

**PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 8, 2014**

**NEW ISSUE  
BOOK-ENTRY ONLY**

**RATING  
S&P: "AA"**

*In the opinion of Bond Counsel, based on existing statutes, regulations, rulings and court decisions, the interest on the Series 2014 Bonds is excludable from gross income for federal income tax purposes, subject to the condition that the City comply with all requirements of the Internal Revenue Code that must be satisfied subsequent to the issuance of the Series 2014 Bonds, and the Series 2014 Bonds and interest thereon are exempt from all Arkansas state, county and municipal taxes. In the opinion of Bond Counsel, interest on the Series 2014 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although it is included in book income in calculating the corporate alternative minimum taxable income. See **LEGAL MATTERS**, Tax Exemption herein.*

**\$34,720,000\***  
**CITY OF FORT SMITH, ARKANSAS**  
**SALES AND USE TAX BONDS**  
**SERIES 2014**

Dated: February 1, 2014

Due: May 1, as shown below

Principal of and interest on the Series 2014 Bonds are payable from a pledge of receipts derived by the City of Fort Smith, Arkansas (the "City") from a 0.75% sales and use tax levied by the City on a parity with the City's Sales and Use Tax Refunding and Improvement Bonds, Series 2012. Interest on the Series 2014 Bonds is payable semiannually on May 1 and November 1 in each year, commencing May 1, 2014, and the Series 2014 Bonds mature (on May 1 of each year), bear interest and are priced to yield as follows:

**MATURITY SCHEDULE\***

<u>Maturity</u>	<u>Amount</u>	<u>Rate (%)</u>	<u>Yield (%)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate (%)</u>	<u>Yield (%)</u>
2015	\$1,015,000			2023	\$1,320,000		
2016	1,035,000			2024	1,395,000		
2017	1,055,000			2025	1,455,000		
2018	1,085,000			2026	1,505,000		
2019	1,125,000			2027	5,420,000		
2020	1,155,000			2028	10,735,000		
2021	1,200,000			2029	3,960,000		
2022	1,260,000						

(Accrued interest from February 1, 2014 to be added)

The Series 2014 Bonds of each maturity and interest rate will be initially issued as a single registered bond registered in the name of Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York. The Series 2014 Bonds will be available for purchase in book-entry form only, in denominations of \$5,000 or any integral multiple thereof. Except in limited circumstances described herein, purchasers of the Series 2014 Bonds will not receive physical delivery of Series 2014 Bonds. Payments of principal of and interest on the Series 2014 Bonds will be made by BancorpSouth Bank, Stuttgart, Arkansas, as the Trustee, directly to Cede & Co., as nominee for DTC, as registered owner of the Series 2014 Bonds, to be subsequently disbursed to DTC Participants and thereafter to the Beneficial Owners of the Series 2014 Bonds, all as further described herein.

The Series 2014 Bonds are offered, subject to prior sale, when, as and if issued and received by the Underwriter named below, subject to the approval of legality by Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel, and subject to certain other conditions. It is expected that the Series 2014 Bonds will be available for delivery on or about February 27, 2014.

This cover page contains information for quick reference only. It is not a summary of the issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

Dated: \_\_\_\_\_, 2014.

**Stephens Inc.**  
Investment Bankers

\*Preliminary; subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold nor any offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information or to make any representations, 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 other solicitation of an offer to buy, nor shall there be any sale of the Series 2014 Bonds by any persons in any state in which it is unlawful for such person to make such offer, solicitation or sale. 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 City since the date hereof.

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## OFFICIAL STATEMENT

**\$34,720,000\***  
**CITY OF FORT SMITH, ARKANSAS**  
**SALES AND USE TAX BONDS**  
**SERIES 2014**

### INTRODUCTION TO OFFICIAL STATEMENT

This Introduction is subject in all respects to the more complete information contained in this Official Statement. The offering of the bonds to potential investors is made only by means of the entire Official Statement, including the cover page hereof and exhibits hereto. A full review should be made of the entire Official Statement, as well as the Authorizing Ordinance described herein.

This Official Statement of the City of Fort Smith, Arkansas (the "City") is furnished in connection with the offering by the City of its \$34,720,000\* principal amount of Sales and Use Tax Bonds, Series 2014, dated February 1, 2014 (the "Series 2014 Bonds"). The Series 2014 Bonds are being issued for the purpose of financing various capital improvements (the "Improvements") for the City. See **THE SERIES 2014 BONDS, Purposes for Bonds**.

The City is a city of the first class duly organized under the laws of the State of Arkansas (the "State") and is located in northwestern Arkansas. The City is authorized under Amendment No. 62 to the Constitution of the State ("Amendment 62") and Title 14, Chapter 164, Subchapter 3 of the Arkansas Code of 1987 Annotated (the "Authorizing Legislation") to issue capital improvement bonds and to expend the proceeds thereof for the intended purposes. See **THE CITY AND THE COUNTY**.

The Series 2014 Bonds are not general obligations of the City, but are special obligations payable solely from collections from a 0.75% sales and use tax (the "Tax") levied by the City. See **THE TAX and THE SERIES 2014 BONDS, Security**. The Tax is levied under Ordinance No. 1-12 of the City adopted January 3, 2012 (the "Tax Ordinance"). The issuance of the Series 2014 Bonds and the pledging of the Tax to the payment of the principal of and interest on the Series 2014 Bonds was approved at the special election held March 13, 2012. The Series 2014 Bonds are being issued pursuant to and in full compliance with Amendment 62 and the Authorizing Legislation and Ordinance No. 31-12 of the City, adopted on April 17, 2012, as amended by Ordinance No. 53-12 of the City, adopted on July 17, 2012, and Ordinance No. \_\_\_\_\_-14 of the City, adopted on \_\_\_\_\_, 2014 (collectively, the "Authorizing Ordinance"). See **THE AUTHORIZING ORDINANCE**.

The pledge of tax collections in favor of the Series 2014 Bonds is on a parity with the pledge in favor of the City's Sales and Use Tax Refunding and Improvement Bonds, Series 2012 (the "Series 2012 Bonds"). The City has reserved the right in the Authorizing Ordinance to issue additional bonds on a parity of security with the Series 2012 Bonds and the Series 2014 Bonds for the purpose of refunding either or both issues of bonds (the "Additional Parity Bonds"). See **THE SERIES 2014 BONDS, Security**, herein.

The Series 2014 Bonds will be initially issued in book-entry form and purchasers of Series 2014 Bonds will not receive certificates representing their interest in the Series 2014 Bonds purchased. See **THE SERIES 2014 BONDS, Book-Entry Only System**. The Series 2014 Bonds will contain such other terms and provisions as described herein. See **THE SERIES 2014 BONDS, Generally**.

The Series 2014 Bonds are issuable only as fully registered bonds, without coupons, in the denomination of \$5,000 or an integral multiple thereof. Interest is payable May 1, 2014, and semiannually thereafter on each May 1 and November 1. Unless the Series 2014 Bonds are in book-entry form, payment of principal of the Series 2014 Bonds will be made to the owners of the Series 2014 Bonds at the principal office of BancorpSouth Bank, Stuttgart, Arkansas, as trustee and paying agent for the Series 2014 Bonds (the "Trustee"). Interest is payable by check mailed by the Trustee to the registered owners as of the record date

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\* Preliminary; subject to change.

for each interest payment date. The record date for payment of interest on the Series 2014 Bonds shall be the fifteenth day of the calendar month next preceding each interest payment date. A Series 2014 Bond may be transferred, in whole or in part (in integral multiples of \$5,000), but only upon delivery of the Series 2014 Bond, together with a written instrument of transfer, to the Trustee. See **THE SERIES 2014 BONDS, Generally, and Book-Entry Only System**.

The Series 2014 Bonds are subject to extraordinary redemption from proceeds of the Series 2014 Bonds not needed for the purposes intended and Surplus Tax Receipts (as hereinafter defined). The Series 2014 Bonds are subject to optional redemption on and after May 1, 2024. The Trustee shall give at least thirty (30) days notice of redemption. See **THE SERIES 2014 BONDS, Redemption**.

Under existing law and assuming compliance with certain covenants described herein, (i) interest on the Series 2014 Bonds is excludable from gross income for federal income tax purposes, (ii) interest on the Series 2014 Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, (iii) with respect to corporations, interest on the Series 2014 Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the federal alternative minimum tax and (iv) the Series 2014 Bonds and interest thereon are exempt from all State, county and municipal taxes. See **LEGAL MATTERS, Tax Exemption**.

It is expected that the Series 2014 Bonds will be available for delivery on or about February 27, 2014, through the facilities of the Depository Trust Company in New York, New York.

The City and the Trustee have entered into a Continuing Disclosure Agreement in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the “Continuing Disclosure Agreement”). See **CONTINUING DISCLOSURE AGREEMENT**.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of the Authorizing Ordinance and the Continuing Disclosure Agreement summarized herein are available upon request from Stephens Inc., 111 Center Street, Suite 2300, Little Rock, Arkansas 72201, Attention: Public Finance.

## **THE SERIES 2014 BONDS**

Book-Entry Only System. The Depository Trust Company (“DTC”), New York, New York, or its successor, will act as securities depository for the Series 2014 Bonds. The Series 2014 Bonds will each 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 Series 2014 Bond certificate for each maturity and interest rate will be issued in the principal amount of the maturity and interest rate, and will be deposited with DTC.

DTC 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 securities that its 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”). 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 Series 2014 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014 Bond (referred to herein as "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 Series 2014 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Series 2014 Bonds, except in the event that use of the book-entry system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014 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 Series 2014 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 Series 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014 Bonds are credited, which may or may not be the Beneficial Owners. Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to Cede & Co. If fewer than all of the Series 2014 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2014 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 Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2014 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and premium, if any, payments on the Series 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or 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 City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and premium, if any, 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 shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 2014 Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a

successor securities depository is not obtained, Series 2014 Bonds are required to be printed and delivered. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Series 2014 Bonds will be printed and delivered.

The information concerning DTC and DTC's book-entry system set forth above has been obtained from DTC. Neither the Underwriter nor the City make any representation or warranty regarding the accuracy or completeness thereof.

**So long as the Series 2014 Bonds are in book-entry only form, Cede & Co., as nominee for DTC, will be treated as the sole owner of the Series 2014 Bonds for all purposes under the Authorizing Ordinance, including receipt of all principal of and interest on the Series 2014 Bonds, receipt of notices, voting and requesting or directing the Trustee to take or not to take, or consenting to, certain actions under the Authorizing Ordinance. The City and the Trustee have no responsibility or obligation to the Participants or the Beneficial Owners with respect to (a) the accuracy of any records maintained by DTC or any Participant; (b) the payment by any Participant of any amount due to any Beneficial Owner in respect of the principal of and interest on the Series 2014 Bonds; (c) the delivery or timeliness of delivery by any Participant of any notice to any Beneficial Owner which is required or permitted under the terms of the Authorizing Ordinance to be given to owners of Series 2014 Bonds; or (d) other action taken by DTC or Cede & Co. as owner of the Series 2014 Bonds.**

Generally. The Series 2014 Bonds are dated, mature and bear interest as set forth on the cover page hereof. The principal of the Series 2014 Bonds is payable upon presentation and surrender at the principal office of the Trustee. Payment of interest on the Series 2014 Bonds will be made to each registered owner thereof by check or draft mailed by the Trustee to such owner at his address as such name and address appear on the registration book of the City kept by the Trustee on the record date which is the fifteenth day of the calendar month next preceding the calendar month in which such interest payment date falls. All such payments will be made in lawful money of the United States of America.

The Series 2014 Bonds are issuable in the form of registered Series 2014 Bonds without coupons in the denomination of \$5,000 each or any integral multiple thereof, interchangeable in accordance with the provisions of the Authorizing Ordinance. In the event any Series 2014 Bond is mutilated, lost or destroyed, the City shall, if not then prohibited by law, execute and the Trustee may authenticate a new Series 2014 Bond in accordance with the provisions therefor in the Authorizing Ordinance.

Each Series 2014 Bond is transferable by the registered owner thereof or by his attorney duly authorized in writing at the principal office of the Trustee. Upon such transfer a new fully registered Series 2014 Bond or Series 2014 Bonds of the same maturity and interest rate, of authorized denomination or denominations, for the same aggregate principal amount will be issued to the transferee in exchange therefor.

No charge shall be made to any owner of any Series 2014 Bond for the privilege of registration, but any owner of any Series 2014 Bond requesting any such registration shall pay any tax or other governmental charge required to be paid with respect thereto. Except as otherwise provided in the immediately preceding sentence, the cost of preparing each new Series 2014 Bond upon each exchange or transfer and any other expenses of the City or the Trustee incurred in connection therewith shall be paid by the City. Neither the City nor the Trustee shall be required to transfer or exchange any Series 2014 Bonds selected for redemption in whole or in part.

The person in whose name any Series 2014 Bond shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of or on account of the principal or interest of any Series 2014 Bond shall be made only to or upon the order of the registered owner thereof or his legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Series 2014 Bond to the extent of the sum or sums so paid.

In any case where the date of maturity of interest on or principal of the Series 2014 Bonds or the date fixed for redemption of any Series 2014 Bonds shall be a Saturday or Sunday or shall be in the State a legal holiday or a

day on which banking institutions are authorized by law to close, then payment of interest or principal need not be made on such date but may be made on the next succeeding business day with the same force and effect as if made on the date of maturity or the date fixed for redemption, and no interest shall accrue for the period after the date of maturity or date fixed for redemption.

Redemption. The Series 2014 Bonds are subject to extraordinary and optional redemption prior to maturity as follows:

(1) Extraordinary Redemption. The Series 2014 Bonds shall be redeemed from Surplus Tax Receipts (hereinafter defined) and from proceeds of the Series 2014 Bonds not needed for the purposes intended, in inverse order of maturity (and by lot within a maturity in such manner as the Trustee shall determine), in whole at any time or in part on any interest payment date, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date.

“Surplus Tax Receipts” are collections of the Tax in excess of the amount necessary to (1) insure the prompt payment of the principal of, interest on and Trustee’s fees and expenses and other administrative charges in connection with the Series 2012 Bonds, the Series 2014 Bonds and any Additional Parity Bonds, (2) maintain the debt service reserve in the required amount and (3) pay any arbitrage rebate due under Section 148(f) of the Internal Revenue Code of 1986, as amended (the “Code”). The debt service reserve shall be considered Surplus Tax Receipts for purposes of making a redemption in full of the Series 2012 Bonds, the Series 2014 Bonds and any Additional Parity Bonds.

If there are no Series 2012 Bonds or Additional Parity Bonds outstanding, the City shall apply 100% of the Surplus Tax Receipts to the redemption of the Series 2014 Bonds. If there are Series 2012 Bonds or any Additional Parity Bonds issued to refund Series 2012 Bonds outstanding, the City shall use 50% of Surplus Tax Receipts to redeem the Series 2012 Bonds and such Additional Parity Bonds and 50% of Surplus Tax Receipts to redeem the Series 2014 Bonds.

In case of any defeasance of the Series 2014 Bonds, redemption of defeased Series 2014 Bonds shall be scheduled on the basis of mandatory redemption requirements and assuming annual Tax Receipts in an amount equal to receipts for the most recent twelve-month period.

(2) Optional Redemption. The Series 2014 Bonds are subject to redemption at the option of the City, from funds from any source, on and after May 1, 2024, in whole at any time or in part on any interest payment date, at a redemption price equal to the principal amount being redeemed plus accrued interest to the redemption date. If fewer than all of the Series 2014 Bonds shall be called for redemption, the particular maturities and interest rates of the Series 2014 Bonds to be redeemed shall be selected by the City in its discretion. If fewer than all of the Series 2014 Bonds of any one maturity and interest rate shall be called for redemption, the particular Series 2014 Bonds or portion thereof to be redeemed from such maturity and interest rate shall be selected by lot by the Trustee.

In the case of any redemption of Series 2014 Bonds prior to maturity, the Trustee shall mail a copy of the redemption notice to the registered owners of the Series 2014 Bonds to be redeemed, in each case not less than 30 nor more than 60 days prior to the date of redemption. After the date for redemption no further interest shall accrue on any Series 2014 Bond called for redemption if funds for redemption of such Series 2014 Bond have been deposited with the Trustee as provided in the Authorizing Ordinance.

Notwithstanding the above, so long as the Series 2014 Bonds are issued in book-entry only form, if fewer than all the Series 2014 Bonds of an issue are called for redemption, the particular Series 2014 Bonds to be redeemed will be selected pursuant to the procedures established by DTC. So long as the Series 2014 Bonds are issued in book-entry only form, notice of redemption will be given only to Cede & Co., as nominee for DTC. **The Trustee will not give any notice of redemption to the Beneficial Owners of the Series 2014 Bonds.**

Otherwise, any selection of Series 2014 Bonds by lot shall be effected by the Trustee, by any method chosen by the Trustee in its discretion.

Purposes for Series 2014 Bonds. At the special election held March 13, 2012, there was approved the issuance of bonds for the following purposes (the “Voter Approved Bonds”):

- (a) refunding the City's outstanding Sales and Use Tax Refunding and Improvement Bonds, Series 2006 (the “Series 2006 Bonds”), Sales and Use Tax Bonds, Series 2008 (the “Series 2008 Bonds”) and Sales and Use Tax and Water and Sewer Revenue Bonds, Series 2009 (the “Series 2009 Bonds”) - \$55,380,000;
- (b) financing all or a portion of the costs of extensions, betterments and improvements to the City's wastewater system, including particularly, without limitation, wet weather sewer improvements, and any facility, land or equipment acquisition therefor (“Wastewater Improvements”) - \$71,070,000;
- (c) financing all or a portion of the costs of extensions, betterments and improvements to the City's water system, including particularly, without limitation, water transmission improvements, water storage and pump stations, and any land or equipment acquisition therefor (“Water Improvements”) - \$28,120,000;
- (d) financing all or a portion of the costs of firefighting facilities and apparatus, including particularly, without limitation, apparatus replacements, a new fire station, and improvements to existing fire stations and any land acquisition, parking, equipment, furnishings and utility improvements therefor (“Firefighting Improvements”) - \$9,110,000; and
- (e) financing a portion of the costs of an aquatic center consisting of swimming and other recreational facilities and any parking, equipment, furnishings and utility improvements therefor (“Aquatic Center Improvements”) - \$4,260,000.

All of the Voter Approved Bonds for the refunding were issued at the time of issuance of the Series 2012 Bonds. The balance of the Series 2012 Bonds were allocated to the Firefighting Improvements, the Aquatic Center Improvements, the Wastewater Improvements and the Water Improvements. The entire principal amount of the Series 2014 Bonds is allocated to Wastewater Improvements and Water Improvements. After issuance of the Series 2014 Bonds, all of the Voter Approved Bonds will have been issued.

The principal amount of the Series 2014 Bonds is allocated approximately as follows:\*

Wastewater Improvements	\$28,627,000
Water Improvements	<u>6,093,000</u>
TOTAL	\$34,720,000

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\* Preliminary; subject to change.

The City will fund a debt service reserve deposit and pay costs of issuing the Series 2014 Bonds from Series 2014 Bond proceeds. The proceeds of the Series 2014 Bonds (exclusive of accrued interest), are estimated to be expended by the City as follows:

SOURCES:\*

Principal Amount of Bonds	\$34,720,000
Net Reoffering Premium	<u>601,352</u>
Total Sources	\$35,321,352

USES:\*

Costs of Improvements	\$33,135,000
Debt Service Reserve	1,736,000
Underwriter's Discount and Costs of Issuance	<u>450,352</u>
Total Uses	\$35,321,352

The payment of Underwriter's discount and the fee of Bond Counsel will be contingent on the Series 2014 Bonds being issued. See **MISCELLANEOUS, Underwriting** for a description of the Underwriter's discount. The City will deposit the net proceeds of the Series 2014 Bonds (principal amount plus net reoffering premium less Underwriter's discount, debt service reserve deposit and certain issuance costs) into two construction funds established in one or more banks or trust companies selected by the City that are members of the Federal Deposit Insurance Corporation (each, a "Construction Fund"). Moneys contained in the Construction Funds will be disbursed by the City in payment of costs of the Improvements, paying necessary expenses incidental thereto and paying expenses of issuing the Series 2014 Bonds. Each Construction Fund will be designated to reflect the purpose, e.g., Water Construction Fund, and will have deposited therein a pro rata portion of the Series 2014 Bond proceeds based upon principal amount. Moneys in each Construction Fund shall be used only for the specific Improvements related thereto. Disbursements shall be on the basis of checks or requisitions which shall contain at least the following information: the person to whom payment is being made; the amount of the payment; and the purpose by general classification of the payment. For a description of how the Series 2014 Bond proceeds are to be invested pending use and the provisions governing those investments, see **THE AUTHORIZING ORDINANCE, Investments**.

Security for the Series 2014 Bonds. The Series 2014 Bonds are not general obligations of the City but are special obligations, secured by a pledge of collections of the Tax ("Tax receipts") on a parity with the Series 2012 Bonds. Tax receipts must be used solely to pay the principal of and interest on the Series 2012 Bonds, the Series 2014 Bonds and any Additional Parity Bonds, Trustee's fees and expenses and other administrative charges and any arbitrage rebate due under Section 148(f) of the Code. The Series 2014 Bonds are secured under the Authorizing Ordinance. For a summary of the terms of the Authorizing Ordinance, see **THE AUTHORIZING ORDINANCE**.

Additional Bonds. The City covenants that it will not issue any additional bonds, or incur any other additional obligations, secured by a lien on or pledge of the Tax receipts, other than Additional Parity Bonds. The Additional Parity Bonds may be issued only for the purpose of refunding any Series 2012 Bonds or Series 2014 Bonds.

Debt Service Reserve. A debt service reserve will be maintained in the Bond Fund in an amount equal to 5% of the original principal amount of the Series 2012 Bonds and the Series 2014 Bonds. See **THE AUTHORIZING ORDINANCE, The Bond Fund**. The debt service reserve has been funded with proceeds of the Series 2012 Bonds and will be increased to the required level with proceeds of the Series 2014 Bonds. See **THE AUTHORIZING ORDINANCE, The Bond Fund**.

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\* Preliminary; subject to change.

The Tax. Pursuant to the Authorizing Legislation and the Tax Ordinance, the City has levied the Tax, which is a tax within the City on all items which are subject to taxation under The Arkansas Gross Receipts Act of 1941 and a tax on the receipts from storing, using or consuming tangible personal property under The Arkansas Compensating (Use) Tax Act of 1949. Pursuant to the Authorizing Ordinance, the City has pledged the Tax receipts to the payment of the Series 2012 Bonds and the Series 2014 Bonds. The Tax was approved as security for the Series 2014 Bonds at the special election held March 13, 2012. The Tax took effect on October 1, 2012.

The Streamline Sales and Use Tax Agreement (“Streamline”) has been adopted by the State and became effective on January 1, 2008. Streamline amended Arkansas sales and use tax law to allow the State to collect sales and use taxes from internet sales from vendors outside the State. Streamline limits the collection of the local sales and use tax on the first \$2,500 of sales proceeds only on the following sales: motor vehicles, aircraft, watercraft, modular homes, manufactured homes or mobile homes. There is no limit of the amount of local sales and use tax to be paid on all other items. The State allows businesses, nonprofits and governmental entities to file for a credit or rebate on a local sales and use tax if the amount on an invoice totals more than \$2,500 on certain qualified purchases. Claims for credit or rebates must be filed with the Arkansas Department of Finance and Administration (“DF&A”) within six (6) months from the date of purchase or six (6) months from the date of payment, if later. DF&A will then cause the State Treasurer to withhold the amount of the refund from future disbursements to the local government levying the sales and use tax. Prior to January 1, 2008, sales and use taxes were collected on the first \$2,500 of sales proceeds for each single transaction, as defined by the City.

Pursuant to Act 757 of 2011, the State has created an annual sales tax holiday in which clothing (which are less than \$100 per item), clothing accessories or equipment (which are less than \$50 per item), school art supplies, school instructional materials and school supplies are exempt from taxation under The Arkansas Gross Receipts Tax Act of 1941. The annual sales tax holiday is from 12:01 a.m. on the first Saturday in August until 11:59 p.m. the following Sunday.

Set forth in Exhibit A attached hereto is a summary of certain provisions of the statutes authorizing the Tax. The summary does not purport to be complete statements of the laws. Reference is made to the Arkansas Code Annotated §§26-52-101 et seq. and 26-53-101 et seq. for the full text and complete descriptions of such provisions.

Administration. Pursuant to the Authorizing Legislation, the Commissioner of Revenues of the State (the “Commissioner”) performs all functions incidental to the administration, collection, enforcement and operation of the Tax. All Tax receipts collected, less certain charges payable and retainage due the Commissioner for administrative services in the amount of 3% of the gross Tax receipts, shall be remitted by the State Treasurer to the Trustee monthly for deposit into the Bond Fund. See **THE AUTHORIZING ORDINANCE, The Bond Fund.**

Historical Tax Receipts. The City has collected sales and use taxes at an aggregate rate of at least 1% since the 1980s. Collections of sales and use taxes at an aggregate rate of 1% have been as follows since 2009:

<u>Year</u>	<u>1% Sales and Use Tax Collections</u>	<u>75% of 1% Sales and Use Tax Tax Collections</u>
2013	\$19,403,797	\$14,552,848
2012	19,662,943	14,747,207
2011	19,213,204	14,409,903
2010	18,475,912	13,856,934
2009	18,981,774	14,236,331

Future Tax Receipts. Tax receipts will be contingent upon the sale and use of property and services within the City, which activity is generally dependent upon economic conditions within the City. Also, Tax receipts may be affected by changes to transactions exempted from the Tax made by legislation adopted by the General Assembly of the State or by the people of the State in the form of a constitutional amendment or initiated act. In the past the General Assembly of the State has considered new exemptions to the Tax, such as food sales, which, if adopted, would materially reduce Tax receipts. The City has no control over actions of the General Assembly or the people of the State and cannot predict whether changes to the Tax may be made. Accordingly, the City cannot predict with certainty the expected amount of Tax receipts to be received and, therefore, there can be no assurance that Tax receipts will be sufficient to pay the principal of and interest on the Series 2014 Bonds.

**DEBT SERVICE REQUIREMENTS**

The Series 2012 Bonds and the Series 2014 Bonds are structured to provide approximately level scheduled debt service requirements. However, the City expects to retire the Series 2012 Bonds and the Series 2014 Bonds earlier than scheduled from Surplus Tax Receipts (as defined herein) through the use of redemptions of the Series 2012 Bonds and the Series 2014 Bonds. See **THE SERIES 2014 BONDS, Redemption and **PROJECTED MANDATORY REDEMPTION****.

The following table shows amounts required to pay scheduled principal and interest on the Series 2014 Bonds during each year ending May 1:

<u>Year (Ending May 1)</u>	<u>Bond Principal*</u>	<u>Bond Interest</u>	<u>Total Debt Service</u>
2015	\$1,015,000		
2016	1,035,000		
2017	1,055,000		
2018	1,085,000		
2019	1,125,000		
2020	1,155,000		
2021	1,200,000		
2022	1,260,000		
2023	1,320,000		
2024	1,395,000		
2025	1,455,000		
2026	1,505,000		
2027	5,420,000		
2028	10,735,000		
2029	3,960,000		
Totals	\$34,720,000		

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\* Preliminary; subject to change.

The following table shows the amounts required to pay the remaining scheduled principal of and interest on the Series 2012 Bonds and the Series 2014 Bonds during each year ending May 1:

<u>Year</u> <u>(Ending May 1)</u>	<u>Series 2012 Bond</u> <u>Debt Service</u>	<u>Series 2014 Bond</u> <u>Debt Service</u>	<u>Total</u> <u>Debt Service</u>
2014	\$9,946,427.50		
2015	8,983,755.00		
2016	8,983,805.00		
2017	8,983,755.00		
2018	8,983,405.00		
2019	8,980,705.00		
2020	8,980,805.00		
2021	8,980,905.00		
2022	8,980,605.00		
2023	8,984,505.00		
2024	8,979,505.00		
2025	8,981,005.00		
2026	8,981,730.00		
2027	5,118,750.00		
2028			
2029			

Totals:

### **DEBT SERVICE COVERAGE**

Set forth below is estimated debt service coverage information for the Series 2014 Bonds. In arriving at the estimate of annual Tax receipts for this calculation, the City examined the collections of sales and use taxes levied by the City at the aggregate rate of 1% for the year ended December 31, 2013.

Actual Tax receipts collected by the City will depend upon, among other things, the level of retail activity within the City, the economic health of the City and surrounding trade area, possible future actions by the people of the State or General Assembly of the State defining transactions subject to the Tax and granting exemptions from the Tax, such as exemptions for food sales. The figure set forth below is only an estimate and there can be no assurance that future Tax receipts will equal the estimate shown below. See **THE TAX, Future Tax Receipts**.

Based upon the pledge of 100% of estimated Tax receipts, debt service coverage is as follows:

Estimated Tax Receipts Available for Debt Service <sup>(A)</sup>	\$14,552,848
Maximum Annual Debt Service on the Bonds <sup>(B)(1)</sup>	11,194,311
Debt Service Coverage <sup>(A/B)</sup>	1.30x

<sup>(1)</sup> Using a year ending May 1; assuming an average coupon rate of 3.43% for the Series 2014 Bonds.

## PROJECTED MANDATORY REDEMPTION

The table under the caption **DEBT SERVICE REQUIREMENTS** does not reflect possible redemptions from the Surplus Tax Receipts, if available. Surplus Tax Receipts are derived solely from Tax collections in excess of the amounts needed to pay principal of, interest on, and Trustee’s fees and expenses and administrative charges in connection with the Series 2012 Bonds and the Series 2014 Bonds when due, to pay arbitrage rebate and to maintain the Debt Service Reserve Account at its required level. Based upon sales and use tax collections at the aggregate rate of 0.75% for the year ended December 31, 2013 and no projected growth, the City estimates the Tax collections will be \$14,552,848 for each year while the Series 2014 Bonds are outstanding. **THERE IS NO GUARANTEE THAT THESE ESTIMATES WILL BE TRUE.** See **THE TAX, Future Tax Receipts.** The Series 2014 Bonds would be paid in full by May 1, 2024 from Surplus Tax Receipts, if these estimates are correct, as follows:

<u>Year</u>	<u>Scheduled Principal*</u>	<u>Bonds Redeemed Prior to Maturity*</u>	<u>Total Principal Retired*</u>
2014		\$1,455,000	\$1,455,000
2015	\$1,015,000	1,720,000	2,735,000
2016	1,035,000	1,760,000	2,795,000
2017	1,055,000	1,815,000	2,870,000
2018	1,085,000	1,875,000	2,960,000
2019	1,125,000	1,945,000	3,070,000
2020	1,155,000	2,010,000	3,165,000
2021	1,200,000	2,085,000	3,285,000
2022	1,260,000	2,165,000	3,425,000
2023	1,320,000	2,235,000	3,555,000
2024	1,395,000	4,010,000	5,405,000
Totals	\$11,645,000	\$23,075,000	\$34,720,000

## THE CITY AND THE COUNTY

Location. The City, incorporated in 1842, is located in Sebastian County (the “County”) and in northwest Arkansas, on the Oklahoma state line and 159 miles west of Little Rock, Arkansas and 145 miles southeast of Tulsa, Oklahoma. The City is the seat of government for the upper district of the County and serves as the central focus for a six-county economic and trade region in the west central area of Arkansas and the east central area of Oklahoma.

Population. According to the U. S. Census Bureau, population trends of the City and the County are estimated as follows:

<u>Year</u>	<u>City</u>	<u>County</u>
2007	84,253	121,741
2008	84,708	122,436
2009	85,547	123,597
2010	86,209	125,744
2011	87,155	126,948
2012	87,443	127,304

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\* Preliminary; subject to change.

Transportation. The City is served by U.S. Highways 271, 71 and 64 as well as Interstate Nos. 540 and 40. The City is also served by two short line railroads with access to three class 1 railroads, more than 30 motor freight carriers and an airport for which two commercial carriers provide service. The City is located on the Arkansas River and has available a public port with a barge-rail terminal.

Government. Since 1967, the City has operated under a City Administrator-Director form of government. Four directors are elected from wards, three are elected at large, and the Mayor is elected at large. Ray Gosack, a city management professional with more than 30 years of experience, has been the City Administrator since January 2011. Prior to that time, he served as Deputy City Administrator for approximately 12 years.

The following are the Mayor and the members of the Board of Directors, their occupations and their terms of office:

<u>Name</u>	<u>Occupation</u>	<u>Term Expires</u>
Sandy Sanders, Mayor	Retired, Executive Management	2014
Kevin Settle, Vice Mayor	Industrial Management	2014
Pam Weber	Real Estate	2014
Phillip H. Merry, Jr.	Insurance Executive	2014
Keith Lau	Real Estate	2016
André Good	Federal Express Service	2016
Mike Lorenz	Health Care Administration	2016
George Catsavis	Restaurant Owner	2016

City Services. The City provides through its budget the following services: administrative, code enforcement, police protection, fire protection, parks and recreation, downtown parking, public transit, water and sewer, solid waste disposal and collection, planning, airport, district court, street construction and maintenance, library, convention center and information technology services.

Medical Facilities. The City serves as a regional medical center with St. Edward Mercy Medical Center and Sparks Regional Medical Center having approximately 853 acute care beds. In addition, a 54-bed rehabilitation center is located in the City. There are over 200 physicians practicing in the area.

Financial Institutions. The City is served by two banks having their principal offices in the City and by nine banks that have branch offices in the City. Bank deposits in the County have been as follows for the years indicated:<sup>(1)</sup>

<u>Year</u>	<u>Total Deposits</u>	<u>Average Annual Growth (Decline) (%)</u>
1970	\$150,086,000	-
1980	459,908,000	11.8
1990	862,752,000	6.5
2000	1,786,774,000	7.6
2010	2,417,335,000	3.1
2012	2,402,970,000	(0.3)

Education. The Fort Smith School District system (elementary and secondary) has approximately 29 schools. There are several private schools in the City providing education for kindergarten through high school. The southern most area of the City is served by the Greenwood School District.

University of Arkansas-Fort Smith, with an enrollment of approximately 7,158 (expressed as FTE) for the fall semester of 2013, has four-year degree programs and continues its collaboration with other universities to offer graduate degrees locally. Webster University and John Brown University also offer graduate degrees in the City.

<sup>(1)</sup> Source: Arkansas State and County Economic Data. University of Arkansas at Little Rock, Institute for Economic Advancement, College of Business (June 2013).

Economy. The economy of the City is a mixture of industrial, medical, corporate and commercial trade. According to the Fort Smith Chamber of Commerce, the ten largest employers in the City are as follows:

<u>Employer</u>	<u>Business or Product</u>	<u>Number of Employees<sup>(1)</sup></u>
Sparks Health System	Hospital	2,400
Baldor Electric Company	Electric motors	2,393
O.K. Industries	Poultry processing	1,800
Fort Smith Public Schools	Primary and secondary education	1,783
Mercy Medical Center	Hospital	1,487
University of Arkansas at Fort Smith	Higher education	951
City of Fort Smith	Government	941
Arkansas Best Corp.	Trucking	936
Rheem Ruud	Heat/air equipment	900
Golden Living/Beverly Enterprises	Nursing homes	800

Economic Outlook. The City has experienced modest downturns during the recent national recession. After an annual decline in sales tax revenue of less than 1% in 2010, the next twenty-four months saw moderate increases. This moderate recovery stalled in 2013, where only two months posted higher sales tax revenues than in 2012. Although some employers, particularly those in the housing sector, have experienced layoffs, the City's unemployment rate remains below the national average.

In October 2011 Whirlpool Corporation announced its intention to permanently close its production facility in the City by June 2012. Whirlpool was the City's seventh largest employer, employing at the time 1,130 people at the Fort Smith facility. Those jobs lost were equal to 9/10 of 1% (0.009) of the civilian labor force in the Fort Smith Metropolitan Service Area. Although portions of the warehouse located on property have been leased on a short-term basis, the City continues to work with Whirlpool Corporation, the Fort Smith Regional Chamber of Commerce and the Arkansas Economic Development Commission to seek appropriate and permanent re-purposing of the property.

The City has seen significant industrial and residential development. Umarex USA, a manufacturer of air rifles and small caliber firearms, opened its 117,000 square foot manufacturing and distribution center at Chaffee Crossing in 2010, initially employing 60 persons. In November, 2012, Umarex announced that it would be sharing its facility with the US operation of Walther Arms Inc., and that the two companies would invest \$7 million to expand manufacturing operations over the next five years and add 70 to 120 jobs in that time. The facility at Chaffee Crossing serves as both Walther's and Umarex's corporate headquarters in North America.

In September, 2013, Health Management Associates opened its regional service center in the City, redeveloping 96,000 square feet of a former exhibition hall/retail center into a facility that manages up to 200,000 health insurance claims per month, and \$1.9 billion in annual revenue across the country. The facility has already provided more than 350 jobs to the local economy, and a total of 500 new jobs are expected. The center provides administrative services for 23 Health Management hospitals and 150 health providers in eight states.

Also in September, 2013, Thermold Magazines, which makes magazines for firearms and weapons products, announced that it would move its U.S. headquarters to the City from North Carolina. Thermold will share facilities with River Bend Industries, a custom plastics manufacturer who makes product for Thermold. Together, the two companies will add 65 new jobs and invest more than \$7 million in the facility.

In 2013, Gerber Products completed \$150 million in expansion and equipment upgrades at its manufacturing facility in Fort Smith, where it added 90 new jobs in its manufacturing center. Phoenix Metals built a new facility at Chaffee Crossing adding 40 new jobs with a \$12 million investment in a metal processing center and warehouse, and Mars Petcare announced a \$50 million expansion of its pet food plant that will provide for 40 additional jobs. Old Dominion Freight Lines built a \$6 million distribution service center, creating 25

<sup>(1)</sup> Approximate as of January 1, 2014.

additional jobs. Butler & Cook announced plans in December, 2013 to create 40 additional jobs with an \$8 million expansion to its machining/fabrication operation.

The City has seen large and small commercial developments continue in the City. Restaurant chains such as Longhorn Steakhouse, Five Guys Burgers & Fries, McAlister's Deli, Jimmy Johns, Taco Bueno, Cheddars, Buffalo Wild Wings, Bob Evans Family Restaurant, and Texas Roadhouse have recently opened in the City. Dick's Sporting Goods opened its Fort Smith store in 2011. Sykes Call Center opened a new facility in the City in 2010 that now employs approximately 600 people. Golden Living consolidated its administrative operations in the City in 2011 and added 200 additional jobs.

In 2011, Mercy Health System announced plans to invest more than \$192 million in capital projects and equipment in the Fort Smith area over a period of seven years. In 2013, the first 13,000 square foot Mercy Primary Care Clinic opened in order to accommodate 10 primary care physicians, 28 exam rooms, and onsite lab and x-ray services. Two additional clinics are already in various stages of design or construction for other parts of the City as part of Mercy's campaign, as well as construction of a new \$42 million 24-bed orthopedic hospital, which began in late 2012. The new hospital is expected to employ 100 to 125 people.

The Arkansas Air National Guard 188th Fighter Wing learned in 2013 that it would receive a new mission and convert from the manned A-10 aircraft to a remotely piloted aircraft, targeting and intelligence unit. The 123rd Intelligence Squadron will be relocating from Little Rock to the City. The 188th will be the only organization in the world with RPA, intelligence and targeting at a combined facility, and all elements of the new missions should be fully operational out of the City by 2018 or 2019. This change preserves the 1,000 full and part-time jobs associated with the 188th with a mission that is sustainable for the long term as part of the modern Air Force.

Sparks Regional Medical Center recently completed a major expansion to its health care campus near the downtown area of the City. In 2013, Propak Logistics announced that it would invest \$2 million to purchase and remodel an unused historic building in downtown Fort Smith as its corporate headquarters, helping to further the revitalization of the downtown district. The 24,000 square feet of the building on three floors would be used as a mixture of corporate office space and retail. This project, coupled with streetscape projects and other private investment in office, residential, and commercial redevelopment, is representative of the successful resurgence of the downtown area.

Chaffee Crossing and other areas of the City continue to see robust residential development. There are currently more than 800 residential lots at various stages of development in the City. An additional 300 acres of property for residential development were annexed into the City in 2011. The City's utility infrastructure planning has encouraged these developments.

The Fort Smith Regional Chamber of Commerce organized the Fort Smith Regional Alliance, a regional economic development organization which includes areas of western Arkansas and eastern Oklahoma up to 30 miles from the City. The regional approach will enhance relationships among the two states' economic development agencies, and offers prospects more choices for potential locations.

Litigation. The City is a party to multiple matters of litigation and regulatory proceedings arising from the City's various governmental activities. In the course of business, a number of claims and lawsuits arise from individuals seeking compensation for personal injury, death, and/or property damage resulting from accidents occurring in the City. In addition, the City has been named as a defendant in a number of lawsuits relating to personnel and contractual matters. Management does not believe that the outcome of these claims will have a material adverse effect on the City's financial position. The City appropriates funds as necessary to meet settlements and awards.

The City is the subject of three Administrative Orders from the United States of America, Environmental Protection Agency ("EPA") regarding enforcement action for compliance with federal regulations involving wet weather wastewater overflows and bypasses. The City is negotiating with EPA through the United States Department of Justice regarding the Administrative Orders and concerning the design criteria for the necessary improvements in order for the City to comply with the Administrative Orders. The United States Department of Justice has stated its intent to place the City under a Consent Decree to assure the necessary sewer improvements are constructed. The Wastewater Improvements being financed by the Series 2012 Bonds and the Series 2014 Bonds are being undertaken as a part of the City's plan to comply with the Administrative Orders.

County Economic Data. Per capita personal income estimates for the County and the State are as follows for the years indicated:<sup>(1)</sup>

<u>Year</u>	<u>County</u>		<u>State</u>	
	<u>Per Capita Personal Income</u>	<u>Average Annual Growth (Decline) (%)</u>	<u>Per Capita Personal Income</u>	<u>Average Annual Growth(Decline) (%)</u>
2008	\$37,602	--	\$32,378	--
2009	35,556	(5.44)	31,629	(2.31)
2010	35,212	(0.97)	32,053	1.34
2011	38,513	9.37	34,032	6.17
2012	40,017	3.91	35,437	4.13

Total personal income estimates for the County and the State are as follows for the years indicated:<sup>(1)</sup>

<u>Year</u>	<u>County</u>		<u>State</u>	
	<u>Total Personal Income</u>	<u>Average Annual Growth (Decline) (%)</u>	<u>Total Personal Income</u>	<u>Average Annual Growth (Decline) (%)</u>
2008	\$4,653,644,000	--	\$93,073,267,000	--
2009	4,448,666,000	(4.40)	91,625,350,000	(1.56)
2010	4,431,358,000	(0.39)	93,683,054,000	2.25
2011	4,889,205,000	10.33	100,004,837,000	6.75
2012	5,094,276,000	4.19	104,507,754,000	4.50

The annual average unemployment rates for the County and the State since 2008 are as follows according to the Arkansas Department of Workforce Services:

<u>Year</u>	<u>Annual Average Unemployment Rate(%)</u>	
	<u>County</u>	<u>State</u>
2008	4.9	5.4
2009	7.3	7.5
2010	7.3	7.9
2011	8.0	7.9
2012	7.3	7.3
2013*	7.0	7.2

\*As of August 2013.

Construction Activity and Estimated Values. The following are the construction activity for the years indicated and the estimated real property values resulting from construction in the City:<sup>(2)</sup>

<u>Year</u>	<u>Commercial Construction</u>		<u>Residential Construction</u>	
	<u>Number Of Units</u>	<u>Value</u>	<u>Number of Units</u>	<u>Value</u>
2009	45	\$44,192,081	514	\$40,173,803
2010	41	23,582,143	359	49,402,500
2011	43	64,716,229	339	45,224,255
2012	32	25,389,627	303	46,405,142
2013	46	89,440,083	316	46,604,682

<sup>(1)</sup> Source: Bureau of Economic Analysis, U.S. Department of Commerce.

<sup>(2)</sup> City of Fort Smith Building Department Estimate.

## THE AUTHORIZING ORDINANCE

Set forth below is a summary of certain portions of the Authorizing Ordinance. This summary does not purport to be comprehensive and reference is made to the full text of the Authorizing Ordinance for a complete description of its provisions. **Unless the context clearly indicates otherwise, all references under this heading to the “Bonds” shall include the Series 2012 Bonds, the Series 2014 Bonds and the Additional Parity Bonds, if any.** The City will covenant as set forth below in the Authorizing Ordinance.

The Bond Fund. (a) The Trustee shall deposit all Tax receipts as and when received into a special fund of the City in the Trustee which is created by the Authorizing Ordinance and designated “2012 Sales and Use Tax Bond Fund” (the “Bond Fund”), for the purpose of providing funds for the payment of principal of and interest on the Bonds as they become due at maturity or at redemption prior to maturity, the Trustee’s fees and expenses and other administrative charges and any arbitrage rebate. Moneys in the Bond Fund shall be used on each interest payment date (or in the case of a rebate or bond redemption payment under clauses (6) and (7) on any date due) in the following order of priority as and when necessary:

- (1) to pay the interest on the Bonds then due; and
- (2) to pay the principal of the Bonds then due at maturity or upon mandatory sinking fund redemption; and
- (3) to make provision in the Bond Fund for payment of one-half of the principal next due at maturity or upon mandatory sinking fund redemption on the Bonds if principal is not due on such interest payment date; and
- (4) to pay into the Debt Service Reserve Account (hereinafter identified) any moneys necessary to increase the Debt Service Reserve Account to the required level; and
- (5) to pay the Trustee’s fees and expenses and other administrative charges then due; and
- (6) to make any arbitrage rebate payment due under Section 148(f) of the Code; and
- (7) to redeem Bonds prior to maturity.

(b) There shall be established and maintained in the Bond Fund a Debt Service Reserve Account in an amount equal to 5% of the original principal amount of the Bonds when issued (the “required level”). The City shall fund the Debt Service Reserve Account with proceeds of the Bonds as issued. Moneys in the Debt Service Reserve Account shall be used to make the payments described in clauses (1) and (2) of subsection (a) above if moneys in the Bond Fund are not otherwise sufficient for that purpose. Moneys in the Debt Service Reserve Account over and above the required level shall be immediately transferred from the Debt Service Reserve Account into the Bond Fund. Moneys in the Debt Service Reserve Account shall be used to make the final payment of the principal of and interest on the Bonds due at maturity or redemption prior to maturity.

(c) There shall be established and maintained in the Bond Fund a Special Redemption Account into which shall be deposited all funds in the Bond Fund available for the redemption of the Bonds arising from Surplus Tax Receipts and transfers from the Construction Fund. Moneys in the Special Redemption Account shall be used to redeem the Bonds prior to maturity.

(d) When the moneys in the Bond Fund shall be and remain sufficient to pay (1) the principal of all the Bonds then outstanding, (2) interest on the Bonds until the next interest payment date, (3) the Trustee’s fees and expenses and other administrative charges and (4) all arbitrage rebate payments due the United States under Section 148(f) of the Code, there shall be no obligation to make any further payments into the Bond Fund and any Tax receipts remaining in the Bond Fund after the principal of, premium, if any and interest on the Bonds have been paid may be used by the City for any lawful purpose.

Investments. (a) Moneys held for the credit of each Construction Fund may be invested and reinvested in Permitted Investments (as hereinafter defined) or other investments permitted by State law, which shall mature, or which shall be subject to redemption by the holder thereof, at the option of such holder, not later than the date or dates when such money will be required for the purposes intended.

(b) Moneys held for the credit of the Debt Service Reserve Account shall be invested and reinvested in Permitted Investments, which shall mature, or which shall be subject to redemption by the holder thereof, at the option of such holder, not later than seven (7) years after the date of investment or the final maturity date of the outstanding Bonds, whichever is earlier. The Trustee shall so invest and reinvest pursuant to the direction of the City and in the Trustee's discretion in the absence of any direct instructions from the City.

(c) Moneys held for the credit of the Bond Fund (other than the Debt Service Reserve Account) shall be invested and reinvested in Permitted Investments, which will mature, or which will be subject to redemption by the holder thereof at the option of the holder, not later than the date or dates on which the money shall be required for the payment of the principal of and interest on the Bonds when due. The Trustee shall so invest and reinvest pursuant to the direction of the City and in the Trustee's discretion in the absence of any direct instructions from the City.

(d) Obligations purchased as an investment of any fund or account shall be deemed at all times a part of such fund. Any profit or loss realized on investments of moneys in any fund shall be charged to said fund.

(e) "Permitted Investments" are defined as (i) direct or fully guaranteed obligations of the United States of America ("Government Securities"), (ii) direct obligations of an agency, instrumentality or government-sponsored enterprise created by an act of the United States Congress and authorized to issue securities or evidences of indebtedness, regardless of whether the securities or evidences of indebtedness are guaranteed for repayment by the United States Government, (iii) certificates of deposit or time deposits of banks, including the Trustee, which are insured by Federal Deposit Insurance Corporation or, if in excess of insurance coverage, collateralized by Government Securities or other securities authorized by Arkansas law to secure public funds or (iv) money market funds invested exclusively in Government Securities and the obligations described in (ii) above.

Certain Covenants. The City covenants that:

(a) It will not take, suffer or permit any action which may cause the interest payable on the Bonds to be included in gross income for federal income tax purposes, including any use of proceeds of the sale of the Bonds or Tax receipts directly or indirectly in such manner as to cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code.

(b) It will not use or permit the use of the Improvements, the facilities refinanced by the Bonds or the proceeds of the Bonds in such manner as to cause the Bonds to be private activity bonds within the meaning of Section 141 of the Code.

(c) It will faithfully and punctually perform all duties with reference to the Tax and the Bonds, required by the Constitution and laws of the State and by the Authorizing Ordinance, including the collection of the Tax, as therein specified and covenanted, the segregating of the Tax receipts and the applying of the Tax receipts as provided in the Authorizing Ordinance.

(d) It will make any arbitrage rebate payment due the United States under Section 148(f) of the Code from moneys in the Bond Fund.

Defaults and Remedies. (a) If there be any default in the payment of the principal of and interest on the Bonds, or if the City defaults in the performance of any covenant contained in the Authorizing Ordinance, the Trustee may, and upon the written request of the owners of not less than 10% in principal amount of the Bonds

then outstanding shall, by proper suit compel the performance of the duties of the officials of the City and officials of the State, under the Authorizing Ordinance, to take any action or obtain any proper relief in law or equity available under the Constitution and laws of the State.

(b) No owner of any Bond shall have any right to institute any suit, action, mandamus or other proceeding in equity or in law for the protection or enforcement of any right under the Authorizing Ordinance or under the Constitution and laws of the State unless such owner previously shall have given to the Trustee written notice of the default on account of which such suit, action or proceeding is to be taken, and unless the owners of not less than 10% in principal amount of the Bonds then outstanding shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers herein granted or granted by the Constitution and laws of the State, or to institute such action, suit or proceeding in its name, and unless, also, there shall have been offered to the Trustee reasonable security and indemnity against the cost, expense and liabilities to be incurred therein or thereby and the Trustee shall have refused or neglected to comply with such request within a reasonable time, and such notification, request and offer of indemnity are in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers and trust of the Authorizing Ordinance or to any other remedy thereunder. No one or more owners of the Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of the Authorizing Ordinance, or to enforce any right thereunder except in the manner therein provided, that all proceedings at law or in equity shall be instituted, had and maintained in the manner therein provided and for the benefit of all owners of the outstanding Bonds, and any individual rights of action or other right given to one or more of such owners by law are restricted by the Authorizing Ordinance to the rights and remedies therein detailed.

(c) All rights of action under the Authorizing Ordinance or under any of the Bonds secured thereby, enforceable by the Trustee, may be enforced by it without the possession of any of the Bonds, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name and for the benefit of all the owners of the Bonds, subject to the provisions of the Authorizing Ordinance.

(d) No remedy conferred upon or reserved to the Trustee or to the owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Authorizing Ordinance or given by any law or by the Constitution of the State.

(e) No delay or omission of the Trustee or of any owners of the Bonds to exercise any right or power accrued upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein, and every power and remedy given by the Authorizing Ordinance to the Trustee and to the owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

(f) The Trustee may, and upon the written request of the owners of not less than a majority in principal amount of the Bonds then outstanding shall, waive any default which shall have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted under the provision of the Authorizing Ordinance or before the completion of the enforcement of any other remedy, but no such waiver shall extend to or affect any other existing or any subsequent default or defaults or impair any rights or remedies consequent thereon.

Defeasance. Any Bond shall be deemed to be paid within the meaning of the Authorizing Ordinance when payment of the principal of and interest on such Bond (whether at maturity or upon redemption as provided herein, or otherwise), either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for by irrevocably depositing with the Trustee, in trust and irrevocably set aside exclusively for such payment (1) cash sufficient to make such payment and/or (2) non-callable Government Securities (provided that such deposit will not cause any of the Bonds to be classified as "arbitrage bonds" within the meaning of Section 148 of the Code), maturing as to principal and interest in such amounts and at such times as will provide sufficient moneys to make such payment, and all necessary and

proper fees, compensation and expenses of the Trustee with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee.

On the payment of any Bonds within the meaning of the Authorizing Ordinance, the Trustee shall hold in trust, for the benefit of the owners of such Bonds, all such moneys and/or Government Securities.

When all the Bonds shall have been paid within the meaning of the Authorizing Ordinance, if the Trustee has been paid its fees and expenses and if any arbitrage rebate payment has been paid or provision has been made therefor, the Trustee shall take all appropriate action to cause (i) the pledge and lien of the Authorizing Ordinance to be discharged and cancelled and (ii) all moneys held by it pursuant to the Authorizing Ordinance and which are not required for the payment of such Bonds, to be paid over or delivered to or at the direction of the City.

The Trustee. The Trustee shall be responsible for the exercise of good faith and ordinary prudence in the execution of its trusts and duties. The recitals in the Authorizing Ordinance and in the Bonds are the recitals of the City and not of the Trustee. The Trustee shall not be required to take any action unless it shall have been requested to do so in writing by the owners of not less than 10% in principal amount of Bonds then outstanding and shall have been offered reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby. The Trustee may resign at any time by 60 days' notice in writing to the City and the owners of the Bonds, and the majority in principal amount of the owners of the outstanding Bonds or the City, so long as it is not in default under the Authorizing Ordinance, may at any time, with or without cause, remove the Trustee. In the event of a vacancy in the office of Trustee either by resignation or by removal, the City shall forthwith designate a new Trustee. The Trustee and any successor Trustee shall file a written acceptance and agreement to execute the trusts and duties imposed upon it by the Authorizing Ordinance, but only upon the terms and conditions set forth in the Authorizing Ordinance and subject to the provisions of the Authorizing Ordinance, to all of which the respective owners of the Bonds agree. Such written acceptance shall be filed with the City, and a copy thereof shall be placed in the bond transcript. Any successor Trustee shall have all the powers herein granted to the original Trustee.

Supplemental Ordinances. The terms of the Authorizing Ordinance constitute a contract between the City and the owners of the Bonds and no variation or change in the undertaking set forth in the Authorizing Ordinance shall be made while any of the Bonds are outstanding, except as hereinafter set forth. The owners of not less than 75% in aggregate principal amount of the Bonds then outstanding shall have the right, from time to time, to consent to and approve the adoption by the City of a supplemental ordinance as shall be necessary or desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Authorizing Ordinance or in any supplemental ordinance. The Trustee may consent to any change without the consent of 75% of the owners of the aggregate principal amount of Bonds outstanding (i) that the Trustee determines is not to the material prejudice of the owners of the Bonds, (ii) in order to cure any ambiguity or formal defect or omission in the Authorizing Ordinance or any amendment thereto or (iii) in connection with the issuance of Additional Parity Bonds, provided, however, that nothing therein contained shall permit or be construed as permitting (a) an extension of the maturity of the principal of or the interest on any Bond issued thereunder, or (b) a reduction in the principal amount of any Bond or the rate of interest thereon, or (c) the creation of a pledge of Tax receipts superior to the pledge created by the Authorizing Ordinance, or (d) a privilege or priority of any Bond or Bonds over any other Bond or Bonds, or (e) a reduction in the aggregate principal amount of the Bonds required for consent to such supplemental ordinance.

### **CONTINUING DISCLOSURE AGREEMENT**

The City will enter into a Continuing Disclosure Agreement with the Trustee in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The City is a party to continuing disclosure agreements with respect to outstanding indebtedness of the City. The City has complied in all material respects with its obligations under those agreements.

Set forth below is a summary of certain portions of the Continuing Disclosure Agreement. This summary does not purport to be comprehensive and reference is made to the full text of the Continuing Disclosure Agreement for a complete description of its provisions.

Purpose of the Continuing Disclosure Agreement. The Continuing Disclosure Agreement is executed and delivered by the City and the Trustee for the benefit of the Beneficial Owners of the Series 2014 Bonds and in order to assist the Underwriter in complying with the Securities and Exchange Commission, Rule 15c2-12(b)(5).

Definitions. In addition to the definitions set forth in this Official Statement, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any annual report provided by the City pursuant to, and as described in, the Continuing Disclosure Agreement.

“Beneficial Owner” of a Bond shall mean any person who has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” shall mean the Trustee, acting in its capacity as Dissemination Agent, or any successor Dissemination Agent designated in writing by the City and which has filed with the Trustee a written acceptance of such designation.

“EMMA” shall mean the Electronic Municipal Market Access System as described in 1934 Act Release No. 59062 and maintained by the MSRB for purposes of the Rule.

“Listed Events” shall mean any of the events listed hereunder.

“MSRB” shall mean the Municipal Securities Rulemaking Board.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Provision of Annual Report. (a) The City shall, or cause the Dissemination Agent to, not later than one hundred eighty (180) days after the end of the City’s fiscal year (presently December 31), commencing with the report after the end of the 2014 fiscal year, provide to the MSRB, through its continuing disclosure service portal provided through EMMA at <http://www.emma.msrb.org> or any similar system acceptable to the Securities and Exchange Commission, an Annual Report which is consistent with the requirements of the Continuing Disclosure Agreement. The Annual Report shall be in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. The Annual Report may be submitted as a single document or as separate documents comprising a package and may cross-reference other information as provided in the Continuing Disclosure Agreement; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date, but, in such event, such audited financial statements shall be submitted within thirty (30) days after receipt thereof by the City. If the City’s fiscal year changes, it shall give notice of such change in the manner as for a Listed Event.

(b) Not later than fifteen (15) business days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the City and the Dissemination Agent to determine if the City is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to the MSRB by the date required in subsection (a), the Trustee shall send a notice to the MSRB.

Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) Information of the type set forth in this Official Statement (a) under the captions **THE CITY AND THE COUNTY** with respect to (i) City and County population in the latest year for which available and the four (4) previous years for which figures are available; (ii) unemployment rates in the latest year for which available and the four (4) previous years; and (iii) major employers at the City on the date of the report.

(b) Tax receipts for the latest calendar year and the four (4) previous years, if available.

(c) The annual audit of the City prepared in accordance with Government Auditing Standards issued by the Comptroller General of the United States and applicable state law.

Any or all of the items above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The City shall clearly identify each such other document so incorporated by reference.

Reporting of Significant Events. (a) This caption describes the giving of notices of the occurrence of any of the following events:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
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, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax-exempt status of the security.
7. Modification to rights of security holders, if material.
8. Bond calls (excluding mandatory sinking fund redemptions), if material.
9. Defeasances and tender offers.
10. Release, substitution, or sale of property securing repayment of the securities, if material.
11. Rating changes.
12. Bankruptcy, insolvency, receivership or similar event of the obligated person.
13. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) After the occurrence of a Listed Event (excluding an event described in (a)8 above), the City shall promptly notify the Dissemination Agent (if other than the City) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence.

(c) After the occurrence of a Listed Event (excluding an event described in (a)8 above), whether by notice from the Trustee or otherwise, the City shall file (or shall cause the Dissemination Agent to file), in a timely manner not in excess of ten (10) business days after the occurrence of such Listed Event, a notice of such occurrence with the MSRB, through its continuing disclosure service portal provided through EMMA at <http://www.msrb.emma.org> or any other similar system that is acceptable to the Securities and Exchange Commission, with a copy to the Trustee (if the Trustee is not the Dissemination Agent). Each notice of the occurrence of a Listed Event shall be captioned "Notice of Listed Event" and shall be filed in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB. In the event of a Listed Event described in (a)8 above, the Trustee shall make the filing and notice thereof need not be given any earlier than the notice for the underlying event is given to registered owners of affected Bonds pursuant to the terms of the Authorizing Ordinance.

Termination of Reporting Obligation. The City's obligations under the Continuing Disclosure Agreement shall terminate upon the defeasance, prior redemption or payment in full of all the Series 2014 Bonds.

Dissemination Agent. The City 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 City pursuant to the Continuing Disclosure Agreement. If at any time there is not any other designated Dissemination Agent, the Trustee shall be the Dissemination Agent. The initial Dissemination Agent shall be the Trustee.

Amendment; Waiver. Notwithstanding any other provision of the Continuing Disclosure Agreement, the City and the Trustee may amend the Continuing Disclosure Agreement, and any provisions of the Continuing Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the requirements for providing an Annual Report, to the contents of the Annual Report or the reporting of Listed Events, it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Series 2014 Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Series 2014 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Beneficial Owners of the Series 2014 Bonds in the same manner as provided in the Authorizing Ordinance for amendments to the Authorizing Ordinance with the consent of Beneficial Owners, or (ii) does not, in the opinion of the Trustee, materially impair the interests of the Beneficial Owners of the Series 2014 Bonds.

In the event of any amendment or waiver of a provision of the Continuing Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason of the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event, and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Additional Information. Nothing in the Continuing Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in the Continuing Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by the

Continuing Disclosure Agreement. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by the Continuing Disclosure Agreement, the City shall have no obligation under the Continuing Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event

Default. In the event of a failure of the City or the Trustee to comply with any provision of the Continuing Disclosure Agreement, the Trustee, the City or any Beneficial Owner may (and the Trustee, at the request of the Underwriter or the Beneficial 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 City or the Trustee, as the case may be, to comply with its obligations under the Continuing Disclosure Agreement. A default under the Continuing Disclosure Agreement shall not be deemed a default under the Authorizing Ordinance, and the sole remedy under the Continuing Disclosure Agreement in the event of any failure of the City or the Trustee to comply with the Continuing Disclosure Agreement shall be an action to compel performance.

Duties of Trustee and Dissemination Agent and Right of Indemnity. The Dissemination Agent (if other than the Trustee) and the Trustee in its capacity as Dissemination Agent shall have only such duties as are specifically set forth in the Continuing Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent and the Trustee, their officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's or the Trustee's gross negligence or willful misconduct.

Beneficiaries. The Continuing Disclosure Agreement shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Underwriter and the Beneficial Owners and shall create no rights in any other person or entity.

## LEGAL MATTERS

Legal Proceedings. There is no litigation pending seeking to restrain or enjoin the Tax or the issuance or delivery of the Series 2014 Bonds, or questioning or affecting the legality of the Tax or the Series 2014 Bonds or the proceedings and authority under which the Series 2014 Bonds are to be issued, or questioning the right of the City to adopt the Authorizing Ordinance or to issue the Series 2014 Bonds or the levy and pledge of the Tax by the City.

Legal Opinions. Legal matters incident to the authorization and issuance of the Series 2014 Bonds are subject to the unqualified approving opinion of Friday, Eldredge & Clark, LLP, Little Rock, Arkansas, Bond Counsel. Certain legal matters will be passed upon for the City by its counsel, Daily & Woods, P.L.L.C.

Tax Exemption. In the opinion of Friday, Eldredge & Clark, LLP, Bond Counsel, under existing law the interest on the Series 2014 Bonds is exempt from all Arkansas state, county and municipal taxes.

In the opinion of Bond Counsel, interest on the Series 2014 Bonds under existing law is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The opinions set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Series 2014 Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. These requirements generally relate to arbitrage, the use of the proceeds of the Series 2014 Bonds and the capital improvements financed and refinanced by the Series 2014 Bonds and the Improvements. Failure to comply with certain of such requirements could cause the interest on the Series 2014 Bonds to be so

included in gross income retroactive to the date of issuance of the Series 2014 Bonds. The City has covenanted to comply with all such requirements in the Authorizing Ordinance.

Prospective purchasers of the Series 2014 Bonds should be aware that (i) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Series 2014 Bonds, (ii) interest on the 2014 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iii) passive investment income including interest on the Series 2014 Bonds, may be subject to federal income taxation under Section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income and (iv) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income, receipts or accruals of interest on the Series 2014 Bonds.

Prospective purchasers of the Series 2014 Bonds should be further aware that Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Series 2014 Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to interest on the Series 2014 Bonds, except with respect to certain financial institutions (within the meaning of Section 265(b)(5) of the Code).

As shown on the cover page of the Official Statement, certain of the Series 2014 Bonds are being sold at an original issue discount (the "Discount Bonds"). The difference between the initial public offering prices, as set forth on the front cover page, of such Discount Bonds and their stated amounts to be paid at maturity constitutes original issue discount treated as interest which is excluded from gross income for federal income tax purposes, as described above.

The amount of original issue discount which is treated as having accrued with respect to such Discount Bond is added to the cost basis of the owner in determining, for federal income tax purposes, gain or loss upon disposition of such Discount Bond (including its sale, redemption, or payment at maturity). Amounts received upon disposition of such Discount Bond which are attributable to accrued original issue discount will be treated as tax-exempt interest, rather than as taxable gain, for federal income tax purposes.

Original issue discount is treated as compounding semiannually, at a rate determined by reference to the yield to maturity of each individual Discount Bond, on days which are determined by reference to the maturity date of such Discount Bond. The amount treated as original issue discount on such Discount Bond for a particular semiannual accrual period is equal to the product of (i) the yield of maturity for such Discount Bond (determined by compounding at the each of accrual period) and (ii) the amount which would have been the tax basis of such Discount Bond at the beginning of the particular accrual period if held by the original purchaser, less the amount of any interest payable for such Discount Bond during the accrual period. The tax basis is determined by adding to the initial public offering price on such Discount Bond the sum of the amounts which have been treated as original issue discount for such purposes during all prior periods. If such Discount Bond is sold between semiannual compounding dates, original issue discount which would have been accrued for that semiannual compounding period for federal income tax purposes is to be apportioned in equal amounts among the days in such compounding period.

Owners of the Discount Bonds should consult their tax advisors with respect to the determination and treatment of original issue discount accrued as of any date and with respect to the state and local tax consequences of owning a Discount Bond.

As shown on the cover page of this Official Statement, certain of the Series 2014 Bonds are being sold at a premium (the "Premium Bonds"). An amount equal to the excess of the issue price of a Premium Bond over its stated redemption price at maturity constitutes premium on such Premium Bond. An initial purchaser of a Premium Bond must amortize any premium over such Premium Bond's term using constant yield principles, based on the purchaser's yield to maturity (or, in the case of a Premium Bond callable prior to its maturity, by amortizing the premium to the call date, based on the purchaser's yield to the call date and giving effect to the call premium). As premium is amortized, the amount of the amortization offsets a corresponding amount of

interest for the period and the purchaser's basis in such Premium Bond is reduced by a corresponding amount resulting in an increase in the gain (or decrease in the loss) to be recognized for federal income tax purposes upon a sale or disposition of such Premium Bond prior to its maturity. Even though the purchaser's basis may be reduced, no federal income tax deduction is allowed. Purchasers of a Premium Bond should consult with their tax advisors with respect to the determination and treatment of amortizable premium for federal income tax purposes and with respect to the state and local tax consequences of owning a Premium Bond.

Current or future legislative proposals, if enacted into law, may cause interest on the Series 2014 Bonds to be subject, directly or indirectly, to federal income taxation or otherwise prevent holders of the Series 2014 Bonds from realizing the full current benefit of the tax status of such interest. Recent legislative proposals include provisions that would limit the amount of exclusions (including tax-exempt interest) and deductions available to certain high income taxpayers. 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. The introduction or enactment of any such legislative proposals may also affect the market price for, or marketability of, the Series 2014 Bonds. Prospective purchasers of the Series 2014 Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

It is not an event of default on the Series 2014 Bonds if legislation is enacted reducing or eliminating the exclusion of interest on state and local government bonds from gross income for federal or state income tax purposes.

#### MISCELLANEOUS

Underwriting. Under a Bond Purchase Agreement (the "Agreement") entered into by and between the City, as issuer, and Stephens Inc., as underwriter (the "Underwriter"), the Series 2014 Bonds are being purchased at a price of \$ \_\_\_\_\_ (principal amount plus net original issue premium of \$ \_\_\_\_\_ less Underwriter's discount of \$ \_\_\_\_\_) plus accrued interest. The Agreement provides that the Underwriter will purchase all of the Series 2014 Bonds if any are purchased. The obligation of the Underwriter to accept delivery of the Series 2014 Bonds is subject to various conditions contained in the Agreement, including the absence of pending or threatened litigation questioning the validity of the Series 2014 Bonds or any proceedings in connection with the issuance thereof, and the absence of material adverse changes in the financial or business condition of the City.

The Underwriter intends to offer the Series 2014 Bonds to the public initially at the offering prices set forth on the cover page of this Official Statement, which prices may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2014 Bonds to the public. The Underwriter may offer and sell Series 2014 Bonds to certain dealers (including dealers depositing Series 2014 Bonds into investment trusts) at prices lower than the public offering price.

The City has agreed to indemnify the Underwriter against certain civil liabilities in connection with the offering and sale of the Series 2014 Bonds, including certain liabilities under federal securities laws.

Rating. Standard & Poor's Ratings Services ("S&P") will assign its municipal bond rating of "AA" to the Series 2014 Bonds. Any explanation of such rating may only be obtained from S&P. Generally, rating agencies base their ratings upon information and materials supplied to them and on their own investigations, studies and assumptions. There is no assurance that such rating, once assigned, will remain for any given period of time or that they will not be lowered or withdrawn entirely by the rating agency if in its judgment circumstances so warrant. Any such downward change or withdrawal of the rating assigned to the Series 2014 Bonds by S&P may have an adverse effect on the market price of the Series 2014 Bonds. The Underwriter and the City have undertaken no responsibility after issuance of the Series 2014 Bonds to assure the maintenance of the rating or to oppose any such revision or withdrawal.

Enforceability of Remedies. Rights of the registered owners of the Series 2014 Bonds and the enforceability of the remedies available under the Authorizing Ordinance may depend on judicial action and may be subject to the valid exercise of the constitutional powers of the United States of America and of the sovereign police powers of the State or other governmental units having jurisdiction, and to the application of federal bankruptcy laws or other debtor relief or moratorium laws in general. Therefore, enforcement of those remedies may be delayed or limited, or the remedies may be modified or unavailable, subject to the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel expresses no opinion as to any effect upon any right, title, interest or relationship created by or arising under the Authorizing Ordinance resulting from the application of state or federal bankruptcy, insolvency, reorganization, moratorium or similar debtor relief laws affecting creditors' rights which are presently or may from time to time be in effect.

Information in Official Statement. Any statements made in this Official Statement involving matters of opinion or of estimates, 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 will be realized. This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or owners of any of the Series 2014 Bonds.

The information contained in this Official Statement has been taken from sources considered to be reliable, but is not guaranteed. To the best of the knowledge of the undersigned the Official Statement does not include any untrue statement of a material fact, nor does it omit the statement of any material fact required to be stated therein, or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

The execution of this Official Statement has been duly authorized by the City.

CITY OF FORT SMITH, ARKANSAS

By \_\_\_\_\_  
Mayor

Dated: As of the Cover Page hereof.

## EXHIBIT A

### SUMMARY OF STATE SALES AND USE TAX PROVISIONS

Sales Tax. The sales tax portion of the Tax is generally levied upon the gross proceeds and receipts derived from all sales to any person within the City of the following (list not exclusive):

- (a) Tangible personal property;
- (b) Natural or artificial gas, electricity, water, ice, steam, or any other utility or public service except transportation services, sewer services and sanitation or garbage collection services;
- (c)
  - (i) Service by telephone, telecommunications and telegraph companies to subscribers or users, including transmission of messages or images, whether local or long distance, including all service, installation, construction and rental charges having any connection with transmission of any message or image;
  - (ii) Service of furnishing rooms, suites, condominiums, townhouses, rental houses or other accommodations by hotels, apartment hotels, lodging houses, tourist camps, tourist courts, property management companies, or any other provider of accommodations to transient guests;
  - (iii) Service of cable television, community antenna television, and any and all other distribution of television, video, or radio services with or without the use of wires provided to subscribers, paying customers or users, including installation, service, rental, repair and other charges having any connection with the providing of the said services;
  - (iv) Service of initial installation, alteration, addition, cleaning, refinishing, replacement and repair of motor vehicles, aircraft, farm machinery and implements, motors of all kinds, tires and batteries, boats, electrical appliances and devices, furniture, rugs, flooring, upholstery, household appliances, televisions and radios, jewelry, watches and clocks, engineering instruments, medical and surgical instruments, machinery of all kinds, bicycles, office machines and equipment, shoes, tin and sheet metal, mechanical tools and shop equipment; however, the tax does not apply to (A) coin operated car washes, (B) the maintenance or repair of railroad parts, railroad cars and equipment brought into the City solely and exclusively for the purpose of being repaired, refurbished, modified, or converted within the City, (C) the service of alteration, addition, cleaning, refinishing, replacement or repair of commercial jet aircraft or commercial jet aircraft components or subcomponents, (D) the repair or remanufacture of industrial metal rollers or platens that have a remanufactured non-metallic material covering on all or a part of the roller or platen surface, or (E) the initial installation, alteration, addition, cleaning, refinishing, replacement or repair of non-mechanical, passive or manually operated components of buildings or other improvements or structures affixed to real estate;
  - (v) Service of providing transportation or delivery of money, property or valuables by armored car; service of providing cleaning or janitorial work; service of pool cleaning and servicing; pager services; telephone answering services; landscaping and non-residential lawn care services; service of parking a motor vehicle or allowing a motor vehicle to be parked; service of storing a motor vehicle; service of storing furs; and the service of providing indoor tanning at a tanning salon;
- (d) Printing of all kinds, types and characters, including the service of overprinting, and photography of all kinds;
- (e) Tickets or admissions to places of amusement, to athletic, entertainment, recreational events, or fees for the privilege of having access to or the use of amusement, entertainment, athletic or recreational facilities, including free or complimentary passes and tickets, admissions, dues or fees;

(f) Dues and fees to health spas, health clubs and fitness clubs; dues and fees to private clubs which hold any permit from the Alcoholic Beverage Control Board allowing the sale, dispensing or serving of alcoholic beverages of any kind on the premises;

(g) Contracts, including service contracts, maintenance agreements, and extended warranties, which in whole or in part provide for future performance of or payment for services which are subject to gross receipts tax;

(h) Retail sale of any device used in playing bingo and any charge for admittance to facilities or for the right to play bingo or other games of chance;

(i) Prepaid telephone calling cards or prepaid authorization numbers and the recharge of such cards or numbers;

(j) Beer, wine, liquor, or any intoxicating beverages;

(k) Tangible personal property and services sold to financial institutions.

(l) Wrecker and towing services;

(m) Collection and disposal of solid wastes;

(n) Cleaning of parking lots and gutters;

(o) Dry cleaning and laundry services;

(p) Industrial laundry services;

(q) Body piercing, tattooing, and electrolysis services;

(r) Pest control services;

(s) Security and alarm monitoring services;

(t) Boat storage and docking fees;

(u) Furnishing camping spaces or trailer spaces at public or privately-owned campgrounds, except for federal campgrounds, on less than a month-to-month basis;

(v) Locksmith services;

(w) Pet grooming and kennel services; and

(x) Portable toilet lease or rental and services associated with the lease or rental of portable toilets.

Exemptions from Sales Tax. As summarized below, several types of transactions have been exempted from the sales tax by the General Assembly of the State. Some of the current exemptions include the sale of:

(a) New or used house trailers, mobile homes, aircraft, motor vehicles, trailers or semi-trailers and a used house trailer, mobile home, aircraft, motor vehicle, trailer or semi-trailer is taken as a credit or part payment of the purchase price, when the total consideration is less than the following: \$2,000 for aircraft, house trailers and mobile homes (or \$10,000 in case the house trailer or mobile home is a “manufactured home”); and \$4,000 for motor vehicles, trailers and semi-trailers;

(b) Aircraft held for resale and used for rental or charter, whether by a business or an individual for a period not to exceed one year from the date of purchase of aircraft;

(c) Tangible personal property or services by churches, except where such organizations may be engaged in business for profit;

(d) Tangible personal property or services by charitable organizations, except where such organizations may be engaged in business for profit;

(e) Food in public, common, high school or college cafeterias and lunchrooms operated primarily for teachers and pupils, and not operated primarily for the public or for profit;

(f) Newspapers;

(g) Property or services to the United States Government; motor vehicles and adaptive equipment to disabled veterans who have purchased said vehicles or equipment with financial assistance of the Veterans Administration; tangible personal property to and leasing motor vehicles to the Boy Scouts of America, the Girl Scouts of America or any of the Scout Councils in the State; tangible personal property or service to the Salvation Army, Heifer Project International, Inc., or Habitat for Humanity; tangible personal property or service to the Boys Clubs of America or any local councils or organizations of the Boys Clubs of America, the Girls Clubs of America or any local councils or organizations of the Girls Clubs of America, to the Poets' Roundtable of Arkansas, to 4-H Clubs and FFA Clubs, to the Arkansas 4-H Foundation, the Arkansas Future Farmers of America Foundation and the Arkansas Future Farmers of America Association;

(h) Gasoline or motor vehicle fuel on which the motor vehicle fuel or gasoline tax has been paid to the State, special fuel or petroleum products sold for consumption by vessels, barges and other commercial watercraft and railroads, dyed distillable special fuel on which a tax has been paid and biodiesel fuel;

(i) Property resales to persons regularly engaged in the business of reselling the articles purchased;

(j) Advertising space in newspapers and publications and billboard advertising services;

(k) Gate admissions at State, district, county or township fairs or at any rodeo if the receipts derived from gate admissions to the rodeo are used exclusively for the improvement, maintenance and operation of such rodeo, and if no part of the net earnings thereof inures to the benefit of any private stockholder or individual;

(l) Property or services which the State is prohibited by the constitution or laws of the United States or by the constitution of the State from taxing or further taxing and tangible personal property exempted from taxation by the Arkansas Compensating (Use) Tax Act of 1949, as amended;

(m) Isolated sales not made by an established business;

(n) Cotton, seed cotton, lint cotton, baled cotton, whether compressed or not, or cotton seed in its original condition; seed for use in commercial production of an agricultural product or of seed; raw products from the farm, orchard or garden, where such sale is made by the producer of such raw products directly to the consumer and user; livestock, poultry, poultry products and dairy products of producers owning not more than five cows; and baby chickens;

(o) Foodstuffs to governmental agencies for free distribution to any public, penal and eleemosynary institutions or for free distribution to the poor and needy, and the rental or sale of medical equipment, for the benefit of persons enrolled in and eligible for Medicare or Medicaid programs;

(p) Tangible personal property or services provided to any hospital or sanitarium operated for charitable and nonprofit purposes or any nonprofit organization whose sole purpose is to provide temporary housing to the family members of patients in a hospital or sanitarium;

(q) Used tangible personal property when the used property was (1) traded in and accepted by the seller as part of the sale of other tangible personal property and (2) the Arkansas Gross Receipts Tax was collected and paid on the total amount of consideration for the sale of the other tangible personal property without any deduction or credit for the value of the used tangible personal property; provided, however, this exemption does not apply to transactions involving used automobiles, used mobile homes, or used aircraft;

(r) Unprocessed crude oil;

(s) Tangible personal property consisting of machinery and equipment used directly in producing, manufacturing, fabricating, assembling, processing, finishing or packaging of articles of commerce at (i) new manufacturing or processing plants or facilities in the State or (ii) existing manufacturing or processing plants or facilities in the State if the tangible personal property is used to replace existing machinery and equipment;

(t) Property consisting of machinery and equipment required by State law or regulation to be installed and utilized by manufacturing or processing plants or facilities to prevent or reduce air and/or water pollution or contamination;

(u) Electricity used in the manufacture of aluminum metal by the electrolytic reduction process and sale of articles sold on the premises of the Arkansas Veterans Home;

(v) Automobile parts which constitute "core charges," which are received for the purpose of securing a trade-in for the article purchased;

(w) Bagging and other packaging and tie materials sold to and used by cotton gins for packaging and/or tying baled cotton and from the sale of twine which is used in the production of tomato crops;

(x) Prescription drugs by licensed pharmacists, hospitals, oncologists or dispensing physicians, and oxygen sold for human use on prescription of a licensed physician;

(y) Property or services to humane societies;

(z) Vessels, barges and towboats of at least fifty tons load displacement and parts and labor used in the repair and construction of the same;

(aa) Property or sales to all orphans' homes, or children's homes, which are not operated for profit and whether operated by a church, religious organization or other benevolent charitable association;

(bb) Agricultural fertilizer, agricultural limestone, agricultural chemicals, and water purchased from a public surface-water delivery project to reduce or replace water used for in-ground irrigation or reduce dependence on ground water for agriculture.

(cc) Sale of tickets or admissions, by municipalities and counties, to places of amusement, to athletic entertainment, recreational events, or fees for the privilege of having access to or the use of amusement, entertainment, athletic or recreational facilities, including free or complimentary passes, tickets, admissions, dues or fees;

(dd) New and used farm machinery and equipment;

- (ee) New automobiles to a veteran of the United States Armed Services who is blind as a result of a service connected injury;
- (ff) Motor vehicles sold to municipalities, counties, school districts, and state supported colleges and universities;
- (gg) School buses sold to school districts and, in certain cases, to other purchasers providing school bus service to school districts;
- (hh) Catalysts, chemicals, reagents, and solutions which are consumed or used by manufacturing or processing plants or facilities in the State in producing, manufacturing, fabricating, processing, or finishing articles of commerce or to prevent or reduce air or water pollution or contamination;
- (ii) Feedstuffs used in the commercial production of livestock or poultry;
- (jj) New custom manufactured homes constructed from materials on which the State sales tax has been paid;
- (kk) The first 500 kilowatt hours of electricity per month and the total franchise tax billed to each residential customer whose household income is less than \$12,000 per year;
- (ll) Electricity and natural gas to qualified steel manufacturers;
- (mm) Tangible personal property lawfully purchased with food stamps, food coupons, food instruments or vouchers in connection with certain Federal programs;
- (nn) Publications sold through regular subscriptions;
- (oo) Tickets for admission to athletic events and interscholastic activities of public and private elementary and secondary schools in the State and tickets for admission to athletic events at public and private colleges and universities in the State;
- (pp) Prescriptive adaptive medical equipment and prescriptive disposable medical equipment;
- (qq) Insulin and test strips for testing blood sugar levels in humans;
- (rr) Telephone instruments sent into the State for refurbishing or repair and then shipped back to the state of origin;
- (ss) Industrial metal rollers sent into the State for repair or remanufacture and then shipped back to the state of origin;
- (tt) New motor vehicles purchased by non-profit organizations and used for the performance of contracts with the Department of Human Services, and new motor vehicles purchased with Urban Mass Transit Administration funds if (i) the vehicles are purchased in lots of ten vehicles, (ii) meet minimum State specifications, and (iii) vehicles are used for transportation under the Department of Human Services' programs for the aging, disabled, mentally ill, and children and family services;
- (uu) Motor fuels to owners or operators of motor buses operated on designated streets according to regular schedule and under municipal franchise which are used for municipal transportation purposes;

(vv) Parts or other tangible personal property incorporated into or which become a part of commercial jet aircraft component or subcomponents;

(ww) Transfer of fill material by a business engaged in transporting or delivering fill material;

(xx) Long-term leases, thirty days or more, of commercial trucks used for interstate transportation of goods under certain conditions;

(yy) Foodstuffs to nonprofit agencies;

(zz) Tangible personal property consisting of forms constructed of plaster, cardboard, fiberglass, natural fibers, synthetic fibers or composites and which are destroyed or consumed during the manufacture of the item;

(aaa) Natural gas used as a fuel in the process of manufacturing glass;

(bbb) Sales to Fort Smith Clearinghouse;

(ccc) Substitute fuel used in producing, manufacturing, fabrication, assembling, processing, finishing or packaging of articles at manufacturing facilities or processing plants in the State;

(ddd) Railroad rolling stock used in transporting persons or property in interstate commerce;

(eee) Parts or other tangible personal property which become a part of railroad parts, railroad cars and equipment brought into the State for the purpose of being repaired, refurbished, modified or converted within the State;

(fff) Fire protection and emergency equipment to be owned by and exclusively used by a volunteer fire department, and supplies and materials to be used in the construction and maintenance of volunteer fire departments;

(ggg) Gas produced from biomass and sold for the purpose of generating energy to be sold to the gas producer;

(hhh) Fuel packaging materials sold to a person engaged in the business of processing hazardous and non-hazardous waste materials into fuel products at an approved site and machinery and equipment, including analytical equipment and chemicals used directly in the processing and packaging of hazardous and non-hazardous waste materials into fuel products at an approved site;

(iii) Electricity and natural gas used in the manufacturing of wall and floor tile by approved manufacturers;

(jjj) Textbooks, library books, and instructional materials purchased by an Arkansas school district or the State for free distribution to Arkansas schools or school districts;

(kkk) Tangible personal property or services to the Arkansas Symphony Orchestra, Inc.;

(lll) Electricity used for the production of chlorine and other chemicals using a chlor-alkali manufacturing process;

(mmm) Tangible personal property or services to a qualified museum;

(nnn) Livestock reproduction equipment or services;

- (ooo) Natural gas and electricity used in the manufacturing of tires in the State;
- (ppp) Thermal imaging equipment purchased by a county government for use by law enforcement aircraft;
- (qqq) Tangible property or services to the Arkansas Search Dog Association, Inc.;
- (rrr) Certain new or used trucks to be engaged in interstate commerce;
- (sss) Tangible personal property or services to the Arkansas Black Hall of Fame Foundation;
- (ttt) Kegs purchased by a wholesale beer manufacturer and used to sell beer wholesale;
- (uuu) Repair parts and labor for pollution control machinery and equipment;
- (vvv) Sales by commercial farmers of baling twine, net wrap, silage wrap, and similar products;
- (www) Sales of tangible personal property or a service to a nonprofit blood donation organization;
- (xxx) Sales of utilities used by qualifying agriculture and horticultural equipment (effective January 1, 2014);
- (yyy) Sales of utilities used by a grain drying and storage facility (effective July 1, 2014);
- and
- (zzz) Dental appliances sold by or to dentists or certain other professionals (effective July 1, 2014).

Reference is made to “The Arkansas Gross Receipts Act of 1941,” Title 26, Chapter 52 of the Arkansas Code of 1987 Annotated, for more information concerning the sales tax.

Use Tax. The use tax portion of the Tax is levied on every person for the privilege of storing, using, distributing or consuming in the City any article of tangible personal property purchased for storage, use, distribution or consumption. The use tax applies to the use, distribution, storage or consumption of every article of tangible personal property except as hereinafter provided. The use tax does not apply to aircraft equipment, and railroad parts, cars, and equipment, nor to tangible personal property owned or leased by aircraft, automotive or railroad companies brought into the City solely and exclusively for refurbishing, conversion, or modification within the City or storage for use outside or inside the City regardless of the length of time any such property is so stored in the City. The use tax is levied on the following described tangible personal property:

- (a) Tractors, trailers, semi-trailers, trucks, buses and other rolling stock, including replacement tires, used directly in the transportation of persons or property in intrastate or interstate common carrier transportations;
- (b) Property (except fuel) consumed in the operation of railroad rolling stock;
- (c) Transmission lines and pumping or pressure control equipment used directly in or connected to the primary pipeline facility engaged in intrastate or interstate common carrier transportation of property;

(d) Airplanes and navigation instruments used directly in or becoming a part of flight aircraft engaged in transportations of persons or property in regular scheduled intrastate or interstate common carrier transportation;

(e) Exchange equipment, lines, boards and all accessory devices used directly in and connected to the primary facility engaged in the transmission of messages;

(f) Transmission and distribution pipelines in pumping or pressure control and equipment used in connection therewith used directly in primary pipeline facility for the purpose of transporting and delivering natural gas;

(g) Transmission and distribution lines, pumping machinery and controls used in connection therewith in cleaning or treating equipment of primary water distribution system;

(h) Property of public electric power companies consisting of all machinery and equipment including reactor cores and related accessory devices used in the generation and production of electric power and energy and transmission facilities consisting of the lines, including poles, towers and other supporting structures, transmitting electric power and energy together with substations located on or attached to such lines;

(i) Computer software; and

(j) Tangible personal property provided to a financial institution.

Exemptions from Use Tax. Some of the property exempted from the use tax by the General Assembly of the State is as follows:

(a) Property, the storage, use or consumption of which the State is prohibited from taxing under the Constitution or laws of the United States of America or the State;

(b) Sales of tangible personal property in which the tax under the Arkansas Gross Receipts Act of 1941 is levied;

(c) Tangible personal property which is exempted from the sales tax under the Arkansas Gross Receipts Act of 1941;

(d) Feedstuffs used in the commercial production of livestock or poultry in the State;

(e) Unprocessed crude oil;

(f) Machinery and equipment used directly in producing, manufacturing, fabricating, assembling, processing, finishing or packaging of articles of commerce at manufacturing or processing plants or facilities in the State, including facilities and plants for manufacturing feed, processing of poultry and/or eggs and livestock and the hatching of poultry and such equipment is either (1) purchased to create or expand manufacturing or processing plants in the State, (2) purchased to replace existing machinery and used directly in producing, manufacturing, fabricating, assembling, processing, finishing or packaging of articles of commerce at manufacturing or processing plants in the State, or (3) required by State law to be installed and utilized by manufacturing or processing plants to prevent or reduce air and/or water pollution or contamination;

(g) Custom manufactured homes constructed with materials on which the sales or use tax has once been paid;

(h) Aircraft, aircraft equipment, railroad parts, cars, and equipment, and tangible personal property owned or leased by aircraft, airmotive, or railroad companies, brought into the State solely and exclusively for refurbishing, conversion, or modification or for storage for use outside or inside the State;

- (i) Vessels, barges, and towboats of at least 50 tons load displacement and parts and labor used in the repair and construction of them;
- (j) Motor fuels to the owners or operators of motor buses operated on designated streets according to regular schedule, under municipal franchise, which are used for municipal transportation purposes;
- (k) Agricultural fertilizer, agricultural limestone, agricultural chemicals, including agricultural pesticides and herbicides used in commercial production of agricultural products, and vaccines, medications, and medicinal preparations, used in treating livestock and poultry being grown for commercial purposes and other ingredients used in the commercial production of yeast;
- (l) All new and used motor vehicles, trailers or semi-trailers that are purchased for a total consideration of less than \$4,000;
- (m) Any tangible personal property used, consumed, distributed, or stored in this State upon which a like tax, equal to or greater than the Arkansas Compensating (Use) Tax, has been paid in another state;
- (n) Prescriptive adaptive medical equipment and prescriptive disposable medical equipment;
- (o) Fire protection and emergency equipment to be owned by and exclusively used by a volunteer fire department, and supplies and materials to be used in the construction and maintenance of volunteer fire departments;
- (p) Electricity and natural gas used in the manufacturing of wall and floor tile by approved manufacturers;
- (q) Tangible personal property consisting of forms constructed of plaster, cardboard, fiberglass, natural fibers, synthetic fibers or composites and which are destroyed or consumed during the manufacture of the item;
- (r) Natural gas used as a fuel in the process of manufacturing glass;
- (s) Sales to Fort Smith Clearinghouse;
- (t) Prepaid telephone calling cards or prepaid authorization numbers and the recharge of such cards or numbers;
- (u) Foodstuffs to nonprofit agencies;
- (v) Tangible personal property or services for a qualified museum;
- (w) Certain new or used trucks to be engaged in interstate;
- (x) Railroad rolling stock manufactured for use in transporting persons or property in interstate commerce;
- (y) Sales of tangible personal property or a service to a nonprofit blood donation organization;
- (z) Sales of utilities used by qualifying agriculture and horticultural equipment (effective January 1, 2014);

- and
- (aa) Sales of utilities used by grain drying and storage facilities (effective July 1, 2014);
  - (bb) Dental appliances sold by or to dentists or certain other professionals (effective July 1, 2014).

Reference is made to “The Arkansas Compensating (Use) Tax Act of 1949,” Title 26, Chapter 53 of the Arkansas Code of 1987 Annotated, for more information concerning the use tax.

**EXHIBIT B**  
**FORM OF BOND COUNSEL OPINION**

\_\_\_\_\_, 2014

BancorpSouth Bank  
Stuttgart, Arkansas, as Trustee

Stephens Inc.  
Little Rock, Arkansas

Re: \$34,720,000\* City of Fort Smith, Arkansas Sales and Use Tax  
Bonds, Series 2014

Gentlemen:

We have acted as Bond Counsel in connection with the issuance by the City of Fort Smith, Arkansas (the "City") of \$34,720,000\* City of Fort Smith, Arkansas Sales and Use Tax Bonds, Series 2014, dated February 1, 2014 (the "Series 2014 Bonds"). The Series 2014 Bonds are being issued to finance the costs of capital improvements, fund a debt service reserve and pay expenses of authorizing and issuing the Series 2014 Bonds. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion, including particularly a certified copy of Ordinance No. 31-12 of the City adopted on April 17, 2012, as amended by Ordinance No. 53-12 of the City adopted on July 17, 2012, and Ordinance No. \_\_\_\_\_ of the City adopted on \_\_\_\_\_, 2014 (collectively, the "Authorizing Ordinance"), authorizing the issuance of the Series 2014 Bonds, and Ordinance No. 1-12 of the City adopted on January 3, 2012 (the "Tax Ordinance"), levying a 0.75% sales and use tax within the City (the "Tax").

As to questions of fact material to our opinion we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify such facts by independent investigation. Based on our examination, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Series 2014 Bonds have been lawfully authorized and issued under the Constitution and laws of the State of Arkansas now in force, including particularly Amendment No. 62 to the Constitution of the State of Arkansas and Title 14, Chapter 164, Subchapter 3 of the Arkansas Code of 1987 Annotated (the "Authorizing Legislation"), and are valid and binding obligations of the City enforceable in accordance with their terms.

2. The Series 2014 Bonds are not general obligations of the City but are special obligations payable from and secured by a pledge of collections of the Tax duly levied by the City under the authority of the Authorizing Legislation and the Tax Ordinance. In this regard, the pledge of collections of the Tax in favor of the Series 2014 Bonds is on a parity with the pledge in favor of the City's Sales and Use Tax Refunding and Improvement Bonds, Series 2012. The Series 2014 Bonds are not secured by any lien on or security interest in any physical properties of the City.

3. The interest on the Series 2014 Bonds (including any original issue discount properly allocable thereto) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings. The opinions

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\* Preliminary; subject to change.

set forth in the preceding sentence are subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2014 Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. The City has covenanted in the Authorizing Ordinance to comply with all such requirements. Failure to comply with certain of such requirements could cause the interest on the Series 2014 Bonds to be so included in gross income retroactive to the date of issuance of the Series 2014 Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Series 2014 Bonds.

4. The Series 2014 Bonds and income thereon are exempt from all Arkansas state, county and municipal tax. It is to be understood that the rights of the registered owners of the Series 2014 Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and that their enforcement may be subject to the exercise of judicial discretion in accordance with general principles of equity.

Sincerely yours,

FRIDAY, ELDREDGE & CLARK, LLP