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Memorandum

To: Paul Dumars, CFO

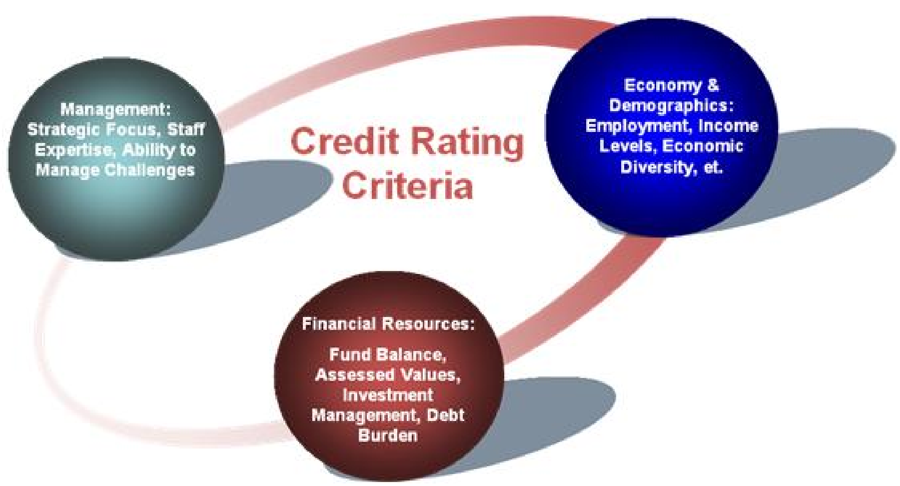
From: David Moore

Re: Impact of Economic Factors on Credit Ratings

In 2006, the District embarked on a large debt funded capital program for the first time. The District approached the credit rating agencies in New York to determine how the financial markets would view the District's ability to manage and finance a multi-year, complex capital program. The District effectively communicated its goals and objectives and demonstrated an ability to make fundamental changes in operations in order to accomplish its vision. Key factors that credit rating agencies noted include:

- Broad and growing tax base,
- Sound financial operations and ability to absorb significant debt,
- Strong management, and
- Low debt levels.

These factors contributed to the District obtaining "AA" category ratings from all three rating agencies and an implied "AAA" General Obligation Bond rating from Standard & Poor's; the highest possible rating.



Since that time, two critical factors have changed. First, due to the instability in the financial markets, high credit ratings are more important than ever. Financial costs can, and will, increase significantly for lower rated issuers. Second, most of the positive credit factors cited in the original credit rating analysis have turned negative and include the following:

- Taxable assessed values have declined and may drop further.
- Future growth in taxable value will likely be muted.
- Ability to generate additional revenue could be impacted by past and future legislative processes.
- Weakened financial operations limit the District's ability to absorb debt.

As the District considers new financings to fund its current mission objectives, the changes in operating parameters must be considered. Specifically, in order to obtain a favorable credit rating, the District must be able to demonstrate a connection between the various projects and the District's core mission/vision to include specific tactical goals and objectives. These debt funded projects must fit into the vision. Then—and this is equally important—the District must be able to demonstrate long-term budget stability taking into consideration all changes in operations (both revenues and expenses). The District will need to effectively present a five to ten year plan with balanced revenues and expenses that incorporates (i) decreased revenues, (ii) additional operating expenses related to recently completed capital projects, (iii) debt service, and of course, (iv) ongoing operations for traditional District initiatives.

Last year when the District prepared it's budget and five year plan, it was very difficult to make all the pieces fit together due to declining revenues. Most governments in Florida expect FY 2011 to be even more difficult. In fact, today we reviewed the District's preliminary projections that show deficits in 2011 and 2012 ranging from $89 million to $110 million, respectively. These projections include new debt service associated with the US Sugar land acquisition and other additional operations and maintenance expenses related to other projects. If these projections (both revenue and expenses) are even close, the District must make some very difficult decisions. While we are not in the position to prioritize sub-components of O&M and compare these expenses to the strategic value of debt funded initiatives (i.e. US Sugar acquisition and/or other projects), it is clear that significant decreases in O&M will be required in order for the District to issue a material amount of debt. The rating agencies will view budget proposals to cut O&M very skeptically and will need to see definitive action taken before accepting a proforma incorporating these changes. It is difficult to see how the District can make changes of this magnitude (particularly when additional O&M is expected to come on line in future years related to current projects). In addition, as part of this planning process we recommend that the District review its debt coverage and debt ratio policies. These policy changes will be carefully reviewed by the credit rating agencies, since the District's original plan resulted in ratios that were somewhat higher than normal.

While I know this discussion is neither positive nor encouraging, I think it is critical for us to approach this process with our "eyes wide open" and realize that the changing economic environment is creating larger and larger challenges.