to institute such action, suit or proceeding in its own name, within 60 days; and such notification, request, and offer of indemnity are in every case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trusts of the Indenture, and to any action or cause of action for the enforcement of the Indenture, or for the appointment of a receiver or for any other remedy under the Indenture. No one or more Bondholders shall have any right in any manner whatsoever to affect, disturb, or prejudice the lien of the Indenture by such Bondholders' action, and all proceedings at law or in equity shall be instituted, had, and maintained in the manner provided in the Indenture and (except as otherwise provided in the Indenture) for the equal and ratable benefit of the Bondholders of Local Government Securities then Outstanding. Nothing in the Indenture, however, shall affect or impair the right of any Bondholder to enforce the payment of the principal of, premium, if any, and interest on any Local Government Security owned by such Bondholder at and after Maturity thereof, or the obligation of the Council to pay the purchase price, principal of, premium, if any, and interest on any Local Government Security at the time and place, from the source, and in the manner expressed in such Local Government Security. Nothing contained in the Indenture shall be construed as permitting or affording any Bondholder a right or cause of action against the Trustee or in respect of the Local Government Securities where a default has been waived or cured under the Indenture.

In case the Trustee shall have proceeded to enforce any right under the Indenture by the appointment of a receiver or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then, and, in every such case, the Council, the Trustee and the Bondholders shall be restored to their former positions and rights under the Indenture; and all rights, remedies, and powers of the Trustee shall continue as if no such proceedings had been taken.

The Trustee may in its discretion waive any Event of Default under the Indenture and its consequences and shall do so upon the written request of the Bondholders of a majority in aggregate principal amount of the Series 2010 Local Government Securities then Outstanding; *provided, however*, that the Trustee may not waive an Event of Default described in subparagraph A. or B. of the first paragraph of this Section without the written consent of the Bondholders of all Local Government Securities then Outstanding.

Anything in the Indenture to the contrary notwithstanding, no default under the Indenture as described in subparagraph C. in the first paragraph of this Section shall constitute an Event of Default until actual notice of such default by registered or certified mail shall be given to the Council by the Trustee or by the Bondholders of not less than 50% in aggregate principal amount of all Local Government Securities Outstanding and the Council shall have had 60 days after receipt of such notice at its option to correct said default or to cause said default to be corrected and shall not have corrected said default or caused said default to be corrected within the applicable period; *provided, however*, that if said default be such that it cannot be corrected within the applicable period but can be corrected within a reasonable period of time agreed to by the Trustee, it shall not constitute an Event of Default if corrective action is instituted by the Council within the applicable period and diligently pursued until the default is corrected.

### **The Trustee**

The Trustee accepts the trusts imposed upon it by the Indenture and agrees to perform said trusts, but only upon and subject to the following express terms and conditions:

A. The Trustee, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are expressly set forth in the Indenture and shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as an ordinarily prudent trustee under a corporate indenture would exercise or use under the circumstances. If any Event of Default under the Indenture shall have occurred and be continuing, the Trustee shall exercise such of the rights and powers vested in it by the Indenture and shall use the same degree of care as a prudent person would exercise or use in the circumstances in the conduct of such prudent person's own affairs.

B. The Trustee may execute any of the trusts of the Indenture, exercise any powers under the Indenture and perform any of its duties under the Indenture by or through attorneys, agents or receivers, but shall not be answerable for the conduct of the same if appointed in accordance with the standard described above. The Trustee shall be entitled to the advice of counsel (which may be an employee or affiliate of the Trustee) concerning all matters of trust of the Indenture and its duties under the Indenture, and in all cases may pay such reasonable compensation to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust of the Indenture. The Trustee may act upon the opinion or advice of any attorneys approved by the Trustee in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or non-action exercised in good faith in reliance upon such opinion or advice.

C. The Trustee shall not be responsible for any recital in the Indenture or in the Local Government Securities (other than the certificate of authentication thereon); the legality, sufficiency, or validity of the Indenture; the Tax Certificate; the Local Government Securities or any document or

instrument relating to the Indenture or thereto; the recording or filing of any instrument required by the Indenture to secure the Local Government Securities, insuring the Project, or collecting any insurance proceeds; the validity of the execution by the Council of the Indenture or of any supplement to the Indenture or amendment of the Indenture or of any instrument of further assurance; or the validity, priority, perfection, or sufficiency of the security for the Local Government Securities issued under the Indenture or intended to be secured by the Indenture, or otherwise as to the maintenance of the security of the Indenture.

D. The Trustee shall not be accountable for the use of any Local Government Securities authenticated or delivered under the Indenture. The Trustee may in good faith buy, sell, own, and hold any of the Local Government Securities (or beneficial interests therein) in its own name and may join in any action which any Bondholder may be entitled to take with like effect as if the Trustee was not a party to the Indenture. The Trustee may also engage in or be interested in any financial or other transaction with the Council; *provided, however*, that if the Trustee determines that any such relationship is in conflict with its duties under the Indenture, it shall eliminate the conflict or resign as Trustee. To the extent permitted by law, the Trustee may also purchase Local Government Securities (or beneficial interests therein) with like effect as if it were not the Trustee.

E. The Trustee shall be protected in acting upon and may conclusively rely upon any notice, certificate, opinion, request, or other paper or document reasonably believed by it to be genuine and correct and reasonably believed by it to have been signed or sent by the proper person or persons. Any action taken by the Trustee pursuant to the Indenture upon the request, authority, or consent of any person, who at the time of making such request or giving such authority or consent is the Bondholder of any Local Government Security, shall be conclusive and binding upon all future Bondholders of the same Local Government Security and any Local Government Security issued in replacement therefor.

F. As to the existence or nonexistence of any fact or as to the sufficiency or validity of any instrument, paper, or proceeding, the Trustee shall be entitled to rely upon a certificate signed by a duly authorized representative of the Council as sufficient evidence of the facts therein contained; and prior to the occurrence of a default of which the Trustee has been notified or is deemed to have notice as described below in subparagraph H., the Trustee shall also be at liberty to accept a similar certificate to the effect that any particular dealing, transaction, or action is necessary or expedient. The Trustee may, at its discretion, secure such further evidence (including, but not limited to, legal opinions) deemed necessary or advisable by it, but shall in no case be bound to secure the same. The Trustee may accept a certificate of the officer of the Council charged with the maintenance of its books and records over the seal of the Council to the effect that a resolution or ordinance in the form therein set forth has been adopted and is in full force and effect.

G. The right of the Trustee to perform any discretionary act enumerated in the Indenture shall not be construed as a duty. The Trustee shall not be answerable for other than its negligence or willful misconduct in the performance of its powers and duties under the Indenture.

H. The Trustee shall not be required to take notice or be deemed to have notice of any default or Event of Default under the Indenture or in any other document or instrument executed in connection with the execution and delivery of the Series 2010 Local Government Securities, except (i) an Event of Default under the Indenture as described in subparagraphs A. and B. in the first paragraph under the caption **“EVENTS OF DEFAULT AND REMEDIES,”** (ii) failure by the Council to cause to be made any of the payments to the Trustee required to be made by the Indenture, or (iii) any other Event of Default of which the Trustee has actual knowledge; unless the Trustee shall be specifically notified in writing of such default or Event of Default by the Council or the Bondholders of at least 25% in aggregate principal amount of the Local Government Securities then Outstanding. All notices or other instruments required by the Indenture to be delivered to the Trustee

shall be delivered at the principal corporate trust office of the Trustee; and, in the absence of such notice so delivered, the Trustee may conclusively assume there is no default except as aforesaid.

I. At any and all reasonable times, the Trustee and its duly authorized agents, attorneys, experts, engineers, accountants, and representatives shall have the right to inspect fully all books, papers, and records of the Council pertaining to the Indenture, the Tax Certificate, and the Local Government Securities, and to make such photocopies thereof and memoranda therefrom and in regard thereto as may be desired.

J. The Trustee shall not be required to give any bond or surety in respect of the execution of the trust created by or the powers granted under the Indenture.

K. Notwithstanding anything contained elsewhere in the Indenture to the contrary, the Trustee shall have the right, but not the obligation, to demand, in respect of the withdrawal of any cash, the release of any property, or the taking of any action whatsoever within the purview of the Indenture, any showing, certificate, opinion, appraisal, or other information, or corporate action or evidence thereof, in addition to that required by the terms of the Indenture as a condition of such action by the Trustee, as deemed desirable for the purposes of establishing the right of the Council to the withdrawal of any cash, the release of any property, or the taking of any other action by the Trustee.

L. Before taking any action referred to in the Indenture (except with respect to the payment of the Local Government Securities (whether upon maturity, redemption or otherwise) from moneys on deposit with it in accordance with the Indenture), the Trustee may require that a satisfactory indemnity bond be furnished for the reimbursement of all expenses which it may incur and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct, by reason of any action so taken.

M. All moneys received by the Trustee shall, until used, applied, or invested as provided in the Indenture, be held in trust for the purposes for which they were received, but need not be segregated from other funds, except to the extent required by law, the Indenture or the Tax Certificate. The Trustee shall be under no liability for interest on any moneys received by it under the Indenture.

The Trustee shall be entitled to reasonable compensation for all services rendered by it under the Indenture. In addition, the Trustee shall be entitled to reimbursement for its charges and expenses (including reasonable counsel fees and expenses) incurred in connection with such services. Such compensation and reimbursement shall be paid by the Council and except as otherwise provided for in the Indenture, the Trustee shall not have any right, title, interest in or lien on any moneys held under or pursuant to the Indenture for the benefit of the Bondholders (including moneys deposited in the Bond Fund).

If a default occurs of which the Trustee is required by the Indenture to take notice or of which notice of default is given as provided in the Indenture, then the Trustee shall promptly give written notice thereof by certified mail, postage prepaid, to each Bondholder of Local Government Securities then Outstanding. The Trustee shall promptly give written notice to the Council by certified mail of any such notice of default sent to any Bondholder as provided under the Indenture.

In any judicial proceeding to which the Council is a party, and which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of the Bondholders, the Trustee may intervene on behalf of the Bondholders and shall do so if requested in writing by the Bondholders of at least 50% in aggregate principal amount of the Local Government Securities then Outstanding and when provided with sufficient indemnity pursuant to the Indenture.



Any corporation or association into which the Trustee may be converted or merged, with which it may be consolidated, or to which it may sell or transfer its trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation, or transfer to which it is a party, *ipso facto*, shall (if it is qualified to be Trustee under the Indenture) be and become the Trustee under the Indenture vested with all of the title to the Trust Estate and all the trusts, powers, discretions, immunities, privileges, responsibilities, obligations, and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed, or conveyance on the part of any of the parties to the Indenture, anything in the Indenture to the contrary notwithstanding; *provided, however*, that such successor Trustee meets the requirements of the Indenture.

Except during the pendency of an Event of Default, the Trustee may resign from the trusts created by the Indenture and by related documents by giving written notice to the Council and the Bondholders of the Local Government Securities then Outstanding, and shall so resign whenever it ceases to be qualified to act as Trustee under the Indenture. Such notice shall be sent by certified mail, postage prepaid, to the Bondholders. Such resignation shall take effect upon the appointment of a successor Trustee. If no successor Trustee is appointed pursuant to the Indenture within 30 days after the delivery of such notice, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice, if any, as it deems proper and prescribes, appoint a successor Trustee. All costs, fees, and expenses relating to such petition shall be paid by the Council. Such resignation shall not take effect until a successor or temporary Trustee is appointed.

Provided that no Event of Default shall have occurred and be continuing, the Council may remove the Trustee and appoint a successor Trustee at any time by an instrument or concurrent instruments in writing delivered to the Trustee. The Trustee may be removed at any time by an instrument or substantially concurrent instruments in writing delivered to the Trustee and the Council, and signed by the Bondholders of a majority in aggregate principal amount of Local Government Securities then Outstanding. Such removal shall not take effect, however, unless a successor Trustee has been appointed in accordance with the Indenture.

In case the Trustee shall resign, be removed, be dissolved, be in the course of dissolution or liquidation, or otherwise become incapable of acting or not be qualified to act under the Indenture, or in case the Trustee shall be taken under the control of any public officer or officers or a receiver appointed by a court, a successor may be appointed by the Bondholders of a majority in aggregate principal amount of Local Government Securities then Outstanding by filing with the Council an instrument or concurrent instruments in writing signed by such Bondholders, or by their attorneys in fact duly authorized; *provided, nevertheless*, that in case of such vacancy the Council by an instrument executed and signed by its President and attested by its Secretary, under its seal, may appoint a temporary Trustee to fill such vacancy until a successor Trustee shall be appointed by the Bondholders in the manner above provided. After any appointment by the Council as provided in the Indenture, the Council shall cause notice of such appointment to be given to the Rating Agencies and to be given by certified mail, postage prepaid, to all Bondholders. The foregoing notwithstanding, any such temporary Trustee so appointed by the Council shall immediately and without further act be superseded by any successor Trustee so appointed by such Bondholders.

Every successor Trustee (including any temporary trustee appointed by the Council pursuant to the Indenture) appointed under Indenture shall execute, acknowledge, and deliver to its predecessor and the Council an instrument in writing accepting such appointment under the Indenture; and, thereupon, such successor, without any further act, deed, or conveyance, shall become fully vested with the title to the Trust Estate and all of the trust powers, discretions, immunities, privileges, responsibilities, obligations, and all other matters of its predecessor; but such predecessor shall, nevertheless, on the written request of the Council, or of its successor Trustee, execute and deliver an instrument transferring to such successor Trustee all the estates, properties, rights, powers, and trusts of such predecessor under the Indenture and under related documents. Should any instrument in writing from the Council be required by any successor Trustee for more fully and certainly vesting in such successor the estates, rights, powers, and duties by the Indenture vested or intended to be vested in the predecessor any and all such instruments in writing shall, on request, be executed,

acknowledged, and delivered by the Council. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor under the Indenture, together with all other instruments provided for in the Indenture as described in this Section, shall be filed and/or recorded by the successor Trustee in each recording office where the Indenture shall have been filed and/or recorded. No appointment of a successor Trustee under the Indenture shall become effective unless such successor meets the requirements of the Indenture.

It is the intent of the parties to the Indenture that there shall be no violation of any law of any jurisdiction (including particularly the laws of the State) denying or restricting the rights of banking corporations or associations to transact business as a trustee in such jurisdiction. It is recognized that in case of litigation under the Indenture and in particular in the case of the enforcement of the Indenture on default, or in case the Trustee deems that by reason of any present or future law of any jurisdiction it may not exercise any of the powers, rights, or remedies granted by the Indenture to the Trustee, or hold title to the properties, in trust, as granted in the Indenture, or take any other action which may be desirable or necessary in connection therewith, it may be necessary that the Trustee appoint an additional individual or institution as a separate trustee or co-trustee. The following provisions of the Indenture are adapted to these ends. If the Trustee appoints an additional individual or institution as a separate trustee or co-trustee, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, duty, obligation, title, interest, and lien expressed or intended by the Indenture to be exercised by, vested in or conveyed to the Trustee with respect thereto shall be exercisable by, vested in, and conveyed to such separate trustee or co-trustee, but only to the extent necessary to enable such separate trustee or co-trustee to exercise such powers, rights, and remedies; and every covenant and obligation necessary for the exercise thereby by such separate trustee or co-trustee shall run to and be enforceable by either of them. Should any instrument in writing from the Council be required by the separate trustee or co-trustee so appointed by the Trustee for more fully vesting in and confirming to them such properties, rights, powers, trusts, duties, and obligations, any and all such instruments in writing shall, on request, be executed, acknowledged, and delivered by the Council. If any separate trustee or co-trustee, or a successor to either, shall die, become incapable of acting, or not be qualified to act, resign, or be removed, all the estates, properties, rights, powers, trusts, duties, and obligations of such separate trustee or co-trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a successor to such separate trustee or co-trustee.

Each successor to the Trustee and each institutional co-trustee (if any) shall at all times be a commercial bank or trust company organized and doing business under the laws of the United States or any state or the District of Columbia qualified to serve as the Trustee under the laws of the State, which (i) is authorized under such laws to exercise corporate trust powers; (ii) is subject to supervision or examination by the United States or State authority; (iii) has combined capital and surplus (as set forth in its most recent published report of condition) of at least \$100,000,000; (iv) shall not have become incapable of acting or have been adjudged a bankrupt or an insolvent nor have had a receiver appointed for itself or for any of its property, nor have had a public officer take charge or control of it or its property or affairs for the purpose of rehabilitation, conservation, or liquidation; and (v) shall have a credit rating of its debt of at least "A-3" or "P-2" by Moody's (or Moody's shall have provided written evidence that such successor or co-trustee is otherwise acceptable to Moody's), if the Local Government Securities are then rated by Moody's; and at least "A-" or "A-2" by S&P (or S&P shall have provided written evidence that such successor or co-trustee is otherwise acceptable to S&P), if the Local Government Securities are then rated by S&P. Should any successor to the Trustee or any institutional co-trustee at any time cease to be eligible, pursuant to the Indenture, to act as successor Trustee or co-trustee (as the case may be), it shall resign immediately in the manner provided in the Indenture. No resignation or removal of the Trustee and no appointment of a successor Trustee shall become effective until the successor Trustee has accepted its appointment under the Indenture.

### **Supplemental Indentures; Supplemental or Amendatory Bond Resolution**

The Council and the Trustee may enter into an indenture or indentures supplemental to the Indenture upon the terms described as follows.

Subject to the terms and provisions of the Indenture described below, the Council and the Trustee may, without the consent of or notice to any of the Bondholders, enter into an indenture or indentures supplemental to the Indenture, not inconsistent with the terms and provisions of the Indenture, for any one or more of the following purposes:

A. to implement the issuance of Additional Local Government Securities or Subordinate Local Government Securities as provided by the Indenture;

B. to amend the flow of funds described in the Indenture to add funds and accounts or to revise funding of funds and accounts in any manner which does not, in the opinion of the Trustee, have a material adverse effect upon the interests of the Bondholders;

C. to add provisions providing for Discount Local Government Securities, capital appreciation bonds, variable rate demand obligations, optional and mandatory tender bonds, commercial paper, tax credit bonds, and bonds secured or not secured by credit facilities, liquidity facilities, letters and liens of credit, guarantees and bond insurance agreements;

D. to cure an ambiguity, formal defect, or omission in the Indenture;

E. to grant to or confer upon the Trustee, for the benefit of the Bondholders, any additional rights, remedies, powers, or authorities that may lawfully be granted to or conferred upon the Bondholders or the Trustee;

F. to subject to the Indenture additional revenues, properties, or collateral;

G. to modify, amend, or supplement the Indenture or any indenture supplemental to the Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect, or to permit the qualification of the Local Government Securities for sale under the securities laws of the United States of America or any of the states of the United States; and if the Council so determines, to add to the Indenture or any indenture supplemental to the Indenture such other terms, conditions, and provisions as may be permitted by the Trust Indenture Act of 1939, as amended, or any similar federal statute;

H. to add to the covenants and agreements of the Council contained in the Indenture other covenants and agreements thereafter to be observed for the protection of the Bondholders or to surrender or limit any right, power, or authority in the Indenture reserved to or conferred upon the Council;

I. to provide that all or a portion of the Local Government Securities may be secured by a Credit Facility or other additional security not otherwise provided for in the Indenture;

J. to modify, amend, or supplement the Indenture or any indenture supplemental thereto in such manner as the Trustee deems necessary in order to comply with any statute, regulation, judicial decision, or other law relating to secondary market disclosure requirements with respect to obligations of the type that includes the Local Government Securities;

K. to provide for the appointment of a successor securities depository;

L. to provide for the availability of certificated Local Government Securities; and

M. to make any other change which does not, in the opinion of the Trustee, have a material adverse effect upon the interests of the Bondholders.

Exclusive of supplemental indentures permitted by the Indenture as described above, the Indenture may be amended or supplemented only as described in this paragraph. Subject to the terms and provisions contained in the Indenture and described below, the Bondholders of not less than a majority in aggregate principal amount of the Local Government Securities then Outstanding shall have the right, from time to time, to approve the execution by the Council and the Trustee of such indenture or indentures supplemental thereto as shall be deemed necessary and desirable by the Council for the purposes of modifying, altering, amending, adding to, or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture. If at any time the Council shall request the Trustee to enter into any such supplemental indenture for any of the purposes of this Section, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed by certified mail to the Bondholders. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal corporate trust office of the Trustee for inspection by all Bondholders. If, within 60 days, or such longer period as shall be prescribed by the Council, following the mailing of such notice, the Bondholders of the requisite percentage in aggregate principal amount of the Local Government Securities Outstanding at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided in the Indenture, no Bondholder shall have any right to object to any of the terms and provisions contained therein or the operation thereof or in any manner to question the propriety of the execution thereof or to enjoin or restrain the Trustee or the Council (subject to provisions described below) from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as described in this paragraph and supplemental or amendatory bond resolution as described below, the Indenture shall be deemed to be modified and amended in accordance therewith. At any time during which the Underwriter owns Local Government Securities, the Underwriter may be considered to be a Bondholder for purposes of the Indenture as described in this paragraph.

Nothing contained in the Indenture as described above shall permit or be construed as permitting, without the consent and approval of the Bondholders of all of the Local Government Securities then Outstanding, (i) an extension of the maturity of the principal of or the time for payment of any redemption premium or interest on any Local Government Security, or a reduction in the principal amount of any Local Government Security, or the rate of interest or redemption premium thereon, or a reduction in the amount of or extension of the time of any payment required by any Local Government Security; (ii) a privilege or priority of any Local Government Security over any other Local Government Security (except as provided in the Indenture); (iii) a reduction in the aggregate principal amount of the Local Government Securities required for consent to such a supplemental indenture; (iv) the deprivation of the Bondholder of any Local Government Security then Outstanding of the lien created by the Indenture; or (v) the amendment of the section of the Indenture described in this paragraph. No amendment or supplement to the Indenture may be entered into without the Trustee and the Council first receiving a Favorable Bond Counsel Opinion.

The Bond Resolution may not be amended or supplemented except as follows: (i) to authorize or give effect to the amendments or supplements to the Indenture as permitted by the Indenture as described in this paragraph, (ii) to take any of the actions with respect to the Bond Resolution as may be permitted in the Indenture as described in this Section with respect to the Indenture but only upon the same conditions as may relate to such actions with respect to the Indenture. If notice is not otherwise required by reference to the conditions described above, the Council will provide to the Trustee not less than 14 days' written notice of an intent to amend the Bond Resolution and the text of such amendment and notice not less than 7 days after such amendment is actually adopted and certified copy of the amendatory ordinance.

## SUMMARY OF THE CONTINUING DISCLOSURE AGREEMENT

The Council and UMB Bank, N.A., as dissemination agent (the “Dissemination Agent”) are entering into the Continuing Disclosure Agreement for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Underwriters in complying with Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”). The Council is the only “obligated person” with responsibility for continuing disclosure, and the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under the Continuing Disclosure Agreement, and has no liability to any person, including any owner or Beneficial Owner of the Bonds, with respect to the Rule.

### Annual Reports

Pursuant to the Continuing Disclosure Agreement, the Council shall, or shall cause the Dissemination Agent to, not later than 180 days after the end of the Council’s Fiscal Year, commencing with the year ending September 30, 2010, provide to the Municipal Securities Rulemaking Board (“MSRB”) via EMMA the following financial information and operating data (the “Annual Report”):

- (a) The audited financial statements of the Council for the prior Fiscal Year, prepared in accordance with generally accepted accounting principles. If audited financial statements are not available by the time the Annual Report is required to be filed, the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report promptly after they become available.
- (b) Collection of Flood Prevention District Sales Taxes for each County for the prior fiscal year shown on a monthly basis.

### Material Event Notices

Pursuant to the Continuing Disclosure Agreement, the Council also shall give, or cause the Dissemination Agent to give, notice of the occurrence of any of the following events with respect to the Bonds, if material (“Material Events”):

- (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 status of the Bonds;
- (7) modifications to rights of bondowners;
- (8) optional, contingent or unscheduled bond calls;
- (9) defeasances (including defeasance of any of the Local Government Securities);
- (10) release, substitution or sale of property securing repayment of the Bonds; or
- (11) rating changes.

If the Dissemination Agent has been instructed by the Council to report the occurrence of a Material Event, the Dissemination Agent shall promptly file a notice of such occurrence with the MSRB, with a copy to the Council.

The Council may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under the Continuing Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any

manner for the content of any notice or report prepared by the Council pursuant to the Continuing Disclosure Agreement. The initial Dissemination Agent shall be UMB Bank, N.A.

Notwithstanding any other provision of the Continuing Disclosure Agreement, the Council and the Dissemination Agent may amend the Continuing Disclosure Agreement (and the Dissemination Agent shall agree to any amendment so requested by the Council) and any provision of the Continuing Disclosure Agreement may be waived, provided Bond Counsel or other counsel experienced in federal securities law matters provides the Dissemination Agent with its opinion that the undertaking of the Council, as so amended or after giving effect to such waiver, is in compliance with the Rule and all current amendments thereto and interpretations thereof that are applicable to the Continuing Disclosure Agreement.

In the event of a failure of the Council to comply with any provision of the Continuing Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Registered Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall), take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Council, to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed an event of default under the Resolutions or the Indenture, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Council to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

**Electronic Municipal Market Access System (EMMA)**

All Annual Reports and notices of Material Events required to be filed by the Council or the Dissemination Agent pursuant to the Continuing Disclosure Agreement must be submitted to the MSRB through the MSRB's Electronic Municipal Market Access system ("EMMA"). EMMA is an internet-based, online portal for free investor access to municipal bond information, including offering documents, material event notices, real-time municipal securities trade prices and MSRB education resources, available at [www.emma.msrb.org](http://www.emma.msrb.org). Nothing contained on EMMA relating to the Authority, the Council or the Bonds is incorporated by reference in this Official Statement.

\* \* \*

**APPENDIX C**

**FORMS OF OPINIONS OF BOND COUNSEL**

*Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel, proposes to issue its approving opinion upon the issuance of the Series 2010-A Bonds in substantially the following form:*

Southwestern Illinois Development Authority  
Collinsville, Illinois

Re: Southwestern Illinois Development Authority  
\$64,015,000 Local Government Program  
Revenue Bonds, Series 2010-A  
(Southwestern Illinois Flood Prevention  
District Council Project – Tax Exempt Bonds)

We have examined a certified copy of the proceedings of record of the members of the Board of Directors of the Southwestern Illinois Development Authority, a political subdivision, a body politic and a municipal corporation organized and existing under the laws of the State of Illinois (the “*Authority*”), preliminary to and in connection with the issuance by the Authority of \$64,015,000 aggregate principal amount of its Local Government Program Revenue Bonds, Series 2010-A (Southwestern Illinois Flood Prevention District Council Project – Tax Exempt Bonds) (the “*Bonds*”). The Bonds are being issued pursuant to 70 *Illinois Compiled Statutes 2008, 520/1 et seq.*, as supplemented and amended (the “*Act*”), and a resolution adopted by the members of the Board of Directors of the Authority on October 21, 2010 (the “*Resolution*”), for the purpose of purchasing \$64,015,000 aggregate principal amount of Flood Prevention District Council Sales Tax Revenue Bonds, Series 2010A (the “*Local Government Securities*”) of the Southwestern Illinois Flood Prevention District Council, Madison, St. Clair and Monroe Counties, Illinois (the “*Local Government Unit*”).

The Bonds are dated the date hereof, are issued in fully registered form without coupons, mature on April 15 of the years and in the principal amounts, and bear interest payable on April 15 and October 15 of each year, commencing on April 15, 2011, at the rates *per annum*, as follows:

YEAR	AMOUNT	INTEREST RATE	YEAR	AMOUNT	INTEREST RATE
2012	\$2,455,000	2.00%	2020	\$ 3,160,000	3.25%
2013	2,505,000	2.00	2021	3,265,000	3.50
2014	2,555,000	2.00	2022	3,380,000	3.75
2015	2,605,000	3.00	2023	3,505,000	4.00
2016	2,685,000	5.00	2024	95,000	5.00
2017	2,070,000	5.00	2025	7,345,000	4.00
2017	750,000	4.00	2030	11,620,000	4.25
2018	2,950,000	4.00	2030	10,000,000	5.00
2019	3,070,000	3.00			

The Bonds are subject to redemption prior to maturity as set forth therein and in the Resolution.

From such examination, we are of the opinion that such proceedings show lawful authority for said issue of Bonds under the Act and the laws of the State of Illinois now in force.

We have examined an executed counterpart of the Depository Agreement dated as of November 1, 2010 (the “*Depository Agreement*”) by and between the Authority and UMB Bank, National Association, as registrar (the “*Registrar*”), pursuant to which the Authority has assigned and pledged the Local Government Securities, the local government securities purchase agreement pursuant to which the Authority has purchased the Local Government Securities (except certain rights) and certain other property to the Registrar for the benefit and on behalf of the owners of the Bonds. In our opinion, the Depository Agreement has been duly authorized, executed and delivered by the Authority, and constitutes the legal, valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties.

We have also examined the form of Bond, and find the same in due form of law, and, in our opinion, the Bonds to the amount named are legal, valid and binding special, limited obligations of the Authority according to the import thereof and as provided in the Resolution, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties. The principal of, premium, if any, and interest on the Bonds are payable by the Authority solely and only from the revenues derived by the Authority from the payments of the principal of, premium, if any, and interest on the Local Government Securities and certain funds and accounts held by the Registrar.

It is also our opinion that, subject to the compliance by the Authority, the Local Government Unit and others with certain covenants, under present law, the interest on the Bonds (i) is excludible from gross income of the owners thereof for federal income tax purposes, (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations under the Internal Revenue Code of 1986, as amended (the “*Code*”), and (iii) is not taken into account in computing adjusted current earnings, which is used as an adjustment in determining the federal alternative minimum tax for certain corporations. Failure to comply with certain of such covenants of the Authority, the Local Government Unit and others could cause the interest on the Bonds to be includible in gross income for federal income tax purposes retroactively to the date of the issuance of the Bonds. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds. In rendering this opinion, we have relied upon a Tax Exemption Certificate and Agreement executed by the Authority and a Tax Exemption Certificate and Agreement by and between the Local Government Unit and UMB Bank, National Association, as Trustee, each of even date herewith, with respect to certain facts which are within the sole knowledge of the Authority and the Local Government Unit, respectively.

It is also our opinion, under Illinois law, as presently enacted and construed, that the interest on the Bonds is exempt from the Illinois income tax presently imposed by the State of Illinois pursuant to the Illinois Income Tax Act. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds or any other information furnished to any person in connection with any offer or sale of the Bonds.

In rendering this opinion, we have examined and relied upon the opinions, of Bond Counsel to the Local Government Unit, relating to the validity of the Local Government Securities and the local government securities purchase agreement and the excludability of the interest on the Local Government Securities from gross income for federal income tax purposes.

In rendering this opinion, we have also relied upon certifications of the Authority and the Local Government Unit with respect to certain material facts solely within the respective knowledge of the Authority



and the Local Government Unit. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion and is not a guarantee of result. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

*Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel, proposes to issue its approving opinion upon the issuance of the Series 2010-B Bonds in substantially the following form:*

Southwestern Illinois Development Authority  
Collinsville, Illinois

Re: Southwestern Illinois Development Authority  
\$9,050,000 Taxable Local Government Program  
Revenue Bonds, Series 2010-B  
(Southwestern Illinois Flood Prevention District  
Council Project – Build America Bonds)

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We have examined a certified copy of the proceedings of record of the members of the Board of Directors of the Southwestern Illinois Development Authority, a political subdivision, a body politic and a municipal corporation organized and existing under the laws of the State of Illinois (the “*Authority*”), preliminary to and in connection with the issuance by the Authority of \$9,050,000 aggregate principal amount of its Taxable Local Government Program Revenue Bonds, Series 2010-B (Southwestern Illinois Flood Prevention District Council Project – Build America Bonds) (the “*Bonds*”). The Bonds are being issued pursuant to 70 *Illinois Compiled Statutes 2008, 520/1 et seq.*, as supplemented and amended (the “*Act*”), and a resolution adopted by the members of the Board of Directors of the Authority on October 21, 2010 (the “*Resolution*”), for the purpose of purchasing \$9,050,000 aggregate principal amount of Taxable Flood Prevention District Council Sales Tax Revenue Bonds, Series 2010B (Build America Bonds) (the “*Local Government Securities*”) of the Southwestern Illinois Flood Prevention District Council, Madison, St. Clair and Monroe Counties, Illinois (the “*Local Government Unit*”).

The Bonds are dated the date hereof, are issued in fully registered form without coupons, mature on April 15, 2032, and bear interest payable on April 15 and October 15 of each year, commencing on April 15, 2011, at the rate of seven and three one-hundredths (7.03%) *per annum*.

The Bonds are subject to redemption prior to maturity as set forth therein and in the Resolution.

From such examination, we are of the opinion that such proceedings show lawful authority for said issue of Bonds under the Act and the laws of the State of Illinois now in force.

We have examined an executed counterpart of the Depository Agreement dated as of November 1, 2010 (the “*Depository Agreement*”) by and between the Authority and UMB Bank, National Association, as registrar (the “*Registrar*”), pursuant to which the Authority has assigned and pledged the Local Government Securities, the local government securities purchase agreement pursuant to which the Authority has purchased the Local Government Securities (except certain rights) and certain other property to the Registrar for the benefit and on behalf of the owners of the Bonds. In our opinion, the Depository Agreement has been duly authorized, executed and delivered by the Authority, and constitutes the legal, valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties.

We have also examined the form of Bond, and find the same in due form of law, and, in our opinion, the Bonds to the amount named are legal, valid and binding special, limited obligations of the Authority

according to the import thereof and as provided in the Resolution, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties. The principal of, premium, if any, and interest on the Bonds are payable by the Authority solely and only from the revenues derived by the Authority from the payments of the principal of, premium, if any, and interest on the Local Government Securities and certain funds and accounts held by the Registrar.

It is our opinion that under present law, interest on the Bonds is includible in gross income of the owners thereof for federal income tax purposes. Ownership of the Bonds may result in other federal income tax consequences to certain taxpayers. Owners of the Bonds should consult their own tax advisors concerning the tax consequences of ownership of the Bonds.

Under the laws of the State of Illinois, as presently enacted and construed, the interest on the Bonds is exempt from the Illinois income tax presently imposed by the State of Illinois pursuant to the Illinois Income Tax Act. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds or any information furnished to any person in connection with any offer or sale of the Bonds.

In rendering this opinion, we have relied upon certifications of the Authority and the Local Government Unit with respect to certain material facts within the respective knowledge of the Authority and the Local Government Unit. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and is not a guarantee of result. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

*Chapman and Cutler LLP, Chicago, Illinois, Bond Counsel, proposes to issue its approving opinion upon the issuance of the Series 2010-C Bonds in substantially the following form:*

Southwestern Illinois Development Authority  
Collinsville, Illinois

Re:                               Southwestern Illinois Development Authority  
                                      \$21,130,000 Taxable Local Government Program  
                                      Revenue Bonds, Series 2010-C  
                                      (Southwestern Illinois Flood Prevention District Council  
                                      Project – Recovery Zone Economic Development Bonds)

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We have examined a certified copy of the proceedings of record of the members of the Board of Directors of the Southwestern Illinois Development Authority, a political subdivision, a body politic and a municipal corporation organized and existing under the laws of the State of Illinois (the “*Authority*”), preliminary to and in connection with the issuance by the Authority of \$21,130,000 aggregate principal amount of its Taxable Local Government Program Revenue Bonds, Series 2010-C (Southwestern Illinois Flood Prevention District Council Project – Recovery Zone Economic Development Bonds) (the “*Bonds*”). The Bonds are being issued pursuant to 70 *Illinois Compiled Statutes 2008, 520/1 et seq.*, as supplemented and amended (the “*Act*”), and a resolution adopted by the members of the Board of Directors of the Authority on October 21, 2010 (the “*Resolution*”), for the purpose of purchasing \$21,130,000 aggregate principal amount of Taxable Flood Prevention District Council Sales Tax Revenue Bonds, Series 2010C (Recovery Zone Economic Development Bonds) (the “*Local Government Securities*”) of the Southwestern Illinois Flood Prevention District Council, Madison, St. Clair and Monroe Counties, Illinois (the “*Local Government Unit*”).

The Bonds are dated the date hereof, are issued in fully registered form without coupons, mature on October 15, 2035, and bear interest payable on April 15 and October 15 of each year, commencing on April 15, 2011, at the rate of seven and twenty-three one-hundredths (7.23%) *per annum*.

The Bonds are subject to redemption prior to maturity as set forth therein and in the Resolution.

From such examination, we are of the opinion that such proceedings show lawful authority for said issue of Bonds under the Act and the laws of the State of Illinois now in force.

We have examined an executed counterpart of the Depository Agreement dated as of November 1, 2010 (the “*Depository Agreement*”) by and between the Authority and UMB Bank, National Association, as registrar (the “*Registrar*”), pursuant to which the Authority has assigned and pledged the Local Government Securities, the local government securities purchase agreement pursuant to which the Authority has purchased the Local Government Securities (except certain rights) and certain other property to the Registrar for the benefit and on behalf of the owners of the Bonds. In our opinion, the Depository Agreement has been duly authorized, executed and delivered by the Authority, and constitutes the legal, valid and binding obligation of the Authority, enforceable against the Authority in accordance with its terms, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties.

We have also examined the form of Bond, and find the same in due form of law, and, in our opinion, the Bonds to the amount named are legal, valid and binding special, limited obligations of the Authority

according to the import thereof and as provided in the Resolution, except to the extent that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws and equitable principles of general application affecting the rights and remedies of creditors and secured parties. The principal of, premium, if any, and interest on the Bonds are payable by the Authority solely and only from the revenues derived by the Authority from the payments of the principal of, premium, if any, and interest on the Local Government Securities and certain funds and accounts held by the Registrar.

It is our opinion that under present law, interest on the Bonds is includible in gross income of the owners thereof for federal income tax purposes. Ownership of the Bonds may result in other federal income tax consequences to certain taxpayers. Owners of the Bonds should consult their own tax advisors concerning the tax consequences of ownership of the Bonds.

Under the laws of the State of Illinois, as presently enacted and construed, the interest on the Bonds is exempt from the Illinois income tax presently imposed by the State of Illinois pursuant to the Illinois Income Tax Act. Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers, and we express no opinion regarding any such collateral consequences arising with respect to the Bonds.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Bonds or any information furnished to any person in connection with any offer or sale of the Bonds.

In rendering this opinion, we have relied upon certifications of the Authority and the Local Government Unit with respect to certain material facts within the respective knowledge of the Authority and the Local Government Unit. Our opinion represents our legal judgment based upon our review of the law and the facts that we deem relevant to render such opinion, and is not a guarantee of result. This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Respectfully submitted,

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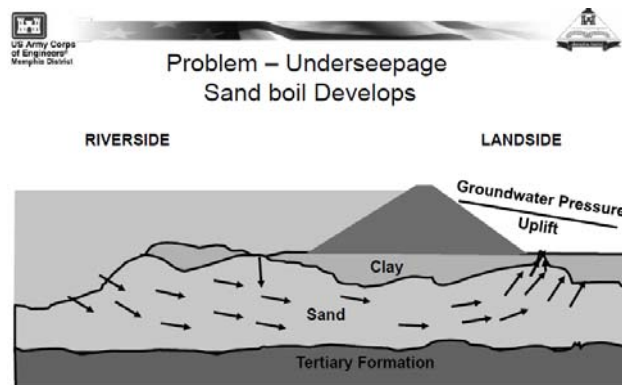
## APPENDIX D

### GENERAL DISCUSSION OF UNDERSEEPAGE AND IMPACT TO THE LEVEE SYSTEM

The information contained in this section is meant to provide a non-technical explanation of underseepage, floodfighting techniques currently used by levee owners and the Corps, and examples of application to the Project based on information from the Council, the Corps and AMEC's preliminary design proposal. It is not meant to be a representation of the details of the Project or specific uses of Bond proceeds. The reader should view this information as background information only, presented to provide a basic understanding of the design features of the Project. Graphics included in this **Appendix D** were taken from materials prepared by the Corp and the photos are not of the Levee System.

The primary improvement needs of the Levee System are to provide sufficient control of underseepage to meet FEMA standards for 100 year flood protection without the use of floodfighting. Except for a few exceptions, the height of the Levee System is currently estimated to be sufficient to meet the 500-year level of flood protection. Underseepage is sometimes known as the "silent killer" of levees, because it represents hidden erosion of the soil foundation of the levee. The Levee System is typically constructed as a pyramid shaped mound of dirt, covered with grass, on top of a clay foundation. Underneath the clay lies a layer of sand which sits atop bedrock. As the river rises above flood stage, high water exerts increasing downward pressure. This downward pressure forces water through sand layers present between the clay and bedrock layers as shown in Figure 1. As the water passes under the levee, it may carry sand to the surface in areas where the sand layer can or has penetrated the clay formation. The resulting presence of water and sand at ground level on the landside of the levee is called a "sand boil."

Figure 1



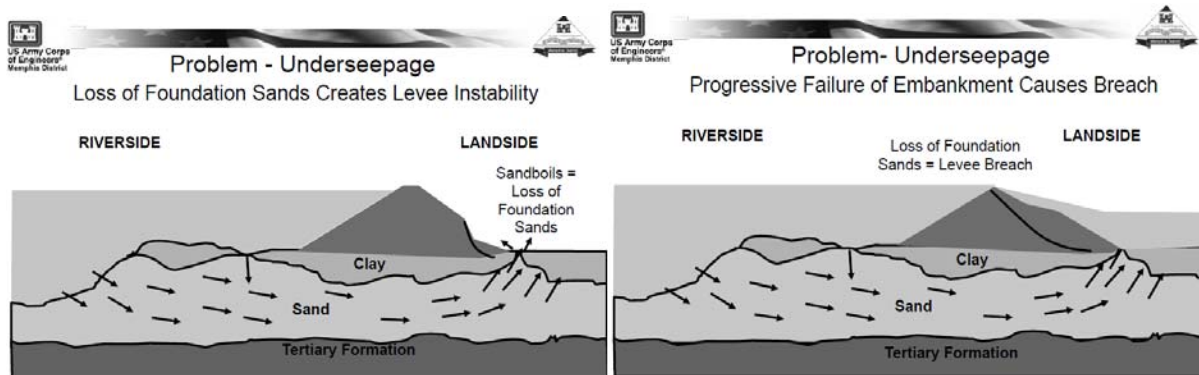
Sand boils can be identified as rings and can be stabilized with traditional, Corps-approved, floodfighting techniques. The photograph on the top of the next page shows an enlarged sand boil and the rings in the larger photo show the location of other sand boils. As can be seen from the photo, the river is at flood stage (top of photo). Pressure from the high water has caused water to penetrate the sand layer under the levee, causing the presence of sand boils. In the photo, the sand boils are stabilized by encircling them with a ring of sand bags (see the light colored circles in the photo). As water pools within the sand bag ring, it creates sufficient downward pressure to reduce underseepage. Sand boils tend to occur only at times of high water events as they require sufficient downward force from the river side to force water through the layer of sand and underneath the levee. The photo is a sample photo and is not from the Levee System.



Over time, the continued presence of sand boils can destabilize the levee through erosion. As sand and water are forced to the surface behind the levee, the landside of the levee may begin to erode at the foundation (see Figure 2). If left unaddressed for sustained periods of time, and particularly with sustained high water events, the erosion could be large enough to cause a physical breach of the levee through collapse of the landside of the levee. In such a situation, floodwaters could top or topple the levee (see Figure 3).

Figure 2

Figure 3



Historically, the Corps has approved and employed floodfighting techniques as standard and acceptable practices for flood prevention. FEMA standards for 100 year flood protection now exclude the use of floodfighting techniques.

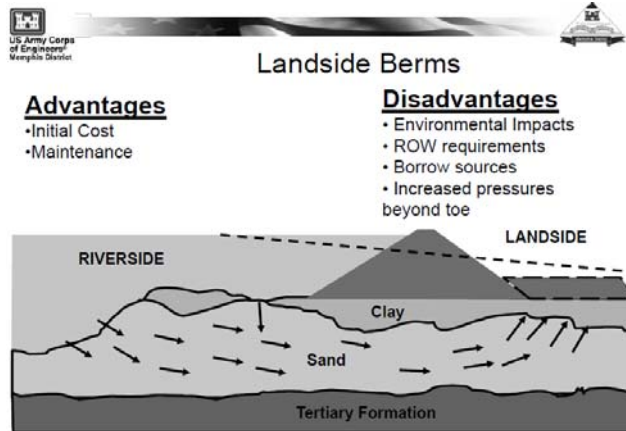
There are three principal methods to permanently control underseepage and reduce the likelihood of erosion of the levee foundation. They are:

1. Landside Berms
2. Relief Wells
3. Cutoff or Slurry Walls



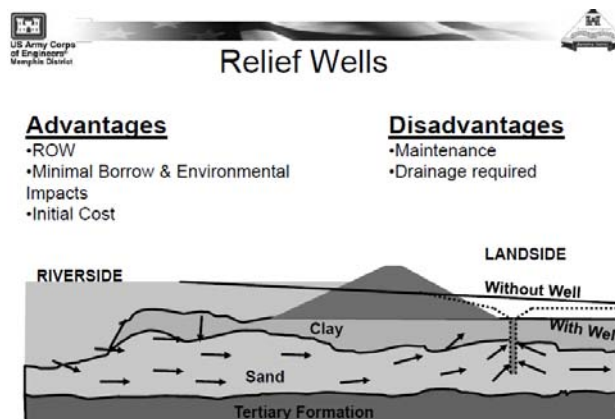
Landside Berms are simply an extension of the landside levee toe with sand at a height and width sufficient to exert enough downward pressure to prevent sand boils from occurring (see Figure 4). This method of protection is typically low cost and involves minimal long term maintenance. In areas where there is acquirable right of way, the Council may utilize this method to control for underseepage. Disadvantages to this method include potential environmental impacts and the displacement of pressure points to areas beyond the protection of the extension.

Figure 4



Relief wells offer a second method of seepage control (see Figure 5). Relief wells essentially control underseepage by relieving the water pressure under the levee and limiting the displacement of sand. Typically the flow of water from relief wells is collected and pumped into the river or stored in ponding areas (see pictures on top of next page). Relief wells are also relatively inexpensive to install. Wells are dug, screened and lined with an inner liner designed to prevent sand and debris from entering the well. Very little is required in the use of right of way, and environmental impacts are minimized. Long term costs tend to be higher relative to landside berms primarily driven by the need to operate and maintain pumping capacity and for periodic testing and cleanout of wells. The Council intends to utilize relief wells in many locations. One cost reduction component of the AMEC proposal relative to initial Corps estimates of levee improvement is the testing and rehabilitation of many existing relief wells. While older relief wells may not operate at optimal efficiency, they remain effective and can contribute to reaching the 100-year level of protection needed for certification. However, the Council anticipates replacing many of the older wells over time as part of a long-term capital program.

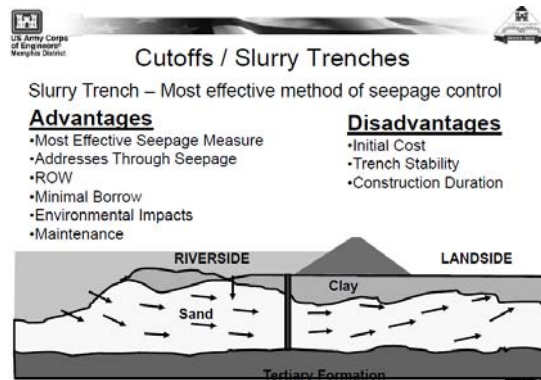
Figure 5





Cutoff or slurry walls are the third form of underseepage protection (see figure 6) and are the most effective method of underseepage control. Deep trenches are dug either on the riverside or crown of the levee typically to bedrock. The trenches are filled with a concrete type mixture, which effectively creates an impermeable barrier to underseepage. Cutoff walls usually require minimal right of way post construction, require little or no maintenance during their useful lives and tend to have minimal environmental impact absent concerns about the disposal of and toxic or hazardous material that might be excavated from the trench during construction

Figure 6



Cutoff walls are typically the most expensive method of underseepage control because of the high cost of excavating a deep trench. Bedrock levels along the Levee System average a depth of approximately 130 feet. Construction efforts to dig trenches to this depth can take time and be compounded with changes in water levels, soil types, etc. Further, for cutoff walls to be effective, they typically have to run a significantly longer length than the area that is subject to underseepage in order to avoid “end effects” i.e. water seeping around the ends of the cutoff wall.

The AMEC conceptual proposal calls for a combination of landside berms, relief wells and cutoff walls to permanently control underseepage in the Levee System.

While the large majority of expenditures will be to control underseepage, there are also other potential deficiencies in the Levee System that will be addressed. “Through seepage,” or seepage coming through the levee structure, is a problem in several locations where the material in the levee itself is permeable. This may

be the case, for example, where an old railroad embankment may serve as a levee. Solutions in such a circumstance might include placing a less permeable five-foot clay layer on the riverside of the levee or building a cutoff wall through the crown of the levee.

Some ancillary facilities might also require replacement. Gravity drains (typically corrugated pipe) and valves that allow runoff from behind the levees to flow into the river during periods when the river is at a lower elevation have deteriorated and may require replacement. Closure structures that allow a roadway or railroad to penetrate the levee may need replacement or rehabilitation. Vegetation growing on or near the levee may need to be removed.

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