

REOFFERING MEMORANDUM DATED JUNE 12, 2017

REMARKETING: NOT NEW ISSUE - BOOK-ENTRY ONLY

On the date of issuance of the 2012 Series B Bonds described herein, Orrick, Herrington & Sutcliffe LLP, as Bond Counsel to the City (the "Initial Bond Counsel"), rendered an opinion that, based upon an analysis of then existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2012 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. The Initial Bond Counsel was of the further opinion that interest on the 2012 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although the Initial Bond Counsel observed that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. The Initial Bond Counsel also was of the opinion that the 2012 Series B Bonds and the interest thereon are exempt from taxation under existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. The Initial Bond Counsel expressed no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2012 Series B Bonds. On June 29, 2017, Holland & Knight LLP, Lakeland, Florida, Bond Counsel to the City ("Bond Counsel") will render an opinion to the effect that the substitution of the Citibank Liquidity Facility for Sumitomo Bank Liquidity Facility (as defined herein) will not, in and of itself, adversely affect the exclusion of interest on the 2012 Series B Bonds from gross income for purposes of federal tax taxation. Bond Counsel, however, is not rendering any opinion on the current tax status of the 2012 Series B Bonds. See "TAX MATTERS" herein.

\$100,470,000

City of Gainesville, Florida

Variable Rate

Utilities System Revenue Bonds,

2012 Series B

(CUSIP No. 362848 RR6)



RATINGS: See "RATINGS" herein

Original Issue Date: August 2, 2012

Due: October 1, 2042

The purpose of this Reoffering Memorandum is to provide information in connection with the substitution of the liquidity facility and the reoffering from time to time in the secondary market of \$100,470,000 in aggregate principal amount of Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds") heretofore issued by the City of Gainesville, Florida (the "City").

The 2012 Series B Bonds are registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2012 Series B Bonds. Purchases of 2012 Series B Bonds may be made in book-entry form only, in the Authorized Denominations referred to herein. See "Book-Entry Only System" herein. U.S. Bank National Association, New York, New York is Trustee, Paying Agent and Bond Registrar under the Resolution (as defined herein) and has been appointed by the City as the Tender Agent for 2012 Series B Bonds.

The 2012 Series B Bonds bear interest at variable rates, as more fully described herein. The 2012 Series B Bonds currently bear interest at the Weekly Rates (as defined herein). While the 2012 Series B Bonds bear interest at Weekly Rates, interest is payable on the first Business Day (as defined herein) of each calendar month. As more fully described herein, the Interest Mode (as defined herein) applicable to the 2012 Series B Bonds may be changed at the election of the City.

The 2012 Series B Bonds are subject to mandatory and optional redemption prior to maturity and to optional and mandatory tender for purchase as set forth herein.

From and after June 30, 2017, liquidity support in connection with tenders for purchase of the 2012 Series B Bonds (in an amount equal to the principal amount thereof plus 36 days' interest thereon computed at a rate per annum of 12% and on the basis of a 365-day year) will be provided by Citibank, N.A. (the "Bank"), pursuant to a standby bond purchase agreement between the Bank and the City (the "Citibank Liquidity Facility"). See "CITIBANK LIQUIDITY FACILITY" and "THE BANK" herein. **The obligation of the Bank to purchase 2012 Series B Bonds under the Citibank Liquidity Facility will, however, be subject to certain conditions, and such obligation may be terminated or suspended without prior notice or payment thereunder under certain circumstances.** The Citibank Liquidity Facility has an initial stated termination date of June 29, 2020. The purchase price of 2012 Series B Bonds tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the Citibank Liquidity Facility, and is not payable from any funds of the City.

The 2012 Series B Bonds are direct and special obligations of the City and do not constitute a general indebtedness or a pledge of the full faith and credit or the taxing power of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness, nor constitute a lien on any property of or in the City other than the Trust Estate (as defined herein) as provided in the Resolution.

Certain legal matters were passed upon in connection with the original issuance of the 2012 Series B Bonds by Orrick, Herrington & Sutcliffe LLP, New York, New York, former Bond Counsel to the City, and by Marion J. Radson, Esq., former City Attorney of the City. Certain legal matters in connection with the substitution of the existing liquidity facility with the Citibank Liquidity Facility will be passed upon for the City by Holland & Knight LLP, Lakeland, Florida Bond Counsel to the City, and by Nicole M. Shalley, Esq., City Attorney. Bryant Miller Olive P.A. is Disclosure Counsel to the City. Certain legal matters with respect to the Citibank Liquidity Facility and the Bank will be passed upon for the Bank by Kutak Rock LLP, Washington D.C., counsel to the Bank.

J.P. Morgan
as Remarketing Agent

CITY OF GAINESVILLE, FLORIDA
CITY OFFICIALS

Lauren Poe Mayor
David Arreola Commissioner
Harvey M. Budd At Large, Commissioner
Charles E. Goston Commissioner
Adrian Hayes-Santos Commissioner
Harvey Ward Commissioner
Helen K. Warren At Large, Commissioner

CHARTER OFFICERS

Anthony R. Lyons City Manager
Carlos L. Holt City Auditor
Torey L. Alston Equal Opportunity Director
Kurt M. Lannon Clerk of the Commission
Nicolle M. Shalley, Esq. City Attorney

UTILITIES SYSTEM

Edward J. Bielarski, Jr.* General Manager for Utilities
Thomas R. Brown, P.E. Chief Operating Officer
Gary L. Baysinger Energy Delivery Officer
Justin M. Locke Chief Financial Officer
Anthony Cunningham Water/Wastewater Officer
William J. Shepherd Chief Customer Officer
Dino De Leo Energy Supply Officer
J. Lewis Walton Chief Business Services Officer
Keino Young, Esq. Utilities Attorney

BOND COUNSEL

Holland & Knight LLP
Lakeland, Florida

DISCLOSURE COUNSEL

Bryant Miller Olive P.A.
Tampa, Florida

FINANCIAL ADVISOR

Public Financial Management, Inc.
Charlotte, North Carolina

*Also a Charter Officer.

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations in connection with the 2012 Series B Bonds, other than as contained in this Reoffering Memorandum, and, if given or made, such information or representations must not be relied upon as having been authorized by the City. This Reoffering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2012 Series B Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the City, DTC, the Bank, and other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the City with respect to any information provided by others. The information and expressions of opinion stated herein are subject to change, and neither the delivery of this Reoffering Memorandum nor any sale made hereunder shall create, under any circumstances, any implication that there has been no change in the matters described herein since the date hereof.

The Remarketing Agent has reviewed the information in this Reoffering Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

All summaries set forth or incorporated herein of documents and agreements are qualified in their entirety by reference to such documents and agreements, and all summaries herein of the 2012 Series B Bonds are qualified in their entirety by reference to the form thereof included in the aforesaid documents and agreements.

NO REGISTRATION STATEMENT RELATING TO THE 2012 SERIES B BONDS HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR WITH ANY STATE SECURITIES COMMISSION. IN MAKING ANY INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATIONS OF THE CITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE 2012 SERIES B BONDS HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SEC OR ANY STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. THE FOREGOING AUTHORITIES HAVE NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS REOFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS REOFFERING MEMORANDUM CONSTITUTE "FORWARD LOOKING STATEMENTS." SUCH STATEMENTS GENERALLY ARE IDENTIFIABLE BY THE TERMINOLOGY USED, SUCH AS "PLAN," "EXPECT," "ESTIMATE," "BUDGET" OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR, SUBJECT TO ANY CONTRACTUAL OR LEGAL RESPONSIBILITIES TO THE CONTRARY.

THIS REOFFERING MEMORANDUM DOES NOT CONSTITUTE A CONTRACT BETWEEN THE CITY AND ANY ONE OR MORE OF THE OWNERS OF THE 2012 SERIES B BONDS.

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**REOFFERING MEMORANDUM
RELATING TO
\$100,470,000
CITY OF GAINESVILLE, FLORIDA
VARIABLE RATE UTILITIES SYSTEM
REVENUE BONDS,
2012 SERIES B**

INTRODUCTORY STATEMENT

General

This Reoffering Memorandum, which includes the cover page and inside cover page hereof and the appendices attached hereto, provides certain information in connection with the substitution of the liquidity facility and reoffering in the secondary market from time to time of \$100,470,000 in aggregate principal amount of Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds") previously issued by the City of Gainesville, Florida ("Gainesville" or the "City"). The City's mailing address is Utilities Administration Building, 301 SE 4th Avenue, Gainesville, Florida 32601. The City can be contacted by telephone at (352) 334-3434.

The City, located in Alachua County in north-central Florida (the "County"), is a municipal corporation of the State of Florida (the "State"), organized and existing under the laws of the State including the City's Charter, Chapter 90-394, Laws of Florida, 1990, as amended (the "Charter"). The 2012 Series B Bonds were issued pursuant to the Amended and Restated Utilities System Revenue Bond Resolution adopted by the City on June 30, 2003, as amended, supplemented and restated (the "Resolution"), including as supplemented by the Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution, authorizing the 2012 Series B Bonds, adopted by the City on June 21, 2012, as amended (the "Twenty-Fifth Supplemental Bond Resolution"); Chapter 166, Part II, Florida Statutes; and the Charter. U.S. Bank National Association currently is Trustee, Paying Agent and Bond Registrar under the Resolution.

The 2012 Series B Bonds are payable from and secured on a parity with all other bonds issued under the Resolution by a pledge of and lien on the Trust Estate (hereinafter defined). As of October 1, 2016, there were \$871,540,000 aggregate principal amount of Bonds Outstanding (and as defined in) under the Resolution. The 2012 Series B Bonds were issued by the City to provide funds to refund certain then-outstanding Utilities System Revenue Bonds that had been issued to finance or refinance costs of acquisition and construction of certain improvements to the electric system, natural gas system, water system, wastewater system and telecommunications system owned by the City and operated as a single combined public utility (the "System" or "Gainesville Regional Utilities" or "GRU").

The 2012 Series B Bonds constitute "Bonds" within the meaning of the Resolution. The 2012 Series B Bonds, the Bonds Outstanding on the date of this Reoffering Memorandum and any additional Bonds (excluding Subordinated Indebtedness) which may be issued in the future are referred to herein collectively as the "Bonds."

For a more detailed discussion of the City's outstanding debt and its plan of financing, see "OUTSTANDING DEBT" herein and "ADDITIONAL FINANCING REQUIREMENTS" in "APPENDIX C – The System" attached hereto. APPENDIX E hereto shows total debt service requirements on all Bonds Outstanding as of the date of this Reoffering Memorandum.

The City covenants in the Resolution to collect rates sufficient so that the Revenues (as defined in the Resolution) of the System are expected to yield Net Revenues (as defined in the Resolution) which shall be equal to at least 1.25 times the Aggregate Debt Service (as defined in the Resolution) on the Bonds for the forthcoming twelve-month period. Additional Bonds may be issued under the Resolution on a parity with the 2012 Series B Bonds subject to certain conditions provided in the Resolution.

The purchase price for 2012 Series B Bonds tendered or deemed tendered for purchase (see "THE 2012 SERIES B BONDS — Optional Tender for Purchase", "— Mandatory Tender for Purchase" and "— Remarketing and Purchase Price" herein) is payable solely from the sources described under the caption "THE 2012 SERIES B BONDS — Remarketing and Purchase Price" herein, and is not payable from any funds of the City.

In addition to its Outstanding Bonds, as of October 1, 2016, the City also had outstanding \$45,900,000 in aggregate principal amount of its Utilities System Commercial Paper Notes, Series C (the "Series C CP Notes"). The Series C CP Notes are authorized to be issued in an aggregate principal amount outstanding at any time not to exceed \$85,000,000. On March 14, 2017, the City has issued an additional \$5,000,000 of Series C CP Notes to finance capital expenditures in water and wastewater systems, resulting in a total outstanding aggregate principal amount of \$50,900,000 Series C CP Notes. The City also has authorized the issuance of its Utilities System Commercial Paper Notes, Series D (the "Series D Taxable CP Notes" and, together with the Series C CP Notes, the "CP Notes"), which are authorized to be issued in an aggregate principal amount outstanding at any time not to exceed \$25,000,000. As of October 1, 2016, the City had outstanding \$8,000,000 in aggregate principal amount of its Series D Taxable CP Notes. The CP Notes constitute Subordinated Indebtedness under (and as defined in) the Resolution, and are issued pursuant to the Amended and Restated Subordinated Utilities System Revenue Bond Resolution adopted by the City on December 8, 2003, as heretofore amended, supplemented and restated. Subordinated Indebtedness is subordinate in all respects to Bonds issued under the Resolution.

Liquidity Support for the 2012 Series B Bonds

Liquidity support in connection with tenders for purchase of 2012 Series B Bonds currently is provided by Sumitomo Mitsui Banking Corporation, acting through its New York branch ("Sumitomo Bank"), pursuant to a standby bond purchase agreement, dated as of January 1, 2015, between the City and Sumitomo Bank (the "Sumitomo Bank Liquidity Facility").

On June 29, 2017, the City will enter into a standby bond purchase agreement with Citibank, N.A. (the "Bank"), with respect to the 2012 Series B Bonds ("Citibank Liquidity Facility"). From and after June 30, 2017, liquidity support in connection with tenders for purchase of the 2012 Series B Bonds will be provided by the Bank. **The obligation of the Bank to purchase 2012 Series B Bonds under the Citibank Liquidity Facility will be subject to certain conditions, and such obligation may be terminated or suspended without prior notice under certain circumstances.** See "CITIBANK LIQUIDITY FACILITY" herein.

The Citibank Liquidity Facility has an initial stated termination date of June 29, 2020 (such date, as the same may be extended as provided in the Citibank Liquidity Facility, is referred to herein as the Citibank Liquidity Facility's "Stated Termination Date"). The Citibank Liquidity Facility contains provisions for renewal, in the sole discretion of the Bank.

With respect to the 2012 Series B Bonds, the Twenty-Fifth Supplemental Resolution contains provisions for obtaining a Substitute Liquidity Facility (as defined in APPENDIX D hereto) in substitution

for the Liquidity Facility then in effect. See "THE 2012 SERIES B BONDS – Substitution of Liquidity Facility" herein.

Remarketing Agent

J.P. Morgan Securities LLC ("JPMS") is the remarketing agent for the 2012 Series B Bonds pursuant to a remarketing agreement, dated as of August 1, 2012, between JPMS and the City (the "Remarketing Agreement").

Tender Agent

U.S. Bank National Association, New York, New York ("U.S. Bank") is the tender agent for the 2012 Series B Bonds (in such capacity, the "Tender Agent"). U.S. Bank has entered into a tender agency agreement with the City, dated as of August 1, 2012, with respect to the 2012 Series B Bonds (the "Tender Agency Agreement").

The City and the System

For general information with respect to the City see "APPENDIX A – General Information Regarding the City" attached hereto. For information with respect to the electric system, natural gas system, water system, wastewater system and telecommunications system owned by the City and operated as a single combined public utility (the "System"), including the service areas, history, organization, operations and management, regulatory matters, capital improvement program, additional financing requirements and historical financial information, see "APPENDIX C – The System" attached hereto.

Continuing Disclosure

The City has covenanted for the benefit of the owners of the 2012 Series B Bonds in a Continuing Disclosure Certificate entered into by the City simultaneously with the original delivery of the 2012 Series B Bonds, to comply with certain covenants in order to assist the underwriter upon the original issuance of the 2012 Series B Bonds in complying with Securities and Exchange Commission Rule 15c2-12. See "CONTINUING DISCLOSURE" herein.

Book-Entry Only System

The 2012 Series B Bonds have been issued in book-entry form through the book-entry system of DTC. Any 2012 Series B Bonds issued in book-entry form through the book-entry system of DTC shall be subject to the discussion set forth below.

THE FOLLOWING INFORMATION CONCERNING THE DEPOSITORY TRUST COMPANY ("DTC") AND DTC'S BOOK-ENTRY ONLY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CITY BELIEVES TO BE RELIABLE. THE CITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2012 SERIES B BONDS, AS NOMINEE OF DTC, CERTAIN REFERENCES IN THIS REOFFERING MEMORANDUM TO THE 2012 SERIES B BONDHOLDERS OR REGISTERED OWNERS OF THE 2012 SERIES B BONDS SHALL MEAN CEDE & CO. AND WILL NOT MEAN THE BENEFICIAL OWNERS OF THE 2012 SERIES B BONDS. THE DESCRIPTION WHICH FOLLOWS OF THE PROCEDURES AND RECORD KEEPING WITH RESPECT TO BENEFICIAL OWNERSHIP INTERESTS IN THE 2012 SERIES B BONDS, PAYMENT OF INTEREST

AND PRINCIPAL ON THE 2012 SERIES B BONDS TO DIRECT PARTICIPANTS (AS HEREINAFTER DEFINED) OR BENEFICIAL OWNERS OF THE 2012 SERIES B BONDS, CONFIRMATION AND TRANSFER OF BENEFICIAL OWNERSHIP INTERESTS IN THE 2012 SERIES B BONDS, AND OTHER RELATED TRANSACTIONS BY AND BETWEEN DTC, THE DIRECT PARTICIPANTS AND BENEFICIAL OWNERS OF THE 2012 SERIES B BONDS IS BASED SOLELY ON INFORMATION FURNISHED BY DTC. ACCORDINGLY, THE CITY NEITHER MAKES NOR CAN MAKE ANY REPRESENTATIONS CONCERNING THESE MATTERS.

DTC will act as securities depository for the 2012 Series B Bonds. The 2012 Series B Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered 2012 Series B Bonds certificate will be issued for the 2012 Series B Bonds in the aggregate principal amount thereof, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Direct Participants and the Indirect Participants are collectively referred to herein as the "DTC Participants." DTC has an S&P Global Inc. ("S&P") rating of AA+. The DTC Rules applicable to its DTC Participants are on file with the Securities and Exchange Commission (the "SEC"). More information about DTC can be found at www.dtcc.com.

Purchases of 2012 Series B Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2012 Series B Bonds on DTC's records. The ownership interest of each actual purchaser of each 2012 Series B Bondholder ("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 2012 Series B Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2012 Series B Bonds, except in the event that use of the book-entry system for the 2012 Series B Bonds is discontinued.

To facilitate subsequent transfers, all 2012 Series B 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 the 2012 Series B 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 2012 Series B Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2012 Series B Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2012 Series B Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2012 Series B Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of 2012 Series B Bonds may wish to ascertain that the nominee holding the 2012 Series B Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Bond Registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2012 Series B 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 City 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 2012 Series B Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payment of principal and interest on the 2012 Series B 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, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by DTC 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 DTC Participant and not of DTC or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and redemption proceeds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2012 Series B Bonds at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, the 2012 Series B Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, 2012 Series B Bonds certificates will be printed and delivered to DTC.

Other

Certain capitalized terms used in this Reoffering Memorandum have the same meanings assigned to such terms in the Resolution, except as otherwise indicated herein. See "Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" attached hereto as APPENDIX D. In addition, certain definitions applicable to the 2012 Series B Bonds are set forth in "Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" in APPENDIX D hereto.

There follows in this Reoffering Memorandum brief descriptions of the security for the Bonds, the 2012 Series B Bonds, the Citibank Liquidity Facility, the Bank, the System, the City, the Resolution and certain financial statements. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City as described under "INTRODUCTORY STATEMENT – General" herein.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Reoffering Memorandum contains forward-looking statements. Forward-looking statements include, among other things, statements concerning sales, customer growth, economic recovery, current and proposed environmental regulations and related estimated expenditures, access to sources of capital, financing activities, start and completion of construction projects, plans for new generation resources, estimated sales and purchases of power and energy, and estimated construction and other expenditures. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "estimated," "scheduled," "potential," or "continue" or the negative of these terms or other similar terminology. These forward-looking statements are based largely on the City's current expectations and are subject to a number of risks and uncertainties, some of which are beyond the City's control. There are various factors that could cause actual results to differ materially from those suggested by the forward-looking statements. Accordingly, there can be no assurance that such indicated results will be realized. These factors include:

- the impact of recent and future federal and state regulatory changes or judicial opinions, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric utility industry, implementation of the 2005 Energy Policy Act (hereinafter defined), the Clean Power Plan (as hereinafter defined), environmental laws and regulations affecting water quality, coal combustion byproducts, and emissions of sulfur dioxide, nitrogen oxides, greenhouse gases ("GHG"), particulate matter and hazardous air pollutants including mercury, financial reform legislation, and also changes in tax and other laws and regulations to which the System is subject, as well as changes in application of existing laws and regulations;
- current and future litigation, regulatory investigations, proceedings, or inquiries;
- the effects, extent, and timing of the entry of additional competition in the markets in which the System operates;
- variations in demand for electricity, including those relating to weather, the general economy and recovery from the recent recession, population and business growth (and declines), and the effects of energy conservation measures;
- available sources and costs of fuels;

- effects of inflation;
- ability to control costs and avoid cost overruns during the development and construction of facilities, including those relating to unanticipated conditions encountered during construction, risks of non-performance or delay by contractors and subcontractors and potential contract disputes;
- investment performance of the System's invested funds;
- advances in technology;
- the ability of counterparties of the City to make payments as and when due and to perform as required;
- the direct or indirect effect on the System's business resulting from terrorist incidents and the threat of terrorist incidents, including cyber intrusion;
- interest rate fluctuations and financial market conditions and the results of financing efforts, including the System's credit ratings;
- the impacts of any potential U.S. credit rating downgrade or other sovereign financial issues, including impacts on interest rates, access to capital markets, impacts on currency exchange rates, counterparty performance, and the economy in general;
- the ability of the System to obtain additional generating capacity at competitive prices;
- the ability of the System to dispose of surplus generating capacity at competitive prices;
- the ability of the System to mitigate the cost impacts associated with integrating additional generating capacity into the System's energy supply portfolio;
- catastrophic events such as fires, earthquakes, explosions, floods, hurricanes, droughts, pandemic health events such as influenzas, or other similar occurrences;
- the direct or indirect effects on the System's business resulting from incidents affecting the U.S. electric grid or operation of generating resources;
- the effect of accounting pronouncements issued periodically by standard-setting bodies; and
- other factors discussed elsewhere herein, such as potential legislation for the creation of a utility authority, including the Appendices attached hereto.

The City expressly disclaims any obligation to update any forward-looking statements. Prospective purchasers of the 2012 Series B Bonds should make a decision to purchase the 2012 Series B Bonds only after reviewing this entire Reoffering Memorandum (including the Appendices attached hereto) and making an independent evaluation of the information contained herein, including the possible effects of the factors described above.

OUTSTANDING DEBT

The following table sets forth the outstanding debt of the City issued for the System as of October 1, 2016.

Outstanding Debt of the City Issued for the System⁽¹⁾

Description	As of October 1, 2016 ¹		
	Interest Rates	(Unaudited) Due Dates (October 1)	Principal Outstanding ⁽¹⁾
Utilities System Revenue Bonds			
2005 Series A	4.75%	2029 – 2036	\$405,000
2005 Series B (federally taxable)	5.31% ⁽²⁾⁽³⁾	2017 – 2021	17,670,000
2005 Series C	Variable ⁽²⁾⁽⁴⁾	2026	26,885,000
2006 Series A	Variable ⁽²⁾⁽⁵⁾	2026	18,410,000
2007 Series A	Variable ⁽²⁾⁽⁶⁾	2036	136,900,000
2008 Series A (federally taxable)	5.02– 5.27% ⁽²⁾⁽³⁾	2017 – 2020	22,150,000
2008 Series B	Variable ⁽²⁾⁽⁷⁾	2038	90,000,000
2009 Series B (federally taxable)	4.498 – 5.655%	2017 – 2039	152,400,000
2010 Series A (federally taxable)	5.874%	2027 – 2030	12,930,000
2010 Series B (federally taxable)	6.024%	2034 – 2040	132,445,000
2010 Series C	5.00 – 5.25%	2017 – 2034	14,195,000
2012 Series A	2.50 – 5.00%	2021 – 2028	81,860,000
2012 Series B	Variable ⁽⁸⁾	2042	100,470,000
2014 Series A	2.50% 5.00%	2021 – 2044	37,835,000
2014 Series B	3.125 – 5.00%	2017 – 2036	26,985,000
Total Utilities System Revenue Bonds			<u>\$871,540,000</u>
Utilities System Commercial Paper Notes			
Series C	Variable ⁽²⁾⁽⁹⁾	⁽¹⁰⁾	\$45,900,000 ⁽¹¹⁾
Series D	Variable ⁽²⁾	⁽¹²⁾	<u>8,000,000</u>
Total Subordinated Bonds			<u>\$53,900,000</u>

⁽¹⁾ Information in this table, Outstanding Debt of the City Issued for the System, reflects principal balances as of October 1, 2016. Given the audit reflects the fiscal year ending on September 30th, the principal amounts in the audit will be different than the principal amounts in the table if that series of bonds had principal amortization on October 1, 2016.

⁽²⁾ See Note 9 to the audited financial statement of the System for the fiscal year ending September 30, 2016 included as Appendix B to this Reoffering Memorandum for a discussion of the various risks borne by the City relating to interest rate swap transactions.

⁽³⁾ The City has entered into a floating-to-floating rate interest rate swap transaction (the "2005 Series B Swap Transaction") with respect to a pro rata portion of each of the maturities of the Utilities System Revenue Bonds, 2005 Series B (Federally Taxable) (the "2005 Series B Bonds"). The initial notional amount of the 2005 Series B Swap Transaction was \$45,000,000, which corresponded to approximately 73.1% of the principal amount of each maturity of the 2005 Series B Bonds. The counterparty to the 2005 Series B Swap transaction currently has a counterparty risk rating of "Aa2" from Moody's Investors Service, Inc. ("Moody's") and a counterparty credit rating of "AA-" from S&P. The term of the 2005 Series B Swap Transaction was identical to the term of the 2005 Series B Bonds, and the notional amount of the 2005 Series B Swap Transaction was scheduled to amortize at the same times and in the same amounts as the pro rata portion of the 2005 Series B Bonds to which it related. The 2005 Series B Swap Transaction is subject to termination by the City or the counterparty

at certain times and under certain conditions. During the term of the 2005 Series B Swap Transaction, the City will pay to the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index) and will receive from the counterparty a rate equal to 77.14% of the one-month LIBOR rate. The effect of the 2005 Series B Swap Transaction was to synthetically convert the interest rate on such pro rata portion of the 2005 Series B Bonds from a taxable rate to a tax-exempt rate. The City has designated the 2005 Series B Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. On August 2, 2012, \$31,560,000 of the taxable 2005 Series B Bonds (the "Refunded Taxable 2005 Bonds") were redeemed with proceeds from the issuance of the City's tax-exempt Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds"). As a result, the 2005 Series B Swap Transaction no longer served as a hedge against the 2005 Series B Bonds. However, since the City had other taxable Bonds outstanding, the City left that portion of the 2005 Series B Swap Transaction allocable to the Refunded Taxable 2005 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by such other taxable Bonds, although such portion of the 2005 Series B Swap Transaction does not specifically match, in terms of its notional amount and amortization, any particular Series and maturity of such other taxable Bonds.

- (4) In connection with the issuance of the 2005 Series C Bonds, the City entered into a floating-to-fixed rate interest rate swap transaction (the "2005 Series C Swap Transaction") with respect to the 2005 Series C Bonds. The counterparty to the 2005 Series C Swap Transaction currently has a counterparty credit rating of "Aa3" from Moody's and a counterparty credit rating of "A+" from S&P. The term of the 2005 Series C Swap Transaction was identical to the term of the 2005 Series C Bonds, and the notional amount of the 2005 Series C Swap Transaction was scheduled to amortize at the same times and in the same amounts as the 2005 Series C Bonds. The 2005 Series C Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2005 Series C Swap Transaction, the City will pay to the counterparty a fixed rate of 3.20% per annum and will receive from the counterparty a rate equal to 60.36% of the ten-year LIBOR swap rate. The effect of the 2005 Series C Swap Transaction was to synthetically fix the interest rate on the 2005 Series C Bonds at a rate of approximately 3.20% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2005 Series C Swap Transaction and the rate paid on the 2005 Series C Bonds, which could result in a realized rate over time that may be lower or higher than the 3.20% rate payable by the City under the 2005 Series C Swap Transaction. The City has designated the 2005 Series C Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. On August 2, 2012, \$17,570,000 of the 2005 Series C Bonds (such portion of the 2005 Series C Bonds is referred to herein as the "Refunded Tax-Exempt 2005 Bonds") were redeemed with proceeds from the issuance of the 2012 Series B Bonds. The City left that portion of the 2005 Series C Swap Transaction allocable to the Refunded Tax-Exempt 2005 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of the 2005 Series C Swap Transaction does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

- (5) In contemplation of the issuance of the 2006 Series A Bonds, in September 2005, the City entered into a forward-starting floating-to-fixed rate interest rate swap transaction (as amended, the "2006 Series A Swap Transaction") with respect to the 2006 Series A Bonds. The counterparty to the 2006 Series A Swap Transaction currently has a counterparty risk rating of "Aa2" from Moody's and a counterparty credit rating of "AA-" from S&P. The term of the 2006 Series A Swap Transaction was identical to the term of the 2006 Series A Bonds, and the notional amount of the 2006 Series A Swap Transaction was scheduled to amortize at the same times and in the same amounts as the 2006 Series A Bonds. The 2006 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2006 Series A Swap Transaction, the City will pay to the counterparty a fixed rate of 3.224% per annum and will receive from the counterparty a rate equal to 68% of the ten-year LIBOR swap rate minus 36.5 basis points. The effect of the 2006 Series A Swap Transaction was to synthetically fix the interest rate on the 2006 Series A Bonds at a rate of approximately 3.224% per annum, although the City bears basis risk, which may be positive or negative, between the rate received on the 2006 Series A Swap Transaction and the rate paid on the 2006 Series A Bonds, which could result in a realized rate over time that may be lower or higher than the 3.224% rate payable by the City under the 2006 Series A Swap Transaction. The City has designated the 2006 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. On August 2, 2012, \$25,930,000 of the 2006 Series A Bonds (such portion of the 2006 Series A Bonds is referred to

herein the "Refunded Tax-Exempt 2006 Bonds") were redeemed with proceeds from the issuance of the 2012 Series B Bonds. The City left that portion of the 2006 Series A Swap Transaction allocable to the Refunded Tax-Exempt 2006 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of the 2006 Series A Swap Transaction does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

- (6) The City has entered into a floating-to-fixed rate interest rate swap transaction (the "2007 Series A Swap Transaction") with respect to the Variable Rate Utilities System Revenue Bonds, 2007 Series A (the "2007 Series A Bonds"). The counterparty to the 2007 Series A Swap Transaction currently has a counterparty risk rating of "Aa2" from Moody's and a financial program rating of "AA-" from S&P. The term of the 2007 Series A Swap Transaction is identical to the term of the 2007 Series A Bonds, and the notional amount of the 2007 Series A Swap Transaction will amortize at the same times and in the same amounts as the 2007 Series A Bonds. The 2007 Series A Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the 2007 Series A Swap Transaction, the City will pay to the counterparty a fixed rate of 3.944% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2007 Series A Swap Transaction is to synthetically fix the interest rate on the 2007 Series A Bonds at a rate of approximately 3.944% per annum. The City has designated the 2007 Series A Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution.
- (7) The City has entered into two floating-to-fixed rate interest rate swap transactions (the "2008 Series B Swap Transactions") with respect to the Variable Rate Utilities System Revenue Bonds, 2008 Series B (the "2008 Series B Bonds"). The counterparties to the 2008 Series B Swap Transactions currently have a counterparty risk rating of "Aa3" from Moody's and a financial program rating of "A+" from S&P, and a counterparty risk rating of "Aa3" from Moody's and a financial program rating of "A+" from S&P, respectively. The terms of the 2008 Series B Swap Transactions are identical to the term of the 2008 Series B Bonds, and the notional amount of the 2008 Series B Swap Transactions will amortize at the same times and in the same amounts as the 2008 Series B Bonds. The 2008 Series B Swap Transactions are subject to termination by the City or the counterparties at certain times and under certain conditions. During the terms of the 2008 Series B Swap Transactions, the City will pay to the counterparties a fixed rate of 4.229% per annum and will receive from the counterparties a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the 2008 Series B Swap Transactions is to synthetically fix the interest rate on the 2008 Series B Bonds at a rate of approximately 4.229% per annum. The City has designated each of the 2008 Series B Swap Transactions as a "Qualified Hedging Transaction" within the meaning of the Resolution.
- (8) The interest rates on the 2012 Series B Bonds are hedged, in part, by the 2005 Series C Swap Transaction and the 2006 Series A Swap Transaction. See notes (3) and (4) above.
- (9) The City has entered into a floating-to-fixed rate interest rate swap transaction (the "Series C CP Notes Swap Transaction") with respect to a portion of the Series C CP Notes. The counterparty to the Series C CP Notes Swap Transaction currently has a counterparty risk rating of "A" from Fitch Ratings, Inc. ("Fitch"), "Baa1" from Moody's and "BBB+" from S&P. The term of the Series C CP Notes Swap Transaction is identical to the expected final maturity date of the Series C CP Notes, and the notional amount of the Series C CP Notes Swap Transaction will amortize at the same times and in the same amounts as the Series C CP Notes related to the swap are expected to be amortized. The Series C CP Notes Swap Transaction is subject to termination by the City or the counterparty at certain times and under certain conditions. During the term of the Series C CP Notes Swap Transaction, the City will pay to the counterparty a fixed rate of 4.10% per annum and will receive from the counterparty a rate equal to the SIFMA Municipal Swap Index (formerly known as the BMA Municipal Swap Index). The effect of the Series C CP Notes Swap Transaction is to synthetically fix the interest rate on a portion of the Series C CP Notes at a rate of approximately 4.10% per annum. The City has not designated the Series C CP Notes Swap Transaction as a "Qualified Hedging Transaction" within the meaning of the Resolution. All amounts owed by the City under the Series C CP Notes Swap Transaction are payable from amounts remaining on deposit in the Revenue Fund established pursuant to the Resolution following the payment of, among other things, Operation and Maintenance Expenses, debt service on the Bonds, debt service on Subordinated Indebtedness and required deposits to the Utilities Plant Improvement Fund established pursuant to the Resolution.

- (10) The Series C CP Notes will mature no more than 270 days from their date of issuance, but in no event later than October 5, 2022.
- (11) The City issued an additional \$5,000,000 of Series C CP Notes on March 14, 2017 to finance capital expenditures in the water and wastewater systems.
- (12) The Series D CP Notes will mature no more than 270 days from their date of issuance, but in no event later than June 14, 2030.

APPENDIX E attached hereto shows total debt service requirements on all Bonds Outstanding as of October 1, 2016.

SECURITY FOR THE 2012 SERIES B BONDS

Pledge Under the Resolution

All Bonds issued under the Resolution, including the 2012 Series B Bonds, are direct and special obligations of the City payable solely from and secured as to the payment of the principal and premium, if any, and interest thereon, in accordance with their terms and the provisions of the Resolution by (i) proceeds of the sale of the Bonds, (ii) Revenues and (iii) all Funds established by the Resolution (other than the Debt Service Reserve Account in the Debt Service Fund which secures only certain designated Series of Bonds and any fund which may be established pursuant to the Resolution for decommissioning and certain other specified purposes), including the investments and income, if any, thereof (collectively, the "Trust Estate"), and the Trust Estate is pledged and assigned to the Trustee for the benefit of the holders of the Bonds subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

The 2012 Series B Bonds do not constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness. No holder of the 2012 Series B Bonds will have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal of or interest on the 2012 Series B Bonds or the making of any payments under the Resolution. The 2012 Series B Bonds and the obligations evidenced thereby do not constitute a lien on any property of or in the City, other than the Trust Estate. The City may issue, pursuant to the Resolution, additional Bonds on a parity basis with the 2012 Series B Bonds. See "ADDITIONAL FINANCING REQUIREMENTS" in "APPENDIX C – The System" attached hereto for a discussion of the City's present intentions with respect to the issuance of additional Bonds and Subordinated Indebtedness.

Rate Covenant

The City has covenanted in the Resolution that it will at all times use its best efforts to operate the System properly and in an efficient and economical manner and will at all times establish and collect rates, fees and other charges for the use or the sale of the output, capacity or services of the System so that the Revenues of the System are expected to yield Net Revenues which shall be equal to at least 1.25 times the Aggregate Debt Service for the forthcoming twelve-month period. See "APPENDIX D - Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" attached hereto.

Additional Bonds; Conditions to Issuance

The City may issue additional Bonds for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the System or for the purpose of refunding Outstanding Bonds. All Series

of such Bonds will be payable from the same sources and secured on a parity with all other Series of Bonds. Set forth below are certain conditions applicable to the issuance of additional Bonds.

Historical Debt Service Coverage. The issuance of any Series of additional Bonds (except for Refunding Bonds) is conditioned upon the delivery by an Authorized Officer of the City of a certificate to the effect that, for any period of twelve consecutive months within the most recent eighteen months preceding the issuance of Bonds of such Series, as determined from the financial statements of the System, Net Revenues were at least equal to 1.25 times the Aggregate Debt Service during such twelve-month period in respect of the then Outstanding Bonds.

Projected Debt Service Coverage. The issuance of any Series of additional Bonds (except for Refunding Bonds) is further conditioned upon the delivery by the City of a certificate of an Authorized Officer of the City to the effect that, for each fiscal year in the period beginning with the year in which the additional Series of Bonds is to be issued and ending on the later of the fifth full fiscal year thereafter or the first full fiscal year in which less than 10% of the interest coming due on Bonds estimated by the City to be outstanding is to be paid from Bond proceeds, Net Revenues are estimated to be at least equal to 1.40 times the Adjusted Aggregate Debt Service for each such fiscal year. For purposes of estimating future Net Revenues, the City may base its estimate upon such factors as it shall consider reasonable.

No Default. In addition, additional Bonds (except for Refunding Bonds) may be issued only if the City certifies that no Event of Default exists under the Resolution or that any such Event of Default will be cured through application of the proceeds of such Bonds.

Subordinated Indebtedness. The City may also issue Subordinated Indebtedness under the Resolution without compliance with any of the above conditions. References herein and in the Resolution to Bonds do not include such Subordinated Indebtedness.

Flow of Funds Under the Resolution

The City has covenanted to deposit all Revenues of the System to the credit of the Revenue Fund. Each month, the City is to pay from the Revenue Fund amounts necessary to meet Operation and Maintenance Expenses for such month. After such payment, the City is to pay from the Revenue Fund, in the following order of priority: amounts, if any, budgeted or otherwise necessary for the Rate Stabilization Fund, amounts required for the Debt Service Account in the Debt Service Fund and amounts, if any, required for credit to any separate subaccount established in the Debt Service Reserve Account in the Debt Service Fund for a particular Series of Bonds, amounts, if any, required for the Subordinated Indebtedness Fund, and amounts to be deposited in the Utilities Plant Improvement Fund. The balance of any moneys remaining in the Revenue Fund after the required payments have been made can be used by the City for any other lawful purpose, provided that all current payments have been made and the City has otherwise fully complied with the Resolution. All amounts held in any Funds under the Resolution are subject to being invested in Investment Securities; such investments will be valued at the amortized cost thereof. The 2012 Series B Bonds are not secured by the Debt Service Reserve Account or any subaccount therein.

For a more extensive discussion of the terms and provisions of the Resolution, the levels at which the funds and accounts established thereby are to be maintained and the purposes to which moneys in such funds and accounts may be applied, see "APPENDIX D - Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution "attached hereto.

THE 2012 SERIES B BONDS

General

The 2012 Series B Bonds were issued on August 2, 2012 in the aggregate principal amount of \$100,470,000, all of which currently remains Outstanding. The 2012 Series B Bonds mature on October 1, 2042. The 2012 Series B Bonds are currently subject to the Weekly Mode and bear interest at the Weekly Rates determined as described under the caption "Interest Rates and Interest Modes; Determination of Interest Rates" below. While the 2012 Series B Bonds are in the Weekly Mode, interest is payable on the first Business Day (as defined in APPENDIX D hereto) of each calendar month.

As described under the caption "Change in Interest Modes" below, at the option of the City, and upon the satisfaction of certain conditions, the 2012 Series B Bonds may be changed from time to time to another Interest Mode. As more fully described under the caption "Interest Rates and Interest Modes; Determination of Interest Rates" below, (a) while the 2012 Series B Bonds are in the Daily Mode, such Bonds will bear interest at Daily Rates, (b) while the 2012 Series B Bonds are in the Weekly Mode, such Bonds will bear interest at Weekly Rates, (c) while the 2012 Series B Bonds are in the Flexible Mode, such Bonds will bear interest at Flexible Rates, (d) while the 2012 Series B Bonds are in the Term Mode, such Bonds will bear interest at Term Rates and (e) while the 2012 Series B Bonds are in the Fixed Mode, such Bonds will bear interest at the Fixed Rate. The Twenty-Fifth Supplemental Resolution also provides that the 2012 Series B Bonds may be changed to a "Dutch auction" Interest Mode (referred to in the Twenty-Fifth Supplemental Resolution as the "Auction Mode"), but requires that the City adopt an amendment to the Twenty-Fifth Supplemental Resolution prior to the date on which such change is to be effective, to add to the Twenty-Fifth Supplemental Resolution procedures relating to, among other things, (a) the determination of the dates on which auctions will be held and the length of the periods between auctions, (b) the conduct of auctions and (c) the determination of the interest rates to be borne by the 2012 Series B Bonds while subject to the Auction Mode. As a result, the provisions of the Auction Mode are not described in this Reoffering Memorandum. Instead, it is anticipated that, should the 2012 Series B Bonds be changed to the Auction Mode, a remarketing memorandum or remarketing circular will be distributed describing the 2012 Series B Bonds during the Auction Mode.

However, the Citibank Liquidity Facility does not cover 2012 Series B Bonds issued in any mode other than Weekly Mode or Daily Mode.

The 2012 Series B Bonds are issuable only in fully registered form in the Authorized Denominations. "Authorized Denominations" means (i) for 2012 Series B Bonds bearing interest at a Weekly Rate, a Daily Rate or a Flexible Rate, \$100,000 or any integral multiple of \$5,000 in excess thereof and (ii) for 2012 Series B Bonds bearing interest at a Term Rate or a Fixed Rate, \$5,000 or any integral multiple thereof. The 2012 Series B Bonds were issued in book-entry only form and are registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC"). See "INTRODUCTORY STATEMENT - Book-Entry Only System" herein.

As more fully described under the captions "Optional Tender for Purchase" and "Mandatory Tender for Purchase" below, the 2012 Series B Bonds (or, for so long as the 2012 Series B Bonds are subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" herein, beneficial ownership interests therein) are subject to optional tender for purchase and, under certain circumstances, mandatory tender for purchase. The Purchase Price (as defined in APPENDIX D hereto) for 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) tendered or deemed

tendered for purchase is payable solely from the sources described under the caption "Remarketing and Purchase Price" below, and is not payable from any funds of the City.

From and after June 30, 2017, liquidity support in connection with tenders for purchase of the 2012 Series B Bonds will be provided by the Bank pursuant to the Citibank Liquidity Facility. See "INTRODUCTORY STATEMENT — General", "CITIBANK LIQUIDITY FACILITY" and "THE BANK" herein. The Twenty-Fifth Supplemental Resolution contains provisions for obtaining a Substitute Liquidity Facility in substitution for the Liquidity Facility then in effect. See "Substitution of Liquidity Facility" below.

Except as described below, the principal or redemption price of the 2012 Series B Bonds is payable at the principal office of the Paying Agent. Except as described below, interest on the 2012 Series B Bonds is payable on each Interest Payment Date (as defined in APPENDIX D hereto) to the Holders thereof at the Record Date (as defined in APPENDIX D hereto) therefor, by check or draft of the Paying Agent mailed to each registered Holder at such person's address as it appears on the books of registry kept at the principal office of the Bond Registrar pursuant to the Resolution or, at the option of any Holder of at least \$1,000,000 in principal amount of 2012 Series B Bonds, by wire transfer on such Interest Payment Date to such Holder thereof upon written notice from such Holder to the Paying Agent containing the wire transfer address (which shall be in the continental United States) to which such Holder wishes to have such wire directed and any other necessary instructions, if such written notice is received by the Paying Agent not less than five days prior to the related Record Date, it being understood that such notice may refer to multiple interest payments. So long as the 2012 Series B Bonds are subject to the book-entry only system of registration and transfer described in "INTRODUCTORY STATEMENT - Book-Entry Only System " herein, all payments with respect to the principal or redemption price of, and interest on, the 2012 Series B Bonds will be made to DTC.

JPMS is the current Remarketing Agent for the 2012 Series B Bonds. Subject to the terms of the Remarketing Agreement, the Remarketing Agent will determine the interest rates on the 2012 Series B Bonds and will remarket 2012 Series B Bonds tendered or required to be tendered for purchase on a best efforts basis. The Remarketing Agent may resign upon 60 days' notice or be removed at any time by the City upon 30 days' notice.

U.S. Bank National Association, New York, New York has been appointed as the initial Tender Agent for the 2012 Series B Bonds by the City. The Tender Agent may be removed or replaced by the City.

For definitions of certain terms applicable to the 2012 Series B Bonds that are not otherwise defined herein, see "Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" in APPENDIX D hereto.

Interest on the 2012 Series B Bonds

Interest on the 2012 Series B Bonds is payable on each Interest Payment Date therefor. Holders of the 2012 Series B Bonds other than the Bank will be paid interest for the applicable Interest Period (as defined in APPENDIX D hereto) only in the amount that would have accrued at the applicable 2012 Series B Bond Rate (as defined in APPENDIX D hereto) or Rates in effect during the applicable Interest Accrual Period (as defined in APPENDIX D hereto), regardless of whether any of such 2012 Series B Bonds was a 2012 Series B Bank Bond (as defined in APPENDIX D hereto) during any portion of such Interest Accrual Period.

The Interest Payment Dates with respect to each 2012 Series B Bond (other than any 2012 Series B Bank Bond) are as follows: (a) each date on which the 2012 Series B Bonds are subject to mandatory tender for purchase (see "Mandatory Tender for Purchase" below); (b) for 2012 Series B Bonds in the Weekly Mode or the Daily Mode, the first Business Day of each calendar month; (c) for 2012 Series B Bonds in the Flexible Mode, the first Business Day following the end of each Interest Period with respect thereto; (d) for 2012 Series B Bonds in the Term Mode or the Fixed Mode, semi-annually on each April 1 and October 1 commencing on the first April 1 or October 1 occurring after the conversion to such Interest Mode; provided, however, that if such first date occurs less than three months after such conversion, the first Interest Payment Date will be on the second such date following such conversion; and (e) the maturity or redemption date thereof.

An "Interest Accrual Period" is the period from and including each Interest Payment Date to but excluding the next Interest Payment Date.

Interest is payable to the Holders of the 2012 Series B Bonds at the relevant Record Date. The "Record Date" (a) with respect to an Interest Payment Date for 2012 Series B Bonds in the Term Mode or the Fixed Mode, is the close of business on the fifteenth day (whether or not a Business Day) of the next preceding calendar month (except that in the case of any Interest Payment Date occurring on any date on which the 2012 Series B Bonds are subject to mandatory tender for purchase, the Record Date therefor is the close of business on the Business Day immediately preceding such Interest Payment Date) and (b) with respect to an Interest Payment Date for 2012 Series B Bonds in the Weekly Mode, Daily Mode or the Flexible Mode, is the close of business on the Business Day immediately preceding such Interest Payment Date.

The maximum rate of interest (the "Maximum Rate") permitted to be borne by 2012 Series B Bonds (other than 2012 Series B Bank Bonds) is 12% per annum, or such higher rate as shall be approved by the City if (a) an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions shall have been delivered to the Notice Parties (as defined in APPENDIX D hereto) to the effect that any such change in the Maximum Rate (i) is authorized or permitted by the Resolution and the Act (as defined in the Resolution) and (ii) will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes and (b) if the 2012 Series B Bonds are in the Weekly Mode or the Daily Mode, the Liquidity Facility is modified (if necessary) so that its stated amount or the commitment of the Bank thereunder, as the case may be, is increased to give effect to the increased Maximum Rate.

Interest on the 2012 Series B Bonds in the Weekly, Daily or Flexible Mode will be computed on the basis of a 365- or 366-day year, as applicable, for actual days elapsed and interest on the 2012 Series B Bonds in the Term or Fixed Mode will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Interest Rates and Interest Modes; Determination of Interest Rates

The 2012 Series B Bonds currently are in the Weekly Mode and will bear interest at Weekly Rates until such time (if any) as the 2012 Series B Bonds are changed to the Auction Mode, the Daily Mode, the Flexible Mode, the Term Mode or the Fixed Mode. The interest rate to be in effect with respect to a particular 2012 Series B Bond (or beneficial ownership interest therein) for a particular period of time as described below (an "Interest Period") will be determined by the Remarketing Agent as the minimum interest rate necessary in its judgment to be borne by such 2012 Series B Bond (or beneficial ownership interest therein) for the relevant Interest Period to enable the Remarketing Agent to remarket such 2012 Series B Bond (or

beneficial ownership interest therein) on the Rate Adjustment Date (as defined in APPENDIX D hereto) therefor at a price (without regard to accrued interest) equal to 100% of the principal amount thereof (each such rate being referred to as a "Market Rate"), but not in excess of the Maximum Rate. Each date on which an interest rate is determined for any 2012 Series B Bond (or beneficial ownership interest therein) is referred to as a "Rate Determination Date."

If for any reason the Remarketing Agent fails to determine the Market Rate for any 2012 Series B Bond (or beneficial ownership interest therein) on the Rate Determination Date therefor, or any Market Rate determined by the Remarketing Agent is determined by a court of competent jurisdiction to be invalid or unenforceable, then, commencing on such Rate Determination Date or the date with respect to which such court's determination shall be effective, as the case may be, such 2012 Series B Bond (or beneficial ownership interest therein) will bear interest at a rate equal to 100% of the SIFMA Index most recently announced on or prior to each Rate Determination Date, but not in excess of the Maximum Rate. The "SIFMA Index" is an index based upon the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established by the Securities Industry and Financial Markets Association and effective for a particular Rate Determination Date. If the SIFMA Index ceases to be published, it will be replaced by the most comparable published index designated by the Remarketing Agent, or in the absence of such designation, any other dealer bank or broker-dealer competent in such matters and chosen by the City.

The various interest rates for the 2012 Series B Bonds will be determined as follows, and will be effective for the periods described below:

Weekly Rate. While in the Weekly Mode, the 2012 Series B Bonds will bear interest at Weekly Rates determined by the Remarketing Agent as the Market Rate for each Interest Period during such Mode. Each Interest Period during the Weekly Mode will commence on a Wednesday and extend through Tuesday of the following week. The Weekly Rate for each such Interest Period will be determined by the Remarketing Agent not later than 5:00 p.m., New York City time, on Tuesday of each week, or if such day is not a Business Day, on the next preceding Business Day (or such other day as may be specified by the Remarketing Agent after notice to the Tender Agent and the Holders of the 2012 Series B Bonds).

Daily Rate. While in the Daily Mode, the 2012 Series B Bonds will bear interest at Daily Rates determined by the Remarketing Agent as the Market Rate therefor not later than 12:30 p.m., New York City time, on each Business Day. Each Daily Rate will remain in effect for the Interest Period beginning on the Business Day of its determination and ending on the day preceding the next succeeding Business Day.

Flexible Rate. While in the Flexible Mode, the 2012 Series B Bonds (or beneficial ownership interests therein) will bear interest at Flexible Rates and for Interest Periods determined by the Remarketing Agent. The duration of each Interest Period for each 2012 Series B Bond (or beneficial ownership interest therein) in the Flexible Mode will be the period determined by the Remarketing Agent to be the Interest Period which, in its judgment, will produce the greatest likelihood of the lowest overall debt service costs on the 2012 Series B Bonds prior to the maturity thereof, given prevailing market conditions, and will be a period of not less than one (1) nor more than 270 days in length and will end on a day preceding a Business Day; provided, however, that no Interest Period during the Flexible Mode may extend beyond the fifth Business Day preceding the Liquidity Facility Expiration Date (as defined in APPENDIX D hereto) of the Liquidity Facility then in effect. While in the Flexible Mode, different 2012 Series B Bonds (or beneficial ownership interests therein) may have different Interest Periods. The Remarketing Agent will determine the Flexible Rates and Interest Periods for the 2012 Series B Bonds (or beneficial ownership interests therein) in the Flexible Mode not later than 12:30 p.m., New York City time, on the first Business Day in each Interest

Period, and each Flexible Rate will be the Market Rate determined by the Remarketing Agent for the relevant Interest Period.

Term Rate. The City may designate a Term Mode for the 2012 Series B Bonds with an Interest Period of any duration specified by the City that is longer than a year and ends on the last day of any March or September; provided, however, that no Interest Period during a Term Mode may extend beyond the fifth Business Day preceding the Liquidity Facility Expiration Date of the Liquidity Facility then in effect. During each such Interest Period, the 2012 Series B Bonds will bear interest at the Term Rate for such Interest Period, which will be determined by the Remarketing Agent as the Market Rate therefor on any date designated by the Remarketing Agent which is not more than 35 days before, nor later than the last Business Day preceding, such Interest Period.

Fixed Rate. The City may direct that the interest rate on the 2012 Series B Bonds be fixed to the maturity date thereof. The Fixed Rate to be borne by the 2012 Series B Bonds to their maturity will be determined by the Remarketing Agent as the Market Rate therefor on any date designated by the Remarketing Agent which is not more than 35 days before, nor later than the last Business Day preceding, the effective date of such Fixed Rate.

The determination by the Remarketing Agent of each interest rate for the 2012 Series B Bonds shall be conclusive and binding on the City, the Tender Agent, the Remarketing Agent, the Bank and the owners of the 2012 Series B Bonds. The interest rates in effect for the 2012 Series B Bonds from time to time will be available to each owner of the 2012 Series B Bonds who requests such information, by telephone or in writing (including by facsimile or other electronic means), (a) if the 2012 Series B Bonds are in the Weekly Mode, the Daily Mode or the Flexible Mode, from the Remarketing Agent and (b) if the 2012 Series B Bonds are in the Term Mode or the Fixed Mode, from the Tender Agent.

Change in Interest Modes

If the 2012 Series B Bonds are in any Interest Mode other than the Fixed Mode, the City may cause the 2012 Series B Bonds to be changed to a different Interest Mode or to a Term Mode with an Interest Period of different duration. A change from the Weekly or Daily Mode to any other Interest Mode may be made on any Interest Payment Date. A change from the Flexible Mode to any other Interest Mode may be made on the day that is the latest Interest Payment Date for all Interest Periods for all of the 2012 Series B Bonds (or beneficial ownership interests therein) then in effect or any Business Day thereafter. A change from the Term Mode to any other Interest Mode or to an Interest Period of different duration may be made on any day on which the 2012 Series B Bonds may be redeemed at the election of the City at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, thereon (see "Redemption Provisions — Optional Redemption" below). In any such case, the 2012 Series B Bonds will be subject to mandatory tender for purchase on the date on which the proposed change is to occur (see "Mandatory Tender for Purchase" below). Any date on which a change to a different Interest Mode or to an Interest Period of different duration in the Term Mode is proposed to occur is referred to as a "Mode Adjustment Date."

Any change in an Interest Mode or an Interest Period in the Term Mode is subject to (a) receipt by the Tender Agent and the Remarketing Agent on the first day of such Interest Mode or Interest Period, as the case may be, of an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that the change in Interest Mode or Interest Period, as the case may be, will not adversely affect the exclusion of interest on any 2012 Series B Bond from gross income for federal

income tax purposes and is authorized by applicable law and (b) the Liquidity Facility then in effect being in an amount at least equal to the Liquidity Facility Requirement (as defined in APPENDIX D hereto) applicable to the Interest Mode to become effective. If either of the above conditions is not met, then the 2012 Series B Bonds will remain in the Interest Mode which they are then in or remain subject to the same Interest Period as then is applicable, as the case may be; provided, however, that if the proposed change was from the Term Mode to any other Interest Mode and the City causes to be delivered to the Tender Agent and the Remarketing Agent an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such change in Interest Mode will not adversely affect the exclusion of interest on any 2012 Series B Bond from gross income for federal income tax purposes and is authorized by applicable law, then, so long as the Liquidity Facility then in effect (taking into account any amendments being made thereto in connection therewith) shall provide that the amount available to be drawn or advanced thereunder shall be at least equal to the principal amount of the Outstanding 2012 Series B Bonds (other than 2012 Series B Bank Bonds) plus 36 days' interest thereon computed at a rate per annum equal to the Maximum Rate and on the basis of a 365-day year, the 2012 Series B Bonds will be changed to the Weekly Mode. In any such event, the 2012 Series B Bond will remain subject to mandatory tender to the same extent as if the change in Interest Mode or Interest Period, as the case may be, took place.

When a change in Interest Mode is to be made, the Tender Agent is required to give notice of the proposed change to the Holders of the 2012 Series B Bonds (a) if the 2012 Series B Bonds are then in the Weekly Mode or the Daily Mode, not less than fifteen nor more than 60 days prior to the proposed Mode Adjustment Date and (b) if the 2012 Series B Bonds are in any other Interest Mode, not less than thirty nor more than 60 days prior to the proposed Mode Adjustment Date. Such notice will state, among other things, that the 2012 Series B Bonds will be subject to mandatory tender for purchase on the proposed Mode Adjustment Date.

Optional Tender for Purchase

2012 Series B Bonds in the Weekly Mode or the Daily Mode (or portions thereof or beneficial ownership interests therein in a principal amount equal to, and leaving untendered, an Authorized Denomination) are subject to tender for purchase at the option of the Holder thereof (or, if the 2012 Series B Bonds are subject to the book-entry only system of registration and transfer described in "INTRODUCTORY STATEMENT – Book-Entry Only System" herein, at the option of the Beneficial Owner (as defined in "Book-Entry Only System" herein) thereof), from and to the extent of the funds described under the caption "Remarketing and Purchase Price" below, at the Purchase Price therefor, on the following dates (each such date being referred to herein as a "Purchase Date"):

Weekly Mode. 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) in the Weekly Mode may be tendered for purchase on any Business Day, upon irrevocable notice of tender given to the Tender Agent as described below in writing (including by facsimile or other electronic means) no later than 5:00 p.m., New York City time, on a Business Day at least seven calendar days prior to the Purchase Date.

Daily Mode. 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) in the Daily Mode may be tendered for purchase on any Business Day, upon irrevocable notice of tender given to the Tender Agent as described below by telephone, facsimile or other electronic means no later than 11:00 a.m., New York City time, on the Purchase Date.

Each notice of exercise of the election to have a 2012 Series B Bond (or portion thereof or beneficial ownership interest therein) purchased will be irrevocable and effective upon receipt, and must specify the principal amount of the 2012 Series B Bond (or portion thereof or beneficial ownership interest therein) to be purchased, the Purchase Date and the name of the Holder of the 2012 Series B Bond (or, if the 2012 Series B Bonds are subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" herein, the name and number of the account to which such beneficial ownership interest is credited by DTC) and must be given by the Holder thereof or such Holder's attorney duly authorized in writing (or, if the 2012 Series B Bonds are subject to such book-entry only system of registration and transfer, by the Beneficial Owner thereof or such Beneficial Owner's attorney duly authorized in writing).

Holders (or, if applicable, Beneficial Owners) of 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) that have elected to require purchase as described above will be deemed, by such election, to have agreed irrevocably to sell the 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) to any purchaser determined in accordance with the provisions of the Twenty-Fifth Supplemental Resolution on the date fixed for purchase at the Purchase Price therefor, and will be required to deliver (or cause to be delivered) such tendered 2012 Series B Bonds (or portions thereof) to the office of the Tender Agent by 12:00 p.m., New York City time, on the Purchase Date, in each such case, endorsed in blank (or accompanied by a bond power executed in blank). See "Remarketing and Purchase Price" below.

Mandatory Tender for Purchase

The 2012 Series B Bonds must be tendered for purchase, from and to the extent of the funds described under the caption "Remarketing and Purchase Price" below, at the Purchase Price therefor, on the following dates (each such date being referred to herein as a "Purchase Date"):

Expiration of Liquidity Facility: on the fifth Business Day prior to the Liquidity Facility Expiration Date,

Substitution of Liquidity Facility: on any Substitution Date (as defined in APPENDIX D hereto) while the 2012 Series B Bonds are in the Weekly Mode or the Daily Mode; provided, however, that if the City shall have delivered to the Notice Parties, by not later than the Business Day prior to the date on which the Tender Agent is required to give notice of such mandatory tender pursuant to the Twenty-Fifth Supplemental Resolution, written evidence from each Rating Agency (as defined in APPENDIX D hereto) then rating the 2012 Series B Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect will not result in a withdrawal, suspension or reduction in such Rating Agency's ratings on the 2012 Series B Bonds, then the 2012 Series B Bonds shall not be subject to mandatory tender for purchase on the Substitution Date,

Interest Mode or Interest Period Changes: on any Mode Adjustment Date designated by an authorized officer of the City pursuant to the provisions of the Twenty-Fifth Supplemental Resolution whether or not such change to a new Interest Mode or Interest Period, as applicable, is effected,

Rate Adjustment Dates: on each Rate Adjustment Date while the 2012 Series B Bonds are in (a) the Flexible Mode or (b) the Term Mode,

City Option in Term Mode: at the option of the City while the 2012 Series B Bonds are in the Term Mode, on any day on which such 2012 Series B Bonds may then be redeemed at the election of the City at

a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, thereon (see "Redemption Provisions — Optional Redemption" below); provided, however, that such Officer's Certificate shall be accompanied by the written consent of the Bank to the 2012 Series B Bonds being so subject to mandatory tender on such date,

Amendment to the Twenty-Fifth Supplemental Resolution or the Resolution: on (a) any Business Day while the 2012 Series B Bonds are in the Weekly Mode or Daily Mode, (b) any Rate Adjustment Date while the 2012 Series B Bonds are in the Flexible Mode, or (c) any Business Day on which the 2012 Series B Bonds may then be redeemed at the election of the City at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, thereon (see "Redemption Provisions — Optional Redemption" below) while such 2012 Series B Bonds are in the Term Mode, in any such case, that is at least fifteen days following delivery to the Notice Parties of a certificate of an authorized officer of the City to the effect that the City is causing the 2012 Series B Bonds to become subject to mandatory tender in order to enable any Supplemental Resolution amending the Twenty-Fifth Supplemental Resolution or the Resolution to take effect; provided, however, that such certificate is accompanied by (i) the written consent of the Bank to the 2012 Series B Bonds being so subject to mandatory tender on such date and (ii) an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such amendments are authorized or permitted by the Resolution and will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes, and

Liquidity Facility Default: on the fifteenth day (or if such day is not a Business Day, on the next preceding Business Day) after receipt by the Tender Agent of notice from the Bank to the effect that an "event of default" (or similar provision) on the part of the City has occurred and is continuing under the Liquidity Facility, and directing the Tender Agent to make a draw or request for funding, as the case may be, under the Liquidity Facility to effect a mandatory tender of all of the 2012 Series B Bonds.

Except in the case of (a) a Rate Adjustment Date for 2012 Series B Bonds in the Flexible Mode and (b) a mandatory tender described under "Liquidity Facility Default" above, the Tender Agent will give notice of mandatory tender for purchase to each Holder of the 2012 Series B Bonds by mail, first-class postage prepaid, (i) if the 2012 Series B Bonds are then in the Weekly Mode or the Daily Mode, not less than fifteen nor more than 60 days prior to the Purchase Date and (ii) if the 2012 Series B Bonds are in any other Interest Mode, not less than 30 nor more than 60 days prior to the Purchase Date. In the case of a mandatory tender described under "Liquidity Facility Default" above, the Tender Agent will give notice of mandatory tender for purchase to each Holder of the 2012 Series B Bonds by mail, first-class postage prepaid, as promptly as practicable following receipt by it of the notice from the Bank referred to under "Liquidity Facility Default" above. While the 2012 Series B Bonds are subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" herein, such notice will be given only to DTC.

Holders (or, if applicable, Beneficial Owners) of 2012 Series B Bonds (or beneficial ownership interests therein) will be deemed to have agreed irrevocably to sell 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) subject to mandatory tender for purchase to any purchaser determined in accordance with the provisions of the Twenty-Fifth Supplemental Resolution on the date fixed for purchase at the Purchase Price therefor, and will be required to deliver (or cause to be delivered) such tendered 2012 Series B Bonds (or portions thereof) to the office of the Tender Agent by 12:00 p.m., New York City time, on the Purchase Date, endorsed in blank (or accompanied by a bond power executed in blank). See "Remarketing and Purchase Price" below.

Remarketing and Purchase Price

In the event that notice is received of any optional tender of 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) or if the 2012 Series B Bonds become subject to mandatory tender for purchase, except in the case of a mandatory tender (a) in connection with the expiration of the Liquidity Facility then in effect and (b) upon a default on the part of the City under the Liquidity Facility then in effect, the Remarketing Agent will use its best efforts, subject to certain conditions, to sell the tendered 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) at a price equal to the Purchase Price therefor, on the forthcoming optional or mandatory tender date.

The Purchase Price of 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) tendered for purchase is payable, first, from and to the extent of moneys derived from the remarketing of 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) by the Remarketing Agent and, if such remarketing proceeds are insufficient, from moneys drawn by the Tender Agent under the Liquidity Facility. The obligation of the Bank to purchase 2012 Series B Bonds under the Citibank Liquidity Facility is subject to certain conditions, and such obligation may be terminated without prior notice or payment thereunder under certain circumstances. See "CITIBANK LIQUIDITY FACILITY" herein.

The City is not required under the Twenty-Fifth Supplemental Resolution to pay the Purchase Price of the tendered 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) which are not remarketed or purchased with funds drawn under the Liquidity Facility.

Upon tender for purchase of any 2012 Series B Bond (or portion thereof) on the Purchase Date therefor or of any Untendered 2012 Series B Bond (hereinafter defined) on or after the Purchase Date therefor at the office of the Tender Agent, endorsed in blank (or accompanied by a bond power executed in blank) to the extent of the portion to be purchased, the Tender Agent will pay to the Holder of such 2012 Series B Bond (or portion thereof) or such Untendered 2012 Series B Bond, as the case may be, the Purchase Price therefor from funds available for such purchase held in the applicable account in the 2012 Series B Bond Purchase Fund (as defined in APPENDIX D hereto), in each such case, by 5:00 p.m., New York City time, on the date of payment.

While the 2012 Series B Bonds are subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" herein, to the extent permitted pursuant to the procedures of DTC, any beneficial ownership interest in such 2012 Series B Bonds will be deemed tendered to the Tender Agent endorsed in blank when DTC or any Direct Participant or Indirect Participant (as such terms are defined in "Book-Entry Only System" herein) which owns such beneficial ownership interest as nominee for the Beneficial Owner thereof has received sufficient instructions from the person to whose account at DTC such beneficial ownership interest is credited to transfer such beneficial ownership interest to the account of the Tender Agent and such transfer is effected, and payment of the Purchase Price of such beneficial ownership interest will be deemed to be made when the Tender Agent gives sufficient instructions to (while maintaining sufficient funds at or delivering such funds to) DTC or such Participant to credit such Purchase Price to the account of such person or such Participant.

Untendered 2012 Series B Bonds

With respect to any 2012 Series B Bond (or portion thereof) (a) for which notice was given in connection with an optional tender but which is not tendered for purchase by 12:00 p.m., New York City time, on the applicable Purchase Date or (b) which is required to be tendered in connection with a

mandatory tender and which is not tendered for purchase by 12:00 p.m., New York City time, on the applicable Purchase Date (such 2012 Series B Bonds (or portions thereof) being referred to herein as "Untendered 2012 Series B Bonds"), such 2012 Series B Bond (or portion thereof) will, upon deposit in the applicable account in the 2012 Series B Bond Purchase Fund of an amount sufficient to pay the Purchase Price of such 2012 Series B Bond (or portion thereof) on such Purchase Date, be deemed to have been tendered and sold on such Purchase Date and thereafter, the person who has failed to deliver such 2012 Series B Bond (or portion thereof) will not be entitled to any payment (including any interest accrued subsequent to such Purchase Date) in respect thereof other than the Purchase Price for such 2012 Series B Bond (or portion thereof) and, unless such Purchase Price includes accrued interest to such Purchase Date, such accrued interest, and such Untendered 2012 Series B Bond will no longer be entitled to the benefit of the Resolution, except for the payment of the Purchase Price and accrued interest, if any.

2012 Series B Bank Bonds

Any 2012 Series B Bond (or portion thereof or beneficial ownership interest therein) which has been tendered or deemed tendered for purchase on a Purchase Date and which has been purchased with the proceeds of a drawing under the Liquidity Facility will be, and will constitute, a 2012 Series B Bank Bond under the Twenty-Fifth Supplemental Resolution. Each 2012 Series B Bank Bond will bear interest from and including the date on which such 2012 Series B Bond was so purchased (the "Bank Purchase Date") at the applicable Bank Rate (as defined in APPENDIX D hereto) or Rates in effect from time to time during such period.

The Twenty-Fifth Supplemental Resolution provides that any 2012 Series B Bond that is a 2012 Series B Bank Bond will be subject to mandatory redemption through sinking fund installments as follows: Each 2012 Series B Bank Bond outstanding will be redeemed during the period commencing with a date (the "Term-Out Date") which is 180 days after the Bank Purchase Date or the Liquidity Facility Expiration Date then in effect, whichever is the first to occur (or, if the purchase was made as a result of the Bank's election to cause the 2012 Series B Bonds to become subject to mandatory tender for purchase following the occurrence of an "event of default" (or similar provision) under the Liquidity Facility then in effect (see "Mandatory Tender for Purchase — Liquidity Facility Default" above), on the date that is 180 days after the Bank Purchase Date) and extending to the earlier of (a) the date that is the fifth anniversary of the relevant Bank Purchase Date or (b) the maturity date of the 2012 Series B Bonds, in equal semi-annual installments, payable on the Term-Out Date and at the end of each six-month period thereafter. In order to provide for such retirement, the Twenty-Fifth Supplemental Resolution establishes sinking fund installments with respect to each such 2012 Series B Bank Bond, which sinking fund installments will be due in semi-annual installments, on the Term-Out Date and at the end of each six-month period thereafter with respect to each such 2012 Series B Bank Bond. For purposes of the two preceding sentences, each semi-annual payment date or due date, as the case may be, will be the date that numerically corresponds with the Term-Out Date or, if there is no such numerically corresponding date in the applicable month, on the last day of such month (or, if such day is not a Business Day, the next succeeding Business Day). The redemption price will be the principal amount of the 2012 Series B Bank Bonds to be redeemed plus accrued interest thereon to the date of redemption. In the event that the principal amount of 2012 Series B Bank Bonds to be redeemed on any such redemption date is not equal to an Authorized Denomination, the principal amount of 2012 Series B Bank Bonds to be redeemed will be rounded to the next higher Authorized Denomination. Notwithstanding anything to the contrary contained in the Resolution, no credits shall be applied against any sinking fund installment due as described in this paragraph.

The Twenty-Fifth Supplemental Resolution also provides that each 2012 Series B Bank Bond will constitute an "Option Bond" within the meaning of the Resolution and, as such, may be tendered or deemed

tendered to the City for payment upon the occurrence of certain "events of default" on the part of the City under the Liquidity Facility. See paragraph 1(b) under "CITIBANK LIQUIDITY FACILITY — Liquidity Events of Default; Remedies" herein. Upon any such tender or deemed tender for purchase, the 2012 Series B Bank Bonds so tendered or deemed tendered will be due and payable immediately.

Disclosure Concerning Sales of Variable Rate Demand Obligations by Remarketing Agent

No representation is made by the City as to the accuracy, completeness or adequacy of such information to the extent this section reflects the internal practices and procedures of the Remarketing Agent.

The Remarketing Agent is Paid by the City. The Remarketing Agent's responsibilities include determining the interest rates borne by the 2012 Series B Bonds (or beneficial ownership interests therein) from time to time and remarketing 2012 Series B Bonds (or beneficial ownership interests therein) that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Twenty-Fifth Supplemental Resolution and the Remarketing Agreement), all as further described in this Reoffering Memorandum. The Remarketing Agent is appointed by the City and is paid by the City for its services. As a result, the interests of the Remarketing Agent may differ from those of existing owners and potential purchasers of 2012 Series B Bonds.

The Remarketing Agent Routinely Purchases Variable Rate Demand Obligations for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account in order to achieve a successful remarketing of such obligations (i.e., because there otherwise are not enough buyers to purchase such obligations) or for other reasons. The Remarketing Agent is permitted, but not obligated, in its sole discretion, to purchase tendered 2012 Series B Bonds for its own account. However, the Remarketing Agent is not obligated to purchase 2012 Series B Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the 2012 Series B Bonds by routinely purchasing and selling 2012 Series B Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at prices at or below par. However, the Remarketing Agent is not required to make a market in the 2012 Series B Bonds. The Remarketing Agent may also sell any 2012 Series B Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the 2012 Series B Bonds. The purchase of 2012 Series B Bonds by the Remarketing Agent may create the appearance that there is greater third-party demand for the 2012 Series B Bonds in the market than is actually the case. The practices described above also may result in fewer 2012 Series B Bonds being tendered in a remarketing.

2012 Series B Bonds May be Offered at Different Prices on Any Date Including a Rate Determination Date. Pursuant to the Twenty-Fifth Supplemental Resolution and the Remarketing Agreement, on each Rate Determination Date, the Remarketing Agent is required to determine the 2012 Series B Bond Rate, which shall be the rate of interest that, in the Remarketing Agent's judgment, is the minimum interest rate necessary to be borne by the affected 2012 Series B Bonds (or beneficial ownership interests therein) for the relevant Interest Period to enable the Remarketing Agent to remarket such 2012 Series B Bonds (or beneficial ownership interests therein) on the Rate Determination Date therefor at a price (without regard to accrued interest) equal to 100% of the principal amount thereof; provided, however, that in no event shall any rate so determined exceed the Maximum Rate. The interest rate will reflect, among other factors, the level of market demand for the 2012 Series B Bonds (including whether the Remarketing Agent is willing to purchase 2012 Series B Bonds for its own account). There may or may not be 2012 Series

B Bonds tendered and remarketed on a Rate Determination Date, the Remarketing Agent may or may not be able to remarket any 2012 Series B Bonds tendered for purchase on such date at par and the Remarketing Agent may sell 2012 Series B Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third-party buyers for all of the 2012 Series B Bonds at the remarketing price. In the event the Remarketing Agent owns any 2012 Series B Bonds for its own account, it may, in its sole discretion in a secondary market transaction outside the tender process, offer 2012 Series B Bonds on any date, including the Rate Determination Date, at a discount to par to some investors.

The Ability to Sell the 2012 Series B Bonds Other Than Through the Tender Process May Be Limited. The Remarketing Agent may buy and sell 2012 Series B Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require owners that wish to tender their 2012 Series B Bonds (or beneficial ownership interests therein) to do so through the Tender Agent with appropriate notice. Thus, investors who purchase the 2012 Series B Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their 2012 Series B Bonds other than by tendering the 2012 Series B Bonds (or beneficial ownership interests therein) in accordance with the tender process.

Under certain circumstances, pursuant to the Liquidity Facility the Bank is not obligated to purchase tendered 2012 Series B Bonds. In addition, the Bank may fail to purchase tendered 2012 Series B Bonds even when it is obligated to do so. In both cases, tendered 2012 Series B Bonds would be returned to the holders thereof and bear interest at an interest rate established by the Remarketing Agent that will not exceed the Maximum Rate (or, in the event that the Remarketing Agent fails to determine the interest rate, such 2012 Series B Bond will bear interest at a rate equal to 100% of the SIFMA Index (as defined in APPENDIX D hereto) most recently announced on or prior to each Rate Determination Date). It is not certain that following a failure to purchase 2012 Series B Bonds a secondary market for the 2012 Series B Bonds will develop.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the 2012 Series B Bonds, Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Twenty-Fifth Supplemental Resolution and the Remarketing Agreement. In the event that the Remarketing Agent is removed or resigns without a successor having been named or the Remarketing Agent ceases its remarketing efforts as aforesaid, the only source of funds for payment of the Purchase Price of 2012 Series B Bonds (or beneficial ownership interests therein) tendered or deemed tendered for purchase would be amounts drawn under the Liquidity Facility then in effect. See "Remarketing and Purchase Price" above. In addition, if for any reason the Remarketing Agent fails to determine the Market Rate for any 2012 Series B Bond (or beneficial ownership interest therein) on a Rate Determination Date, the interest rate to be borne by such 2012 Series B Bond (or beneficial ownership interest therein) shall be determined in the manner described in the second paragraph under "Interest Rates and Interest Modes; Determination of Interest Rates" above.

Following an Immediate Termination Event or suspension of the Citibank Liquidity Facility, the Remarketing Agent is no longer obligated to remarket the 2012 Series B Bonds, but is obligated to continue to establish the Market Rate on the 2012 Series B Bonds.

Redemption Provisions Optional Redemption

The 2012 Series B Bonds are subject to redemption prior to maturity at the election of the City as follows, in whole or in part, at a redemption price of 100% of the principal amount thereof together with accrued interest, if any, to the redemption date:

- (a) if the 2012 Series B Bonds are in a Weekly or Daily Mode, on any Business Day;
- (b) if the 2012 Series B Bonds are in a Flexible or Term Mode, on any Rate Adjustment Date for the 2012 Series B Bonds to be redeemed; and
- (c) if the 2012 Series B Bonds are in the Fixed Mode, on the first day of the Fixed Mode for the 2012 Series B Bonds to be redeemed.

In addition, if the 2012 Series B Bonds are in the Term Mode or the Fixed Mode, the 2012 Series B Bonds are subject to redemption at the election of the City on any date prior to their stated maturity, in whole or in part:

(a) unless clause (b) below applies, during any Interest Period therefor, on any day, but only after the fifth anniversary of the first day of such Interest Period, at a redemption price equal to 100% of the principal amount thereof; or

(b) during any Interest Period therefor, on any alternate dates and at any alternate prices stated in a certificate of an authorized officer of the City delivered to the Notice Parties prior to the Rate Determination Date for such Interest Period and accompanied by an opinion of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such substitution of such alternate dates and prices will not adversely affect the exclusion of interest on any 2012 Series B Bond from the gross income of the owner thereof for federal income tax purposes;

(c) together, in each case, with accrued interest, if any, to the redemption date.

The 2012 Series B Bonds are subject to redemption through mandatory sinking fund installments on October 1 in the years and in the amounts shown below, at a redemption price of 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2021	\$1,620,000	2033	\$5,015,000
2022	140,000	2034	5,235,000
2023	100,000	2035	5,560,000
2025	500,000	2036	5,740,000
2027	3,370,000	2037	5,930,000
2028	3,200,000	2038	6,125,000
2029	3,080,000	2039	6,325,000
2030	2,910,000	2040	6,430,000
2031	3,095,000	2041	16,185,000
2032	3,175,000	2042*	16,735,000

*Final maturity.

The particular 2012 Series B Bonds or portions thereof to be redeemed through mandatory sinking fund installments shall be selected by the Trustee in the manner described below under "Selection of 2012 Series B Bonds to be Redeemed." So long as a book-entry system is used for determining ownership of the 2012 Series B Bonds, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2012 Series B Bonds to be redeemed through mandatory sinking fund installments.

In determining the amount of 2012 Series B Bonds to be redeemed with any sinking fund installment, there will be deducted the principal amount of any 2012 Series B Bonds which have been purchased, to the extent permitted by the Resolution, with amounts in the Debt Service Account (exclusive of amounts deposited from proceeds of Bonds). In addition, if there is any redemption or purchase of any 2012 Series B Bonds with amounts other than moneys on deposit in the Debt Service Account, such 2012 Series B Bonds may be credited against any future sinking fund installment established for the 2012 Series B Bonds as specified by the City at any time, except as described in the penultimate paragraph under "2012 Series B Bank Bonds" above.

Selection of 2012 Series B Bonds to be Redeemed

Except as described in the following sentence, in the event that less than all of the 2012 Series B Bonds are to be redeemed, the 2012 Series B Bonds to be redeemed will be selected in such manner as the Trustee deems fair and appropriate and the portion of such 2012 Series B Bonds not so redeemed will be in an Authorized Denomination. Notwithstanding the foregoing, in the event of any redemption of less than all of the 2012 Series B Bonds, 2012 Series B Bank Bonds will be redeemed first, prior to the selection of any other 2012 Series B Bonds for redemption.

So long as a book-entry system is used for determining ownership of the 2012 Series B Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the 2012 Series B Bonds are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2012 Series B Bonds to be redeemed. Any failure of DTC or its successor or a Direct Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a 2012 Series B Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2012 Series B Bonds. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the 2012 Series B Bonds, or that they will do so on a timely basis.

Notice of Redemption

The Resolution requires the Trustee to give notice of any redemption of the 2012 Series B Bonds not less than fifteen days prior to the redemption date. Notice of redemption will be given by first-class mail to each holder of the 2012 Series B Bonds to be redeemed. The failure of the Trustee to give notice by mail, or any defect in such notice, to the holder of any 2012 Series B Bond will not affect the validity of the proceedings for the redemption of any other 2012 Series B Bond. Notice having been given in the manner provided in the Resolution, on the redemption date so designated, (a) unless such notice has been revoked or ceases to be in effect in accordance with the terms thereof and (b) if there shall be sufficient moneys available therefor, then the 2012 Series B Bonds or portions thereof so called for redemption will become due and payable on such redemption date at the redemption price, plus interest accrued and unpaid to the redemption date. So long as a book-entry system is used for determining ownership of the 2012 Series B Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the 2012 Series B Bonds are to be redeemed, DTC or its successor and Direct Participants and

Indirect Participants will determine the particular ownership interests of 2012 Series B Bonds to be redeemed. Any failure of DTC or its successor or a Direct Participant or Indirect Participant to do so, or to notify a Beneficial Owner of a 2012 Series B Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2012 Series B Bonds. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants or the Indirect Participants will distribute such redemption notices to the Beneficial Owners of the 2012 Series B Bonds, or that they will do so on a timely basis.

Substitution of Liquidity Facility

At any time prior to the giving by the Tender Agent of notice of the mandatory tender of the 2012 Series B Bonds as a result of the expiration of the Liquidity Facility then in effect (see "Mandatory Tender for Purchase — *Expiration of Liquidity Facility*" above), the City may deliver to the Tender Agent a Substitute Liquidity Facility in substitution for the Liquidity Facility then in effect. In the event of any such substitution, 2012 Series B Bonds in the Weekly Mode or the Daily Mode will be subject to mandatory tender for purchase on the Substitution Date unless the City shall have delivered to the Notice Parties, by not later than the Business Day prior to the date on which the Tender Agent is required to give notice of such mandatory tender pursuant to the Twenty-Fifth Supplemental Resolution, written evidence from each Rating Agency then rating the 2012 Series B Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect will not result in a withdrawal, suspension or reduction in such Rating Agency's ratings on the 2012 Series B Bonds. See "Mandatory Tender for Purchase — *Substitution of Liquidity Facility*" above.

A Substitute Liquidity Facility supporting the 2012 Series B Bonds shall be in an amount at least equal to the Liquidity Facility Requirement for the 2012 Series B Bonds. Any Substitute Liquidity Facility shall become effective with respect to the 2012 Series B Bonds on the Substitution Date therefor established pursuant to the Twenty-Fifth Supplemental Resolution (see the definition of "Substitution Date" in APPENDIX D hereto); *provided, however*, that the City furnishes to the Tender Agent (i) an opinion of counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect is authorized or permitted by the Resolution and will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes; (ii) either (A) written evidence from each Rating Agency then rating the 2012 Series B Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and stating the ratings of the 2012 Series B Bonds after substitution of such Substitute Liquidity Facility or (B) a statement of an authorized officer of the City that no ratings have been obtained; (iii) if such Substitute Liquidity Facility is other than a letter of credit issued by a domestic commercial bank, an opinion of counsel to the effect that no registration of the 2012 Series B Bonds or such Substitute Liquidity Facility is required under the Securities Act of 1933, as amended; (iv) an opinion of counsel satisfactory to an authorized officer of the City to the effect that such Substitute Liquidity Facility is a valid and enforceable obligation of the issuer or provider thereof; and (v) all information required to give the notice of mandatory tender for purchase of the 2012 Series B Bonds, if required by the Twenty-Fifth Supplemental Resolution.

In the event that the 2012 Series B Bonds are in the Weekly Mode or the Daily Mode, if, in connection with the substitution of a Substitute Liquidity Facility for the Liquidity Facility then in effect, the 2012 Series B Bonds are not subject to mandatory tender for purchase on a Substitution Date (see "Mandatory Tender for Purchase — *Substitution of Liquidity Facility*" above), the Tender Agent will give notice as hereinafter described to the Holders of such 2012 Series B Bonds by mail, first-class postage

prepaid, not less than fifteen and not more than 60 days preceding such Substitution Date. Such notice will (a) state the Substitution Date on which such substitution is expected to become effective; (b) contain a description of such Substitute Liquidity Facility and the bank that is the issuer or provider thereof; and (c) state that if any Holder of a 2012 Series B Bond (or, if the 2012 Series B Bonds are subject to the book-entry only system of registration and transfer described in "Book-Entry Only System" herein, any Beneficial Owner thereof) does not desire to continue to hold such 2012 Series B Bond (or beneficial ownership interest therein) following such substitution, such Holder (or Beneficial Owner) must give notice of the tender of such 2012 Series B Bond (or beneficial ownership interest therein) by the time and in the manner described under the caption "Optional Tender for Purchase" above.

Registration and Transfer; Payment

The 2012 Series B Bonds may be transferred only on the books of the City held at the principal corporate trust office of the Trustee, as Bond Registrar. Neither the City nor the Bond Registrar will be required to transfer or exchange 2012 Series B Bonds (a) for a period beginning with the applicable Record Date and ending with the next succeeding Interest Payment Date, or (b) for a period beginning with a date selected by the Trustee not more than fifteen nor less than ten days prior to a date fixed for the payment of any interest which, at the time, is payable, but has not been punctually paid or duly provided for, and ending with the date fixed for such payment. Interest on any 2012 Series B Bonds will be paid to the person in whose name such 2012 Series B Bond is registered on the applicable Record Date. At such time, if any, as the 2012 Series B Bonds no longer shall be subject to the book-entry only system of registration and transfer described in "INTRODUCTORY STATEMENT - Book-Entry Only System " herein, interest on the 2012 Series B Bonds will be payable by check or draft of the Trustee, as Paying Agent, mailed to the registered owners by first-class mail (or, to the extent permitted by the Resolution, by wire transfer (see "General" above)). At such time, if any, as the 2012 Series B Bonds no longer shall be subject to such book-entry only system of registration and transfer, the principal of all 2012 Series B Bonds will be payable on the date of maturity or redemption or acceleration thereof upon presentation and surrender at the principal corporate trust office of the Paying Agent.

For so long as a book-entry system is used for determining beneficial ownership of the 2012 Series B Bonds, such principal and interest shall be payable to DTC or its nominee. Disbursement of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners of the 2012 Series B Bonds is the responsibility of the Direct Participants or the Indirect Participants. See "Book-Entry Only System" herein.

CITIBANK LIQUIDITY FACILITY

General

As described above, from June 30, 2017, liquidity support for the 2012 Series B Bonds will be provided by the Bank pursuant to the Citibank Liquidity Facility.

The following description is a summary of certain provisions of the Citibank Liquidity Facility. Such summary does not purport to be a complete description or restatement of the material provisions of the Citibank Liquidity Facility. Investors should obtain and review a copy of the Citibank Liquidity Facility in order to understand all of the terms of that document. Copies of the Citibank Liquidity Facility may be obtained from the City, the Tender Agent or the Remarketing Agent upon request. Capitalized words or terms used in the following summary that are not defined shall have the meanings ascribed to them elsewhere in this Reoffering Memorandum, the Resolution, the Twenty-Fifth Supplemental Resolution or

the Citibank Liquidity Facility or in "Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" in APPENDIX D hereto.

The Citibank Liquidity Facility provides that the Bank shall purchase the 2012 Series B Bonds tendered or deemed tendered from time to time pursuant to certain optional tenders or mandatory tenders by owners thereof in accordance with the terms of the Twenty-Fifth Supplemental Resolution to the extent the Remarketing Agent is unable to remarket such 2012 Series B Bonds. The Citibank Liquidity Facility will terminate on June 29, 2020, unless extended or earlier terminated pursuant to its terms.

Under certain circumstances described below, the obligation of the Bank to purchase the 2012 Series B Bonds tendered or deemed tendered by the owners thereof pursuant to certain optional or mandatory tenders for purchase may be suspended or terminated without notice. In such event, sufficient funds may not be available to purchase the 2012 Series B Bonds tendered or deemed tendered by the owners thereof pursuant to an optional or mandatory tender for purchase.

Purchase of Eligible Bonds by the Bank

The Bank agrees, on the terms and subject to the conditions contained in the Citibank Liquidity Facility, to purchase, on each Purchase Date (as defined in the Twenty-Fifth Supplemental Resolution) during the Purchase Period (as defined in the Citibank Liquidity Facility), at the Purchase Price (as defined in the Citibank Liquidity Facility), all Eligible Bonds (as defined in the Citibank Liquidity Facility).

The aggregate amount of the Purchase Price comprising interest on Eligible Bonds purchased on any Purchase Date (the "Interest Component") shall not exceed the lesser of (i) the Available Interest Commitment (as defined in the Citibank Liquidity Facility) on such date and (ii) if the Purchase Date is not an Interest Payment Date, the aggregate amount of interest accrued on such 2012 Series B Bonds from and including the next preceding Interest Payment Date to but excluding such Purchase Date and, if the Purchase Date is an Interest Payment Date, zero. The aggregate principal amount (or portion thereof) of any Eligible Bond purchased on any Purchase Date shall be in an Authorized Denomination and, in any case, the Bank shall not be obligated to purchase on any Purchase Date to the extent the aggregate Purchase Price of the Eligible Bonds exceeds the Available Commitment (as defined in the Citibank Liquidity Facility) as of 10 A.M. (New York City time) on such Purchase Date.

Liquidity Events of Default; Remedies

Except as otherwise specified below, the occurrence of any of the following events set forth in paragraphs numbered 1, 2 and 3 below shall constitute an event of default under the Citibank Liquidity Facility (each, a "Liquidity Event of Default"):

1. Liquidity Events of Default Not Permitting Immediate Termination or Suspension.

(a) Notice Termination Events. Each of the following Liquidity Events of Default shall constitute a "Notice Termination Event":

(i) Payments. The City shall not pay when due any amount owed to the Bank pursuant to the Fee Letter (as defined in the Citibank Liquidity Facility) or Sections 2.7, 2.8 or 8.3 of the Citibank Liquidity Facility; or

(ii) Other Payments. The City shall fail to pay within ten (10) days after the same shall become due any fee or other amount payable by it under the Citibank Liquidity Facility or the Fee Letter (not otherwise referred to in this paragraph 1(a)); or

(iii) Representations. Any representation, warranty, certification or statement made by the City (or incorporated by reference) in the Citibank Liquidity Facility, the Fee Letter or any Financing Document (as defined in the Citibank Liquidity Facility) or in any certificate, financial statement or other document delivered pursuant to the Citibank Liquidity Facility or any Financing Document shall prove to have been incorrect in any material respect when made (or deemed made); or

(iv) Certain Covenants. The City shall default in the due performance or observance of Sections 5.5, 5.6, 5.7, 5.11, 5.13, 5.14 or 5.15 of the Citibank Liquidity Facility and such default shall remain unremedied for a period of ten (10) days after the Bank shall have given written notice thereof to the City; or

(v) Other Covenants. The City shall default in the due performance or observance of any other term, covenant or agreement contained or incorporated by reference in the Citibank Liquidity Facility (other than those referred to in paragraphs 1(a)(i) through 1(a)(iv) above) and such default shall remain unremedied for a period of 45 days after the Bank shall have given written notice thereof to the City; or

(vi) Long-Term Credit Rating. The long-term credit rating assigned by a Rating Agency (as defined in the Citibank Liquidity Facility) to the 2012 Series B Bonds, Bank Bonds (as defined in the Citibank Liquidity Facility) or any Parity Debt (as defined in the Citibank Liquidity Facility) (without taking into account third party credit enhancement) is withdrawn or suspended, in either case, for credit related reasons by any one of the Rating Agencies or reduced below "A2" (or its equivalent) by Moody's, below "A" (or its equivalent) by S&P or below "A" (or its equivalent) by Fitch; or

(vii) Other Obligations. (A) An "event of default" as defined in Section 801 of the Resolution shall occur and is not cured within the applicable grace period, (B) any "event of default" on the part of the City under any of the Financing Documents (excluding the Resolution and the Twenty-Fifth Supplemental Resolution) shall occur and is not cured within any applicable cure period, (C) the City shall fail to pay any Indebtedness (as defined in the Citibank Liquidity Facility) of the City for borrowed money related to the System, or any interest or premium thereon, when due (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), of at least \$20,000,000 in principal amount then outstanding and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness, or (D) the City shall fail to perform or observe any term, covenant or condition on its part to be performed or observed under any Contractual Obligation (as defined in the Citibank Liquidity Facility) related to the System when required to be performed or observed, and such failure shall not be waived and shall continue after the applicable grace period, if any, specified in such Contractual Obligation, if the effect of such failure to perform or observe is to accelerate, or permit the acceleration of, with the giving of notice if required, the maturity of the related Indebtedness; or any such Indebtedness shall be declared to be due and payable or be required to be prepaid (other than by a regularly scheduled required prepayment), prior to the stated maturity thereof.

(b) Remedies. Upon the occurrence of any Liquidity Event of Default, including an Immediate Termination Event or Suspension Event (each as defined below), the Bank shall have all other remedies provided at law or in equity including, without limitation, specific performance; and, in addition, the Bank, in its sole discretion, may do one or more of the following: (i) by notice to the City, tender any or all Bank Bonds for payment to the City and the City shall thereupon be obligated to pay immediately the outstanding principal amount of each Bank Bond (together with accrued interest thereon) so tendered, without presentment, demand, protest or other notice of any kind, all of which are expressly waived by the City in the Citibank Liquidity Facility; provided, however, that in the case of any of the Liquidity Events of Default specified in Section 801(v) or (vi) of the Resolution or in paragraph 2(a)(iii) or 3(a)(i) below, without any notice to the City or any other act by the Bank, all Bank Bonds shall immediately be deemed to be tendered for payment to the City and the City shall be obligated to pay immediately the outstanding principal amount of such Bank Bonds (together with accrued interest thereon) without presentment, demand, protest or notice of any kind, all of which are expressly waived by the City in the Citibank Liquidity Facility; (ii) deliver to the City, the Tender Agent and the Remarketing Agent written notice substantially in the form of Exhibit B to the Citibank Liquidity Facility (a "Notice of Termination") that a Liquidity Event of Default has been declared under the Citibank Liquidity Facility and is continuing that entitles the Bank to terminate the Available Commitment thereunder following the honoring by the Bank, on or prior to the date of such termination, of a final drawing under the Citibank Liquidity Facility to purchase all of the 2012 Series B Bonds upon the resultant mandatory tender for purchase thereof, whereupon (A) the 2012 Series B Bonds shall be called for mandatory tender for purchase pursuant to Section 3.06(c)(vii) of the Twenty-Fifth Supplemental Resolution on the fifteenth day (or, if such day is not a Business Day, on the next preceding Business Day) following the date such Notice of Termination is received by the Tender Agent and (B) at the close of business on the sixteenth (16th) day (or, if such day is not a Business Day, on the next succeeding Business Day) following the date such Notice of Termination is received by the Tender Agent, the Available Commitment shall be reduced to zero and the obligations of the Bank under the Citibank Liquidity Facility shall terminate; provided, however, that prior to such termination, the Bank shall remain obligated to purchase Eligible Bonds in accordance with the terms of the Citibank Liquidity Facility so long as no Immediate Termination Event or Suspension Event has occurred; (iii) exercise any right or remedy available to it under any other provision of the Citibank Liquidity Facility or the Fee Letter; and (iv) exercise any other rights or remedies available under any Financing Document; provided, however, that the Bank shall not have the right to terminate or suspend its obligation to purchase 2012 Series B Bonds except as described in paragraph 2 or paragraph 3 below. Notwithstanding any other provision of this paragraph 1, all obligations under the Citibank Liquidity Facility and under the Fee Letter shall bear interest at the Default Rate (as defined in the Citibank Liquidity Facility) upon the occurrence and during the continuation of any Liquidity Event of Default.

2. Liquidity Events of Default Permitting Immediate Termination.

(a) Immediate Termination Events. Each of the following Liquidity Events of Default shall also constitute an "Immediate Termination Event":

(i) Payment Default. The City shall have failed to pay when due any principal or interest, or both, payable under, or in respect of the 2012 Series B Bonds (including any Bank Bonds) (other than a failure to pay any amounts described in this clause (a)(i) as a result of the tender or deemed tender for payment of Bank Bonds pursuant to paragraph 1(b)(i) above); or

(ii) Judgments. A final, unappealable judgment or judgments against the City for the payment of money in excess of \$20,000,000 in the aggregate shall be payable from the funds and other property comprising the Trust Estate securing the 2012 Series B Bonds (including any Bank

Bonds) and not be covered by insurance, the operation or result of which judgment or judgments shall remain unpaid, unstayed, undischarged, unbonded or undismissed for a period of sixty (60) days (an obligation shall be considered "covered by insurance" to the extent the City has self-insured against such obligation or risk and has maintained adequate reserves therefor under appropriate insurance industry standards); or

(iii) Insolvency. (A) The City shall (1) commence any case, proceeding or other action (x) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition, declaration of a payment moratorium or other relief with respect to it or its debts or (y) seeking the appointment of a receiver, trustee, custodian or similar official for it or for all or any substantial part of its assets, or (2) make a general assignment for the benefit of its creditors; (B) there shall be commenced against the City any case, proceeding or other action of a nature referred to in clause (A) above which (x) results in an order for such relief or in the appointment of a receiver or similar official or (y) remains undismissed, undischarged or unbonded for a period of sixty (60) days; (C) there shall be commenced against the City any case, proceeding or other action seeking the issuance of a warrant of attachment, execution, restraint or similar process against all or any substantial part of the assets of the System or the Net Revenues of the System, which results in the entry of a final and non-appealable order or ruling for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within sixty (60) days from the entry thereof; (D) the City shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (A), (B) or (C) of this paragraph 2(a)(iii); or (E) the City shall (1) admit in writing its inability to pay its debts as such debts become due or (2) become insolvent within the meaning of the United States Bankruptcy Code; or

(iv) Validity. Any provision of the Act (as defined in the Citibank Liquidity Facility), the Citibank Liquidity Facility, the Resolution, the Twenty-Fifth Supplemental Resolution or the 2012 Series B Bonds relating to (A) the ability or the obligation of the City to pay, when due, the principal of or interest on the 2012 Series B Bonds (including any Bank Bonds) or any Parity Debt or (B) the Trust Estate securing the 2012 Series B Bonds (including any Bank Bonds) and Parity Debt shall at any time be declared to be null and void, invalid or unenforceable as the result of a final nonappealable judgment by any federal or state court or as a result of any legislative or administrative action by any Governmental Authority (as defined in the Citibank Liquidity Facility) having jurisdiction over the City; or

(v) Ratings. (A) Each Rating Agency then rating the 2012 Series B Bonds shall have (1) withdrawn or suspended its Rating (as defined in the Citibank Liquidity Facility) assigned to the 2012 Series B Bonds, in either case, for credit related reasons or (2) reduced its Rating assigned to the 2012 Series B Bonds below Investment Grade (as defined in the Citibank Liquidity Facility) or (B) each Rating Agency then rating Parity Debt shall have (1) withdrawn or suspended its Rating assigned to any Parity Debt, in either case, for credit related reasons or (2) reduced its Rating assigned to any Parity Debt below Investment Grade; or

(vi) Parity Debt Payment Default. The City shall fail to make any payment in respect of principal or interest on any Parity Debt when due (i.e., whether upon said Parity Debt's scheduled maturity, required prepayment, upon demand or otherwise) and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating

to such Parity Debt, or pursuant to the provisions of any resolution, indenture or instrument pursuant to which Parity Debt has been issued, the maturity of such Parity Debt shall as a result of the occurrence of a default in payment under such resolution, indenture or instrument, be accelerated or required to be prepaid prior to the stated maturity thereof; or

(vii) Debt Moratorium or Restructuring. (A) The City shall impose a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on the 2012 Series B Bonds, the Bank Bonds or any Parity Debt or (B) any Governmental Authority having appropriate jurisdiction over the City shall enact or adopt legislation which results in a debt moratorium, debt restructuring, debt adjustment or comparable extraordinary restriction on the repayment when due and payable of the principal of or interest on the 2012 Series B Bonds, the Bank Bonds or any Parity Debt.

(b) Remedies. In addition to the remedies set forth in paragraph 1(b) above, upon the occurrence of an Immediate Termination Event, the Available Commitment shall immediately be reduced to zero, in which case, the obligations of the Bank under Article II of the Citibank Liquidity Facility shall immediately terminate and expire without requirement of notice by the Bank; provided, that (i) the Liquidity Event of Default described in paragraph 2(a)(i) above will not qualify as an "Immediate Termination Event" under the Citibank Liquidity Facility if the failure to pay the principal of, or interest on, a Bank Bond is due solely to a tender or deemed tender for payment of all of the Bank Bonds by the Bank for any reason other than nonpayment as described in paragraph 2(a)(i) above, (ii) as and to the extent that the provider of a liquidity or credit facility in support of Parity Debt owns all or a portion of such Parity Debt pursuant to the provisions of such facility ("Bank-Owned Parity Debt"), the Liquidity Event of Default described in paragraph 2(a)(vi) above will not qualify as an "Immediate Termination Event" if the failure to pay the principal of, or interest on, said Bank-Owned Parity Debt described in paragraph 2(a)(vi) is due solely to a tender or deemed tender for payment of said Bank-Owned Parity Debt for any reason other than nonpayment as described in paragraph 2(a)(vi) above and (iii) the Suspension Events described in paragraph 3(a) below will not qualify as "Immediate Termination Events" unless and until the applicable conditions described in paragraph 3(b) below for such qualification have been satisfied. After such termination or expiration, the Bank shall deliver promptly to the City, the Tender Agent and the Remarketing Agent written notice of such termination or expiration; provided, however, that failure to provide such written notice shall have no effect on the validity or enforceability of such termination or expiration.

3. Liquidity Events of Default Permitting Immediate Suspension.

(a) Suspension Events. Each of the following Defaults (as defined in the Citibank Liquidity Facility) and Liquidity Events of Default shall also constitute a "Suspension Event":

(i) Involuntary Bankruptcy. The occurrence of a Default under paragraph 2(a)(iii)(B) or paragraph 2(a)(iii)(C) above; or

(ii) Invalidity. (A) Any Governmental Authority with jurisdiction to rule on the validity or enforceability of the Citibank Liquidity Facility, the 2012 Series B Bonds, the Act, the Resolution or the Twenty-Fifth Supplemental Resolution shall find or rule, in a judicial or administrative proceeding, that any provision of the Citibank Liquidity Facility, the 2012 Series B Bonds, the Act, the Resolution, the Twenty-Fifth Supplemental Resolution or any Parity Debt, as the case may be, relating to (1) the ability or the obligation of the City to pay, when due, the principal of or interest on the 2012 Series B Bonds (including any Bank Bonds) or any Parity Debt

or (2) the Trust Estate securing the 2012 Series B Bonds (including any Bank Bonds) and Parity Debt is not valid or not binding on, or enforceable against, the City; or (B) an authorized representative of the City (1) makes a claim in a judicial or administrative proceeding that the City has no further liability or obligation under the Citibank Liquidity Facility, the 2012 Series B Bonds, the Act, the Resolution, the Twenty-Fifth Supplemental Resolution or any Parity Debt to pay, when due, the principal of or interest on the 2012 Series B Bonds (including any Bank Bonds) or any Parity Debt or (2) contests in a judicial or administrative proceeding the validity or enforceability of any provision of the Citibank Liquidity Facility, the 2012 Series B Bonds, the Act, the Resolution, the Twenty-Fifth Supplemental Resolution or any Parity Debt relating to or otherwise affecting (y) the City's ability or obligation to pay, when due, the principal of or interest on the 2012 Series B Bonds (including any Bank Bonds) or any Parity Debt or (z) the Trust Estate securing the 2012 Series B Bonds (including any Bank Bonds) and Parity Debt.

(b) Remedies; Restoration of Rights.

(i) In addition to the remedies set forth in paragraph 1(b) above, but subject to paragraphs 3(b)(ii) and 3(b)(iii) below (as applicable), in the case of a Liquidity Event of Default described in paragraph 3(a)(i), paragraph 3(a)(ii)(A) or paragraph 3(a)(ii)(B) above, the obligation of the Bank to purchase Eligible Bonds under the Citibank Liquidity Facility shall be immediately suspended without notice or demand and, thereafter, the Bank shall be under no obligation to purchase Eligible Bonds until the Available Commitment is reinstated as described below. Promptly upon the occurrence of any such Suspension Event, the Bank shall notify the City, the Tender Agent and the Remarketing Agent of such suspension and the effective date of such suspension in writing by facsimile, promptly confirmed by regular mail; provided, that the Bank shall incur no liability of any kind by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Available Commitment or its obligation to purchase Eligible Bonds pursuant to the Citibank Liquidity Facility.

(ii) Upon the occurrence of a Default described in paragraph 3(a)(i) above, the Bank's obligations to purchase Eligible Bonds shall be suspended immediately and automatically and remain suspended until said case, proceeding or other action referred to therein is terminated prior to the court entering an order granting the relief sought in such case, proceeding or other action. In the event such case, proceeding or other action is terminated prior to the Bank's obligations under the Citibank Liquidity Facility having expired or been terminated in accordance with its terms, then the Available Commitment and the obligation of the Bank to purchase Eligible Bonds shall be reinstated and the terms of the Citibank Liquidity Facility shall continue in full force and effect as if there had been no such suspension. In the event that such case, proceeding or other action shall not have been terminated prior to the Bank's obligations under the Citibank Liquidity Facility having expired or been terminated in accordance with its terms, then the Available Commitment and the obligation of the Bank to purchase Eligible Bonds shall terminate without notice or demand and, thereafter, the Bank shall be under no obligation to purchase Eligible Bonds.

(iii) Upon the occurrence of a Liquidity Event of Default described in paragraph 3(a)(ii)(A) or paragraph 3(a)(ii)(B) above, the Bank's obligations to purchase Eligible Bonds shall be immediately and automatically suspended and remain suspended unless and until a court with jurisdiction to rule on such a Liquidity Event of Default shall enter a final and nonappealable judgment that any of the material provisions of the Act or any other document described in paragraph 3(a)(ii)(A) above are not valid or not binding on, or enforceable against, the City or that a claim or contest described in paragraph 3(a)(ii)(B) above shall have been upheld in favor of the

City in accordance with a final and nonappealable judgment, then, in each such case, the Available Commitment and the obligation of the Bank to purchase Eligible Bonds shall immediately terminate without notice or demand and, thereafter, the Bank shall be under no obligation to purchase Eligible Bonds. If a court with jurisdiction to rule on such a Liquidity Event of Default shall find or rule by entry of a final and nonappealable judgment that the material provision of the Act or any other document described in paragraph 3(a)(ii)(A) above is valid and binding on, or enforceable against, the City or the claim or contest described in paragraph 3(a)(ii)(B) above shall have been dismissed pursuant to a final and nonappealable judgment, then the Available Commitment and the obligations of the Bank under the Citibank Liquidity Facility shall, in each such case, thereupon be reinstated (unless the Bank's obligations under the Citibank Liquidity Facility shall have previously expired or been terminated in accordance with its terms). Notwithstanding the foregoing, if the suspension of the obligations of the Bank pursuant to any Liquidity Event of Default described in paragraph 3(a)(ii)(A) or paragraph 3(a)(ii)(B) above remains in effect and litigation is still pending and a determination regarding the same shall not have been dismissed or otherwise made pursuant to a final and non-appealable judgment, as the case may be, on or prior to the first anniversary of the occurrence of such Liquidity Event of Default, then the Available Commitment and the obligation of the Bank to purchase Eligible Bonds shall at such time terminate without notice or demand and, thereafter, the Bank shall be under no obligation to purchase Eligible Bonds.

In the case of the occurrence of any Suspension Event described in this paragraph 3, the Tender Agent shall immediately notify all Bondholders (as defined in the Citibank Liquidity Facility) of the suspension and/or termination of both the Available Commitment and the obligation of the Bank to purchase Eligible Bonds.

THE BANK

The information under this caption relates to and has been provided by the Bank for inclusion in this Reoffering Memorandum. The information concerning the Bank contained herein is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced below. No representation is made by the City as to the accuracy, completeness or adequacy of such information. The delivery of this Reoffering Memorandum shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to under this caption is correct as of any time subsequent to its date.

The Bank was originally organized on June 16, 1812, and now is a national banking association organized under the National Bank Act of 1864. The Bank is an indirect wholly owned subsidiary of Citigroup Inc. ("Citigroup"), a Delaware holding company.

The long-term ratings of the Bank and its consolidated subsidiaries are as follows:

Rating Agency	Long Term	Short Term	Outlook
Moody's	A1	P-1	Stable
S&P	A+	A-1	Stable
Fitch	A+	F1	Stable

The Bank is a commercial bank that, along with its subsidiaries and affiliates, offers a wide range of banking and trust services to its customers throughout the United States and the world. As a national bank, the Bank is a regulated entity permitted to engage only in banking and activities incidental to banking. The Bank is primarily regulated by the Office of the Comptroller of the Currency (the "Comptroller"), which also examines its loan portfolios and reviews the sufficiency of its allowance for credit losses.

The Bank's deposits at its U.S. branches are insured by the Federal Deposit Insurance Corporation (the "FDIC") and are subject to FDIC insurance assessments. The Citibank Liquidity Facility is not insured by the FDIC or any other regulatory agency of the United States or any other jurisdiction. The Bank may, under certain circumstances, be obligated for the liabilities of its affiliates that are FDIC-insured depository institutions.

Under U.S. law, deposits in U.S. offices and certain claims for administrative expenses and employee compensation against a U.S. insured depository institution which has failed will be afforded a priority over other general unsecured claims, including deposits in non-U.S. offices and claims under non-depository contracts in all offices, against such an institution in the "liquidation or other resolution" of such an institution by any receiver. Such priority creditors (including the FDIC, as the subrogee of insured depositors) of such FDIC-insured depository institution will be entitled to priority over unsecured creditors in the event of a "liquidation or other resolution" of such institution.

For further information regarding the Bank, reference is made to the Annual Report on Form 10-K of Citigroup and its subsidiaries for the year ended December 31, 2016, filed by Citigroup with the Securities and Exchange Commission (the "SEC"). Copies of Citigroup's 10-K may be obtained, upon payment of a duplicating fee, by writing to the SEC at 100 F Street, N.E., Washington, D.C. 20549. In addition, Citigroup's 10-K is available at the SEC's website (<http://www.sec.gov>).

In addition, the Bank submits quarterly to the Comptroller certain reports called "Consolidated Reports of Condition and Income for a Bank With Domestic and Foreign Offices" ("Call Reports"). The Call Reports are on file with, and publicly available at, the Comptroller's offices at 250 E Street, SW, Washington, D.C. 20219 and are also available on the web site of the FDIC (<http://www.fdic.gov>). Each Call Report consists of a Balance Sheet, Income Statement, Changes in Equity Capital and other supporting schedules at the end of and for the period to which the report relates.

Any of the reports referenced above are available upon request without charge from Citi Document Services by calling toll-free at (877) 936-2737 (outside the United States at (716) 730-8055), by e-mailing a request to docservice@citi.com or by writing to: Citi Document Services, 540 Crosspoint Parkway, Getzville, New York 14068.

The information contained under "THE BANK" in this Reoffering Memorandum relates to and has been obtained from the Bank. The information concerning the Bank contained herein is furnished solely to provide limited introductory information regarding the Bank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

THE CITY

General

The City, home of the University of Florida, is located in North Central Florida midway between Florida's Gulf and the Atlantic coast. The City is approximately 125 miles north of Tampa, approximately 110 miles northwest of Orlando and approximately 75 miles southwest of Jacksonville. The Bureau of

Economic and Business Research at the University of Florida estimated a 2016 population of 257,062 in the Alachua County (the "County") with an estimated 128,612 persons resided within the City limits as of April 2016. The economic base of Gainesville consists primarily of light industrial, commercial, health care and educational activities. The University of Florida is the State's oldest university and, with approximately 50,000 students, is one of the largest universities in the nation.

For additional information with respect to the City and the County, see APPENDIX A attached hereto.

Government

The City is governed by the City Commission, which currently consists of seven members. Four are elected from single member districts and three are elected Citywide. The Mayor is elected by the residents of the City.

The following are the current members of the City Commission:

	<u>Term Expires</u>
Mayor Lauren Poe	May 2019
Commissioner David Arreola, District 3.....	May 2020
Commissioner Harvey M. Budd, At-Large	May 2018
Commissioner Charles E. Goston, District 1.....	May 2018
Commissioner Adrian Hayes-Santos, District 4.....	May 2019
Commissioner Harvey Ward, District 2.....	May 2020
Commissioner Helen K. Warren, At-Large	May 2020

TAX MATTERS

On August 2, 2012, Orrick, Herrington & Sutcliffe LLP, New York, New York as Bond Counsel to the City (the "Initial Bond Counsel"), rendered an opinion (the "Approving Opinion") to the effect that, based upon an analysis of then existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2012 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). The Initial Bond Counsel was of the further opinion that interest on the 2012 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although the Initial Bond Counsel observed that such interest is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. The Initial Bond Counsel also was of the opinion that the 2012 Series B Bonds and the interest thereon are exempt from taxation under then existing laws of the State of Florida, except as to estate taxes and taxes imposed by Chapter 220, Florida Statutes, on interest, income or profits on debt obligations owned by corporations, banks and savings associations. A complete copy of the Approving Opinion is set forth in APPENDIX F-1 hereto.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2012 Series B Bonds. The City has made certain representations and has covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2012 Series B Bonds will not be included in federal gross income. (See "APPENDIX D - Copies of the Resolution and the Twenty-Fifth Supplemental Bond Resolution" attached hereto.) Inaccuracy of these representations or failure to comply

with these covenants may result in interest on the 2012 Series B Bonds being included in gross income for federal income tax purposes, possibly from the dates of original issuance of the 2012 Series B Bonds. The Approving Opinion assumed the accuracy of these representations and compliance with these covenants. The Initial Bond Counsel did not undertake to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to the Initial Bond Counsel's attention after the dates of issuance of the 2012 Series B Bonds may adversely affect the value of, or the tax status of interest on, the 2012 Series B Bonds. Accordingly, the Approving Opinion was not intended to, and may not, be relied upon in connection with any such actions, events or matters. The Approving Opinion delivered in connection with the original issuance of the 2012 Series B Bonds has not been updated subsequent to the date of original issuance of the 2012 Series B Bonds, and Bond Counsel (as defined below) is not rendering any opinion on the original or current tax status of the 2012 Series B Bonds. Orrick, Herrington & Sutcliffe LLP has not been engaged to and has not provided any services in connection with the substitution of the Citibank Liquidity Facility. Orrick, Herrington & Sutcliffe LLP has not updated the Approving Opinion or expressed any opinion with respect to the current or continuing exclusion of interest on the 2012 Series B Bonds from gross income for federal income tax purposes or with respect to the substitution of the Citibank Liquidity Facility.

Although, as addressed in the Approving Opinion, the Initial Bond Counsel was of the opinion that interest on the 2012 Series B Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of interest on, the 2012 Series B Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. In its Approving Opinion, the Initial Bond Counsel expressed no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2012 Series B Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2012 Series B Bonds. Prospective purchasers of the 2012 B Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which neither the Initial Bond Counsel, nor Bond Counsel is expected to express no opinion.

The Approving Opinion was based on then current legal authority, covered certain matters not directly addressed by such authorities, and represented the Initial Bond Counsel's judgment as to the proper treatment of the 2012 Series B Bonds for federal income tax purposes. They are not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and the Initial Bond Counsel has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Unless separately engaged, neither the Initial Bond Counsel, nor Bond Counsel is obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the 2012 Series B Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which

the City legitimately disagrees may not be practicable. Any action of the IRS, including but not limited to selection of the 2012 B Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2012 B Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

Holland & Knight LLP, Bond Counsel to the City ("Bond Counsel") will deliver on June 29, 2017 an opinion to the effect that the replacement of the existing liquidity facility with the Citibank Liquidity Facility will not, in and of itself, adversely affect the exclusion of interest on the 2012 Series B Bonds from gross income for purposes of federal income taxation (the "2017 No Adverse Effect Opinion"). Reference is made to the form of 2017 No Adverse Effect Opinion attached hereto as APPENDIX F-2 for the complete text thereof. Except to the limited extent expressly stated in the 2017 No Adverse Effect Opinion, subsequent to the original issuance of the 2012 Series B Bonds neither the Initial Bond Counsel, nor Bond Counsel has made any investigation or review with respect to and expresses no opinion as to the current or continuing exclusion from gross income for federal income tax purposes of interest on the 2012 Series B Bonds. In rendering said 2017 No Adverse Effect Opinion, Bond Counsel has not been requested, nor has it undertaken, to make an independent investigation regarding the Approving Opinion or the facts or laws related to such opinion, the expenditure of 2012 Series B Bonds proceeds, to confirm that the City has complied with the certifications and representations in the various certificates or documents to which it was a party, or to review any other events which may have occurred since the 2012 Series B Bonds were issued which might affect the tax status of interest on the 2012 Series B Bonds or which might change the opinions expressed at the time the 2012 Series B Bonds were issued. The opinions of the Initial Bond Counsel and Bond Counsel represent their legal judgment based upon their review of the law and the facts that they deems relevant to render such opinions and is not a guarantee of a result. No opinion has been expressed by the Initial Bond Counsel or Bond Counsel as to whether a subsequent change in the Mode will adversely affect the exclusion from gross income for federal income tax purposes of interest on the 2012 Series B Bonds.

CONTINUING DISCLOSURE

Pursuant to a Continuing Disclosure Certificate entered into by the City simultaneously with the original delivery of the 2012 Series B Bonds (the "Continuing Disclosure Certificate"), the City has covenanted for the benefit of the Holders and the "Beneficial Owners" (as defined in the Continuing Disclosure Certificate) of the 2012 Series B Bonds to provide certain financial information and operating data relating to the System by not later than six months after the end of each of the City's fiscal years (presently, by each March 30) (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events with respect to the 2012 Series B Bonds (each, an "Event Notice"). The Annual Report and each Event Notice will be filed by or on behalf of the City with the Municipal Securities Rulemaking Board (the "MSRB"). Until otherwise designated by the MSRB or the United States Securities and Exchange Commission (the "SEC"), filings with the MSRB are to be made through the MSRB's Electronic Municipal Market Access ("EMMA") website, currently located at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report and the Event Notices is set forth in the copy of the Continuing Disclosure Certificate attached hereto as APPENDIX G. These covenants were made in order to assist the underwriter upon the original issuance of the 2012 Series B Bonds in complying with SEC Rule 15c2-12(b)(5) (the "Rule").

In accordance with the Continuing Disclosure Certificate, if the City fails to comply with any provision of the Continuing Disclosure Certificate, the remedies of any holder or "Beneficial Owner" of the 2012 Series B Bonds are limited to taking such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations

under the Continuing Disclosure Certificate. "Beneficial Owner" is defined in the Continuing Disclosure Certificate to mean any person holding a beneficial ownership interest in 2012 Series B Bonds through nominees or depositories (including any person holding such interest through the book-entry only system of DTC). IF ANY PERSON SEEKS TO CAUSE THE CITY TO COMPLY WITH ITS OBLIGATIONS UNDER THE CONTINUING DISCLOSURE CERTIFICATE, IT WILL BE THE RESPONSIBILITY OF SUCH PERSON TO DEMONSTRATE THAT IT IS A "BENEFICIAL OWNER" WITHIN THE MEANING OF THE CONTINUING DISCLOSURE CERTIFICATE.

As described in "INTRODUCTORY STATEMENT - Book-Entry System" hereto, upon initial issuance, the 2012 Series B Bonds were issued in book-entry only form through the facilities of DTC, and the ownership of one fully registered 2012 Series B Bond, in the aggregate principal amount thereof, was registered in the name of Cede & Co., as nominee for DTC.

With respect to the 2012 Series B Bonds, no party other than the City is obligated to provide, nor is expected to provide, any continuing disclosure information with respect to the Rule. The City: (i) did not timely file its audited financial statements and notices of failure to file related thereto for Fiscal Years 2015 and 2016 with respect to its then outstanding loan from the proceeds of the then outstanding First Florida Governmental Financing Commission Revenue Bonds; (ii) did not timely file its audited financial statements and operating data and notices of failure to file related thereto for Fiscal Year 2015 with respect to certain of its outstanding Utilities System Revenue Bonds; (iii) failed to file certain operating data and notice of failure to file related thereto for Fiscal Years 2015 and 2016 with respect to certain of its outstanding Utilities System Revenue Bonds; and (iv) failed to file certain notices of defeasance and bond calls which occurred in Fiscal Years 2015 and 2016 with respect to certain of its Utilities System Revenue Bonds and its then outstanding loan from the proceeds of the then outstanding First Florida Governmental Financing Commission Revenue Bonds. In the past five years, except as described above, the City has never failed in any material respect to comply with any prior agreements to provide continuing disclosure information pursuant to the Rule. However, the City (i) filed certain operating data in a different format than required, failed to file certain operating data for Fiscal Years 2013, 2015 and 2016 and a failure to file notice related thereto with respect to certain of its outstanding Utilities System Revenue Bonds; (ii) failed to link certain operating data for Fiscal Years 2012 and 2014 with respect to certain of its outstanding Utilities System Revenue Bonds; (iii) failed to file certain notices of defeasance and bond calls occurred in Fiscal Year 2012 with respect to with respect to certain of its outstanding Utilities System Revenue Bonds, and (iv) did not timely filed certain operating data for Fiscal Years 2012 and 2013 with respect to its outstanding Guaranteed Entitlement Revenue Refunding Bonds, Series 2004. All such required information has been filed as of this date. The City fully anticipates satisfying all future disclosure obligations required pursuant to the Rule. While the City does not believe that such failures constitute material failures to comply with any prior agreements to provide continuing disclosure information pursuant to the Rule, in order to demonstrate its continued commitment to continuing disclosure best practices, the City has included notice of this non-material instance of non-compliance in the interest of being fully transparent.

RATINGS

The City has received short term ratings from Moody's and Fitch of "VMIG 1" and "F1," respectively. The short term ratings on the 2012 Series B Bonds are assigned solely based on the Citibank Liquidity Facility and will be released by such rating agencies on or about the effective date of the Citibank Liquidity Facility. On the date of issuance, the 2012 Series B Bonds received underlying ratings of "AA", "Aa2" and "AA-" from S&P, Moody's and Fitch, respectively, without regard to any credit enhancement. On November 19, 2015, S&P downgraded the underlying rating to "AA-". Such underlying ratings were

then affirmed by Fitch in November, 2016 and by S&P and Moody's in December, 2016. The rating agencies have not been asked to update such underlying ratings in connection with the subject remarketing.

An explanation of the significance of any rating or outlook may be obtained only from the rating agency furnishing the same, at the following addresses: S&P Global Inc., 55 Water Street, New York, New York 10041; Moody's Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; and Fitch Ratings, Inc., One State Street Plaza, New York, New York 10004. Such rating agencies may have obtained and considered information and material which have not been included in this Reoffering Memorandum. The ratings reflect only the respective views of such rating agencies, and the City makes no representation as to the appropriateness of the ratings. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions by the rating agencies. An explanation concerning the significance of the ratings given may be obtained from the respective rating agency.

There is no assurance that such ratings will be in effect for any given period of time or that such ratings will not be revised upward or downward or withdrawn entirely by such rating agencies if, in the judgment of such agencies, circumstances so warrant. Neither the Remarketing Agent nor the City has undertaken any responsibility to assure the maintenance of the rating or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of ratings on the 2012 Series B Bonds may result in the suspension or termination of the Citibank Liquidity Facility. See "CITIBANK LIQUIDITY FACILITY" herein.

LITIGATION

Except as described below, there is no litigation or other proceeding pending or, to the knowledge of the City, threatened in any court, agency or other administrative body (either state or federal) in any way questioning or affecting (i) the proceedings under which the 2012 Series B Bonds were originally issued, (ii) the validity of any provision of the 2012 Series B Bonds or the Resolution, (iii) the pledge by the City under the Resolution, (iv) the legal existence of the City or (v) the authority of the City to own and operate the System and to set utility rates.

Following is a description of certain current adversarial proceedings regarding the City and the System. Such described adversarial proceedings are not expected to adversely affect the City's ability to pay debt service on the 2012 Series B Bonds, or to otherwise comply with any of its obligations under the Resolution, including the rate covenants.

American Arbitration Association Case No. 01-16-0000-8157. On March 10, 2016, Gainesville Renewable Energy Center, LLC ("GREC"), filed arbitration against the City, doing business as the Gainesville Regional Utilities ("GRU"), initially challenging GRU's withholding payment of invoiced amounts pursuant to the long-term power purchase agreement between GRU and GREC ("PPA"). As of January 31, 2017, \$ 7,428,899.98 (including accrued interest) has been withheld by GRU based on disputed amounts actually invoiced by GREC, these disputes are GREC's Counts 1, 6, 7 and 8 summarized below.

In addition, GREC has alleged claims in contract and tort that it asserts could result in aggregate damages to GREC of over \$100,000,000. These claims are GREC's Counts 2, 3 and 4 summarized below. Likewise, GRU has alleged claims in contract that could result in aggregate damages to GRU of over \$100,000,000. These claims are GRU Counts 4 and 5 summarized below. At this stage in the proceedings, neither party has substantiated the dollar value of these additional claims to the tribunal. At this stage in the proceedings, it is not possible for GRU to predict the outcome of these claims. However, GRU is

vigorously defending against the GREC Counts in arbitration and believes that (i) some or all of any damages resulting from the GREC Counts constituting tort claims would be subject to sovereign immunity claims processes and statutory caps, (ii) some or all of any damages resulting from the tort claims may be covered by liability insurance of the City, and (iii) regardless of whether GREC is successful on any of the GREC Counts, GRU Management believes that any potential liability of GRU will not adversely affect GRU's ability to pay (from GRU revenues or resources) the debt service on the 2012 Series B Bonds, or to otherwise comply with any of its obligations under the Resolution, including the rate covenant.

The arbitration hearing is currently stayed pursuant to the terms of a Memorandum of Understanding between the parties dated April 24, 2017. The Memorandum of Understanding sets forth the parties intent to negotiate a purchase by GRU of the GREC biomass facility. In the event the parties are unable to negotiate or close on the purchase, the stay will be lifted and the arbitration will proceed. Pursuant to the PPA, the decision of the arbitrator will be final and binding on the parties.

GREC's Count 1: GREC alleges that GRU has breached the PPA by: (1) trying to force GREC to take a Planned Maintenance (as defined in the PPA) outage in April 2016; (2) refusing to recognize a letter GREC sent on October 14, 2015, as the contractually required "written annual maintenance plan" in which GREC cancelled the maintenance outage in April of 2016; (3) refusing to recognize GREC's alleged contractual right to determine whether and when to take a maintenance outage; (4) asserting that it would consider GREC in an outage during the agreed period and would not make Available Energy (as defined in the PPA) payments regardless of whether GREC actually took an outage; and (5) not making Available Energy payments to GREC for the 21-day period between April 9, 2016 and April 29, 2016.

Related GRU Counts 1, 2, 3 and 6: GRU seeks declarations that (1) performance of annual Planned Maintenance is a material obligation under the PPA, (2) GREC's refusal to perform annual Planned Maintenance in 2016 constitutes a material default under the PPA and (3) GRU may terminate the PPA. GRU alleges that because GREC failed to perform annual Planned Maintenance in April 2016, GRU is not receiving the benefit of its bargain under the PPA. GRU has requested a decree of specific performance requiring GREC to conduct Planned Maintenance annually for the remainder of the term of the PPA.

GREC's Count 2: GREC claims that GRU has breached the PPA by interfering with GREC's financing and refinancing efforts on account of: (1) GRU's involvement in the resolved Construction Cost Adjuster dispute; (2) GRU's withholding of Available Energy payments for the 21-day Planned Maintenance period in April 2016; (3) GRU's Notice Letter to GREC's Collateral Agent; and (4) GRU's refusal to retract said Notice Letter.

GREC's Count 3: GREC claims that GRU has breached the implied covenant of good faith and fair dealing by: (1) making statements such as "break" the GREC facility (the "Facility") and "make things as painful for GREC as possible"; and (2) on account of the facts regarding the alleged breaches identified in GREC's Counts 1 and 2 described above.

GREC's Count 4: GREC claims that GRU has committed the tort of intentional interference with business relations by: (1) sending the Notice Letter to GREC's Collateral Agent; (2) claiming that GREC is in default of a material obligation under the PPA; and (3) identifying its contractual right to terminate the PPA based on GREC's material default.

GREC's Count 5: GREC seeks declaratory judgment regarding its Counts 1-4.

GREC's Count 6: GREC claims that GRU breached the PPA by not paying Shutdown Charges (as defined in the PPA) in connection with alleged Purchaser Shutdown (as defined in the PPA) events in September 2015, March 2016, and May 2016.

GREC's Count 7: GREC claims that GRU is in breach of the PPA for failing to pay GREC for claimed Available Energy (as defined in the PPA) during a number of "ramp-up" and "ramp-down" periods including (i) the ramp-up periods occurring in connection with each of the Dependable Capacity tests in September 2015, March 2016, and May 2016, (ii) a ramp-up period associated with the November 2015 dispatch, and (iii) the ramp-down and ramp-up periods of GREC's August 2015 Maintenance Outage.

GREC's Count 8: GREC claims that GRU is in breach of the PPA for invoking the "10% Payment Decreases" provision of the PPA to hold GREC accountable for failing to meet the operational level set by GRU for the month of March 2016 by at least 5%

GREC's Count 9: GREC seeks declaratory judgment regarding its Counts 6-8.

GRU's Count 4: GRU pays \$200,000 every day for the Facility to be in a standby status available to deliver energy. GRU alleges that GREC has been conducting maintenance that renders the Facility unavailable without informing GRU of such maintenance and without reporting decreases in Available Energy to GRU.

GRU's Count 5: GRU alleges that GREC has breached its covenant of good faith and fair dealing by (i) refusing to perform annual Planned Maintenance, (ii) conducting scheduling activities that do not comply with the requirements of the PPA, and (iii) misrepresenting the Facility's Available Energy in its invoices to GRU. GREC's actions have thwarted GRU's reasonable contractual expectations that: (i) GREC would maintain a fully reliable power generation facility in accordance with the PPA and good utility practice; (ii) GRU would not pay for Available Energy during the scheduled Planned Maintenance outage in April 2016; and (iii) GRU would make Available Energy payments that reflect the Facility's actual availability.

Except as described above, the City is also party to various federal, state and local claims, proceedings and lawsuits for damages claimed to result from the operation of the City and the System. Except as described above, the City Attorney does not believe that, individually or in the aggregate, the proceedings associated with these cases will materially adversely affect the Net Revenues of the System or materially adversely impair the business, operations, or financial condition of the System or the City's ability to pay debt service on the 2012 Series B Bonds.

CONTINGENT FEES

The City has retained Bond Counsel, Disclosure Counsel and the Financial Advisor with respect to the substitution of the Citibank Liquidity Facility. Payment of the fees of such professionals is contingent upon consummation of such substitution.

LEGAL MATTERS

Certain legal matters were passed upon in connection with the original issuance of the 2012 Series B Bonds by the Initial Bond Counsel. A complete copy of the Initial Bond Counsel's Approving Opinion is contained in APPENDIX F-1 attached hereto. The Initial Bond Counsel has had no involvement whatsoever with respect to preparation of this Reoffering Memorandum or the substitution of the existing liquidity facility for Citibank Liquidity Facility. Certain legal matters also were passed upon for the City in

connection with the original issuance of the 2012 Series B Bonds by Marion J. Radson, Esq., Gainesville, Florida, former City Attorney of the City.

Certain legal matters in connection with the substitution of the Citibank Liquidity Facility will be passed upon for the City by Holland & Knight LLP, Bond Counsel (see APPENDIX F-2 attached hereto), and by Nicolle M. Shalley, Esq., City Attorney and Bryant Miller Olive P.A., as Disclosure Counsel to the City. Certain legal matters with respect to the Citibank Liquidity Facility and the Bank will be passed upon for the Bank by Kutak Rock LLP, Washington D.C., counsel to the Bank.

The legal opinions delivered in connection with the 2012 Series B Bonds express the professional judgment of the attorneys rendering the opinions regarding the legal issues expressly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of the result indicated by that expression of professional judgment of the transaction on which the opinion is rendered or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

INDEPENDENT AUDITORS

The financial statements of the System as of September 30, 2016 and for the year then ended, included in APPENDIX B attached to this Reoffering Memorandum as a matter of public record and the consent of Purvis, Gray & Company LLP, independent auditors (the "Auditor") to include such documents was not requested. The Auditor was not requested to perform and has not performed any services in connection with the preparation of this Reoffering Memorandum or the issuance of the 2012 Series B Bonds.

The 2012 Series B Bonds are payable from and secured on a parity with all other bonds issued under the Resolution by a pledge of and lien on the Trust Estate See "SECURITY FOR THE 2012 SERIES B BONDS" herein. The audited financial statements are presented for general information purposes only and speak only as of their date.

FINANCIAL ADVISOR

The City has retained Public Financial Management, Inc. as Financial Advisor. The Financial Advisor is not obligated to undertake and has not undertaken to make an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in this Reoffering Memorandum.

REMARKETING AGENT

The Remarketing Agent and its affiliates together comprise a full service financial institution engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Remarketing Agent and its affiliates may have, from time to time, performed and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses. In the ordinary course of their various business activities, the Remarketing Agent and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities and financial instruments which may include bank loans and/or credit default swaps) for its own account and for the accounts of its customers and may at any time hold long and short positions in such securities and instruments. Such investment securities activities may involve securities and instruments of the City.

DISCLOSURE REQUIRED BY FLORIDA BLUE SKY REGULATION

Pursuant to Section 517.051, Florida Statutes, as amended, no person may directly or indirectly offer or sell securities of the City except by an offering circular containing full and fair disclosure of all defaults as to principal or interest on its obligations since December 31, 1975, as provided by rule of the Office of Financial Regulation within the Florida Financial Services Commission (the "FFSC"). Pursuant to administrative rulemaking, the FFSC has required the disclosure of the amounts and types of defaults, any legal proceedings resulting from such defaults, whether a trustee or receiver has been appointed over the assets of the City, and certain additional financial information, unless the City believes in good faith that such information would not be considered material by a reasonable investor. The City is not and has not been in default on any bond issued since December 31, 1975 that would be considered material by a reasonable investor.

The City has not undertaken an independent review or investigation of securities for which it has served as conduit issuer. The City does not believe that any information about any default on such securities is appropriate and would be considered material by a reasonable investor in the 2012 Series B Bonds because the City would not have been obligated to pay the debt service on any such securities except from payments made to it by the private companies on whose behalf such securities were issued and no funds of the City would have been pledged or used to pay such securities or the interest thereon.

ACCURACY AND COMPLETENESS OF OFFERING MEMORANDUM

The references, excerpts, summaries and incorporations by reference of all resolutions, documents, statutes, and information concerning the City, the System and certain operational and statistical data referred to herein do not purport to be complete, comprehensive and definitive and each such summary and reference is qualified in its entirety by reference to each such respective documents for full and complete statements of all matters of fact relating to the 2012 Series B Bonds, the security for the payment of the 2012 Series B Bonds and the rights and obligations of the owners thereof and to each such statute, report or instrument.

The appendices attached hereto are integral parts of this Reoffering Memorandum and must be read in their entirety together with all foregoing statements.

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CERTIFICATION OF OFFERING MEMORANDUM

At the time of delivery of this Reoffering Memorandum, the City will furnish a certificate to the effect that nothing has come to its attention which would lead it to believe that this Reoffering Memorandum (other than information herein related to DTC and the book-entry only system of registration and the Bank and its Citibank Liquidity Facility, as to which no opinion shall be expressed), as of its date, contains an untrue statement of a material fact or omits to state a material fact which should be included therein for the purposes for which this Reoffering Memorandum is intended to be used, or which is necessary to make the statements contained herein, in the light of the circumstances under which they were made, not misleading.

CITY OF GAINESVILLE, FLORIDA

By: /s/ Edward J. Bielarski, Jr.
General Manager for Utilities

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

General

The City of Gainesville (the "City"), home of the University of Florida, is located in North Central Florida midway between Florida's Gulf and the Atlantic coast. The City is approximately 125 miles north of Tampa, approximately 110 miles northwest of Orlando and approximately 75 miles southwest of Jacksonville. The Bureau of Economic and Business Research at the University of Florida estimated a 2016 population of 257,062 in the Alachua County (the "County") with an estimated 128,612 persons resided within the City limits as of April 2016. The economic base of Gainesville consists primarily of light industrial, commercial, health care and educational activities. The University of Florida is the State's oldest university and, with approximately 50,000 students, is one of the largest universities in the nation.

Organization and Administration

The City was established in 1854, incorporated in 1869 and has operated under a Commission-Manager form of government since 1927. The City Commission consists of seven elected officials (a Mayor and six Commissioners) who are responsible for enacting the ordinances and adopting the resolutions which govern the City. The elected officials each serve for three-year terms. The Mayor presides over public meetings and ceremonial events.

The following are the current members of the City Commission:

	<u>Term Expires</u>
Mayor Lauren Poe	May 2019
Commissioner David Arreola, District 3.....	May 2020
Commissioner Harvey M. Budd, At-Large	May 2018
Commissioner Charles E. Goston, District 1.....	May 2018
Commissioner Adrian Hayes-Santos, District 4.....	May 2019
Commissioner Harvey Ward, District 2.....	May 2020
Commissioner Helen K. Warren, At-Large	May 2020

The City Commission appoints the City Manager, General Manager for Utilities, City Auditor, City Attorney, Clerk of the City Commission and Equal Opportunity Director. As chief executive officers, the City Manager and General Manager for Utilities are charged with the enforcement of all ordinances and resolutions passed by the City Commission. They accomplish this task through the selection and supervision of two Assistant City Managers, Utilities Executive Team, and numerous department heads.

The City provides its constituents with a wide variety of public services: building inspections, code enforcement, community development, cultural affairs, economic development, electrical power, golf course, mass transit, natural gas distribution, parks and recreation, homeless services, police and fire protection, refuse collection, small business development, stormwater management, street maintenance, traffic engineering and parking, water and wastewater and telecommunications and data transfer.

Internal support services include the following: accounting and reporting, accounts payable and payroll, billing and collections, budgeting and budget monitoring, cash management, City-wide management, computer systems support, debt management, equal opportunity, fleet maintenance, facilities maintenance, human resources, information systems, investment management, labor relations, mail services, pension administration, property control, purchasing, risk management and strategic planning. In addition to these activities, the City exercises oversight responsibility for the Community Redevelopment Agency and the Gainesville Enterprise Zone Development Agency.

Population

The following table depicts historical and projected population growth of the City, the County and the State of Florida:

POPULATION GROWTH

<u>Year</u>	<u>City of Gainesville Population</u>	<u>Percentage Increase</u>	<u>Alachua County Population</u>	<u>Percentage Increase</u>	<u>State of Florida Population</u>	<u>Percentage Increase</u>
2016	128,612	--	257,062	--	20,148,654	--
2020	n/a ⁽¹⁾	n/a	267,727	4.1%	21,372,207	6.1%
2030	n/a ⁽¹⁾	n/a	289,502	8.1	24,070,978	12.6
2040	n/a ⁽¹⁾	n/a	309,385	6.9	26,252,141	9.1

⁽¹⁾ Information is no longer available through the U.S. Bureau of Census and University of Florida, Bureau of Business and Economic Research Florida Statistical Abstracts for the City.

Source: U.S. Bureau of Census and University of Florida, Bureau of Business and Economic Research Florida Statistical Abstracts.

Employment

The following table sets forth the unemployment rate for the City over the past ten years.

EMPLOYMENT

<u>Year</u>	<u>Unemployment Rate</u>
2007	3.10%
2008	4.50
2009	7.20
2010	8.20
2011	7.70
2012	6.80
2013	5.80
2014	5.30
2015	4.60
2016	4.20

Source: Florida Research and Economic Information Database Application.

**TEN LARGEST EMPLOYERS
(SEPTEMBER 30, 2016)**

<u>Firm</u>	<u>Product/Business</u>	<u>Employees</u>
University of Florida	Education	27,600
UF Health	Health Care	12,705
Alachua Veterans Affairs Medical Center	Health Care	6,127
Alachua County School Board	Education	3,904
City of Gainesville	Municipal Government	2,072
North Florida Regional Medical Center	Health Care	2,000
Gator Dining Services	Food Services	1,200
Tacachale Center	Social Services	970
Nationwide Insurance Company	Insurance	900
Publix Supermarkets	Grocer	831

Source: Finance Department, City of Gainesville, Florida.

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Property Tax Data

The following data is provided for information and analytical purposes only. The Utilities System Variable Rate Bonds are not secured by ad valorem tax revenues of the City.

ASSESSED VALUE OF TAXABLE PROPERTY LAST TEN FISCAL YEARS

Fiscal Year Ended	Just Value				Exemptions					Total Taxable Assessed Value	Total Direct Tax Rate
	Tax Year	Real Property	Personal Property	Centrally Assessed Property	Governmental	Agricultural	Institutional	Homestead	Other (1)		
09/30											
2007	2006	\$9,127,221,600	\$1,475,928,616	\$1,025,098	\$3,801,414,175	\$34,506,400	\$562,036,357	\$1,221,910,900	\$15,135,250	\$4,969,172,232	4.8509
2008	2007	10,059,735,400	1,931,740,674	1,111,824	4,354,225,897	28,451,900	574,033,101	1,385,629,369	16,885,367	5,633,362,264	4.2544
2009	2008	10,599,500,250	1,732,004,529	1,149,322	4,195,267,980	35,549,700	647,733,978	1,773,423,757	14,341,607	5,666,337,079	4.2544
2010	2009	10,534,674,944	2,245,414,910	1,234,487	4,251,801,982	39,408,200	874,389,881	1,594,957,710	134,747,020	5,886,019,548	4.3963
2011	2010	10,570,350,300	2,241,373,073	987,726	4,815,548,071	37,517,700	896,937,822	1,313,405,085	141,081,893	5,608,220,528	4.2544
2012	2011	10,756,478,800	2,308,068,145	1,130,083	5,343,081,038	39,115,900	1,029,746,160	1,134,254,774	117,240,859	5,402,238,297	4.2544
2013	2012	10,437,604,712	2,386,565,278	1,073,991	5,408,327,315	37,576,500	1,112,522,902	993,996,869	109,161,684	5,163,658,711	4.4946
2014	2013	10,480,490,440	2,587,608,797	2,138,554	5,609,545,384	39,389,400	1,095,790,104	916,778,157	234,075,511	5,174,659,235	4.5780
2015	2014	10,508,455,900	2,979,114,148	2,210,823	5,603,063,413	39,298,000	1,129,921,784	895,414,243	178,766,271	5,643,317,160	4.5079
2016	2015	10,815,607,700	2,912,715,109	2,251,700	5,651,530,893	40,988,400	1,094,785,940	992,344,032	181,396,571	5,769,528,673	4.5079

⁽¹⁾ Includes non-homestead residential and certain nonresidential property differentials between just value and capped value.

Source: Finance Department, City of Gainesville, Florida and Alachua County Property Appraiser Final Ad Valorem Assessment Rolls.

HISTORY OF LOCAL AD VALOREM TAX RATES AND TAX LEVIES

Tax Roll Year ⁽¹⁾	City Fiscal Year ⁽²⁾	Net Taxable Value for Local Levies ⁽³⁾	Local Property Tax Rates (Mills) General Government ⁽⁴⁾	Local Property Tax Levies (\$) General Government	Total Taxes Levied
2006	2006-07	\$4,969,172,232	4.8509	\$24,104,957	\$24,104,957
2007	2007-08	5,633,362,264	4.2544	23,966,576	23,966,576
2008	2008-09	5,666,337,079	4.2544	24,106,864	24,106,864
2009	2009-10	5,886,019,548	4.3963	25,876,708	25,876,708
2010	2010-11	5,608,220,528	4.2544	23,859,613	23,859,613
2011	2011-12	5,402,238,297	4.2544	22,983,283	22,983,283
2012	2012-13	5,163,658,711	4.4946	23,208,580	23,208,580
2013	2013-14	5,174,659,235	4.5780	23,689,590	23,689,590
2014	2014-15	5,643,317,160	4.5079	25,439,509	25,439,509
2015	2015-16	5,769,528,673	4.5079	26,008,458	26,008,458

(1) Tax roll year as of January 1.

(2) Fiscal year beginning October 1 and ending the next September 30.

(3) Sum of real and personal property value.

(4) (a) Tax rates are set by the City Commission effective October 1.

(b) Chapter 200.181, Florida Statutes, allows unrestricted ad valorem tax rate levies for debt service for general obligation bonds approved by citizen referendum and imposes a 10 mill limitation on ad valorem tax rates levied for general government operations.

Source: Finance Department, City of Gainesville, Florida and Alachua County Property Appraiser Final Ad Valorem Assessment Rolls.

PROPERTY TAX LEVIES AND COLLECTIONS LAST TEN FISCAL YEARS

Fiscal Year Ended September 30,	Total Tax Levy for Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2007	\$24,104,957	\$23,172,540	96.1%	\$27,822	\$23,200,362	96.2%
2008	23,966,576	23,035,894	96.1	32,294	23,068,188	96.3
2009	24,106,864	23,191,605	96.2	52,556	23,244,161	96.4
2010	25,876,708	24,912,341	96.3	70,221	24,982,562	96.5
2011	23,859,613	23,007,885	96.4	14,385	23,022,270	96.5
2012	22,983,283	22,085,295	96.1	40,697	22,125,992	96.3
2013	23,208,580	22,259,404	95.9	45,567	22,304,971	96.1
2014	23,689,590	22,573,803	95.3	82,387	22,656,190	95.6
2015	25,439,509	24,342,225	95.7	73,286	24,415,511	96.0
2016	26,008,458	24,996,476	96.1	N/A	24,996,476	96.1

Source: Finance Department, City of Gainesville, Florida.

**PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
(rate per \$1,000 assessed value)**

Fiscal Year	Tax Year	City of Gainesville Direct Rate	Alachua County School District	Overlapping Rates		Alachua County Library District	Total Direct & Overlapping Rates
				Alachua County Water Management District	St. Johns Water Management District		
2007	2006	4.8509	9.1387	8.5710	0.4620	1.5615	24.5841
2008	2007	4.2544	7.8968	8.3950	0.4158	1.3560	22.3180
2009	2008	4.2544	7.8208	8.3590	0.4158	1.3406	22.1906
2010	2009	4.3963	8.2995	9.4080	0.4158	1.3771	23.8967
2011	2010	4.2544	8.6263	9.1070	0.4158	1.4736	23.8771
2012	2011	4.2544	8.5956	9.0920	0.3313	1.4790	23.7523
2013	2012	4.4946	8.5956	8.5490	0.3313	1.4768	23.4473
2014	2013	4.5780	8.7990	8.4020	0.3283	1.4588	23.5661
2015	2014	4.5079	8.7990	8.4100	0.3164	1.4588	23.4921
2016	2015	4.5079	8.7950	8.3420	0.3023	1.4538	23.3830

Source: Finance Department, City of Gainesville, Florida.

The following table sets forth certain information regarding direct and overlapping debt for the City, as of September 30, 2016.

OVERLAPPING GENERAL OBLIGATION DEBT⁽¹⁾

Taxing Authority	Taxable Property Value ⁽²⁾	General Obligation Bonded Debt ⁽³⁾	Percent of Debt Applicable to City ⁽⁴⁾	City's Share of General Obligation Debt ⁽⁵⁾
City of Gainesville	\$6,034,941,259	\$ 0	100.00%	\$ 0
Alachua County	0	(n/a	0
Alachua County School Board	0	(0	0
Alachua County Library District	0	6482	45.54	<u>285,530</u>
				<u>\$285,530</u>

⁽¹⁾ The above information on bonded debt does not include self supporting and non-self supporting revenue bonds, certificates, and notes (reserves and/or sinking fund balances have not been deducted).

⁽²⁾ Homestead property of certain qualified residents is eligible for up to \$50,000 value exemption.

⁽³⁾ Reserves and sinking fund balances have not been deducted.

⁽⁴⁾ Percentages were recalculated by the Finance Department, City of Gainesville, Florida.

⁽⁵⁾ Chapter 200.181, Florida Statutes, allows unrestricted ad valorem tax rate levies for debt service for general obligation bonds approved by voter referendum.

Source: Finance Department, City of Gainesville, Florida.

**OVERLAPPING SELF SUPPORTING AND
NON-SELF SUPPORTING DEBT
As of September 30, 2016**

<u>Taxing Authority</u>	<u>Self Supporting</u>	<u>Non-Self Supporting</u>	<u>Totals</u>
Alachua County ⁽¹⁾		\$51,994,000	51,994,000
Alachua County Schools		62,742,864	62,742,864
Alachua County Library District ⁽¹⁾		1,040,000	1,040,000
City of Gainesville:			
Utilities	\$948,575,000	0	948,575,000
Other than Utilities	1,550,972	134,810,854	136,361,826

⁽¹⁾ FY 2016 data not yet available for the County and the County Library District; amounts shown are as of September 30, 2015 for those two entities.

Source: Finance Department, City of Gainesville, Florida.

**DEBT SUMMARY⁽¹⁾
AS OF SEPTEMBER 30, 2016**

	<u>Gross</u>	<u>Net</u>
General Obligation Debt	\$ 0	\$ 0
Debt Payable from Non-Ad Valorem Revenues ⁽²⁾	134,810,854	134,810,854
General Obligation Overlapping Debt ⁽³⁾	<u>248,905</u>	<u>248,905</u>
Total	\$135,059,759	\$135,059,759

Maximum Annual Debt Service on Debt Payable from Non-Ad Valorem Revenues after 10/01/2016	\$15,005,625
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⁽¹⁾ This includes only City of Gainesville general government debt. The City of Gainesville d/b/a Gainesville Regional Utilities and other self-liquidating debt are not included.

⁽²⁾ Includes all debt to which a pledge and/or lien on a specific non-ad valorem revenue source has been provided by the City, and all loans made by the First Florida Governmental Financing Commission to the City.

⁽³⁾ Includes general obligation debt of Alachua County School District.

Source: Finance Department, City of Gainesville, Florida.

PRINCIPAL TAXPAYERS

Tax Roll Year 2015

<u>Owner/Taxpayer</u>	<u>Taxable Value</u>	<u>Percent of Total Taxable Value</u>
Gainesville Renewable Energy Center Inc.	\$314,316,090	5.45%
Oaks Mall Gainesville LTD	125,590,400	2.18
HCA Health Services of Florida, Inc.	79,815,000	1.38
AT&T Mobility LLC	68,499,022	1.19
Oak Hammock at the University of FL, Inc.	54,496,790	0.94
North Florida Regional Hospital	54,486,950	0.94
LSH 1601 SW 51 st Terrace LP	35,785,500	0.62
S Clark Butler Properties Land Trust	35,672,790	0.62
Duke Energy Florida Inc.	33,808,372	0.59
Cox Communications Inc.	31,914,417	0.55
TOTAL PRINCIPAL TAXPAYERS	\$834,385,331	14.46%

Source: Finance Department, City of Gainesville, Florida.

LIABILITIES OF THE CITY

Insurance Considerations Affecting the City

General

The City is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City accounts for its uninsured risk of loss depending on the source of the estimated loss. For estimated losses attributable to activities of the System, the estimates are accounted for in the System enterprise funds. For estimated losses attributable to all operations of general government, the City maintains a General Insurance Fund (an internal service fund) to account for some of its uninsured risk of loss.

Workers' Compensation, Auto, and General Liability Insurance

Section 768.28, Florida Statutes, provides limits on the liability of the State and its subdivisions of \$200,000 to any one person, or \$300,000 for any single incident or occurrence. See "LIABILITIES OF THE CITY – Ability to be Sued, Judgments Enforceable" below. Under the protection of this limit and Chapter 440, Florida Statutes, covering Workmen's Compensation, the City currently is self-insured for workers' compensation, auto, and general liability. Third-party coverage is currently maintained for workers' compensation claims in excess of \$350,000. Settlements have not exceeded insurance coverage for each of the last three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs), and are shown at current dollar value.

All funds other than the System enterprise fund (the "Utility Fund") participate in the general insurance program. Risk management/insurance related activities of the Utility Fund are accounted for within the Utility Fund. The Utility Fund purchase plant and machinery insurance from a commercial carrier. An actuarially study completed during fiscal year 2008 resulted in an increase to a balance of \$3.3 million. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal year 2016 and 2015 were paid from current year's revenues. Changes in the insurance reserve for fiscal years 2016 and 2015 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Incurred</u>	<u>Payments</u>	<u>End of Fiscal Year Liability</u>
2015-2016	\$3,337,000	\$1,178,000	\$1,178,000	\$3,337,000
2014-2015	3,337,000	1,957,000	1,957,000	3,337,000

There is a claims liability of \$6,854,000 included in the General Insurance Fund as the result of actuarial estimates. Changes in the General Insurance Fund's claims liability for fiscal years 2015 and 2016 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Incurred</u>	<u>Payments</u>	<u>End of Fiscal Year Liability</u>
2015-2016	\$6,854,000	\$2,280,237	\$2,280,237	\$6,854,000
2014-2015	6,854,000	2,852,652	2,852,652	6,854,000

Health Insurance

The City also currently is self-insured for its Employee Health and Accident Benefit Plan (the "Plan"). The Plan is accounted for in an internal service fund and is externally administered, for an annually contracted amount which is based upon the volume of claims processed. Contributions for City employees and their dependents are shared by the City and the employee. Administrative fees are paid primarily out of this fund. Stop-loss insurance is maintained for this program at \$300,000 per individual. No claims have exceeded insurance coverage in the last three years. Changes in claims liability for fiscal years 2015 and 2016 were as follows:

<u>Fiscal Year</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Incurred</u>	<u>Payments</u>	<u>End of Fiscal Year Liability</u>
2015-2016	\$1,310,671	\$24,243,566	\$24,243,566	\$1,310,671
2014-2015	1,310,671	22,027,528	22,027,528	1,310,671

Other Post-Employment Benefit & Retiree Health Care Plan

Plan Description.

By ordinance enacted by the City Commission, the City has established the Retiree Health Care Plan (RHCP), providing for the payment of a portion of the health care insurance premiums for eligible retired employees. The RHCP is a single-employer defined benefit healthcare plan administered by the City which provides medical insurance benefits to eligible retirees and their beneficiaries.

The RHCP has 746 retirees receiving benefits, 1,052 retirees not currently electing medical coverage and has a total of 1,867 active participants and 133 DROP participants for a total of 3,798.

Ordinance 991457 of the City assigned the authority to establish and amend benefit provisions to the City Commission.

Annual OPEB Cost and Net OPEB Obligation

For the fiscal year ended September 30, 2016, the City's annual Other Post-Employment Benefit ("OPEB") cost for the RHCP was \$1,677,380. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended September 30, 2016, 2015 and 2014 were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Actual Employer Contribution</u>	<u>Percentage Contributed</u>	<u>Net Ending OPEB Obligation (Asset)</u>
9/30/14	\$3,440,342	\$2,746,676	79.84%	\$(18,252,553)
09/30/15	3,585,790	2,972,451	82.90	(17,669,214)
09/30/16	1,677,380	2,915,780	173.83	(18,907,614)

Fiscal year ended September 30, 2005 was the year of implementation of GASB 43 and 45 and the City elected to implement prospectively. The City's contributions include \$2,375,230, \$2,441,107 and \$2,228,139 in payments made by the City for the implicit rate subsidy included in the blended rate premiums for active employees which fund the implicit rate subsidy discount provided to the retirees for fiscal years ended September 30 2016, 2015, and 2014, respectively.

Funding Policy

In 1995, the City instituted a cost sharing agreement with retired employees for individual coverage only, based on a formula taking into account age at the time the benefit is first accessed and service at time of retirement. The contribution requirements of plan members and the City are established and may be amended by the City Commission. These contributions are neither mandated nor guaranteed. The City has retained the right to unilaterally modify its payment for retiree health care benefits. Administrative costs are financed through investment earnings.

RHCP members receiving benefits contribute a percentage of the monthly insurance premium. Based on this plan, the RHCP pays up to 50% of the individual premium for each insured according to the age/service formula factor of the retiree. Spouses and other dependents are eligible for coverage, but the employee is responsible for the entire cost, there is no direct RHCP subsidy. The employee contributes the premium cost each month, less the RHCP subsidy calculated as a percentage of the individual premium.

The State prohibits the City from separately rating retirees and active employees. The City therefore charges both groups an equal, blended rate premium. Although both groups are charged the same blended rate premium, GAAP require the actuarial figures presented above to be calculated using age adjusted premiums approximating claim costs for retirees separate from active employees. The use of age adjusted premiums results in the addition of an implicit rate subsidy into the actuarial accrued liability. However, the City has elected to contribute to the RHCP at a rate that is based on an actuarial valuation prepared using the blended rate premium that is actually charged to the RHCP.

In July 2005, the City issued \$35,210,000 Taxable OPEB bonds to retire the unfunded actuarial accrued liability then existing in the RHCP Trust Fund which were fully paid in fiscal year 2015. This allowed the City to reduce its contribution rate. The City's actual regular contribution was less than the annual required contribution calculated using the age-adjusted premiums instead of the blended rate premiums. The difference between the annual required calculation and the City's actual regular contribution was due to two factors. The first is the amortization of the negative net OPEB obligation created in the fiscal year ended September 30, 2005 by the issuance of the OPEB bonds. The other factor is that the City has elected to contribute based on the blended rate premium instead of the age-adjusted premium, described above as the implicit rate subsidy.

In September 2008, the City approved Ordinance No. O-08-52, terminating the existing program and trust and creating a new program and trust, effective January 1, 2009. This action changed the benefits provided to retirees, such that the City will contribute towards the premium of those who retire after August 31, 2008 under a formula that provides ten dollars per year of credited service, adjusted for age at first access of the benefit. Current retirees receive a similar benefit, however the age adjustment is modified to be set at the date the retiree first accesses the benefit or January 1, 2009, whichever is later. For current retirees that are 65 or older as of January 1, 2009, the City's contribution towards the premium will be the greater of the amount calculated under this method or the amount provided under the existing ordinance. The City's contribution towards the premium will be adjusted annually at the rate of 50% of the annual percentage change in the individual premium compared to the prior year.

Actuarial Methods and Assumptions

Calculations of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the October 1, 2015 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions used included an 8.2% investment rate of return, compounded annually, net of investment expenses. The annual healthcare cost trend rate of 4.5% is the ultimate rate. The select rate was 12% but was decreased to the ultimate rate in 2002. Both the rate of return and the healthcare cost trend rate include an assumed inflation rate of 3.75%. The actuarial valuation of RHCP assets was set at fair market value of investments as of the measurement date. The RHCP's initial unfunded actuarial accrued liability ("UAAL") as of 1994 is being amortized as a level percentage of projected payroll over a closed period of twenty years from 1994 and changes in the UAAL from 1994 through 2003 are amortized over the remaining portion of the twenty-year period. Future changes in the UAAL will be amortized on an open period of ten years from inception.

Funded Status

Actuarial	Actuarial	Actuarial	Unfunded	Funded	Covered	UAAL as %
Valuation	Value of	Liability		Ratio	Payroll	of Covered
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(UAAL)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>(b-a)/c</u>
9/30/16	\$59,442,474	\$59,679,811	\$237,337	99.60%	\$117,510,876	.20%

Ability to be Sued, Judgments Enforceable

Notwithstanding the liability limits described below, the laws of the State provide that each city has waived sovereign immunity for liability in tort to the extent provided in Section 768.28, Florida Statutes. Therefore, the City is liable for tort claims in the same manner and, subject to limits stated below, to the same extent as a private individual under like circumstances, except that the City is not liable for punitive damages or interest for the period prior to judgment. Such legislation also limits the liability of a city to pay a judgment in excess of \$200,000 to any one person or in excess of \$300,000 because of any single incident or occurrence. Judgments in excess of \$200,000 and \$300,000 may be rendered, but may be paid from City funds only pursuant to further action of the Florida Legislature in the form of a "claims bill." See "LIABILITIES OF THE CITY –Insurance Considerations Affecting the City" herein. Notwithstanding the foregoing, the City may agree, within the limits of insurance coverage provided, to settle a claim made or a judgment rendered against it without further action by the Florida Legislature, but the City shall not be deemed to have waived any defense or sovereign immunity or to have increased the limits of its liability as a result of its obtaining insurance coverage for tortuous acts in excess of the \$200,000 or \$300,000 waiver provided by Florida Statutes.

Debt Issuance and Management

The City utilizes a financing team when assessing the utilization of debt as a funding source for City capital projects. This team consists of the Assistant Finance Director, Finance Director, and the following external professionals: bond counsel, disclosure counsel, financial advisor, and underwriters. The City has multi-year contractual arrangements with bond counsel, disclosure counsel, and financial advisor.

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Direct Debt

The City has met certain of its financial needs through debt financing. The table which follows is a schedule of the outstanding debt of the City General Government as of October 1, 2016. This table is exclusive of the City's discretely reported component unit debt and all enterprise fund debt, including the debt of the System.

	Principal Amount Issued	Principal Amount Outstanding as of October 1, 2016
Revenue Bonds: ⁽¹⁾		
Guaranteed Entitlement Revenue and Refunding Bonds, Series 1994	\$15,892,220	\$1,502,220
Taxable Pension Obligation Bonds, Series 2003A (Employees' Plan)	40,042,953	32,365,401
Taxable Pension Obligation Bonds, Series 2003B (Consolidated Plan)	49,851,806	43,480,000
Guaranteed Entitlement Revenue and Refunding Bonds, Series 2004	9,805,000	1,000,000
Capital Improvement Revenue Bonds, Series 2010	3,036,907	2,314,333
Capital Improvement Revenue Bonds, Series 2014	<u>12,435,000</u>	<u>11,660,772</u>
Total Revenue Bonds ⁽²⁾	\$131,063,886	\$92,322,726
Loans: ⁽³⁾		
Capital Improvement Revenue Note, Series 2009	11,500,000	1,579,011
Refunding Revenue Note, Series 2011	6,230,000	3,820,000
Capital Improvement Revenue Note, Series 2011A	3,730,000	2,010,000
Refunding Revenue Note, Series 2014	14,715,000	13,130,000
Revenue Refunding Note, Series 2016A	11,007,187	11,007,187
Capital Improvement Revenue Note, Series 2016B	<u>6,630,000</u>	<u>6,630,000</u>
Total Loans	\$53,812,187	\$38,176,198
Total Debt	<u>\$184,876,073</u>	<u>\$130,498,924</u>

(1) The City's outstanding Guaranteed Entitlement Revenue and Refunding Bonds, Series 1994 and Series 2004 are secured by a first lien upon and pledge of the guaranteed entitlement portion of the State Revenue Sharing funds. All other bonds listed below are secured by a covenant to budget and appropriate funds sufficient to pay the debt service on the loan from legally available non-ad valorem revenues of the City.

(2) Does not include the CP Notes.

(3) All loans listed below are secured by a covenant to budget and appropriate funds sufficient to pay the debt service on the loan from legally available non-ad valorem revenues of the City.

Defined Benefit Pension Plans

The City sponsors and administers two single-employer retirement plans, which are accounted for in separate Pension Trust Funds.

- The Employees' Pension Plan (Employees' Plan)
- The Consolidated Police Officers' and Firefighters' Retirement Plan (Consolidated Plan)

The Employees' Disability Plan (Disability Plan), a single-employer disability plan, was terminated during Fiscal Year 2015.

Employees' Plan

The Employees' Plan is a contributory defined benefit single-employer pension plan that covers all permanent employees of the City, including GRU, except certain personnel who elected to participate in the Defined Contribution Plan and who were grandfathered into that plan, and police officers and firefighters who participate in the Consolidated Plan. Benefits and refunds of the defined benefit pension plan are recognized when due and payable in accordance with the terms of the plan. The costs of administering the plan, like other plan costs, are captured within the plan itself and financed through contribution and investment income, as appropriate.

The City of Gainesville issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Plan. That report may be obtained by writing to City of Gainesville, Budget & Finance Department, P.O. Box 490, Gainesville, Florida 32627 or by calling (352) 334-5054.

Benefits Provided. The Employees' Plan provides retirement, disability and death benefits. Prior to April 2015, disability benefits were provided through a separate plan which was subsequently terminated. Existing and future pension assets and pension liabilities were transferred to the Employees' Plan at that time.

Retirement benefits for employees are calculated as a fixed percent (often referred to as "the multiplier") of the employee's final average earnings (FAE) times the employee's years of service. The fixed percentage and final average earnings vary depending on the date of hire as follows:

<u>Date of Hire</u>	<u>Fixed percent of FAE (multiplier)</u>	<u>Final Average Earnings</u>
On or before 10/01/2007	2.0%	Highest 36 consecutive months
10/02/2007 – 10/01/2012	2.0%	Highest 48 consecutive months
On or after 10/02/2012	1.8%	Highest 60 consecutive months

For service earned prior to 10/01/2012, the lesser number of unused sick leave or personal critical leave bank credits earned on or before 09/30/2012 or the unused sick leave or personal critical leave bank credits available at the time of retirement may be credited towards the employee's years of service for that calculation. For service earned on or after 10/01/2012, no additional months of service will be credited for unused sick leave or personal critical leave bank credits.

Retirement eligibility is also tiered based on date of hire as follows:

Employees are eligible for normal retirement:

- If the date of hire occurred on or before 10/02/2007, after accruing 20 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 65 while still employed.
- If the date of hire was between 10/02/2007 and 10/01/2012, after accruing 25 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 65 while still employed.
- If the date of hire was on or after 10/02/2012, after accruing 30 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 65 while still employed.

Employees are eligible for early retirement:

- If the date of hire occurred on or before 10/01/2012, after accruing 15 years of pension service credit and reaching age 55 while still employed.
- If the date of hire was on or after 10/02/2012, after accruing 20 years of pension service credit and reaching age 60 while still employed.
- Under the early retirement option, the benefit is reduced by 5/12th of one percent for each month (5% for each year) by which the retirement date is less than the date the employee would reach age 65.
- Employees receive a deferred vested benefit if they are terminated after accruing five years of pension service credit but prior to eligibility for regular retirement. Those employees will be eligible to receive a benefit starting at age 65.

A 2% cost of living adjustment (COLA) is applied to retirements benefits each October 1st if the retiree has reached eligibility for COLA prior to that date. Eligibility for COLA is determined as follows:

- If the retiree had at least 20 years of credited service prior to 10/01/2012 and had at least 20 years but less than 25 years of credited service upon retirement, COLA begins after reaching age 62.
- If the retiree had at least 20 years of credited service prior to 10/01/2012 and had at least 25 years of credited service upon retirement, COLA begins after reaching age 60.
- If the retiree was hired on or before 10/01/2012 and had less than 20 years of credited service on or before 10/01/2012 and 25 years or more of credited service upon retirement, COLA begins after reaching age 65.
- If the retiree was hired after 10/01/2012 and had 30 years or more of credited service upon retirement, COLA begins after age 65.

Employees hired on or before 10/01/2012 are eligible to participate in the deferred retirement option plan ("DROP") when they have completed 27 years of credited service and are still employed by the City. Such employees retire from the Employees' Plan but continue to work for the City. The retirement benefit is calculated as if the employee had terminated employment and is paid to a DROP account held within the pension plan until the employee actually leaves the employment of the City. While in DROP, these payments earn a guaranteed rate of annual interest, compounded monthly. For employees who entered DROP on or before 10/01/2012, DROP balances earn 6% annual interest. For employees who entered DROP on or after 10/02/2012, DROP balances earn 2.25% annual interest. Employees may continue in the DROP for a maximum of 5 years or until reaching 35 years of service, whichever occurs earlier. Upon actual separation from employment, the monthly retirement benefits begin being paid directly to the retiree and

the retiree must take their DROP balance plus interest as a lump-sum cash disbursement, roll into a retirement account or choose a combination of the two options.

Death benefits are paid as follows:

- If an active member retires after reaching normal retirement eligibility and had selected a tentative benefit option, benefit payments will be made to the beneficiary in accordance with the option selected.
- If an active member who is married dies after reaching normal retirement eligibility and did not previously select a tentative benefit option, the plan assumes the employee retired the day prior to death and elected the Joint & Survivor option naming their spouse as their beneficiary.
- If an active member who is not married dies after reaching normal retirement eligibility and did not previously select a tentative benefit option, or if an active member dies prior to reaching normal retirement eligibility, or if a non-active member with a deferred vested benefit dies before age 65, the death benefit is a refund of the member's contributions without interest to the beneficiary on record.
- Continuation of retirement benefits after the death of a retiree receiving benefits is contingent on the payment option selected upon retirement. If the retiree has chosen a life annuity and dies prior to receiving benefits greater than the retiree's contributions to the plan, a lump sum equal to the difference is paid to the beneficiary on record.

Disability benefits are paid to eligible regular employees of the City who become totally and permanently unable to perform substantial work for pay within a 50-mile radius of the home or city hall, whichever is greater, and who is wholly and continuously unable to perform any and every essential duty of employment, with or without a reasonable accommodation, or of a position to which the employee may be assigned. The basic disability benefit is equal to the greater of the employee's years of service credit times 2% with a minimum 42% for in line of duty disability and a minimum 25% for other than in line of duty disability, times the employee's final average earnings as would be otherwise calculated under the plan. The benefit is reduced by any disability benefit percent up to a maximum of 50% multiplied by the monthly Social Security primary insurance amount to which the employee would be initially entitled to as a disabled worker, regardless of application status. The disability benefit is limited to the lesser of \$3,750 per month or an amount equal to the maximum benefit percent, less reductions above and the initially determined wage replacement benefit made under workers' compensation laws.

Employees covered by benefit terms. At September 30, 2016, the following employees were covered by the benefit terms:

Active employees	1,465
Inactive employees:	
Retirees and beneficiaries currently receiving benefits	1,225
Terminated Members and survivors of deceased members entitled to benefits but not yet receiving benefits	<u>431</u>
Total	3,121

Contribution Requirements. The contribution requirements of plan members and the City are established and may be amended by City Ordinance approved by the City Commission. The City is

required to contribute at an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City contributes the difference between the actuarially determined rate and the contribution rate of employees. Plan members are required to contribute 5% of their annual covered salary. The rate for fiscal year 2016 was 16.88% of covered payroll. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003A. The proceeds from this issue were utilized to retire the unfunded actuarial accrued liability at that time in the Employees' Plan. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

Net Pension Liability. The net pension liability related to the Employee's Plan was measured as of September 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015 and October 1, 2014, for September 30, 2016 and 2015, respectively.

The components of the net pension liability at September 30, 2016 were as follows (in thousands):

Components of Net Pension Liability

Total pension liability	\$485,659
Plan fiduciary net position	<u>(357,298)</u>
City's net pension liability	<u>\$128,361</u>
Plan fiduciary net position as a percentage of the total pension liability	73.57%

Significant Actuarial Assumptions. The total pension liability as of September 30, 2016 was determined based on a roll-forward of entry age normal liabilities from the October 1, 2015 actuarial valuation to the pension plan's fiscal year end of October 1, 2015, using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Assumptions

Inflation	3.75%
Salary Increases	7.00% to 3.75%
Investment Rate of Return	8.20%, net of pension investment expenses

Mortality Rate:

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table-Dynamic with projection to valuation year.

Long-term Expected Rate of Return:

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These estimates

are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table:

Development of Long Term Discount Rate for General Employees' Pension Plan

		Real Risk		Total		
	<u>Inflation</u>	<u>Free</u>	<u>Risk</u>	<u>Expected</u>	<u>Policy</u>	<u>Policy</u>
		<u>Return</u>	<u>Premium</u>	<u>Return</u>	<u>Allocation</u>	<u>Return</u>
Domestic Equity	3.00%	2.00%	4.50%	9.50%	50.00%	4.75%
Intl Equity	3.00	2.00	5.50	10.50	30.00	3.15
Domestic Bonds	3.00	2.00	0.50	5.50	2.00	0.11
Intl Bonds	3.00	2.00	1.50	6.50	0.00	0.00
Real Estate	3.00	2.00	2.50	7.50	16.00	1.20
Alternatives	3.00	2.00	3.50	7.50	0.00	0.00
US Treasuries	3.00	0.00	0.00	3.00	0.00	0.00
Cash	3.00	(2.00)	0.00	1.00	<u>2.00</u>	<u>0.02</u>
Total					100.00	9.23

Discount Rate:

The discount rates used to measure the total pension liability were 8.20% and 8.30% as of September 30, 2016 and 2015, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2015	\$470,947,246	\$334,603,947	\$136,343,299
Changes for the year:			
Service cost	7,789,638	-	7,789,638
Interest	38,189,162	-	38,189,162
Differences between expected and actual experience	1,125,190	-	1,125,190
Transfer from terminated Disability Plan	-	-	-
Changes to assumptions	4,860,706	-	4,860,706
			(13,481,032)
Contributions – employer	-	13,481,032)
Contributions – employee	-	7,947,069	(7,947,069)
			(39,190,078)
Net investment income	-	39,190,078)
Benefit payments, including refunds and DROP payouts	(37,252,988)	(37,252,988)	-
Administrative expense	-	(670,867)	670,867
Net changes	<u>14,711,708</u>	<u>22,694,324</u>	<u>(7,982,616)</u>
	<u>\$485,658,954</u>		<u>\$128,360,683</u>
Balances at 09/30/2016	<u>4</u>	<u>\$357,298,271</u>	<u>3</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the net pension liability, calculated using the discount rate of 8.2%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.2%) or 1 percentage-point higher (9.2%) than the current rate:

	1% Decrease (7.2%)	Current Discount Rate (8.2%)	1% Increase (9.2%)
Net pension liability (in thousands)	\$192,073,538	\$128,360,683	\$74,692,322

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Employees' Plan financial report.

Pension expense and deferred outflows of resources and deferred inflows of resources. For the year ended September 30, 2016, the City recognized pension expense for the Employees' Plan of \$6,161,128. At September 30, 2016, the City reported deferred outflows of resources related to the Employees' Plan from the following sources:

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$2,193,813
Net difference between projected and actual earnings on pension plan investments	14,434,957
Changes to assumptions	<u>16,684,358</u>
Total	<u>\$35,313,128</u>

Amounts reported as deferred outflows of resources related to the Employees' Plan will be recognized in pension expense as follows (in thousands):

<u>Fiscal Year</u>	
2017	\$8,027
2018	8,027
2019	8,027
2020	1,550
Thereafter	0

Disability Plan

The Disability Plan was a contributory defined benefit single-employer plan that covered all permanent employees of the City, except police officers and firefighters whose disability plan is incorporated in the Consolidated Plan. The Disability Plan was terminated during the fiscal year ended September 30, 2015. The net pension liability and related pension assets in an amount which covered the liability were transferred into the Employees' Plan. Assets representing the overfunded portion were disbursed to the Utility Fund and General Capital Projects Fund.

Consolidated Plan

The Consolidated Plan is a contributory defined benefit single-employer pension plan that covers City sworn police officers and firefighters. The Plan is established under City of Gainesville Code of Ordinances, Article 7, Chapter 2, Division 8. It complies with the provisions of Chapter 112, Part VII, Florida Statutes; Chapter 22D-1 of the Florida Administrative Code; Chapters 175 and 185, Florida Statutes; and Article X, Section 14 of the Florida Constitution, governing the establishment, operation and administration of plans.

The basis of accounting for the Consolidated Plan is accrual. Benefits and refunds of the defined benefit pension plan are recognized when due and payable in accordance with the terms of the plan. The costs of administering the plan, like other plan costs, are captured within the plan itself and financed through contribution and investment income, as appropriate.

The City of Gainesville issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. That report may be obtained by

writing to City of Gainesville, Finance Department, P.O. Box 490, Gainesville, Florida 32627 or by calling (352) 334-5054.

Benefits Provided for Police Officers. The Consolidated Plan provides retirement, disability and death benefits. Retirement benefits for employees are calculated as a fixed percent (often referred to as "the multiplier") of the employee's final average earnings (FAE) times the employee's years of service. For Police Officers, the final average monthly earnings (FAME) is the average of pensionable earnings during the 36 to 48 month period (depending on date of hire) that produces the highest earnings. For Police Officers,, the benefit multiplier is 2.5% for credited service before 10/01/2005, 2.625% for credited service from 10/01/2005 to 07/01/2013 and 2.5% for credited service on and after 07/01/2013.

Retirement eligibility for Police Officers is tiered based on date of hire as follows:

Employees are eligible for normal retirement:

- If the date of hire occurred prior to 07/01/2013, after accruing 20 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 55 while still employed, or attaining a combination of credited service and age that equals seventy (Rule of Seventy).
- If the date of hire was on or after 07/01/2013, after accruing 25 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 55 while still employed, or attaining a combination of credited service and age that equals seventy.

Employees are eligible for early retirement:

- After accruing 10 years of pension service credit and reaching age 50 while still employed.
- Under the early retirement option, the benefit is reduced 3% for each year by which the retirement date is less than the date the employee would reach age 55.

Employees may choose to receive a refund on contributions to the plan or to receive a deferred vested benefit if they are terminated after accruing 10 years of pension service credit but prior to eligibility for regular retirement. Those employees will be eligible to receive a benefit starting at age 55 with no reduction or at age 50 with the early retirement penalty above.

A 1-2% cost of living adjustment (COLA) is applied to retirement benefits each October 1st if the retiree has reached eligibility for COLA prior to that date. Eligibility for COLA is determined as follows:

- If the retiree was eligible for retirement on or before 07/01/2013 and had at least 25 years of credited service upon retirement, 2% COLA begins after reaching age 55.
- If the retiree was eligible for retirement on or before 07/01/2013 had 20 years of credited service upon retirement, 2% COLA begins after reaching age 62.
- If the retiree was eligible for retirement after 07/01/2013 and had 25 years of credited service upon retirement 1% COLA begins after reaching age 55 and the COLA increases to 2% after reaching age 62.

- If the retiree retired under the Rule of Seventy with less than 20 years of credited service upon retirement, COLA begins after age 62. Effective July 1, 2013, Police Officers retiring under the Rule of Seventy are ineligible for COLA.

Benefits Provided for Firefighters. The Consolidated Plan provides retirement, disability and death benefits. Retirement benefits for employees are calculated as a fixed percent (often referred to as "the multiplier") of the employee's final average earnings (FAE) times the employee's years of service. For Firefighters, the final average monthly earnings (FAME) is the average of pensionable earnings during the 36 month period that produces the highest earnings. For Firefighters, the benefit multiplier is 2.5% for credited service before 10/01/2005, 2.625% for credited service from 10/01/2005 to 12/31/2013 and 2.5% for credited service on and after 01/01/2014.

For service earned prior to 01/01/2014, the lesser number of unused sick leave credits earned on or before 12/31/2013 or the unused sick leave bank credits available at the time of retirement may be credited towards the employee's years of service for that calculation. For service earned on or after 01/01/2014, no additional months of service will be credited for unused sick leave credits.

Retirement eligibility for Firefighters is as follows:

Employees are eligible for normal retirement:

- If the date of hire occurred prior to 01/01/2014, after accruing 20 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 55 while still employed, or attaining a combination of credited service and age that equals seventy (Rule of Seventy).
- If the date of hire was on or after 01/01/2014, after accruing 25 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 55 while still employed, or attaining a combination of credited service and age that equals seventy.

Employees are eligible for early retirement:

- After accruing 10 years of pension service credit and reaching age 50 while still employed.
- Under the early retirement option, the benefit is reduced 3% for each year by which the retirement date is less than the date the employee would reach age 55.

Employees may choose to receive a refund on contributions to the plan or to receive a deferred vested benefit if they are terminated after accruing 10 years of pension service credit but prior to eligibility for regular retirement. Those employees will be eligible to receive a benefit starting at age 55 with no reduction or at age 50 with the early retirement penalty above.

A 2% cost of living adjustment (COLA) is applied to retirement benefits each October 1st if the retiree has reached eligibility for COLA prior to that date. Eligibility for COLA is determined as follows:

- If the retiree had at least 25 years of credited service upon retirement, COLA begins after reaching age 55.

- If the retiree had 20 years of credited service upon retirement, COLA begins after reaching age 62.
- If the retiree retired under the Rule of Seventy with less than 20 years of credited service upon retirement, COLA begins after age 62.

Benefits Provided to Both Police Officers and Firefighters. Employees are eligible to participate in the deferred retirement option plan (DROP) when they have completed 25 years of credited service and are still employed by the City (or meet the Rule of Seventy). Such employees retire from the Consolidated Plan but continue to work for the City. The retirement benefit is calculated as if the employee had terminated employment and is paid to a DROP account held within the pension plan until the employee actually leaves the employment of the City. While in DROP, these payments earn a guaranteed rate of annual interest, (5.5% for Firefighters and 4.5% for Police Officers) compounded monthly. Employees may continue in the DROP for a maximum of 5 years or until reaching 35 years of service, whichever occurs earlier. Upon actual separation from employment, the monthly retirement benefits begin being paid directly to the retiree and the retiree must take their DROP balance plus interest as a lump-sum cash disbursement, roll into a retirement account or choose a combination of the two options. The Consolidated Plan also provides for a reverse DROP option.

Death benefits are paid as follows:

- If an active member retires after reaching normal retirement eligibility and had selected a tentative benefit option, benefit payments will be made to the beneficiary in accordance with the option selected.
- If an active member with less than ten years of service dies before reaching normal retirement eligibility, the death benefit is a refund to the beneficiary of 100% of the member contributions without interest.
- If an active member with at least ten years of service dies before reaching normal retirement eligibility, the beneficiary is entitled to the benefits otherwise payable to the employee at early or normal retirement age, based on the accrued benefit at the time of death.
- Continuation of retirement benefits after the death of a retiree receiving benefits is contingent on the payment option selected upon retirement. If the retiree has chosen a life annuity and dies prior to receiving benefits greater than the retiree's contributions to the plan, a lump sum equal to the difference is paid to the beneficiary on record.

Disability Benefits – The monthly benefit for a service-incurred disability is the greater of the employee's accrued benefit as of the date of disability or 42% of the FAME. The monthly benefit for a non-service-incurred disability is the greater of the accrued benefit as of the date of disability or 25% of the FAME. Payments continue until the death of the member or until the 120th payment, payable to the designated beneficiary if no option is elected. There is no minimum eligibility requirement if the injury or disease is service-incurred. If the injury or disease is not service-incurred, the employee must have at least five years of service to be eligible for disability benefits.

Employees covered by benefit terms. At September 30, 2016, the following employees were covered by the benefit terms:

Active employees	389
Inactive employees:	
Retirees and beneficiaries currently receiving benefits	410
Vested terminated members entitled to future benefits	<u>19</u>
Total	818

Contribution Requirements . The contribution requirements of plan members and the City are established and may be amended by City Ordinance approved by the City Commission in accordance with Part VII, Chapter 112, Florida Statutes.

The City is required to contribute at an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Firefighters contribute 9.0% of gross pay and Police Officers contribute 7.5% of gross pay. The City's contribution rate for fiscal year 2016 was 14.04% of covered payroll for police personnel and 18.11% for fire personnel. This rate was influenced by the issuance of the Taxable Pension Obligation Bonds, Series 2003B. In addition, State contributions, which totaled \$1,242,741, are also made to the plan on behalf of the City under Chapters 175/185, Florida Statutes. These State contributions are recorded as revenue and personnel expenditures in the City's General Fund before they are recorded as contributions in the Consolidated Pension Fund. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

Net Pension Liability. The net pension liability related to the Consolidated Plan was measured as of September 20, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The components of the net pension liability at September 30, 2016 were as follows:

Components of Net Pension Liability

Total pension liability	\$258,251,636
Plan fiduciary net position	<u>(205,667,930)</u>
City's net pension liability	<u>\$ 52,583,706</u>
Plan fiduciary net position as a percentage of the total pension liability	79.64%

Significant Actuarial Assumptions. The total pension liability as of September 30, 2016 was determined based on a roll-forward of entry age normal liabilities from the October 1, 2015 actuarial valuation, using the following actuarial assumptions, applied to all periods included in the measurement.

Actuarial Assumptions

Inflation	3.00%
Salary Increases for employees age less than 30	7.00%
Salary Increases for employees age 30 to 34	6.00%
Salary Increases for employees age 35 to 39	5.00%
Salary Increases for employees age 40 and older	4.00%
Investment Rate of Return	8.20%, net of pension investment expenses

Mortality Rate:

Mortality rates were based on the RP-2000 Combined Fully Generated Mortality Table with Blue Collar adjustment based on Mortality Improvement Scale AA. 50% of deaths among active members are assumed to be service incurred, and 50% are assumed to be non-service incurred. Disabled mortality is based on the RP-2000 Disability Retiree Mortality Table.

Other Assumptions:

The actuarial assumptions used as of September 30, 2016 were based on the assumptions approved by the Board in conjunction with an experience study covering the 5 year period ending on September 30, 2010. Due to plan changes first valued in the October 1, 2012 actuarial valuation, changes to the assumed retirement rates and the valuation methodology for the assumed increase in benefit service for accumulated sick leave and accumulated vacation paid upon termination were made. Payroll growth assumptions were updated in 2012 and investments were reviewed by the Board in February of 2015 based on an asset liability study reflecting the current investment policy.

Long-Term Expected Rate of Return:

The long-term expected rate of return on pension plan investments was determined over a 30 year time horizon based on the allocation of assets as shown in the current investment policy using the expected geometric return, expected arithmetic return and the standard deviation arithmetic return. The analysis represented investment rates of return net of investment expenses. The return is expected to be above 8.75% for 60% of market simulations and below 8.75% for 40% of the market simulations.

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Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table:

Development of Long Term Discount Rate – Arithmetic

	<u>Inflation</u>	Total Expected <u>Return</u>	Policy <u>Allocation</u>	30-Year Policy <u>Return</u>
US Large Cap	3.04%	11.56%	35.00%	4.05%
US Small Cap	3.04	13.70	20.00	2.74
Global Equity ex US	3.04	10.70	20.00	2.14
US Govt Credit	3.04	4.84	12.50	0.61
NCREIF	3.04	9.87	12.50	1.23
Total			100.00%	10.76%

Discount Rate:

The discount rate used to measure the total pension liability was 8.2%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member and State contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2014	\$245,915,632	\$217,047,910	\$28,867,722
Changes for the year:			
Service cost	4,094,841	-	4,094,841
Interest	23,375,806	-	23,375,806
Differences between expected and actual experience	(140,568)	-	(140,568)
Changes to assumptions	2,608,508	-	2,608,508
Contributions - employer	-	3,682,847	(3,682,847)
Contributions - employee	-	1,972,417	(1,972,417)
Contributions - state	-	1,269,827	(1,269,827)
Net investment income	-	(93,259)	93,259
Benefit payments, including refunds and DROP payouts	(17,602,583)	(17,602,583)	-
Administrative expense	-	(609,229)	609,229
Net changes	12,336,004	(11,379,980)	23,715,984
Balances at 09/30/2015	<u>\$258,251,636</u>	<u>\$205,667,930</u>	<u>\$52,583,706</u>

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the net pension liability, calculated using the discount rate of 8.2%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7.2%) or 1 percentage-point higher (9.2%) than the current rate:

	1% Decrease (7.2%)	Current Discount Rate (8.2%)	1% Increase (9.2%)
Net pension liability	\$81,481,528	\$52,583,706	\$28,464,934

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Consolidated Plan financial report.

Pension expense and deferred outflows of resources and deferred inflows of resources. For the year ended September 30, 2016, the City recognized pension expense for the Consolidated Plan of \$10,739,415. At September 30, 2016, the City reported deferred outflows of resources and deferred inflows of resources related to the Consolidated Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflow of Resources
City contributions after measurement date	\$3,716,354	-
Net difference between projected and actual earnings on pension plan investments	14,069,711-	\$(3,303,002)
Difference between expected and actual experience	<u>3,620,766</u>	<u>(113,536)-</u>
Total	<u>\$21,406,831</u>	<u>\$(3,416,538)</u>

The \$3,716,354 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Consolidated Plan will be recognized in pension expense as follows:

<u>Fiscal Year</u>	
2017	\$3,395,663
2018	3,395,663
2019	3,395,663
2020	3,992,031
Thereafter	94,920

APPENDIX B

AUDITED FINANCIAL STATEMENTS

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**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
GAINESVILLE REGIONAL UTILITIES
GAINESVILLE, FLORIDA
SEPTEMBER 30, 2016 AND 2015**

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

**GAINESVILLE REGIONAL UTILITIES
GAINESVILLE, FLORIDA**

SEPTEMBER 30, 2016 AND 2015

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INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Commissioners
Gainesville, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Gainesville Regional Utilities (the Utility) of the City of Gainesville, Florida (the City), as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Utility of the City, as of September 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

To the Honorable Mayor and City Commissioners
Gainesville, Florida

INDEPENDENT AUDITORS' REPORT
(Continued)

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the schedule of changes in net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The Utility omitted these schedules as they are included in the City's comprehensive annual financial report. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The schedules of net revenues in accordance with bond resolution, combining statements of net position and changes in net position, and schedules of utility plant properties and accumulated depreciation and amortization on pages 83 through 95, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the basic financial statements as a whole.

To the Honorable Mayor and City Commissioners
Gainesville, Florida

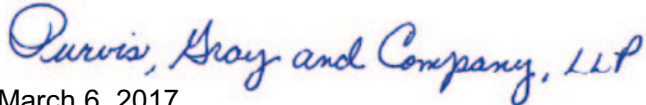
INDEPENDENT AUDITORS' REPORT
(Concluded)

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Utility and do not purport to, and do not present fairly the financial position of the City, as of September 30, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2017, on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Purvis, Gray and Company, LLP".

March 6, 2017
Gainesville, Florida

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

Management's Discussion and Analysis

Gainesville Regional Utilities (GRU or the Utility) is a combined municipal utility operating electric, water, wastewater, natural gas, and telecommunications (GRUCom) systems. GRU is a utility enterprise of the City of Gainesville, Florida (City) and is reported as an enterprise fund in the Comprehensive Annual Financial Report of the City.

We offer readers of GRU's financial statements this management's discussion and analysis of the financial activities of GRU for the fiscal years ended September 30, 2016, 2015, and 2014. It should be read in conjunction with the financial statements that follow this section.

Required Financial Statements

Statement of Net Position

This statement includes all of GRU's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

Statement of Revenues, Expenses, and Changes in Net Position

The current and prior year revenues and expenses are reported in this statement along with the resulting change in net position. This statement measures the success of the combined Utility's operations over the past year.

Statement of Cash Flows

The primary purpose of this statement is to provide information about the combined Utility's cash receipts and cash payments during the fiscal year. This statement reports cash receipts, cash payments, and changes in cash resulting from operating, capital and noncapital financing, and investing activities.

Notes to Financial Statements

The notes provide additional information that is essential to fully understand the information provided in the financial statements.

Management's Discussion and Analysis (continued)

Financial Analysis of Gainesville Regional Utilities

GRU's net position increased \$1.9 million and \$1.4 million for fiscal years 2016 and 2015, respectively, and decreased \$1.7 million for fiscal year 2014. The Condensed Statements of Net Position and Condensed Statements of Revenues, Expenses, and Changes in Net Position follow (in thousands).

Gainesville Regional Utilities Condensed Statements of Net Position

	2016	2015	2014
Current assets	\$128,918	\$126,006	\$130,712
Restricted and internally designated assets	202,918	240,828	193,442
Noncurrent assets	130,447	113,580	90,701
Capital assets, net	2,144,929	2,166,088	2,196,231
Deferred outflows of resources	127,084	123,985	79,515
Total assets and deferred outflows of resources	<u>\$2,734,296</u>	<u>\$2,770,487</u>	<u>\$2,690,601</u>
Current liabilities	69,957	72,728	70,894
Payable from restricted assets	158,745	55,277	52,029
Long-term debt	1,873,880	2,004,375	1,969,083
Noncurrent liabilities	74,928	91,287	60,819
Deferred inflows of resources	79,822	71,714	64,117
Total liabilities and deferred inflows of resources	<u>2,257,332</u>	<u>2,295,381</u>	<u>2,216,942</u>
Net position:			
Net investment in capital assets	265,323	288,245	314,615
Restricted	82,186	77,427	60,370
Unrestricted	129,455	109,434	98,674
Total net position	<u>476,964</u>	<u>475,106</u>	<u>473,659</u>
Total liabilities, deferred inflows of resources and net position	<u>\$2,734,296</u>	<u>\$2,770,487</u>	<u>\$2,690,601</u>

Management's Discussion and Analysis (continued)

Gainesville Regional Utilities Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2016	2015	2014
Operating revenue	\$433,818	\$425,941	\$405,895
Interest income	661	607	714
Other income, BABs	18,699	13,029	5,561
Total revenues	453,178	439,577	412,170
Operating expenses	379,978	366,437	340,247
Interest expense, net of AFUDC	37,811	38,205	37,816
Total expenses	417,789	404,642	378,063
Income before contributions, transfer, and extraordinary item	35,388	34,935	34,107
Capital contributions, net	1,464	1,404	1,525
Transfer to City of Gainesville General Fund	(34,994)	(34,892)	(37,317)
Change in net position	1,858	1,447	(1,685)
Net position, beginning of year	475,106	473,659	475,344
Net position, end of year	\$476,964	\$475,106	\$473,659

Financial Highlights

The most significant changes in GRU's financial condition are summarized below:

- Gross utility plant in service increased \$83 million, or 4.7%, in fiscal year 2016. The increase was due primarily to completion of generation, distribution, and control systems facilities. Gross utility plant increased \$59 million, or 2.2% in fiscal year 2015 due to the completion of the Paynes Prairie Sheetflow Restoration project, increases in generation facilities, water supply facilities, and transmission and distribution facilities and increased \$1 billion, or 62% in fiscal year 2014. See Capital Assets within this Management's Discussion and Analysis section, Note 4 Capital Assets, and Note 6 Capital Lease for additional information.
- Long-term debt decreased \$22.2 million, or 2.3%, in fiscal year 2016, due to scheduled principal payments. Long-term debt increased \$22.8 million, or 2.4%, in fiscal year 2015, due to the issuance of utility system revenue bonds and commercial paper notes in December 2014. See Long-Term Debt within this Management's Discussion and Analysis section, Note 6 Capital Lease, and Note 8 Long-Term Debt for additional information.

Management's Discussion and Analysis (continued)

Financial Highlights (*Concluded*)

- GRU is completing remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$28.7 million and GRU estimates that total project costs will be approximately \$29.3 million. GRU accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being recognized as customer revenues are received. See Note 14 Commitments and Contingencies for additional information.
- Sales and service charges increased \$0.9 million or 0.3%, increased \$10.2 million or 2.8%, and increased \$41.3 million or 13% in fiscal years 2016, 2015, and 2014, respectively. The increase in sales and service charges in fiscal year 2016 is the result of increases associated with sales, modest base rate increases in the water, wastewater, and gas systems offset by a reduction in the fuel adjustment rates. The increase in sales and service charges in fiscal years 2015 and 2014 is the result of base rate and fuel adjustment increases implemented in October 2014 and 2013.
- Operating expenses increased \$13.5 million or 3.7%, increased \$26.2 million or 7.7%, and increased \$64.2 million or 23.3% in fiscal years 2016, 2015, and 2014, respectively. The increase in operating expenses in fiscal year 2016 is due to increases in operation, maintenance, and administrative expenses. The increase in operating expenses in fiscal years 2015 and 2014 is due primarily to power purchased from a biomass facility.
- Transfers to rate stabilization were \$2.4 million in fiscal year 2016, \$7.7 million in fiscal year 2015, and \$8.9 million in fiscal year 2014 as a result of revenue increases in each year.
- The number of customers for electric services increased 0.3%, water services increased 0.9%, wastewater services increased 1%, and gas services increased 1% in fiscal year 2016. The number of customers for electric services increased 0.8%, water services increased 0.9%, wastewater services increased 1%, and gas services increased 1.1% in fiscal year 2015. The number of customers for electric services increased 0.9%, water and wastewater services increased 0.6%, and gas services increased 0.9% in fiscal year 2014.
- On October 1, 2016, GRU implemented a 3% increase in the revenue requirement for the water system, a 3% increase for the wastewater system, and a 9% increase for the gas system. The electric system experienced no increase or decrease in the revenue requirement, primarily due to reductions in operating expenses through increased efficiency and management of assets.

Management's Discussion and Analysis (continued)

Capital Assets

GRU's investment in capital assets as of September 30, 2016, was \$2.1 billion (net of accumulated depreciation and amortization). The decrease in net capital assets for fiscal year 2016 was 1%. In fiscal year 2015, the decrease in net capital assets was 1.4%. The net increase in capital assets for 2014 was 82%, primarily due to a capital lease related to the Gainesville Renewable Energy Center (GREC) biomass plant.

The following table summarizes GRU's capital assets, net of accumulated depreciation and amortization, for the years ended September 30, 2016, 2015, and 2014 (in thousands).

Gainesville Regional Utilities Capital Assets (net of accumulated depreciation)

	2016	2015	2014
Generation	\$1,304,581	\$1,338,731	\$1,373,668
Transmission, distribution, and collection	484,350	481,293	465,826
Treatment	124,791	87,378	80,916
General plant	121,515	127,090	133,832
Construction work in progress	109,692	131,596	141,989
Total net utility plant	<u>\$2,144,929</u>	<u>\$2,166,088</u>	<u>\$2,196,231</u>

Major capital asset events during the fiscal years include:

- GRU initially recorded a capital lease asset during fiscal year 2014 when GREC began commercial operations in December 2013. The capital lease asset was recorded at \$1 billion at September 30, 2016, 2015, and 2014, respectively. See Note 6 Capital Lease for additional information.
- Electric transmission and distribution expansion was \$13.5 million in fiscal year 2016, \$11.4 million in fiscal year 2015, and \$12.1 million in fiscal year 2014. For 2016, \$6.3 million was spent on underground system improvements.
- Electric generation capital expenditures were \$10 million for fiscal year 2016. These expenditures included \$2.7 million for the John R Kelly (JRK) generating station and \$7.3 million for the Deerhaven (DH) generating station.
- Water capital expenditures were \$7.2 million in fiscal year 2016 with \$2.4 million for supply, pumping, and treatment and \$4.1 million for transmission and distribution.
- Wastewater capital expenditures were \$16.9 million in 2016. This included \$8.5 million spent on the Kanapaha Biosolids Dewatering program.

Management's Discussion and Analysis (continued)

Capital Assets (Concluded)

- Gas distribution expansion expenditures were \$3.1 million in 2016, \$3.8 million in 2015, and \$3 million in 2014. This expansion included expenditures of \$1.1 million in gas distribution mains, \$0.8 million in residential gas services, and \$0.7 million in meter change outs.

Additional information may be found in Note 4 Capital Assets.

Long-Term Debt

At September 30, 2016, 2015, and 2014, GRU had total long-term debt outstanding of \$1.9 billion, \$1.9 billion, and \$1.9 billion, respectively, comprised of utilities system revenue bonds, commercial paper notes, and a capital lease (in thousands).

Gainesville Regional Utilities Outstanding Debt at September 30:

	2016	2015	2014
Utilities system revenue bonds	\$ 889,075	\$ 905,880	\$ 885,950
Commercial paper notes	59,500	64,900	62,000
Capital lease	959,679	977,280	994,108
Total	<u>\$ 1,908,254</u>	<u>\$ 1,948,060</u>	<u>\$ 1,942,058</u>

Major long-term debt events during the fiscal years include:

- In December 2014, the City issued two series of 2014 Utilities System Revenue Bonds. The 2014 Series A Bonds in the amount of \$38 million were issued to provide funds for the payment of the cost and acquisition and construction of certain improvements to the System.
- Also in December 2014, the 2014 Series B Bonds in the amount of \$31 million were issued to provide funds to refund a portion of the 2005 Series A Bonds and a portion of the 2008 Series A Bonds.
- During fiscal year 2016, GRU reduced utilities system revenue bonds and commercial paper notes by \$22.2 million through scheduled principal payments.
- As a result of the start of commercial operation of the GREC biomass plant in December 2013, GRU recorded a capital lease liability of \$959.7 million, \$977.3 million, and \$994.1 million at September 30, 2016, 2015, and 2014, respectively. See Note 6 Capital Lease for additional information.

Management's Discussion and Analysis (continued)

Long-Term Debt (*Concluded*)

- The Utility has ratings of Aa2, AA-, and AA- with Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively, for utility system revenue bonds. The Utility has ratings of P-2 or better, A-2 or better, and F2 or better with Moody's Investors Service, Standard & Poor's, and Fitch Ratings, respectively, for commercial paper notes. In November 2015, Standard & Poor's lowered its ratings on long-term debt from AA to AA- citing GRU's commitment to making fixed payments to GREC.

Additional information may be found in Note 8 Long-Term Debt.

Currently Known Facts or Conditions that May Have a Significant Effect on GRU's Financial Condition or Results of Operations

- GRU management, with the approval of the City Commission, entered into a long-term contract to obtain dependable capacity, energy, and environmental attributes from GREC's 100 megawatt biomass fueled power plant. The facility is located on a portion of land leased from GRU's Deerhaven power plant site and is owned by a third party. The plant became commercially operable in December 2013.
- On March 10, 2016, arbitration was filed by GREC with the American Arbitration Association (AAA) against GRU alleging that GREC did not have to perform a scheduled annual Planned Maintenance outage for April 2016. Prior to the dispute and the arbitration being filed with the AAA, GRU and GREC mutually agreed in writing to an annual Planned Maintenance Outage for twenty-one days, scheduled to take place April 9-29, 2016. GREC unilaterally cancelled the twenty-one day mutually agreed upon annual Planned Maintenance outage. Section 10.4.1(a) of the Power Purchase Agreement (PPA) requires GREC to submit a written annual maintenance plan containing its forecast of planned maintenance for the coming year no later than sixty (60) days prior to the start of each calendar year. Any and all changes to such plan shall be mutually agreeable to GREC and GRU. In April of 2016, GRU withheld \$4.1 million in Available Energy invoice payments related to the agreed upon annual Planned Maintenance outage. As of September 30, 2016, GRU has withheld approximately \$6.8 million for various commercial disputes related to the PPA. Both GRU and GREC have filed motions for summary judgment on several of the claims, and the briefing schedule on dispositive motions runs through January 24, 2017. For those outstanding claims that are not resolved by summary judgment, the arbitration hearing is scheduled for two weeks in June 2017, in Gainesville, Florida. Management believes that GRU has valid defenses to the claims, and GRU is vigorously defending such action. Due to the uncertainties of arbitration GRU, at this stage, cannot offer an opinion as to likely outcomes of the arbitration or the effect thereof. In the event, however, that this action is determined adversely to GRU, Management believes that such determination will not have a material adverse effect on the financial condition of GRU. See Note 14 Commitments and Contingencies for additional information.

Management's Discussion and Analysis (continued)

Currently Known Facts or Conditions that May Have a Significant Effect on GRU's Financial Condition or Results of Operations (*Concluded*)

- The primary factors currently affecting the utility industry include environmental regulations, restructuring of the wholesale energy markets, the formation of independent bulk power transmission systems, the formation of an Electric Reliability Organization (ERO) under Federal Energy Regulatory Commission jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida.
- Utilities, and particularly electric utilities, are subject to increasing federal, state, and local statutory and regulatory requirements with respect to the siting and licensing of facilities, safety and security, air and water quality, land use, and other environmental factors.
- On October 26, 2016, the EPA published an update to the Cross-State Air Pollution Rule ("CSAPR"). For three states, including Florida, the EPA is removing them from the CSAPR ozone season NOx trading program because modeling for the Final Rule indicates that these states do not contribute significantly to ozone air quality problems in downwind states. Therefore, GRU will not have to meet any ozone season limits in 2017 and probably 2018.
- In late 2011, the EPA promulgated the Mercury and Air Toxics Standards (MATS) to reduce emissions of toxic air pollutants from power plants which faced several legal challenges including a decision on June 29, 2015, by the U.S. Supreme Court reversing the District of Columbia Circuit Court's decision to uphold the EPA's rule establishing the standards. But since the Supreme Court did not vacate the rule, the MATS rule remained in effect. On April 14, 2016, the Administrator of the EPA signed the final supplemental finding in the MATS rule and concluded it is proper to regulate mercury emissions from power plants. GRU's Deerhaven (DH) Unit #2 is the only generation unit affected by the MATS rule and air quality control systems are currently in place at DH which enables this station to comply with these standards at a known cost for operations and reagents. See Note 14 Commitments and Contingencies for additional information.
- Legislation and regulation at the federal level has been proposed to mandate the use of renewable energy and to constrain the emission of greenhouse gases. GRU's institution of a solar feed-in-tariff and contract to purchase power from a 100 megawatt biomass fueled power plant will hedge against these uncertainties.
- GRU's long-term energy supply strategy is to encourage maximum cost effective energy conservation, renewable energy in combination with GRU owned generation, and purchased power while managing potential regulatory requirements. Based on the most recent forecasts, GRU has adequate reserves of generating capacity to meet forecasted loads plus a reserve margin through 2022. This forecast incorporates new population forecasts and changed economic circumstances.

Management's Discussion and Analysis (concluded)

Requests for Information

This financial report is designed to provide a general overview of GRU's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Gainesville Regional Utilities, P.O. Box 147117, Station A-105, Gainesville, Florida 32614-7117.

FINANCIAL STATEMENTS

Gainesville Regional Utilities
Statements of Net Position
September 30, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and investments	\$ 62,635,050	\$ 53,539,963
Accounts receivable, net of allowance for uncollectible accounts of \$837,332 and \$988,585, respectively	49,351,371	47,394,281
Inventories:		
Fuel	8,162,677	15,524,239
Materials and supplies	6,946,095	7,295,944
Other assets and regulatory assets	1,822,993	2,252,039
Total current assets	<u>128,918,186</u>	<u>126,006,466</u>
Restricted and internally designated assets:		
Utility deposits – cash and investments	9,891,380	9,256,442
Debt service – cash and investments	41,714,440	40,816,148
Rate stabilization – cash and investments	74,262,078	72,104,746
Construction fund – cash and investments	18,258,514	51,108,130
Utility plant improvement fund – cash and investments	58,792,082	55,023,201
Decommissioning reserve – cash and investments	–	12,518,938
Total restricted and internally designated assets	<u>202,918,494</u>	<u>240,827,605</u>
Noncurrent assets:		
Net costs recoverable in future years - regulatory asset	46,423,923	30,464,864
Unamortized debt issuance costs - regulatory asset	5,821,432	6,166,893
Investment in The Energy Authority	2,102,681	2,561,878
Pollution remediation - regulatory asset	12,826,026	13,839,247
Other noncurrent assets and regulatory assets	7,156,828	6,659,099
Pension regulatory asset	56,115,877	53,887,756
Total noncurrent assets	<u>130,446,767</u>	<u>113,579,737</u>
Capital assets:		
Utility plant in service	1,866,654,212	1,783,670,200
Capital lease	1,006,808,754	1,006,808,754
Less: accumulated depreciation and amortization	<u>(838,225,820)</u>	<u>(755,986,892)</u>
	2,035,237,146	2,034,492,062
Construction in progress	109,692,217	131,596,255
Net capital assets	<u>2,144,929,363</u>	<u>2,166,088,317</u>
Total assets	<u>2,607,212,810</u>	<u>2,646,502,125</u>
Deferred outflows of resources:		
Unamortized loss on refundings of bonds	24,766,323	28,160,367
Accumulated decrease in fair value of hedging derivatives	81,362,499	73,650,013
Pension costs	20,954,810	22,174,505
Total deferred outflows of resources	<u>127,083,632</u>	<u>123,984,885</u>
Total assets and deferred outflows of resources	<u><u>\$ 2,734,296,442</u></u>	<u><u>\$ 2,770,487,010</u></u>

Continued on next page.

See accompanying notes.

Gainesville Regional Utilities
Statements of Net Position (concluded)
September 30, 2016 and 2015

	2016	2015
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 21,154,977	\$ 14,819,222
Fuels payable	12,170,813	10,641,720
Due to other funds of the City	1,489,944	4,120,066
Capital lease – current portion	18,409,781	17,601,233
Fuel adjustment	14,831,564	18,799,724
Other liabilities and regulatory liabilities	1,899,847	6,745,982
Total current liabilities	<u>69,956,926</u>	<u>72,727,947</u>
Payable from restricted assets:		
Utility deposits	9,879,734	9,252,627
Construction fund:		
Accounts payable and accrued liabilities	9,213,425	5,013,087
Utilities system revenue bonds – current portion	107,535,000	16,805,000
Commercial paper notes – current portion	13,600,000	5,400,000
Accrued interest payable	18,516,765	18,806,345
Total payable from restricted assets	<u>158,744,924</u>	<u>55,277,059</u>
Long-term debt:		
Utilities system revenue bonds	781,540,000	889,075,000
Commercial paper notes	45,900,000	59,500,000
Capital lease	941,269,071	959,678,852
Unamortized bond premium/discount	17,990,208	19,078,029
Fair value of derivative instruments	87,180,294	77,042,767
Total long-term debt	<u>1,873,879,573</u>	<u>2,004,374,648</u>
Noncurrent liabilities:		
Reserve for insurance claims	3,337,000	3,337,000
Reserve for decommissioning CR3	–	11,621,938
Reserve for environmental liability	266,000	266,000
Net pension liability	71,325,377	76,062,261
Total noncurrent liabilities	<u>74,928,377</u>	<u>91,287,199</u>
Total liabilities	<u>2,177,509,800</u>	<u>2,223,666,853</u>
Deferred inflows of resources:		
Rate stabilization	74,077,388	71,714,541
Pension costs	5,745,310	–
Total deferred inflows of resources	<u>79,822,698</u>	<u>71,714,541</u>
Net position		
Net investment in capital assets	265,322,741	288,244,860
Restricted	82,186,093	77,427,024
Unrestricted	129,455,110	109,433,732
Total net position	<u>476,963,944</u>	<u>475,105,616</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 2,734,296,442</u></u>	<u><u>\$ 2,770,487,010</u></u>

See accompanying notes.

Gainesville Regional Utilities
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating revenue:		
Sales and service charges	\$ 379,830,526	\$ 378,901,113
Transfers to rate stabilization	(2,362,847)	(7,703,682)
Amounts to be recovered from future revenue	33,560,292	33,560,292
Other operating revenue	22,789,836	21,183,478
Total operating revenues	<u>433,817,807</u>	<u>425,941,201</u>
Operating expenses:		
Operation and maintenance	230,128,599	227,535,288
Administrative and general	50,506,178	43,447,535
Depreciation and amortization	99,343,149	95,454,204
Total operating expenses	<u>379,977,926</u>	<u>366,437,027</u>
Operating income	<u>53,839,881</u>	<u>59,504,174</u>
Non-operating income (expense):		
Investment income	661,066	606,556
Interest expense, net of AFUDC	(37,811,533)	(38,205,243)
Other interest related income, BABs	5,372,529	5,345,162
Other income (expense)	13,326,513	7,683,990
Total non-operating expense	<u>(18,451,425)</u>	<u>(24,569,535)</u>
Income before contributions and transfers	<u>35,388,456</u>	<u>34,934,639</u>
Capital contributions:		
Contributions from third parties	1,659,399	1,495,813
Reduction of plant costs recovered through contributions	(194,936)	(91,553)
Net capital contributions	<u>1,464,463</u>	<u>1,404,260</u>
Transfer to City of Gainesville General Fund	<u>(34,994,591)</u>	<u>(34,892,425)</u>
Change in net position	1,858,328	1,446,474
Net position – beginning of year	475,105,616	473,659,142
Net position – end of year	<u>\$ 476,963,944</u>	<u>\$ 475,105,616</u>

See accompanying notes.

Gainesville Regional Utilities
Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	2016	2015
Operating activities:		
Cash received from customers	\$ 379,135,491	\$ 378,309,615
Cash payments to suppliers for goods and services	(202,870,326)	(192,523,783)
Cash payments to employees for services	(54,591,582)	(54,469,560)
Cash payments for operating transactions with other funds	(6,629,986)	(6,767,533)
Other operating receipts	20,426,989	13,479,796
Net cash provided by operating activities	135,470,586	138,028,535
Noncapital financing activities:		
Transfer to City of Gainesville General Fund	(34,994,591)	(34,892,425)
Net cash used in noncapital financing activities	(34,994,591)	(34,892,425)
Capital and related financing activities:		
Principal repayments and refunding on long-term debt, net	(22,205,000)	(21,480,000)
Interest paid on long-term debt	(38,101,113)	(37,939,699)
Proceeds from interest rebates, BABs	5,372,529	5,345,162
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(77,099,955)	(64,402,846)
Proceeds from new debt and commercial paper	-	51,306,295
Cash payment for defeasance of bonds	-	(22,681,138)
Cash receipt for defeasance of bonds	-	22,681,138
Other income	3,149,084	7,683,990
Net cash used in capital and related financing activities	(128,884,455)	(59,487,098)
Investing activities:		
Interest received	661,066	589,783
Purchase of investments	(390,235,264)	(387,266,056)
Investments in The Energy Authority	(6,787,229)	(4,557,068)
Distributions from The Energy Authority	7,246,426	4,696,789
Proceeds from investments	375,286,264	348,923,707
Proceeds from CR3 settlement	10,177,429	-
Net cash used by investing activities	(3,651,308)	(37,612,845)
Net change in cash and cash equivalents	(32,059,768)	6,036,167
Cash and cash equivalents, beginning of year	81,595,541	75,559,374
Cash and cash equivalents, end of year	\$ 49,535,773	\$ 81,595,541

*Continued on next page.
See accompanying notes.*

Gainesville Regional Utilities
Statements of Cash Flows (concluded)
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 53,839,881	\$ 59,504,174
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	99,343,149	95,454,204
Net costs to be recovered in future rates	(15,959,059)	(16,732,099)
Change in:		
Accounts receivable	(1,957,090)	(1,456,953)
Inventories	7,711,411	(4,677,172)
Other assets and regulatory assets	429,046	74,176
Restricted and internally designated assets	(11,964,460)	(6,108,254)
Noncurrent assets	998,220	1,969,281
Accounts payable and accrued liabilities	7,864,848	(6,819,953)
Due to other funds of the City	(2,630,122)	977,567
Fuel adjustment	(3,968,160)	2,835,836
Other liabilities and regulatory liabilities	(1,861,980)	4,544,991
Utility deposits	1,262,055	865,455
Rate stabilization	2,362,847	7,597,282
Net cash provided by operating activities	<u>\$ 135,470,586</u>	<u>\$ 138,028,535</u>
Non-cash capital and related financing activities, and investing activities:		
Contribution of capital assets	<u>\$ 1,464,463</u>	<u>\$ 1,404,260</u>
Net costs recoverable in future years	<u>\$ (15,959,059)</u>	<u>\$ (16,732,099)</u>
Change in capital lease liability	<u>\$ (17,601,233)</u>	<u>\$ (16,828,193)</u>
Acquisition of utility plant in service with construction fund payable	<u>\$ 4,200,338</u>	<u>\$ 1,326,553</u>
Change in ineffective portion of hedging derivatives	<u>\$ (693,448)</u>	<u>\$ (660,507)</u>
Change in accumulated decrease in fair value of hedging derivatives - interest rate swaps	<u>\$ (9,444,078)</u>	<u>\$ (21,278,744)</u>
Change in accumulated decrease in fair value of hedging derivatives - fuel options and futures	<u>\$ 1,731,592</u>	<u>\$ (1,622,410)</u>
Change in fair market value of investments	<u>\$ 215,968</u>	<u>\$ 832,532</u>
Change in fair market value of hedging derivatives	<u>\$ 10,137,527</u>	<u>\$ 21,939,252</u>
Other	<u>\$ (2,303,123)</u>	<u>\$ (1,453,466)</u>

See accompanying notes.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

1. Summary of Significant Accounting Policies

Organization

Gainesville Regional Utilities (GRU or the Utility) is a combined municipal utility operating electric, water, wastewater, natural gas, and telecommunications (GRUCom) systems. GRU is a utility enterprise of the City of Gainesville, Florida (City) and is reported as an enterprise fund in the Comprehensive Annual Financial Report of the City. That report may be obtained by writing to City of Gainesville, Budget & Finance Department, P.O. Box 490, Gainesville, Florida 32627 or by calling (352) 334-5054.

System of Accounts and Basis of Accounting

GRU is required to follow the provisions in the Amended and Restated Utilities System Revenue Bond Resolution (Resolution) adopted by the City on January 30, 2003. GRU's electric and gas accounts are maintained substantially in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission (FERC), as required by the Resolution, and in conformity with accounting principles generally accepted in the United States of America using the accrual basis of accounting, including the application of regulatory accounting as described in Governmental Accounting Standards Board (GASB) Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GRU prepares its financial statements in accordance with GASB Statement No. 62, paragraphs 476-500, *Regulated Operations*, and records various regulatory assets and liabilities. For a government to report under GASB Statement No. 62, its rates must be designed to recover its costs of providing services, and the utility must be able to collect those rates from customers. If it were determined, whether due to regulatory action or competition, that these standards no longer applied, GRU could be required to expense its regulatory assets and liabilities. Management believes that GRU currently meets the criteria for continued application of GASB Statement No. 62, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.

The Resolution specifies the flow of funds from revenues and the requirements for the use of certain restricted and unrestricted assets. Under the Resolution, rates are designed to cover operation and maintenance expenses, rate stabilization, debt service requirements, utility plant improvement fund contributions, and for any other lawful purpose. The flow of funds excludes depreciation expense and certain other noncash revenue and expense items. This method of rate setting results in costs being included in the determination of rates in different periods than when these costs are recognized for financial statement purposes. The effects of these differences are recognized in the determination of operating income in the period that they occur, in accordance with GRU's accounting policies.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Fiscal Year 2015 GASB Pronouncement Implementations

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, amends the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions that are provided through trusts, or equivalent arrangements. GRU adopted the requirements of GASB Statement No. 68 in fiscal year 2015. This statement provides guidance for the measurement and recognition of a net pension liability and pension expense, and includes instruction for balances to be recognized as deferred outflows of resources and deferred inflows of resources, as applicable. The impact for GRU is as follows:

Net pension liability

The net pension liability reported under GASB Statement No. 68 is the difference between the total pension liability and the Employees' Pension Plan (Employees' Plan) fiduciary net position.

Deferred outflows of resources and deferred inflows of resources

GASB Statement No. 68 requires recognition of deferred outflows and deferred inflows of resources associated with the difference between expected and actual earnings on Plan investments, to be amortized to pension expense over a closed five-year period. Also to be recognized as deferred outflows and deferred inflows of resources are differences between expected and actual experience with regard to economic or demographic factors in the measurement of total pension liability, to be amortized to pension expense over a closed period equal to the average of the expected remaining service lives of all employees receiving pension benefits. Employer contributions to the pension trust made between the net pension liability measurement date and the employer's fiscal year-end are recognized as deferred outflows of resources, to be included in pension expense in the subsequent fiscal year.

Pension regulatory asset

GASB Statement No. 68 was effective for financial statement periods beginning after June 15, 2014, with the effects of accounting change applied retroactively by restating the financial statements. The Utility used regulatory accounting, as permitted under GASB Statement No. 62, and recorded a regulatory asset of \$46.1 million as of September 30, 2014. The pension regulatory asset was \$56.1 million and \$53.9 million at September 30, 2016 and 2015, respectively. See Note 15 Retirement Plans for additional information.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Fiscal Year 2015 GASB Pronouncement Implementations (concluded)

Pension regulatory asset (concluded)

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting guidance related to government combinations and disposals of government operations. The term government combinations refer to a variety of transactions and may be mergers, acquisitions or transfers of operations. This standard sets forth definitions of each of these transaction types and prescribes the specific accounting and reporting treatment to be given for each. The Statement also provides accounting and reporting guidance for disposals of government operations that have been sold or transferred. The requirements of this Statement are applied, beginning in fiscal year 2015, to applicable combination and disposal transactions into which the Utility enters. As of September 30, 2016 and 2015, GRU was not a party to any transaction types within the scope of this guidance.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, provides guidance specific to the initial period reflecting the adoption of Statement No. 68 for amounts associated with contributions, if any, made by a contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. A beginning deferred outflow of resources is required for pension contributions made subsequent to the measurement date of the beginning net pension liability. GRU has not reported any contributions subsequent to the measurement date as its measurement date and reporting period are the same.

Fiscal Year 2016 GASB Pronouncement Implementations

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at a measurement date. Statement No. 72 requires that investments should generally be measured at fair value, with certain investments, such as short-term money market instruments, being specifically excluded from the requirement. Disclosures required by the standard include a description of the inputs and methods used to measure fair value. The adoption of Statement No. 72 resulted in the addition to GRU's financial statement footnotes of new disclosures describing assets and liabilities reported at fair value and the valuation techniques used to determine fair value.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Fiscal Year 2016 GASB Pronouncement Implementations (concluded)

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68*, establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. Implementation of this guidance did not have any significant impact on GRU's financial statements.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, provides guidance for two new recognized categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Implementation of this guidance did not have any significant impact on GRU's financial statements.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, was issued to address how certain investment pool transactions are reported in response to anticipated changes in a U.S. Securities and Exchange Commission (SEC) rule that was previously included in GASB literature by reference. As of September 30, 2016 and 2015, GRU was not a party to any transaction types within the scope of this guidance.

Future GASB Pronouncement Implementations

GASB Statement No. 74, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*, replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plan*, as they relate to certain other postemployment benefit ("OPEB") plans that are administered through trusts or equivalent arrangements. This Statement requires more extensive note disclosures and other information related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, including the recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources and expense. For each qualifying plan providing postemployment benefits other than pensions,

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Future GASB Pronouncement Implementations (concluded)

employers are required to report the difference between the actuarial OPEB liability and the related plan's fiduciary net position as the net OPEB liability on the statement of net position. Previously, a liability was recognized only to the extent that contributions made to each plan were exceeded by the actuarially calculated contributions for those plans. Additionally, Statement No. 75 sets forth note disclosure and required supplementary disclosure requirements for defined contribution OPEB. GRU is currently evaluating the impact that adoption of this Statement will have on its financial statements.

GASB Statement No. 77, *Tax Abatement Disclosures*, provides financial disclosure requirements for governments that enter into tax abatement agreements. This Statement indicates how disclosures for tax abatements should be organized and what descriptive information, including commitments made by the entity, should be presented. This standard will be adopted in the fiscal year ending January 31, 2018. GRU is not a tax-levying government and is not a party to tax abatement agreements. There is no expected impact on the financial statements.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, clarifies requirements for the application of GASB Statement No. 68 for certain governments whose employees receive pension benefits through multiple-employer plans. As GRU does not provide benefits through the type of plan addressed by this Statement, the guidance is not applicable and will have no impact on the Utility's financial reporting.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, amends the blending requirements for the financial statement presentation of certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. Because GRU does not have component units, GRU is not expected to be a party to the scope of this guidance.

Rates and Regulation

GRU is regulated by the Gainesville City Commission (City Commission) and GRU's rates are established in accordance with the Resolution. Each year during the budget process, and at any other time deemed necessary, the City Commission approves base rate changes and other changes to GRU's system charges as applicable.

The Florida Public Service Commission (PSC) does not regulate rate levels in any of GRU's utility systems. They do, however, have jurisdiction over the rate structure for the electric system.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Funds in Accordance with the Resolution

Certain restricted funds of GRU are administered in accordance with the Resolution:

- Debt Service Fund
- Subordinated Indebtedness Fund
- Rate Stabilization Fund
- Construction Fund
- Utility Plant Improvement Fund

The Debt Service Fund accounts for funds accumulated to provide payment of principal and interest on or redeem outstanding debt.

The Subordinated Indebtedness Fund, grouped in the Debt Service Fund for financial reporting purposes, accounts for funds accumulated to pay principal and interest on subordinated indebtedness.

The Rate Stabilization Fund accounts for funds accumulated to stabilize rates over future periods through the transfer of funds to and from operations cash and investments as applicable.

The Construction Fund accounts for funds accumulated for the cost of acquisition and construction of the systems.

The Utility Plant Improvement Fund accounts for funds used to pay for capital projects, debt service, the purchase/redemption of bonds, repayment of bonds, and operation and maintenance expenses as applicable.

Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

Statement of Cash Flows

For purposes of the Statement of Cash Flows, cash and cash equivalents are defined as all liquid investments with an original maturity of three months or less.

Fuel Inventories

Fuel stocks in the electric system, which are stated using the last-in, first-out (LIFO) method, are recorded as inventory when purchased. The cost of fuel used for electric generation is charged to expense as consumed.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Materials and Supplies Inventories

Inventories are stated at cost using the weighted average unit cost method when purchased and then expensed or capitalized, as appropriate. Obsolete and unusable materials and supplies are expensed.

Investments

Investments in U.S. Treasury and government agencies are reported at fair value, as determined by quoted market prices or independent pricing sources. Investments in commercial paper are recorded at amortized cost, which approximates fair value. More information is provided in Note 2 Deposits and Investments.

Costs Recoverable in Future Years

The Power Purchase Agreement (PPA) with the Gainesville Renewable Energy Center (GREC) is recorded as a capital lease. Activity related to this lease generates a non-cash flow related to depreciation expense which is recorded as net costs recoverable in future years. These net costs recoverable in future years represent the amount by which depreciation expense exceeds principal repayment on the capital lease obligation of \$15.9 million and \$16.7 million for the years ended September 30, 2016 and 2015, respectively.

Debt Issuance Costs

Prior to fiscal year 2014, GRU had historically reported debt issuance costs as assets and amortized them over the life of the related debt. Pursuant to GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GRU was required for fiscal year 2014 to adopt the provisions of this statement to ensure compliance with required accounting standards and expense these types of costs. GRU, as a rate-regulated entity and in accordance with guidance found in GASB Statement No. 62, received approval from the City Commission in fiscal year 2014 to establish a regulatory asset for the debt issuance costs that would otherwise have been expensed upon implementation of GASB Statement No. 65. This regulatory accounting treatment results in the amortization of these costs over the life of the related debt. Unamortized debt issuance costs were \$5.8 million and \$6.2 million for the years ended September 30, 2016 and 2015, respectively.

Capital Assets and Depreciation

Capital assets are recorded at historical cost and include utility plant and general plant assets. The costs of capital assets include material, labor, vehicle and equipment usage, related overhead items, capitalized interest, and certain administrative and general expenses. Maintenance and replacements of minor items are charged to operations and maintenance expenses. When units of depreciable property are retired, the original cost and removal cost, less salvage, are charged to accumulated depreciation. GRU has a capitalization threshold of \$2,500 for general plant assets and no capitalization threshold for utility plant.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Capital Assets and Depreciation (concluded)

Depreciation of capital assets is computed using the straight-line method over the estimated lives of the assets ranging from 6 to 50 years. The overall depreciation rate was 3.28% and 3.92% for the periods ending September 30, 2016 and 2015, respectively.

Allowance for Funds Used During Construction (AFUDC)

An allowance for interest on borrowed funds used during construction of \$1.1 million and \$1.2 million for the years ended September 30, 2016 and 2015, respectively, was included in construction in progress and as a reduction of interest expense. These amounts are computed by applying the effective interest rate on the funds borrowed to finance the projects to the monthly balance of projects under construction. The effective interest rate was approximately 4.1% and 4.01% for fiscal years 2016 and 2015, respectively.

Contributions in Aid of Construction

GRU recognizes capital contributions to the electric and gas systems as revenues which are subsequently expensed in the same period for capital contributions that will not be recovered in rates in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

GRU recognizes capital contributions to the water, wastewater, and GRUCom systems as revenues in the period received. Depreciation on these assets is recorded on a straight-line basis over the estimated lives of the assets.

Hedging Derivative Instruments

GRU records fuel and financial related derivative instruments in accordance with GASB Statement No. 53, *Accounting and Reporting for Financial and Derivative Instruments*. All effective derivative instruments are included in the Statements of Net Position as either an asset or liability measured at fair market value. All ineffective derivative instruments are recorded as a regulatory asset. Changes in the fair value of the hedging derivative instruments during the year are recorded as either deferred outflows or deferred inflows and are recognized in the period in which the derivative is settled. The settlement of fuel and financial related hedging derivative instruments are included as a part of fuel costs and interest expense, respectively, in the Statements of Revenues, Expenses, and Changes in Net Position.

GRU conducts a risk management program with the intent of reducing the impact of fuel price increases for its customers. The program utilizes futures and options contracts that are traded on the New York Mercantile Exchange (NYMEX) so that prices may be fixed or reduced for given

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Hedging Derivative Instruments (concluded)

volumes of gas that the utility projects to consume during a given production month. This program is based on feedback and direction from GRU's Risk Oversight Committee, consultation and recommendations from reputable risk management sources, and close monitoring of the market.

Deferred Outflows of Resources

A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

Unamortized loss on refunding of bonds

Losses on refunding of bonds have been deferred. These amounts are being amortized over the life of the old debt or the life of the new debt, whichever is shorter.

Accumulated decrease in fair value of hedging derivatives

GRU has two types of hedging instruments: interest rate swap agreements and natural gas hedges. Each is associated with an item that is eligible to be hedged. For effective hedging transactions, hedge accounting is applied and fair market value changes are recorded on the statement of net position as either a deferred inflow of resources or a deferred outflow of resources until such time that the transaction ends.

Unrealized contributions and losses related to pension

Recognition of deferred outflows of resources related to pension costs totaled \$21 million and \$22.2 million as of September 30, 2016 and 2015, respectively. See Note 15 Retirement Plan for additional information.

Deferred Inflows of Resources

A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Rate stabilization

GRU designs its rates to recover costs of providing services. In order to stabilize future rate increases or decreases, GRU determines a rate stabilization amount to be charged or credited to revenues on an annual basis. There were rate stabilization additions of \$2.4 million and \$7.7 million for the years ended September 30, 2016 and 2015, respectively. These amounts are reflected as increases or decreases in deferred inflows – rate stabilization in the accompanying statements of net position.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

1. Summary of Significant Accounting Policies (continued)

Deferred Inflows of Resources (concluded)

Unrealized gains related to pension

Recognition of deferred inflows of resources related to unrealized gains for the pension plan totaled \$5.7 million and \$0 million as of September 30, 2016 and 2015, respectively.

Net Position

GRU classifies net position into three components as follows:

Net investment in capital assets – consists of capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – consists of non-capital assets that must be used for a particular purpose as specified by creditors, contributors, grantors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – consists of assets that do not meet the definition of net investment in capital assets or restricted net position.

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

Use of Estimates

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

Revenue Recognition

Revenue is recognized when earned. GRU accrues for services rendered but unbilled, which totaled approximately \$14.4 million and \$14.9 million at September 30, 2016 and 2015, respectively.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

1. Summary of Significant Accounting Policies (concluded)

Revenue Recognition (concluded)

Fuel and purchased gas adjustment levelization revenue is recognized as expenses are incurred. Amounts charged to customers for fuel are based on estimated costs. The amount charged in the fuel adjustment is adjusted and approved by the City Commission as deemed necessary. If the amount recovered through billings exceeds actual fuel expenses, GRU records the excess billings as a liability. If the amount recovered through billings is less than actual fuel expenses, GRU records the excess fuel expense as a reduction of the liability or as an asset. See Note 7 Fuel and Purchased Gas Adjustment Levelization for additional information.

Pledged Revenues

Under the terms of the Resolution relating to the sale of the Utilities System Revenue Bonds, payment of principal and interest is secured by an irrevocable lien on GRU's net revenue (exclusive of any funds that may be established pursuant to the Resolution for certain other specified purposes), including any investments and income thereof. The Utilities System Revenue Bonds have a first lien and the Commercial Paper Series C and D Notes have a second lien. The Resolution contains certain restrictions and commitments, including GRU's covenant to establish and maintain rates and other charges to produce revenue sufficient to pay operation and maintenance expenses, amounts required for deposit in the debt service fund, and amounts required for deposit in the utility plant improvement fund.

Operating, Non-operating Revenues

GRU defines operating revenues as that revenue which is derived from customer sales or service charges and recoveries related to future rate collections, and other items. Non-operating revenues include interest on investments, gains and losses on sales of assets, and other items. Substantially all of GRU's operating revenues are pledged to the repayment of Utility System Revenue Bonds.

Transactions with the City

As an enterprise fund of the City, transactions occur between GRU and the City's governmental and business type funds throughout the year in the ordinary course of operations.

Below is a summary of significant transactions:

- Administrative services – GRU provides payment for various administrative and insurance services provided by the City's governmental and business type functions.
- Nonmetered and metered service charges – GRU receives payment from the City for all nonmetered and metered service changes.
- Operating transfer to the General Fund – GRU makes payments to the City's General Fund from operating revenues. See Note 13 Transfer to General Fund for additional information.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

2. Deposits and Investments

The institutions in which GRU's monies are deposited are certified as Qualified Public Depositories under the Florida Public Deposit Act. Therefore, GRU's total bank balances on deposit are entirely insured or collateralized by the Federal Deposit Insurance Corporation and the Bureau of Collateral Securities, Division of Treasury, State Department of Insurance. As required by the Resolution, the depository is restricted to be a bank, savings and loan association, or trust company of the United States, or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$10 million.

In accordance with state laws and the Resolution, GRU is authorized to invest in obligations, which are unconditionally guaranteed by the United States of America or its agencies or instrumentalities, repurchase agreement obligations unconditionally guaranteed by the United States of America or its agencies, corporate indebtedness, direct and general obligations of any state of the United States of America or of any agency, instrumentality, or local governmental unit of any such state (provided such obligations are rated by a nationally recognized bond rating agency in either of its two highest rating categories), public housing bonds, and certain certificates of deposit. Investments in corporate indebtedness must be at a minimum acceptable level at time of purchase, (AA/Aa3/AA by Standard and Poor's, Moody's Investor Service, and/or Fitch Ratings respectively), and in one of the two highest rating categories of at least one other nationally recognized rating agency.

As of September 30, 2016, GRU had the following investments and maturities (in thousands).

	Fair Value	Maturities in Years		
		Less than 1	1-5	Over 5
Investment type:				
Commercial paper	\$ 119,680	\$ 119,680	\$ -	\$ -
Corporate bonds	26,559	3,012	23,547	-
U.S. agencies	61,115	-	55,113	6,002
U.S. bonds	8,664	-	8,664	-
Total	\$ 216,018	\$ 122,692	\$ 87,324	\$ 6,002

As of September 30, 2015, GRU had the following investments and maturities (in thousands).

	Fair Value	Maturities in Years		
		Less than 1	1-5	Over 5
Investment type:				
Commercial paper	\$ 113,245	\$ 113,245	\$ -	\$ -
Corporate bonds	15,892	-	15,892	-
U.S. agencies	67,169	-	67,169	-
U.S. bonds	4,531	-	4,531	-
Total	\$ 200,837	\$ 113,245	\$ 87,592	\$ -

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

2. Deposits and Investments (continued)

Cash and investments are comprised of the following at September 30 (in thousands):

	2016	2015
Restricted assets	\$ 202,918	\$ 239,931
Internally designated cash	-	897
Current assets:		
Cash and investments	62,635	53,540
Total cash and investments	265,553	294,368
Less cash and cash equivalents	(49,536)	(81,596)
Less CR3 decommissioning reserve at FMPA	-	(11,622)
Less accrued interest receivable and accounts receivable	-	(313)
Total investments	\$ 216,017	\$ 200,837

Interest Rate Risk

GRU's investment policy limits its investments to securities with terms of ten years or less to reduce exposure to rising interest rates, unless investments are matched to meet specific cash flow needs. Additionally, the average portfolio term is not to exceed seven years. GRU's Resolution further limits investments of the Utility Plant Improvement Fund and Rate Stabilization Fund to no more than five years.

Credit Risk

GRU's investment policy and Resolution limits investments in state and local taxable or tax-exempt debt, corporate fixed income securities, and other corporate indebtedness to investments that are rated by a nationally recognized rating agency at a minimum acceptable level at time of purchase, (AA/Aa3/AA by Standard and Poor's, Moody's Investor Service, and/or Fitch Ratings respectively), and at least one nationally recognized rating agency in either of its two highest rating categories. As of September 30, 2016 and 2015, all of GRU's corporate holdings were rated Aa2 or better by Moody's Investor Service and/or AA+ or better by Standard and Poor's and/or AA+ or better by Fitch. As of September 30, 2016 and 2015, all of GRU's commercial paper investments were rated P-2 or better by Moody's Investor Service and/or A-2 or better by Standard and Poor's and/or F2 or better by Fitch.

Concentration of Credit Risk

State law does not limit the amount that may be invested in any one issuer. It does require, however, that investments be diversified to control risk of loss from over concentration of assets.

As of September 30, GRU had more than 5% of the investment portfolio invested with the following issuers:

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

2. Deposits and Investments (concluded)

Concentration of Credit Risk (concluded)

	Percent of Total Investments	
	2016	2015
Issuer:		
Federal Home Loan Mortgage Corporation	2.32%	5.73%
New York Life	5.94%	6.39%
Federal Farm Credit Bank	7.88%	11.79%
Federal National Mortgage Association	13.25%	9.46%

3. Investment in The Energy Authority

GRU has an equity investment in The Energy Authority (TEA), a power marketing corporation comprised of eight municipal utilities as of September 30, 2016: MEAG Power, JEA (Florida), South Carolina Public Service Authority, Nebraska Public Power District, GRU, City Utilities of Springfield (Missouri), Public Utility District No. 1 of Cowlitz County (Washington), and American Municipal Power, Inc. (Ohio). TEA provides energy products and resource management services to equity members and non-members and allocates transaction savings and operating expenses to equity members pursuant to Settlement Procedures under the Operating Agreement.

In the Statement of Revenues, Expenses, and Changes in Net Position, GRU's sales to and purchases from TEA are recorded in sales and service charges and operations and maintenance expenses, respectively. Sales to TEA were \$400,000 and \$2.2 million, and purchases from TEA were \$20.0 million and \$8.2 million for the years ended September 30, 2016 and 2015, respectively.

GRU's equity interest was 5.6% for fiscal years 2016 and 2015, and accounted for using the equity method of accounting. As of September 30, 2016 and 2015, GRU's investment in TEA was \$2.1 million and \$2.6 million, respectively.

Through a combination of agreements, GRU guaranteed credit received by TEA for \$23.1 million and \$17 million as of September 30, 2016 and 2015, respectively. TEA evaluates its credit needs periodically and requests equity members to adjust their guarantees accordingly. The guarantee agreements are intended to provide credit support for TEA when entering into transactions on behalf of equity members. Such guarantees are within the scope of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, and would require the equity members to make payments to TEA's counterparties if TEA failed to deliver energy, capacity, or natural gas as required by contract, or if TEA failed to make payment for the purchases of such commodities. If guarantee payments are required, GRU has rights with other equity members that such payments be apportioned based on certain criteria.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

3. Investment in The Energy Authority (concluded)

The guarantees generally have indefinite terms; however, GRU can terminate its guarantee obligations by providing notice to counterparties and others, as required by the agreements. Such terminations would not pertain to any transactions TEA entered into prior to notice being given. As of September 30, 2016 and 2015, GRU had not recorded a liability related to these guarantees.

The table below contains unaudited condensed financial information for TEA for the nine months ended September 30 (in thousands):

	2016	2015
Condensed statement of operations:		
Total revenue	\$ 1,039,075	\$ 1,249,164
Total cost of sales and expense	(1,008,613)	(1,207,623)
Operating income	30,462	41,541
Nonoperating income (expense)	10	13
Change in net position	\$ 30,472	\$ 41,554
Condensed balance sheet:		
Assets:		
Current assets	128,527	142,339
Noncurrent assets	12,282	12,997
Total assets	\$ 140,809	\$ 155,336
Liabilities:		
Current liabilities	102,615	109,098
Noncurrent liabilities	346	184
Total liabilities	102,961	109,282
Total net position	37,848	46,054
Total liabilities and net position	\$ 140,809	\$ 155,336

GRU's accounts receivable due from TEA totaled approximately \$288,000 and \$150,000 for the years ended September 30, 2016 and 2015, respectively.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

4. Capital Assets

A summary of capital assets, changes in accumulated depreciation and amortization, and average depreciation rates for the years ended September 30, 2016 and 2015 follows (in thousands):

	Utility Plant in Service				Construction Work in Process	Combined
	Treatment	Generation	Transmission, Distribution, and Collection	General		
Balance, October 1, 2015	\$ 158,327	\$ 1,627,112	\$ 814,985	\$ 190,055	\$ 131,596	\$ 2,922,075
Additions	42,951	19,529	29,368	3,291	75,105	170,244
Less sales, retirements, and transfers	(570)	(6,262)	(3,498)	(1,825)	(97,009)	(109,164)
Balance, September 30, 2016	<u>\$ 200,708</u>	<u>\$ 1,640,379</u>	<u>\$ 840,855</u>	<u>\$ 191,521</u>	<u>\$ 109,692</u>	<u>\$ 2,983,155</u>
Accumulated depreciation, October 1, 2015	\$ 70,949	\$ 288,380	\$ 333,692	\$ 62,966	n/a	\$ 755,987
Depreciation expense	5,488	17,771	27,319	8,686	n/a	59,264
Capital lease	-	33,560	-	-	n/a	33,560
Less retirements/ adjustments	(520)	(3,913)	(4,506)	(1,646)	n/a	(10,585)
Accumulated depreciation, September 30, 2016	<u>\$ 75,917</u>	<u>\$ 335,798</u>	<u>\$ 356,505</u>	<u>\$ 70,006</u>	<u>n/a</u>	<u>\$ 838,226</u>
Capital assets, net	<u>\$ 124,791</u>	<u>\$ 1,304,581</u>	<u>\$ 484,350</u>	<u>\$ 121,515</u>	<u>\$ 109,692</u>	<u>\$ 2,144,929</u>
Average depreciation rate	<u>3.06%</u>	<u>3.14%</u>	<u>3.30%</u>	<u>4.55%</u>	<u>n/a</u>	<u>3.28%</u>

	Utility Plant in Service				Construction Work in Process	Combined
	Treatment	Generation	Transmission, Distribution, and Collection	General		
Balance, October 1, 2014	\$ 147,927	\$ 1,619,112	\$ 774,902	\$ 189,517	\$ 141,989	\$ 2,873,447
Additions	10,608	14,273	42,322	2,149	61,350	130,702
Less sales, retirements, and transfers	(208)	(6,273)	(2,239)	(1,611)	(71,743)	(82,074)
Balance, September 30, 2015	<u>\$ 158,327</u>	<u>\$ 1,627,112</u>	<u>\$ 814,985</u>	<u>\$ 190,055</u>	<u>\$ 131,596</u>	<u>\$ 2,922,075</u>
Accumulated depreciation, October 1, 2014	\$ 67,011	\$ 245,444	\$ 309,075	\$ 55,686	n/a	\$ 677,216
Depreciation expense	3,991	16,327	26,105	8,614	n/a	55,037
Capital lease	-	33,560	-	-	n/a	33,560
Less retirements/ adjustments	(53)	(6,951)	(1,488)	(1,334)	n/a	(9,826)
Accumulated depreciation, September 30, 2015	<u>\$ 70,949</u>	<u>\$ 288,380</u>	<u>\$ 333,692</u>	<u>\$ 62,966</u>	<u>n/a</u>	<u>\$ 755,987</u>
Capital assets, net	<u>\$ 87,378</u>	<u>\$ 1,338,732</u>	<u>\$ 481,293</u>	<u>\$ 127,089</u>	<u>\$ 131,596</u>	<u>\$ 2,166,088</u>
Average depreciation rate	<u>2.61%</u>	<u>4.46%</u>	<u>3.28%</u>	<u>4.54%</u>	<u>n/a</u>	<u>3.92%</u>

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

5. Jointly Owned Electric Plant

GRU entered into a Participation Agreement in 1977 with Florida Power Corporation (FPC) which became Progress Energy, to purchase a 1.4079% undivided ownership interest, approximately 12.7 megawatts (MW) in Progress Energy's 860-MW nuclear powered electric generating plant called Crystal River Unit No. 3 (CR3). In July 2012, Progress Energy merged with and became a wholly owned subsidiary of Duke Energy. GRU does not exercise significant influence or control over the operating or financial policies of Duke Energy.

The Nuclear Regulatory Commission (NRC) requires utilities owning nuclear powered electric generating plants to provide financial assurance that funds would be sufficient and available when needed to pay the future decommissioning costs. In accordance with the NRC requirements, GRU established a decommissioning trust fund. GRU's carrying balance in this decommissioning trust fund at September 30, 2016 and September 30, 2015, including interest earnings, was approximately \$0 million and \$11.6 million, respectively.

GRU and Florida Municipal Power Agency (FMPA) entered into an agreement whereby FMPA would act as agent for GRU and other CR3 minority owner participants to coordinate the administration of the decommissioning trust funds. Contributions to this trust fund are not available to the City for any other purpose except for the decommissioning of CR3. Contributions were based on independent studies, which took into account the anticipated future decommissioning costs and anticipated investment returns. Future contribution amounts were based on updated cost estimates and trust fund earnings.

In September 2009, CR3 began an outage for normal refueling and maintenance as well as an uprate project to increase generating capability and to replace two steam generators. During preparations to replace steam generators, workers discovered a delamination (or separation) within the concrete at the periphery of the containment building. After reviewing all options to repair the unit, Duke Energy announced in February 2013 its intention to retire the CR3 nuclear power plant. Duke Energy expected that the decommissioning fund balances are sufficient to decommission the plant (including future investment growth of the funds).

During 2013, Duke Energy provided GRU with insurance proceeds of \$3.5 million from Duke Energy's settlement with its insurance provider Nuclear Electric Insurance, LTD (NEIL). GRU determined \$2.9 million of these insurance proceeds were settlement for damages related to the plant and reduced its net investment in CR3 by these amounts. The remaining \$600,000 of the \$3.5 million insurance proceeds received in 2013 was a result of entitlement from GRU participation as a wholesale purchaser of nuclear energy as part of a five-year Power Purchase Agreement for 50 megawatt with Progress Energy/Duke Energy, ending December 31, 2013. The remaining net investment of \$17.9 million in the CR3 plant and \$787,000 of nuclear fuel inventory was written off as an extraordinary item as of September 30, 2013.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

5. Jointly Owned Electric Plant (concluded)

GRU, along with other CR3 minority owners, designated FMPA as its agent in negotiations with Duke Energy on various matters related to the retirement of CR3. FMPA negotiated a settlement with Duke Energy on behalf of itself and the other minority owners. The CR3 Settlement, Release, and Acquisition Agreement (settlement agreement) was approved by the City Commission on May 30, 2014, and agreed to and executed by all parties on September 26, 2014. The settlement agreement sets forth the terms and conditions and documents necessary to transfer all of the City's ownership interest in CR3 to Duke Energy along with the decommissioning trust funds. In return, the minority owners would receive certain cash settlements and Duke Energy would agree to be responsible for all costs and liabilities relating to CR3 including costs of decommissioning. CR3 operation and maintenance costs, which represents GRU's share of the expenses attributable to the operation of CR3, were discontinued as of October 1, 2013, and are no longer obligated to be paid in the future per the settlement agreement. The settlement agreement was approved by the NRC on May 29, 2015. GRU received a cash settlement in the amount of \$10.2 million and transferred the \$11.6 million decommissioning trust fund balance to Duke Energy at closing of the settlement agreement on October 30, 2015.

6. Capital Lease

GRU executed a PPA with the Gainesville Renewable Energy Center (GREC). The plant, a 100 megawatt biomass-fired power production facility located in Alachua County, Florida, utilizes woody biomass comprised of urban wood waste, forest wood waste, and mill residue. The nature of these are further limited by Forest Sustainability Standards that are included as part of the PPA. The PPA requires that GREC provide available energy, delivered energy, and environmental attributes exclusively to GRU and began commercial operations on December 17, 2013. GRU is required to pay for all available energy from the plant at fixed prices, adjusted for liquidated damages and other penalties. GRU is also required to pay a variable operations and maintenance charge for all delivered energy, a fuel charge for all delivered energy, a shutdown charge as applicable and ad valorem taxes paid by GREC.

The PPA has been accounted for as a long-term capital lease for a term of 30 years with a capital lease asset and liability recorded. The capital lease asset was recorded at \$1 billion at September 30, 2016 and 2015. The total payments applicable to the lease were \$61.2 million for September 30, 2016 and 2015. The payments for fiscal year 2016 and 2015 included \$43.6 million and \$44.4 million, respectively, for interest expense included in fuel costs. The capital lease will be amortized over the life of the PPA. Amortization of \$33.6 million was recorded at September 30, 2016 and 2015.

The following lists the minimum payments due under the PPA as of September 30, 2016 (in thousands):

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

6. Capital Lease (concluded)

	2016
2017	\$ 61,216
2018	61,216
2019	61,216
2020	61,216
2021	61,216
2022-2026	306,081
2027-2031	306,081
2032-2036	306,081
2037-2041	306,081
2042-2044	135,434
Total minimum lease payments	1,665,838
Less: Amounts representing interest	(706,159)
Net minimum lease payments	\$ 959,679

If at any time GRU's senior unsecured debt rating is rated below a Standard & Poor's rating of A- or a Moody's rating of A3 (such rating levels to be equitably adjusted if either rating agency were in the future to change its rating standards), GRU is required to pay or provide to GREC a security deposit equal to \$40 million as security for GRU's performance of its obligations under the PPA. If required, such security shall be in the form of cash deposited in either an interest bearing escrow account mutually acceptable to GREC and GRU, an unconditional and irrevocable direct pay letter of credit in form and substance reasonably satisfactory to GREC, or a performance bond in form and substance reasonably satisfactory to GREC. As of September 30, 2016, GRU's credit ratings were in compliance with the performance security requirements.

A land lease was executed on September 28, 2009, between GRU and GREC for the land on which the biomass plant is located. The payment per year is \$100 for a term of 47 years on the condition that GREC provide dependable energy to GRU. If a condition occurs in which GREC does not provide dependable energy to GRU, the payment will be adjusted to the fair market value of the land at that time. Rental income of \$100 was received for the years ended September 30, 2016 and 2015, respectively.

7. Fuel and Purchased Gas Adjustment Levelization

Electric and natural gas customers are billed a monthly fuel and purchased gas adjustment charge based on a number of factors including fuel and fuel related costs. GRU establishes this fuel and purchased gas adjustment charge based on ordinances approved by the City Commission. A fuel and purchased gas adjustment levelization fund is utilized to stabilize the monthly impact of the fuel and purchased gas adjustment charge included in customer billings.

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Notes to Financial Statements

September 30, 2016 and 2015

7. Fuel and Purchased Gas Adjustment Levelization (concluded)

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2016 (in thousands):

	Fuel Adjustment	Purchased Gas Adjustment	Total
Revenues	\$ 151,804	\$ 6,805	\$ 158,609
Expenses	(155,825)	(6,752)	(162,577)
To (From) Levelization Fund	<u>\$ (4,021)</u>	<u>\$ 53</u>	<u>\$ (3,968)</u>
Levelization Fund Beginning Balance	\$ 16,923	\$ 1,877	\$ 18,800
To (From) Levelization Fund	(4,021)	53	(3,968)
Levelization Fund Ending Balance	<u>\$ 12,902</u>	<u>\$ 1,930</u>	<u>\$ 14,832</u>

The following table represents total revenues and expenses associated with the fuel and purchased gas adjustment and the subsequent impact on the fuel and purchased gas levelization balance as of September 30, 2015 (in thousands):

	Fuel Adjustment	Purchased Gas Adjustment	Total
Revenues	\$ 158,822	\$ 10,607	\$ 169,429
Expenses	(157,197)	(9,396)	(166,593)
To (From) Levelization Fund	<u>\$ 1,625</u>	<u>\$ 1,211</u>	<u>\$ 2,836</u>
Levelization Fund Beginning Balance	\$ 15,298	\$ 666	\$ 15,964
To (From) Levelization Fund	1,625	1,211	2,836
Levelization Fund Ending Balance	<u>\$ 16,923</u>	<u>\$ 1,877</u>	<u>\$ 18,800</u>

8. Long-Term Debt

\$196,950,000 Utilities System Revenue Bonds, 2005 Series A – 4.75% - 5.0%, dated November 16, 2005, mature on various dates through October 1, 2036, and were partially refunded as part of the 2012 Series A Utilities System Revenue Bond issuance. The 2005 Series A Bonds are subject to redemption at the option of the City on and after October 1, 2015, as a whole or in part at any time, at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005 Series A Bonds were issued to pay a portion

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

8. Long-Term Debt (continued)

\$196,950,000 Utilities System Revenue Bonds, 2005 Series A – (concluded)

of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund the City's Utilities System Commercial Paper Notes, Series C. In March 2007, the 2007 Series A Bonds (\$139,505,000) were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2030 to October 1, 2036. The proceeds related to the refunded bonds were deposited into an escrow account to refund the bonds on October 1, 2015, at 100% of par. In December 2014, the 2014 Series B Bonds (\$30,970,000) were issued to advance-refund \$12,725,000 for portions of bonds maturing from October 1, 2029, October 1, 2030, and October 1, 2036. The proceeds of the refunded bonds were deposited into an escrow account to refund the bonds on October 1, 2015.

\$61,590,000 Utilities System Revenue Bonds, 2005 Series B (Federally Taxable) – 5.14%, dated November 16, 2005, final maturity October 1, 2021. The 2005 Series B Bonds are subject to redemption at the option of the City, in whole or in part, on any date, at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2005 Series B Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund the City's Utilities System Commercial Paper Notes, Series D originally issued in June 2000.

\$55,135,000 Utilities System Revenue Bonds, 2005 Series C – Variable interest rates based on market rates, 0.86% at September 30, 2016, dated November 16, 2005, final maturity October 1, 2026. The 2005 Series C Bonds are subject to redemption at the option of the City at a redemption price of 100% of the principal amount, plus accrued interest to the date of redemption. The 2005 Series C Bonds were issued to refund a portion of the City's Utilities System Revenue Bonds, 1996 Series A. A liquidity facility is provided by Helaba at 0.29% and expires November 24, 2020.

\$53,305,000 Utilities System Revenue Bonds, 2006 Series A – Variable interest rates based on market rates, 0.86% at September 30, 2016, dated July 6, 2006, final maturity October 1, 2026. The 2006 Series A Bonds are subject to redemption at the option of the City, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. The 2006 Series A Bonds were issued to pay a portion of the cost of acquisition and construction of certain improvements to the City's utilities system and to refund a portion of the City's Utilities System Revenue Bonds, 1996 Series A. The 2006 Series A Bonds created a net present value savings of over \$6,200,000, with yearly cash savings ranging from approximately \$371,000 to over \$890,000.

A liquidity facility is provided by Helaba at 0.29% and expires November 24, 2020.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

8. Long-Term Debt (continued)

\$139,505,000 Utilities System Revenue Bonds, 2007 Series A – Variable interest rates based on market rates, 0.86% at September 30, 2016, dated July 6, 2006, final maturity October 1, 2036. The 2007 Series A Bonds are subject to redemption at the option of the City, in whole or in part, at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption. The 2007 Series A Bonds were issued to refund a portion of the City's Utilities System Revenue Bonds, 2003 Series A and a portion of the City's Utilities System Revenue Bonds, 2005 Series A. The 2007 Series A Bonds created a net present value savings of over \$8,500,000, with yearly cash savings ranging from \$100,000 to \$500,000. A liquidity facility is provided by State Street Bank and Trust at 0.39% and expires March 1, 2018.

\$105,000,000 Utilities System Revenue Bonds, 2008 Series A (Federally Taxable) – 4.92% - 5.27%, dated February 13, 2008, final maturity October 1, 2020, and were partially refunded as part of the 2012 Series B Utilities System Revenue Bond issuances. The 2008 Series A Bonds are subject to redemption prior to maturity at the election of the City in whole or in part, at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2008 Series A Bonds were issued to pay costs of acquisition and construction of the City's utilities system. In December 2014, the 2014 Series B Bonds (\$30,970,000) were issued to redeem \$19,915,000 for portions of bonds maturing from October 1, 2015 thru October 1, 2020.

\$90,000,000 Utilities System Revenue Bonds, 2008 Series B – Variable interest rates based on market rates, 0.85% at September 30, 2016, dated February 13, 2008, final maturity October 1, 2038. The 2008 Series B Bonds are subject to redemption prior to maturity at the election of the City in whole or in part, at a redemption price of 100% of the principal amount plus accrued interest to the date of redemption. The 2008 Series B Bonds were issued to pay costs of acquisition and construction of the City's utilities system. A liquidity facility is provided by Bank of Montreal at 0.27% and expires July 7, 2017. The full amount of the outstanding bonds of \$90 million has been reclassified to utilities system revenue bonds – current portion as of September 30, 2016. The liquidity facility will be renewed or replaced during fiscal year 2017.

\$24,190,000 Utilities System Revenue Bonds, 2009 Series A (Federally Taxable) – 3.59%, dated September 16, 2009, final maturity October 1, 2015. The 2009 Series A Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2009 Series A Bonds were issued to pay costs of acquisition and construction of the City's utilities system.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

8. Long-Term Debt (continued)

\$156,900,000 Utilities System Revenue Bonds, 2009 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable) – 4.11% - 5.65%, dated September 16, 2009, final maturity October 1, 2039. The 2009 Series B Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2009 Series B Bonds were issued to pay costs of acquisition and construction of the City's utilities system.

\$12,930,000 Utilities System Revenue Bonds, 2010 Series A (Federally Taxable) – 5.87%, dated November 1, 2010, final maturity October 1, 2030. The 2010 Series A Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2010 Series A Bonds were issued to (a) pay costs of acquisition and construction of the City's utilities system, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series A Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series A Bonds.

\$132,445,000 Utilities System Revenue Bonds, 2010 Series B – Issuer Subsidy – Build America Bonds (Federally Taxable) – 6.02%, dated November 1, 2010, final maturity October 1, 2040. The 2010 Series B Bonds are subject to redemption prior to maturity at the election of the City at a redemption price equal to the greater of: 100% of the principal amount, plus accrued and unpaid interest to the date of redemption; or the sum of the present values of the remaining scheduled payments of principal and interest on the bonds to be redeemed discounted to the date of redemption on a semiannual basis plus 12.5 basis points. The 2010 Series B Bonds were issued to (a) pay costs of acquisition and construction of the City's utilities system, (b) to provide for the payment of certain capitalized interest on the Taxable 2010 Series B Bonds, and (c) to pay the costs of issuance of the Taxable 2010 Series B Bonds.

\$16,365,000 Utilities System Revenue Bonds, 2010 Series C – 5.00% - 5.25%, dated November 1, 2010, final maturity October 1, 2034. The 2010 Series C Bonds are subject to redemption prior to maturity at the election of the City at a redemption price so specified. The 2010 Series C Bonds were issued to (a) refund \$5,860,000 in aggregate principal amount of the 2003 Series A Bonds, and (b) to provide funds to refund \$10,505,000 in aggregate principal amount of the 2008 Series A Bonds.

\$81,860,000 Utilities System Revenue Bonds, 2012 Series A – 2.50% - 5.00%, dated August 1, 2012, final maturity October 1, 2028. The 2012 Series A Bonds were issued to (a) provide funds to refund \$1,605,000 in aggregate principal amount of the 2003 Series A Bonds, (b) to provide funds to refund \$78,690,000 in aggregate principal amount of the 2005 Series A Bonds, and (c) to pay cost of issuance of the 2012 Series A Bonds. These bonds mature at various dates from October 1, 2021 to October 1, 2028. Those bonds maturing on and after October 1, 2023, are subject to redemption prior to maturity, at a redemption price so specified.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

8. Long-Term Debt (continued)

\$100,470,000 Utilities System Revenue Bonds, 2012 Series B - Variable interest rates based on market rates, 0.86% at September 30, 2016, dated August 1, 2012, final maturity October 1, 2042. The 2012 Series B Bonds were issued to (a) refund \$31,560,000 in aggregate principal amount of the 2005 Series B Bonds, (b) provide funds to refund \$17,570,000 in aggregate principal amount of the 2005 Series C Bonds, (c) provide funds to refund \$25,930,000 in aggregate principal amount of the 2006 Series A Bonds, (d) provide funds to refund \$14,405,000 in aggregate principal amount of the 2008 Series A Bonds, and (e) pay costs of issuance of the 2012 Series B Bonds. These bonds mature at various dates through October 1, 2042. The 2012 Series B Bonds are subject to redemption prior to maturity, at a redemption price so specified. A liquidity facility is provided by Sumitomo Mitsui Banking Corporation (SMBC) at 0.43% and expires on January 12, 2018.

\$37,980,000 Utilities System Revenue Bonds, 2014 Series A – 2.50% - 5.00%, dated December 19, 2014, with final maturity October 1, 2044. The 2014 Series A Bonds were issued to (a) provide funds for the payment of the cost and acquisition and construction of certain improvements to the System, and (b) pay costs of issuance of the 2014 Series A Bonds. These bonds mature at various dates beginning October 1, 2015, and from October 1, 2021 to October 1, 2034, October 1, 2039, and October 1, 2044. The bonds maturing prior to October 1, 2024 are not subject to redemption prior to maturity. The bonds maturing on and after October 1, 2025 are subject to redemption prior to maturity at the option of GRU on and after October 1, 2024, as whole or in part at any time, at a redemption price plus interest so specified.

\$30,970,000 Utilities System Revenue Bonds, 2014 Series B – 3.00% - 5.00%, dated December 19, 2014 with final maturity October 1, 2036. The 2014 Series B Bonds were issued to (a) provide funds to refund \$12,725,000 in aggregate principal amount of a portion of the 2005 Series A Bonds; (b) provide funds to refund \$19,915,000 in aggregate principal amount of a portion of the 2008 Series A Bonds; and (c) pay costs of issuance of the 2014 Series B Bonds. These bonds mature at various dates beginning October 1, 2015 through October 1, 2020, from October 1, 2029 to October 1, 2030, and October 1, 2036. The bonds maturing prior to October 1, 2024 are not subject to redemption prior to maturity. The bonds maturing on and after October 1, 2025 are subject to redemption prior to maturity at the option of GRU on and after October 1, 2024, as whole or in part at any time, at a redemption price plus interest so specified. The 2014 Series B Bonds created a net present value savings of \$1,700,000, with yearly cash savings ranging from approximately \$11,000 to over \$600,000.

\$85,000,000 Utilities System Commercial Paper Notes, Series C Notes - These tax-exempt notes are subordinated debt and may continue to be issued to refinance maturing Series C Notes or provide for other costs. Liquidity support for the Series C Notes is provided under a long-term credit agreement effective November 30, 2015, with Bank of America, NA at 0.40% and is set to expire November 30, 2018. The obligation of the bank may be substituted by another bank that meets certain credit standards and which is approved by the Utility and the Agent. Under terms of the agreement, the Utility may borrow up to \$85,000,000 with same day availability ending on the termination date, as defined in the agreement. Interest is at a variable market rate which was 0.72% at September 30, 2016. Series C Notes of \$51,500,000 are outstanding as of September 30, 2016.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

8. Long-Term Debt (continued)

\$25,000,000 Utilities System Commercial Paper Notes, Series D Notes - In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed \$25,000,000. On December 16, 2014, GRU issued \$8,000,000 of Series D Notes to provide funds for the cost of acquisition and construction of certain improvements to the telecommunications system. Interest is at a variable market rate of 0.70% at September 30, 2016. Series D Notes of \$8,000,000 are outstanding as of September 30, 2016. These taxable notes are subordinated debt. Liquidity support for the Series D Notes is provided under a long-term credit agreement effective August 28, 2014, with State Street Bank and Trust Company at 0.33% and is set to expire August 28, 2017. The full amount of the outstanding notes of \$8 million has been reclassified to utilities system revenue bonds – current portion. Management intends to renew or replace the credit agreement in fiscal year 2017.

Debt Service Requirements for Long-Term Debt

Annual debt service requirements to maturity for long-term debt are as follows (in thousands):

Year Ending September 30	Principal	Interest	Total Debt Service Requirements
2017	\$ 121,135	\$ 24,182	\$ 145,317
2018	24,020	23,407	47,427
2019	24,885	22,546	47,431
2020	25,935	21,568	47,503
2021	27,055	20,570	47,625
2022–2026	115,125	91,568	206,693
2027–2031	159,495	71,158	230,653
2032–2036	190,495	50,686	241,181
2037–2041	217,985	24,478	242,463
2042–2045	42,445	1,267	43,712
	<u>\$ 948,575</u>	<u>\$ 351,430</u>	<u>\$ 1,300,005</u>

See Note 9 Hedging Activities for additional debt service requirements for interest rate swaps.

The interest rates used in this table are per GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which requires the rate used in the calculations be that in effect as of September 30, 2016. Interest rates on variable-rate long-term debt were valued to be equal to 0.87% for the 2005 Series C Bonds, 0.86% for the 2006 Series A Bonds, 0.86% for the 2007 Series A Bonds, 0.85% for the 2008 Series B Bonds, 0.86% for the 2012 Series B Bonds, 0.72% for the Commercial Paper Notes, Series C, and 0.70% for the Commercial Paper Notes, Series D.

The 2009 Series B and 2010 Series B Bonds receive a federal interest subsidy of 32.6% of the annual interest expense and are assumed to remain at said rate for the duration of the bonds. The subsidy is recorded as non-operating revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

8. Long-Term Debt (continued)

For GRU's utilities system variable rate demand obligations (VRDO), support is provided in connection with tenders for purchase with various liquidity providers pursuant to standby bond purchase agreements (SBPA) or credit agreements relating to that series of obligation. The purchase price of the obligations tendered or deemed tendered for purchase is payable solely from the proceeds of the remarketing thereof and moneys drawn under the applicable SBPA or credit agreement. The current stated termination dates of the SBPA and credit agreements range from July 7, 2017 to November 24, 2020. Each of the SBPA and credit agreement termination dates may be extended. At September 30, 2016, there were no outstanding draws under the SBPA.

GRU has entered into revolving credit agreements with commercial banks to provide liquidity support for its commercial paper notes. If funds are not available to pay the principal of any maturing commercial paper notes during the term of the credit agreement, GRU is entitled to make a borrowing under the credit agreement. The termination dates of the credit agreements as of September 30, 2016, are August 28, 2017, and November 30, 2018. The credit agreement supporting the tax-exempt Commercial Paper Notes, Series C had no outstanding draws as of September 30, 2016 and 2015. The credit agreement supporting the taxable Commercial Paper Notes, Series D had no outstanding draws as of September 30, 2016 and 2015.

The balance outstanding at September 30, 2016 and 2015, for defeased bonds was \$0 million and \$201.3 million, respectively.

Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2016, was as follows (in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Utilities system revenue bonds	\$ 905,880	\$ -	\$ (16,805)	\$ 889,075	\$ 107,535
Add: Issuance premiums	19,078	-	(1,087)	17,991	1,087
Total bonds payable	924,958	-	(17,892)	907,066	108,622
Commercial paper	64,900	-	(5,400)	59,500	13,600
Compensated absences	4,831	725	(916)	4,640	916
	<u>\$ 994,689</u>	<u>\$ 725</u>	<u>\$ (24,208)</u>	<u>\$ 971,206</u>	<u>\$ 123,138</u>

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

8. Long-Term Debt (concluded)

Changes in Long-Term Liabilities (concluded)

Long-term liabilities activity for the year ended September 30, 2015, was as follows (in thousands):

	Beginning			Ending	Due Within
	Balance	Additions	Reductions	Balance	One Year
Utilities system revenue bonds	\$ 885,950	\$ 68,950	\$ (49,020)	\$ 905,880	\$ 16,805
Add: Issuance premiums	10,230	20,032	(11,184)	19,078	1,088
Total bonds payable	896,180	88,982	(60,204)	924,958	17,893
Commercial paper	62,000	8,000	(5,100)	64,900	5,400
Compensated absences	4,292	1,684	(1,145)	4,831	1,145
	<u>\$ 962,472</u>	<u>\$ 98,666</u>	<u>\$ (66,449)</u>	<u>\$ 994,689</u>	<u>\$ 24,438</u>

Interest Rate Swaps

GRU is a party to certain interest rate swap agreements. GRU applies hedge accounting where applicable. See Note 9 Hedging Activities for additional information.

9. Hedging Activities

Interest Rate Hedges

Under GRU's interest rate swap programs, GRU either pays a variable rate of interest, which is based on various indices, and receives a fixed rate of interest for a specific period of time (unless earlier terminated), or GRU pays a fixed rate of interest and receives a variable rate of interest, which is based on various indices for a specified period of time (unless earlier terminated). These indices are affected by changes in the market. The net amounts received or paid under the swap agreements are recorded as an adjustment to interest on debt in the statements of revenues, expenses, and changes in net position. No money is initially exchanged when GRU enters into a new interest rate swap transaction. Following is a disclosure of key aspects of the agreements.

Terms, Fair Values, and Counterparty Credit Ratings

The terms, fair values, and counterparty credit ratings of the outstanding swaps as of September 30, 2016, were as follows (in thousands):

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

9. Hedging Activities (continued)

Terms, Fair Values, and Counterparty Credit Ratings (concluded)

Associated Bond Issue	2008CP*	2005B*	2005C*	2006A*
Notional amounts	\$ 11,500	\$ 38,740	\$ 35,300	\$ 34,160
Effective date	7/3/2002	11/16/2005	11/16/2005	7/6/2006
Fixed payer rate	4.100%	SIFMA	3.200%	3.224%
Variable receiver rate	SIFMA	77.14% of 1 MO LIBOR	60.36% of 10 YR LIBOR	68% of 10 YR LIBOR – 0.3635%
Fair value	\$ (425)	\$ (176)	\$ (2,797)	\$ (3,026)
Termination date	10/1/2017	10/1/2021	10/1/2026	10/1/2026
Counterparty credit rating	Baa1/BBB+/A	Aa2/AA-	Aa3/A+/AA-	Aa2/AA-

Associated Bond Issue		2008B*	2008B*	2007A*
Notional amounts		\$ 58,500	\$ 31,500	\$ 137,240
Effective date		2/13/2008	2/13/2008	3/1/2007
Fixed payer rate		4.229%	4.229%	3.944%
Variable receiver rate		SIFMA	SIFMA	SIFMA
Fair value		\$ (21,074)	\$ (11,358)	\$ (48,324)
Termination date		10/1/2038	10/1/2038	10/1/2036
Counterparty credit rating		Aa3/A+/AA-	Aa3/A+/AA-	Aa2/AA-

* See Basis Risk section below.

Fair Value

All of the swap agreements had a negative fair value as of September 30, 2016. Due to the low interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates currently exceed the variable receiver rates (in thousands):

	Fair Value of Interest Rate Swaps at September 30, 2016	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Assets) Liability for Ineffective Instruments
2008CP	\$ (425)	\$ 586	\$ (586)	\$ -
2005B	(176)	(370)	-	370
2005C	(2,797)	(153)	-	153
2006A	(3,026)	(171)	-	171
2008B	(21,074)	(2,063)	2,063	-
2008B	(11,358)	(1,114)	1,114	-
2007A	(48,324)	(6,853)	6,853	-
	<u>\$ (87,180)</u>	<u>\$ (10,138)</u>	<u>\$ 9,444</u>	<u>\$ 694</u>

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

9. Hedging Activities (continued)

Fair Value (concluded)

Excluding the basis swap, six of the swap agreements had a negative fair value as of September 30, 2015. Due to the low interest rate environment, as compared to the period when the swaps were entered into, the fixed payer rates exceeded the variable receiver rates (in thousands):

	Fair Value of Interest Rate Swaps at September 30, 2015	Changes in Fair Value	Changes in Deferred (Inflow) Outflow	Changes in Regulatory (Assets) Liability for Ineffective Instruments
2008CP	\$ (1,011)	\$ 639	\$ (639)	\$ -
2005B	194	118	-	(118)
2005C	(2,644)	(371)	-	371
2006A	(2,855)	(407)	-	407
2008B	(19,012)	(5,242)	5,242	-
2008B	(10,243)	(2,827)	2,827	-
2007A	(41,471)	(13,849)	13,849	-
	<u>\$ (77,042)</u>	<u>\$ (21,939)</u>	<u>\$ 21,279</u>	<u>\$ 660</u>

Interest Rate Swap Payments

Debt service requirements on the interest rate swaps using interest rates in effect at September 30, 2016, would be as follows (in thousands):

2017	\$ 9,157
2018	8,696
2019	8,421
2020	8,188
2021	7,904
2022–2026	35,032
2027–2031	26,686
2032–2036	12,016
2037	522
	<u>\$ 116,622</u>

Credit Risk

As of September 30, 2016, although fair value of the interest rate swaps was negative, GRU is not subject to credit risk. To mitigate the potential for credit risk, GRU has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to GRU as negotiated and detailed in the Schedule to the International Swaps and Derivative Agreements (ISDA) master agreement for each counterparty would constitute an event of default with respect to that counterparty.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

9. Hedging Activities (continued)

Basis Risk

The swaps expose the City to basis risk:

- The 2005 Series B Swap is exposed to basis risk through the potential mismatch of 77.14% of one-month LIBOR and the SIFMA rate. As a result, savings may not be realized. As of September 30, 2016, the one-month LIBOR rate was 0.53%, and SIFMA rate was at 0.84%, which places the SIFMA at approximately 158.19% of one-month LIBOR at that date.
- The 2005 Series C Swap is exposed to basis risk through the potential mismatch of 60.36% of 10-year LIBOR and the variable 31-day rollover rate. As a result, savings may not be realized. As of September 30, 2016, the 10-year LIBOR rate was at 1.44%.
- The 2006 Series A Swap is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less 0.36% and the variable 31-day rollover rate. As a result, savings may not be realized.
- The 2007 Series A and the 2008 Series B Swaps are exposed to the difference between SIFMA and the variable 31-day rollover rate.
- The Commercial Paper Series C Notes Swap (formerly the 2002 Series A Swap) is exposed to the difference between the weekly SIFMA index and CP maturity rate of less than 90 days based on current market conditions. As a result, savings may not be realized.

Termination Risk

The swap agreement will be terminated at any time if certain events occur that result in one party not performing in accordance with the agreement. The swap can be terminated due to illegality, a credit event upon merger, an event of default, or if credit ratings fall below established levels.

Interest Rate Risk

This risk is associated with the changes in interest rates that will adversely affect the fair values of GRU's swaps and derivatives. GRU mitigates this risk by actively reviewing and negotiating its swap agreements.

Rollover Risk

GRU is exposed to this risk when its interest rate swap agreements mature or terminate prior to the maturity of the hedged debt. When the counterparty to the interest rate swap agreements chooses to terminate early, GRU will be re-exposed to the rollover risk. Currently, there is no early termination option being exercised by any of GRU's interest rate swap counterparties.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

9. Hedging Activities (concluded)

Market Access Risk

This risk is associated with the event that GRU will not be able to enter credit markets for interest rate swap agreements or that the credit market becomes more costly. GRU maintains a strong credit rating of Aa2 from Moody's, AA- from Standard and Poor's, and AA- from Fitch. Currently GRU has not encountered any credit market barriers.

Effectiveness

Of the interest rate swap agreements, four have been determined to be effective, while three have been deemed ineffective as of September 30, 2016. The ineffective portion related to interest rate swap agreements is recorded as a regulatory asset in the amount of \$6 million and \$5.3 million as of September 30, 2016 and 2015, respectively.

Fair value changes of \$10.1 million and \$21.9 million have been recorded for interest rate swap agreements in accumulated decrease in fair value of hedging derivatives at September 30, 2016 and 2015, respectively. There were no realized gains or losses related to interest rate swaps as of September 30, 2016 or 2015.

Fuel Hedges

GRU utilizes commodity price swap contracts to hedge the effects of fluctuations in the prices for natural gas. These transactions meet the requirements of GASB Statement No. 53. Realized losses related to gas hedging positions were recorded as an addition of fuel costs of \$3.8 million and \$2.3 million for September 30, 2016 and 2015, respectively.

Unrealized gains and losses related to gas hedging agreements are deferred in a regulatory account and recognized in earnings as fuel costs are incurred. All fuel hedges have been determined to be effective.

The information below provides a summary of results (in thousands):

	Fair Value of Cash Flow Hedges at September 30, 2016	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)
Natural gas	<u>\$ (181)</u>	<u>\$ 2,137</u>	<u>\$ (201)</u>	<u>\$ 605</u>

	Fair Value of Cash Flow Hedges at September 30, 2015	Changes in Fair Value	Deferred (Inflows)/ Outflows Resources	Notional Amount (MMBTUs)
Natural gas	<u>\$ (2,318)</u>	<u>\$ (2,692)</u>	<u>\$ (2,063)</u>	<u>\$ 2,550</u>

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

10. Fair Value Measurement

GRU records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Fair value is defined in Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

As a basis for considering market participant assumptions in fair value measurements, Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. U.S. Treasury securities are examples of Level 1 inputs.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. U.S. agencies, corporate bonds, and financial hedges are examples of Level 2 inputs.
- Level 3 inputs are unobservable inputs that reflect GRU's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

Valuation methods of the primary fair value measurements are as follows:

- U.S. Treasury securities are valued using quoted market prices (Level 1 inputs).
- Investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.
- Commodity derivatives, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using level 1 inputs.
- Other hedging derivatives, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on pricing algorithms using observable market quotes.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

10. Fair Value Measurement (continued)

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Utility's assessment of the significance of a particular input to the fair value measurement requires judgement and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels. GRU's fair value measurements are performed on a recurring basis. The following table presents fair value balances and their levels within the fair value hierarchy as of September 30, 2016 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Fair value investments				
U.S. Treasuries	\$ 8,664	\$ -	\$ -	\$ 8,664
U.S. Agencies:				
Federal Home Loan Mortgage Corp	-	4,953	-	4,953
Federal National Mortgage Assn	-	28,578	-	28,578
Federal Home Loan Bank	-	10,590	-	10,590
Federal Farm Credit Bank	-	16,994	-	16,994
Corporate bonds:				
Massmutual Global Funding	-	5,024	-	5,024
Guardian Life	-	5,549	-	5,549
New York Life	-	12,974	-	12,974
New York Life Global	-	3,012	-	3,012
Total fair value investments	\$ 8,664	\$ 87,674	\$ -	\$ 96,338
Liabilities				
Financial instruments				
Ineffective interest rate swaps	\$ -	\$ (5,999)	\$ -	\$ (5,999)
Total financial instruments	\$ -	\$ (5,999)	\$ -	\$ (5,999)

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

10. Fair Value Measurement (concluded)

Fair value balances and their levels within the fair value hierarchy as of September 30, 2015, are represented in the following table (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Fair value investments				
U.S. Treasuries	\$ 4,531	\$ -	\$ -	\$ 4,531
U.S. Agencies:				
Federal Agricultural Mortgage Corp	-	3,012	-	3,012
Federal Home Loan Mortgage Corp	-	11,504	-	11,504
Federal National Mortgage Assn	-	18,969	-	18,969
Federal Home Loan Bank		9,976	-	9,976
Federal Farm Credit Bank		23,708	-	23,708
Corporate bonds:				
New York Life		12,871	-	12,871
New York Life Global		3,021	-	3,021
Total fair value investments	\$ 4,531	\$ 83,061	\$ -	\$ 87,592
Liabilities				
Financial instruments				
Ineffective interest rate swaps	\$ -	\$ (5,306)	\$ -	\$ (5,306)
Total financial instruments	\$ -	\$ (5,306)	\$ -	\$ (5,306)

11. Restricted Net Position

Certain assets are restricted by the Resolution and other external requirements as follows (in thousands):

	2016	2015
Restricted net position:		
Debt service	\$ 23,135	\$ 22,205
Utility plant improvement	58,792	55,023
Other	259	199
Restricted net position	\$ 82,186	\$ 77,427

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

12. Lease Revenue

GRU leases generators, land, and communication tower antenna space, among other items.

Future minimum rental revenue for various operating leases (in thousands):

<u>September 30,</u>	<u>Revenue</u>
2017	\$ 1,161
2018	1,157
2019	1,072
2020	1,011
2021	923
2022-2026	3,647
2027-2031	2,121
Thereafter	652
	<u>\$ 11,746</u>

13. Transfer to City of Gainesville General Fund

GRU transfers monies monthly to the City's General Fund that are historically based on a pre-defined formula that predominantly tied the transfer directly to the utility's revenue generation. The transfer to the General Fund may be made only to the extent such monies are not necessary to pay operating and maintenance expenses and to pay debt service on the outstanding bonds and subordinated debt or to make other necessary transfers under the Resolution.

Effective for fiscal year 2015, the City Commission approved a change to the transfer formula. This new transfer formula contains the following components:

- A new base equal to the fiscal year 2014 General Fund Transfer level that would have been produced under the formula methodology that was in place from fiscal years 2001 through 2010.
- Growth of the base by 1.5% per year for fiscal years 2016 through 2019.
- Reduction of this amount by an amount equal to the property tax revenue that accrues to the City of Gainesville related to the GREC Biomass Facility.
- In addition to the components above, a further one-time reduction of \$250,000 for fiscal year 2015 only.

For the years ended September 30, 2016 and 2015, the transfer was \$35 million and \$34.9 million, respectively.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies

General

The primary factors currently affecting the utility industry include environmental regulations, restructuring of the wholesale energy markets, the formation of independent bulk power transmission systems, the formation of an Electric Reliability Organization (ERO) under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida.

The emerging role of municipalities as telecommunications providers pursuant to the 1996 Federal Telecommunications Act has resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this issue culminated in the passage, in 2005, of legislation codified in Section 350.81, Florida Statutes (Section 350.81) that defined the conditions under which municipalities are allowed to provide retail telecommunications services. Although GRU has special status as a grandfathered entity under this legislation, the provision of certain additional retail telecommunications services by the Utility would activate certain of the requirements of Section 350.81. Management does not expect that any required compliance with the requirements of Section 350.81 would have a material adverse effect on the operations or financial condition of GRUCom.

Environmental and Other Natural Resource Regulations

GRU and its operations are subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, SO₂ and NO_x into the air; discharges of pollutants, including heat, into surface or ground water; the disposal of wastes and reuse of products generated by wastewater treatment and combustion processes; management of hazardous materials; and the nature of waste materials discharged into the wastewater system's collection facilities. Environmental regulations generally are becoming more numerous and more stringent and, as a result, may substantially increase the costs of the Utility's services by requiring changes in the operation of existing facilities as well as changes in the location, design, construction, and operation of new facilities [including both facilities that are owned and operated by GRU as well as facilities that are owned and operated by others, (including, particularly, GREC), from which the Utility purchases output, services, commodities and other materials]. There is no assurance that the facilities in operation, under construction, or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Environmental and Other Natural Resource Regulations (concluded)

Increasing concerns about climate change and the effects of greenhouse gases (GHG) on the environment have resulted in EPA finalizing on August 3, 2015 carbon regulations for existing power plants. Since the final rules for existing units were recently issued by the EPA, an in-depth analysis has not yet been completed. Therefore, management is unable to predict what impact such regulations will have on GRU.

Air Emissions

The Clean Air Act

The Clean Air Act regulates emissions of air pollutants, establishes national air quality standards for major pollutants, and requires permitting of both new and existing sources of air pollution. Among the provisions of the Clean Air Act that affect GRU's operations are: (1) the acid rain program, which requires nationwide reductions of SO₂ and NO_x from existing and new fossil-fueled electric generating plants, (2) provisions related to toxic or hazardous pollutants, (3) requirements to address regional haze, and (4) requirements to address effects on ambient air quality standards from transport of fine particulate matter and ozone (Cross State Air Pollution Rule).

The Clean Air Act also requires persons constructing new major air pollution sources or implementing significant modifications to existing air pollution sources to obtain a permit prior to such construction or modifications. Significant modifications include operational changes that increase the emissions expected from an air pollution source above specified thresholds. In order to obtain a permit for these purposes, the owner or operator of the affected facility must undergo a new source review, which requires the identification and implementation of Best Available Control Technology (BACT) for all regulated air pollutants and an analysis of the ambient air quality impacts of a facility. In 2009, the EPA announced plans to actively pursue new source review enforcement actions against electric utilities for making such changes to their coal-fired power plants without completing new source review. Under Section 114 of the Clean Air Act, the EPA has the authority to request from any person who owns or operates an emission source, information and records about operation, maintenance, emissions, and other data relating to such source for the purpose of developing regulatory programs, determining if a violation occurred (such as the failure to undergo new source review), or carrying out other statutory responsibilities.

The Cross-State Air Pollution Rule (CSAPR)

On July 6, 2011, the EPA released its final Cross-State Air Pollution Rule. This rule is the final version of the Transport Rule and replaces CAIR. In Florida, only ozone season NO_x emissions are regulated by CSAPR through the use of allowances.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Air Emissions (continued)

The Cross-State Air Pollution Rule (CSAPR) (concluded)

Various states, local governments, and other stakeholders challenged CSAPR and, on August 21, 2012, a three-judge panel of the D.C. Circuit Court, by a 2-1 vote, held that the EPA had exceeded its statutory authority in issuing CSAPR and vacated CSAPR along with certain related federal implementation plans. As part of its holding, the D.C. Circuit Court panel held that the EPA should continue to administer the original CAIR program until the EPA promulgates a valid replacement.

On October 5, 2012, the EPA filed a petition for rehearing *en banc* with the D.C. Circuit Court requesting that the full court reconsider the August 21, 2012 decision. That request was denied. On Friday, March 29, 2013, the Department of Justice and several environmental groups filed Petitions for *certiorari*, asking the Supreme Court to accept the case and overturn CSAPR. The Supreme Court granted *certiorari* on June 24, 2013. On April 29, 2014, the Supreme Court reversed part of the D.C. Circuit Court's decision, upholding parts of the CSAPR program, and remanded other issues back to the D.C. Circuit Court for further proceedings. The D.C. Circuit Court set a deadline of July 3, 2014, for the parties to brief on how they would like to proceed with the remaining issues and lawsuits. On June 26, 2014, the EPA filed a Motion with the D.C. Circuit Court to lift the stay of the CSAPR. EPA has indicated that, at this time, CAIR remains in place and that no immediate action by the states or affected sources is expected. EPA is reviewing the Supreme Court's decision and is evaluating next steps, including how to address compliance deadlines that passed during the ongoing litigation and stay. On October 23, 2014, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) granted EPA's request that the court lift the stay of the Cross State Air Pollution Rule. While the court did not specifically address EPA's request that the court extend CSAPR's compliance deadlines by three years, GRU believes that, by granting EPA's motion, the court granted EPA's request.

On July 28, 2015, the D.C. Circuit ruled that Florida's allowance budget is invalid and remanded CSAPR to EPA. On October 26, 2016 EPA published in the *Federal Register*, at 81 Fed. Reg. 74504, an update to the Cross-State Air Pollution Rule ("CSAPR") to address the 2008 ozone National Ambient Air Quality Standards. For three states (North Carolina, South Carolina, and Florida), EPA is removing the states from the CSAPR ozone season NOX trading program because modeling for the Final Rule indicates that these states do not contribute significantly to ozone air quality problems in downwind states under the 2008 ozone NAAQS. Therefore, GRU will not have to meet any ozone season limits in 2017 and probably 2018.

Mercury and Air Toxics Standards (MATS)

On December 16, 2011, the EPA promulgated a rule to reduce emissions of toxic air pollutants from power plants. Specifically, these mercury and air toxics standards or MATS for power plants will reduce emissions from new and existing coal- and oil-fired electric utility steam generating

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Air Emissions (continued)

Mercury and Air Toxics Standards (MATS) (continued)

units (EGUs). The EPA also signed revisions to the new source performance standards for fossil fuel-fired EGUs. Such revisions revised the standards that new coal- and oil-fired power plants must meet for particulate matter, SO₂ and NO_x. On November 25, 2014, the United States Supreme Court accepted certiorari to hear challenges to the mercury admission rules.

On June 29, 2015, the U.S. Supreme Court issued a 5-to-4 decision reversing the D.C. Circuit's decision to uphold EPA's rule establishing mercury and air toxics standards (MATS) for electric generating units. The case is *Michigan, et al. v. EPA, et al.*, No. 14-46. The Court granted review on a single issue: "Whether the Environmental Protection Agency unreasonably refused to consider costs in determining whether it is appropriate to regulate hazardous air pollutants emitted by electric utilities." Writing for the majority, Justice Scalia held that EPA "strayed far beyond" the "bounds of reasonable interpretation" when the Agency interpreted the Clean Air Act to mean that it "could ignore costs when deciding to regulate power plants." The Court remanded the case to the D.C. Circuit for further proceedings consistent with the Court's opinion. On August 10, 2015, EPA stated in a motion filed with the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") that the Agency plans to revise its "appropriate and necessary" determination for the Mercury and Air Toxics Standards ("MATS") by the spring of 2016, prior to the extended MATS compliance deadline of April 15, 2016. EPA also stated that it intends to request that the D.C. Circuit remand the rule without vacatur while EPA works on this revision. Since the Court did not vacate the rule, the MATS rule remained in effect.

On April 14, 2016, the Administrator of the Environmental Protection Agency (EPA) signed the final supplemental finding in the Mercury and Air Toxic Standard (MATS) rule. The new "appropriate and necessary" finding responds to the U.S. Supreme Court decision in *Michigan v. EPA*, and explains how EPA has taken cost into account in evaluating whether it is appropriate and necessary to regulate coal- and- oil-fired electric utility steam generating units (EGUs) under Section 112 of the Clean Air Act (CAA). EPA still concludes it is proper to regulate mercury emissions from power plants.

On May 6, 2016, EPA filed a brief urging the U.S. Supreme Court to deny a *writ of certiorari* filed by 20 states requesting that the Court review and reverse a decision by the U.S. Court of Appeals for the D.C. Circuit to remand EPA's Mercury and Air Toxics Standards ("MATS") rule to the Agency without vacating the rule. According to EPA's brief, the Supreme Court should deny review of whether the MATS rule should have been vacated while EPA made its "appropriate and necessary" finding because the issue is moot now that EPA has issued the finding. Additionally, EPA argues that the Clean Air Act ("CAA"), not the Administrative Procedure Act, governs whether the MATS rule should have been vacated and the CAA does not mandate vacatur of a rule on

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Air Emissions (continued)

Mercury and Air Toxics Standards (MATS) (continued)

remand. Rather, the CAA gives a court discretion on whether to vacate a remanded rule based on the circumstances. Finally, EPA asserts that the D.C. Circuit was correct in not vacating the MATS rule on remand because EPA could quickly remedy the legal deficiency and vacating the rule would have been harmful to the public because it would have allowed an increase in emissions of HAPs from EGUs.

Murray Energy became the first party to appeal the final MATS Appropriate and Necessary Finding, filing its petition for review on April 25, 2016, the same day the rule was published in the Federal Register. 81 Fed. Reg. 24,420 (Apr. 25, 2016). All petitions for review of the Finding must be filed in the U.S. Court of Appeals for the District of Columbia Circuit no later than June 24, 2016. As of the deadline, the following petitions for review have been filed in the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit"):

- *Murray Energy Corp. v. EPA*, No. 16-1127;
- *ARIPPA v. EPA*, No. 16-1175;
- *Michigan v. EPA*, No. 16-1204;
- *Oak Grove Management Co. v. EPA*, No. 16-1206;
- *Southern Company Services, Inc. v. EPA*, No. 16-1208; and
- *Utility Air Regulatory Group v. EPA*, No. 16-1210.

The cases have been consolidated under the lead case *Murray Energy Corp. v. EPA*, No. 16-1127.

On October 14, 2016, the U.S. Court of Appeals for the District of Columbia Circuit issued orders establishing the briefing schedule for the challenge related to EPA's Mercury and Air Toxic Standard ("MATS"). In *Murray v. EPA*, 16-1127 (D.C. Cir.), industry petitioners challenge EPA's supplemental determination that it was "appropriate and necessary" to regulate emissions of hazardous air pollutants from electric generating units. The briefing schedules are as follows:

- EPA Brief: January 19, 2017
- Brief(s) of Respondent-Intervenors: February 10, 2017
- Reply brief(s) of State and Industry Petitioners: February 24, 2017
- Deferred Appendix: March 10, 2017 Briefs of State and Industry Petitioners: November 18, 2016
- Final Briefs: March 24, 2017

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Air Emissions (concluded)

Mercury and Air Toxics Standards (MATS) (concluded)

So far, since the MATS program became effective on April 16, 2015, GRU's Deerhaven Unit #2 (the only MATS unit) has been able to comply with all requirements.

Effluent Limitation Guidelines

In November 2010, the EPA agreed to propose the power plant Effluent Limitation Guidelines (ELGs) for coal-fired steam electric plants by July 23, 2012, and finalize the guidelines in May 2014. The ELGs were last revised in 1982. The EPA is considering more stringent limits for new metals and parameters for individual wastewater streams generated by steam electric power plants, with emphasis on coal-fired power plants. The EPA will evaluate the technologies and costs to remove those metals and identify the Best Available Technology (BAT) to affect their control in coal-fired power plant effluent. After a number of delays in issuing the proposed ELG rule, EPA issued a draft rule on June 7, 2013 and accepted comments on the rule until September 20, 2013. On April 7, 2014, EPA signed a settlement agreement with environmental groups that commits the Agency to take final action by September 30, 2015 on EPA's proposed rule addressing effluent limitation guidelines for power plants under the Clean Water Act.

On September 30, 2015, EPA issued a final rule addressing ELGs for power plants under the Clean Water Act.

The final rule establishes Best Available Technology Economically Achievable ("BAT"), New Source Performance Standards ("NSPS"), Pretreatment Standards for Existing Sources ("PSES"), and Pretreatment Standards for New Sources ("PSNS") that may apply to discharges of six waste streams: flue gas desulfurization ("FGD") wastewater, fly ash transport water, bottom ash transport water, FGMC wastewater, gasification wastewater, and combustion residual leachate.

EPA did not finalize the proposed best management practices ("BMP") for surface impoundments containing coal combustion residuals (e.g., ash ponds and FGD ponds), in order to avoid "unnecessary duplication" with EPA's final rule pertaining to coal combustion residuals, 80 Fed. Reg. 21,302 (April 17, 2015).

On November 3, 2015, the final Effluent Limitation Guidelines for Steam Electric Generating Units was published in the Federal Register. As a result, the final rule is effective on January 4, 2016.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Regional Haze

On June 15, 2005, the EPA issued the Clean Air Visibility Rule, amending its 1999 regional haze rule, which had established timelines for states to improve visibility in national parks and wilderness areas throughout the United States. Under the amended rule, certain types of older sources may be required to install best available retrofit technology (BART). Some of the effects of the amended rule could be requirements for newer and cleaner technologies and additional controls for particulate matter, SO₂ and NO_x emissions from utility sources. The states were to develop their regional haze implementation plans by December 2007, identifying the facilities that will have to reduce emissions and then set emissions limits for those facilities. However, states have not met that schedule and on January 15, 2009, the EPA published a notice finding that 37 states, the District of Columbia, and the Virgin Islands failed to submit all or a portion of their regional haze implementation plans. The EPA's notice initiates a two-year period during which each jurisdiction must submit a haze implementation plan or become subject to a Federal Implementation Plan issued by the EPA that would set the basic program requirements. GRU has installed additional emission control equipment at DH 2 to reduce SO₂ and NO_x emissions that potentially contribute to regional haze.

Recently, emissions modeling was completed for DH 1 to determine its impact on visibility in the Class I areas within 300 km of the unit. Results of this modeling confirmed that DH 1 had impacts on the applicable Class I areas below the 0.5 deciview threshold and therefore is exempt from the BART program associated with the regional haze program.

The reasonable further progress (RFP) section of Florida's regional haze state implementation plan, which has been approved by EPA, applies to DH 2. GRU has voluntarily requested a cap on SO₂ emissions, which provides DH 2 with an exemption from the RFP section. A draft permit from the FDEP was issued on June 1, 2012 approving GRU's requested cap on SO₂ emissions, and the final permit was issued on June 26, 2012.

Internal Combustion Engine MACT

On August 20, 2010, the EPA published a final rule for the National Emissions Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines, which covers existing stationary spark ignition reciprocating internal combustion engines located at major sources of hazardous air pollutant emissions such as power plant sites. This final rule, which became effective on October 19, 2010, requires the reduction of emissions of hazardous air pollutants from covered engines. Several of GRU's reciprocating engines are covered by this new rule and all are in full compliance.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Climate Change

Control of GHGs such as CO₂ is receiving a great deal of attention within the United States. On April 2, 2007, the United States Supreme Court issued a decision in *Massachusetts v. Environmental Protection Agency*, 549 U.S. 497, holding that GHG emissions are air pollutants under the Clean Air Act requiring the EPA to determine whether GHGs pose a threat to health and welfare. On December 15, 2009, the EPA published the final rule for the endangerment finding under the Clean Air Act. In the finding, the EPA declared that the six identified GHGs – CO₂, methane, nitrous oxide, hydro-fluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause or contribute to global warming, and that the effects of climate change endanger public health and welfare by increasing the likelihood of severe weather events and the other related consequences of climate change (the Endangerment Finding). The issuance of the Endangerment Finding triggered the statutory requirement that the EPA regulate emissions of GHGs as air pollutants from motor vehicles. Such regulations were finalized on April 1, 2010, when the EPA and the United States Department of Transportation issued a joint final rule imposing GHG emission standards on light-duty vehicles (cars and light trucks) (Tailpipe Rule). That regulation took effect on January 2, 2011.

On March 29, 2010, the EPA affirmed its position that air pollutant emissions that are actually controlled by regulation under the Clean Air Act under any program must be taken into account when considering permits issued under other programs, such as the PSD permit program (Timing Rule). A PSD permit is required before commencement of construction of new major stationary sources or major modifications of such sources. As a result of this determination, the effect of the new motor vehicle rule is to require the analysis of emissions and control options with respect to GHG emissions from new and modified major stationary sources as of January 2, 2011, which is the date the new motor vehicle rule took effect. Permitting requirements for GHGs include, but are not limited to, the application of BACT for GHG emissions, and monitoring, reporting and recordkeeping for GHGs.

On May 13, 2010, the EPA issued a final rule for determining the applicability of the PSD program to GHG emissions from major sources. The rule, known as the Tailoring Rule, establishes criteria for identifying facilities required to obtain PSD permits and the emissions thresholds at which permitting and other regulatory requirements apply. The applicability threshold levels established by this rule include both a mass-based calculation and a metric known as the carbon dioxide equivalent, or CO₂e, which incorporates the global warming potential for each of the six individual gases that comprise the collective GHG defined in the endangerment finding.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Climate Change (continued)

The Tailoring Rule required, as of January 2, 2011, sources that are subject to PSD and/or Title V permits due to their non-GHG emissions (such as fossil fuel based electric generating facilities for their NO_x, SO₂ and other emissions) would have to address GHG emissions in new permit applications or renewals. Construction or modification of major sources became subject to PSD requirements for their GHG emissions if the construction or modification resulted in a net increase in the overall mass of GHG emissions exceeding 75,000 tons per year on a CO₂e basis. New and modified major sources required to obtain a PSD permit were required to conduct a BACT review for their GHG emissions. With respect to Title V requirements sources that were required to have Title V permits for non-GHG pollutants were required to address GHGs as part of their Title V permitting. The 75,000 tons per year CO₂e applicability threshold did not apply, so when any source applied for, renewed, or revised a Title V permit, the Clean Air Act requirements for monitoring, recordkeeping and reporting were included. On June 26, 2012, the United States Court of Appeals for the D.C. Circuit Court upheld the Endangerment Finding and the Tailpipe Rule and found that the petitioners did not have standing to challenge the Timing and Tailoring Rules. The court dismissed all petitions for review of the Timing and Tailoring Rules for lack of jurisdiction and denied the petitions for review of the Endangerment Finding and the Tailpipe Rule.

On October 15, 2013, following a December 2012 denial of rehearing en banc, the United States Supreme Court granted six of nine petitions for certiorari, agreeing to review the single issue of whether the EPA acted within its authority under the Clean Air Act when it determined that its regulation of GHG emissions from motor vehicles triggered permitting requirements for stationary sources that emit GHGs (*Utility Air Regulatory Group v. Environmental Protection Agency*, Case No. 12-1146). Petitioners filed briefs in support of their petitions in December 2013. They argued that EPA's automatic trigger interpretation was impermissible because EPA could have avoided the results by interpreting the PSD provisions as applying only to certain pollutants that do not include GHGs, or by reading section 166 of the Clean Air Act as the only mechanism for adding pollutants to the PSD program. In addition, petitioners argued that EPA's tailored regulation of greenhouse gases under the PSD program would be an unconstitutional delegation of authority because the Clean Air Act provides no intelligible principle for such an exercise of discretionary power. They also requested that the Supreme Court revisit *Massachusetts v. EPA* and possibly overrule it if it requires coverage of greenhouse gases under the PSD program.

Respondents, EPA, and several other states filed response briefs on January 21, 2014. Respondents argued that EPA's position that GHG emissions are automatically covered by the PSD program as a result of their regulation under other parts of the Clean Air Act is consistent with the statute and EPA's longstanding interpretation of the statute. Respondents asserted, moreover, that EPA's interpretation is consistent with the Supreme Court's decisions in *Massachusetts v. EPA* that GHGs are air pollutants under the Clean Air Act and its decision in *AEP v. Connecticut*, that the Clean Air Act displaces federal common law with respect to greenhouse gas emissions from stationary sources.

Gainesville Regional Utilities

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September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Climate Change (concluded)

The Supreme Court heard oral arguments on February 24, 2014. On June 23, 2014, the Supreme Court issued its opinion in the case, holding that EPA's automatic trigger interpretation in the Tailoring Rule that triggered certain permitting requirements for stationary sources based solely on GHG emissions was invalid. The Court also held, however, that regulation of GHG emissions under PSD permits and Title V for facilities constituting major sources for other pollutants under the Clean Air Act, including most electric generating facilities, is permissible. GRU does not expect that the result of this case will provide relief from the Tailoring Rule for any of its planned or existing facilities. However, this decision is not likely to forestall all further legal challenges to EPA regulation of greenhouse gas emissions from stationary sources. For example, as discussed further below, EPA proposed new source performance standards limiting GHG emissions from fossil fuel-fired electric utility generating units that will likely see challenges of its own.

On June 25, 2013, President Obama issued a Presidential Memorandum directing the EPA to work expeditiously to complete GHG standards for the power sector. The agency is using its authority under section 111(d) of the Clean Air Act to issue emission guidelines, to address GHG emissions from existing power plants. The Presidential Memorandum specifically directed EPA to build on state leadership, provide flexibility and take advantage of a wide range of energy sources and technologies towards building a cleaner power sector. The Presidential Memorandum directed EPA to issue proposed GHG standards, regulations, or guidelines, as appropriate, for existing power plants by no later than June 1, 2014, and issue final standards, or guidelines, as appropriate, by no later than June 1, 2015. In addition, the Presidential Memorandum directed EPA to include in the guidelines addressing existing power plants a requirement that states submit to EPA the implementation plans required under section 111(d) of the Clean Air Act and its implementing regulations by no later than June 30, 2016, subject to states being able to request more time to submit complete implementation plans and the EPA being able to allow states until June 30, 2017 or June 30, 2018, as appropriate, to submit additional information completing the submitted plan no later than June 30, 2016.

Accordingly, on June 2, 2014, EPA released a proposed rule, the Clean Power Plan Rule, that would limit and reduce carbon dioxide emissions from certain fossil fuel power plants, including existing plants. Finally, on August 3, 2015, EPA released the final version of the Clean Power Plan. Initially, it appears that the reductions for Florida have been relaxed somewhat. Due to the size and complexity of the rule, GRU has not determined the impact on operations at this time but is working closely with the trade associations it is a member of (FCG, Class of '85, APPA, and FMEA) to determine the impact.

Gainesville Regional Utilities

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September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Coal Ash

On May 4, 2010, the EPA released the text of a proposed rule describing two possible regulatory options it is considering under the Resource Conservation and Recovery Act (RCRA) for the disposal of coal ash generated from the combustion of coal by electric utilities and independent power producers. Under either option, the EPA would regulate the construction of impoundments and landfills, and seek to ensure both the physical and environmental integrity of disposal facilities.

Under the first proposed regulatory option, the EPA would list coal ash destined for disposal in landfills or surface impoundments as special wastes subject to regulation under Subtitle C of RCRA. Subtitle C regulations set forth the EPA's hazardous waste regulatory program, which regulate the generation, handling, transport and disposal of wastes. The proposed rule would create a new category of waste under Subtitle C, so that coal ash would not be classified as a hazardous waste, but would be subject to many of the regulatory requirements applicable to such wastes.

Under this option, coal ash would be subject to technical and permitting requirements from the point of generation to final disposal. Generators, transporters, and treatment, storage and disposal facilities would be subject to federal requirements and permits. The EPA is considering imposing disposal facility requirements such as liners, groundwater monitoring, fugitive dust controls, financial assurance, corrective action, closure of units, and post-closure care. This first option also proposes requirements for dam safety and stability for surface impoundments, land disposal restrictions, treatment standards for coal ash, and a prohibition on the disposal of treated coal ash below the natural water table. The first option would not apply to certain beneficial reuses of coal ash.

Under the second proposed regulatory option, the EPA would regulate the disposal of coal ash under Subtitle D of RCRA, the regulatory program for non-hazardous solid wastes. Under this option, the EPA is considering issuing national minimum criteria to ensure the safe disposal of coal ash, which would subject disposal units to location standards, composite liner requirements, groundwater monitoring and corrective action standards for releases, closure and post-closure care requirements, and requirements to address the stability of surface impoundments. Existing surface impoundments would not have to close or install composite liners and could continue to operate for their useful life. The second option would not regulate the generation, storage, or treatment of coal ash prior to disposal, and no federal permits would be required.

The proposed rule also states that the EPA is considering listing coal ash as a hazardous substance under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA, which is commonly known as Superfund), and includes proposals for alternative methods to adjust the statutory reportable quantity for coal ash. The extension of CERCLA to coal ash could significantly increase the Utility's liability for cleanup of past and future coal ash disposal.

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14. Commitments and Contingencies (continued)

Coal Ash (concluded)

On December 19, 2014, EPA released a final rule pertaining to coal combustion residuals ("CCR"), commonly known as coal ash. The final rule treats CCR as nonhazardous material under Subtitle D of the Resource Conservation and Recovery Act ("RCRA"), and not as hazardous waste under Subtitle C. GRU is currently performing a "gap" analysis to determine what different or additional facilities and/or monitoring will be required to comply with this new rule.

In August of 2012, the Process Water Ponds at DH, which receive some fly and bottom ash, were inspected by a contractor at the request of the EPA. This effort was part of a federal initiative to inspect coal combustion residual (CCR) impoundments following a dike failure at a Tennessee Valley Authority facility in 2008. A final report was issued on June 2, 2014. The report includes a specific condition rating for the CCR management units and recommendations and actions that the contractor for the EPA recommended be undertaken to ensure the stability of the CCR impoundments located at DH. GRU submitted to the EPA a work scope response to the recommendations which was accepted by the Agency on October 29, 2014.

Additionally, numerous monitoring wells, in place since initial construction, provide assurance of the containment, or structural stability of the ponds. The results of routine groundwater sampling are submitted to the FDEP. Fly ash from the coal combustion process is typically transported from the site for beneficial commercial uses. Currently, beneficial use of flue gas scrubber by-product is limited; therefore, the majority is deposited in the onsite landfill. GRU adheres to a best management practices plan for ash and by-product handling deposited in the onsite landfill.

Storage Tanks

GRU is required to demonstrate financial responsibility for the costs of corrective actions and compensation of third-parties for bodily injury and property damage arising from releases of petroleum products and hazardous substances from certain underground and above-ground storage tank systems. GRU has eleven fuel oil storage tanks. The South Energy Center has two underground distillate (No. 2) oil tanks, the JRK Station has four above-ground distillate oil tanks and two above-ground No. 6 oil tanks (currently not in service), and DH has one above-ground distillate and two above-ground No. 6 oil tanks (one currently not in service). All of the GRU's fuel storage tanks have secondary containment and/or interstitial monitoring and the Utility is insured for the requisite amounts.

Superfund and Remediation Sites

CERCLA, as well as parallel state statutes, require cleanup of sites from which there has been a release or threatened release of hazardous substances and authorizes the EPA to take any necessary response action at Superfund sites, including ordering a potentially responsible party (PRP) liable for the release to take or pay for such actions. PRPs are broadly defined under CERCLA to include past and present owners and operators of, as well as generators of wastes sent to, a site. GRU is a PRP at the Bill Johns Waste Oil Site in Jacksonville, Florida under these

Gainesville Regional Utilities

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September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Superfund and Remediation Sites (concluded)

statutes. GRU's liability at this site was incurred through the improper management of waste oils by operators providing services under contract to the Utility. GRU is no more than a de minimis party at this site and has already resolved its liability with the EPA and is currently working with the State to resolve State liability issues.

GRU also was a PRP at the following sites: Rose Chemical in Holden, Missouri; Peak Oil in Tampa, Florida; PCB Treatment, Inc. in Kansas City, Missouri; Osage Metals in Kansas City, Missouri; and Mowbray Engineering in Greenville, Alabama. GRU's liability for these sites has been resolved through settlements reached with the EPA and, in the case of Rose Chemical, the Rose Chemical Steering Committee.

Management is not aware of any actions by private third-parties which have been brought or are imminent against the parties that contributed wastes to any of the sites described above. The extent of any potential third-party liability cannot be predicted at this time.

Several site investigations have been completed at the JRK Station, most recently in 2011. According to previous assessments, the horizontal extent of soils impacted with No. 6 fuel oil extends from the northern containment wall of the above-ground storage tanks (ASTs) to the wastewater filter beds and from the old plant building to Sweetwater Branch Creek. The results of the most recent soil assessment document the presence of benzo(a)pyrene in one soil sample at a concentration greater than its default commercial/industrial direct exposure based soil cleanup target levels (SCTLs). Four of the soil samples contained benzo(a)pyrene equivalents at concentrations greater than its default commercial/industrial direct exposure based SCTLs. In addition, two of the soil samples contained total recoverable petroleum hydrocarbons (TRPH) at concentrations greater than its default commercial/industrial direct exposure based SCTLs.

In the Site-Wide Monitoring Report dated March 24, 2011, measurable free product was detected in four wells. An inspection in April 2013 showed that groundwater contains four of the polynuclear aromatic hydrocarbons (PAHs) (benzo(a)anthracene, benzo(a)pyrene, benzo(b)fluoranthene, and dibenzo(a,h)anthracene) at concentrations greater than their groundwater cleanup target levels (GCTLs). With the exception of benzo(a)pyrene, the concentration of the remainder of these parameters did not exceed their Natural Attenuation Default Concentrations. The groundwater quality data reported in the 2011 Site-Wide Groundwater Monitoring Report documents that groundwater quality meets applicable GCTLs at the locations sampled. It is likely that groundwater quality impacts exist in the area where residual number 6 Fuel Oil is present as a non-aqueous phase liquid.

In August 2013, the Utility submitted a no further action proposal to the FDEP requesting that the site be granted a no further action status based on an evaluation of the soil and groundwater data with respect to site conditions and operations. GRU is currently responding to comments raised by the FDEP.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Water Use Restrictions

Pursuant to Florida law, a water management district in Florida may mandate restrictions on water use for non-essential purposes when it determines such restrictions are necessary. The restrictions may either be temporary or permanent. The St. Johns River Water Management District (SJRWMD) has mandated permanent district-wide restrictions on residential and commercial landscape irrigation. The restrictions limit irrigation to no more than two days per week during Daylight Savings Time, and one day per week during Eastern Standard Time. The restrictions apply to centralized potable water as provided by the Utility as well as private wells. All irrigation between the hours of 10:00 a.m. and 4:00 p.m. is prohibited.

In addition, in April 2010, the County adopted, and the City subsequently opted into, an Irrigation Ordinance that codified the above-referenced water restrictions which promote and encourage water conservation. County personnel enforce this ordinance, which further assists in reducing water use and thereby extending the Utility's water supply.

The SJRWMD and the Suwannee River Water Management District (SRWMD) each have promulgated regulations referred to as Year-Round Water Conservation Measures, for the purpose of increasing long-term water use efficiency through regulatory means. In addition, the SJRWMD and the SRWMD each have promulgated regulations referred to as a Water Shortage Plan, for the purpose of allocating and conserving the water resource during periods of water shortage and maintaining a uniform approach towards water use restrictions. Each Water Shortage Plan sets forth the framework for imposing restrictions on water use for non-essential purposes when deemed necessary by the applicable water management district. On August 7, 2012, in order to assist the SJRWMD and the SRWMD in the implementation and enforcement of such Water Conservation Measures and such Water Shortage Plans, the Board of County Commissioners of Alachua County enacted an ordinance creating year-round water conservation measures and water shortage regulations (County Water Use Ordinance), thereby making such Water Conservation Measures and such Water Shortage Plans applicable to the unincorporated areas of the County. On December 20, 2012, the City Commission adopted a resolution to opt into the County's year round water conservation measures and water shortage regulations ordinances in order to give the Alachua County Environmental Protection Department the authority to enforce water shortage orders and water shortage emergencies within the City.

GRU cannot predict what effects these factors will have on the business, operations, and financial condition of the Utility, but the effects could be significant.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies (continued)

Manufactured Gas Plant

Gainesville's natural gas system originally distributed blue water gas, which was produced in town by gasification of coal using distillate oil. Although manufactured gas was replaced by pipeline gas in the mid-1950's, coal residuals and spilt fuel contaminated soils at and adjacent to the manufactured gas plant (MGP) site. When the natural gas system was purchased, GRU assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former MGP. GRU has pursued recovery for the MGP from past insurance policies and, to date, has recovered \$2.2 million from such policies. Site investigations on properties affected by MGP residuals have been completed and the Utility has completed limited removal actions. GRU has received final approval of its proposed overall Remedial Action Plan which will entail the excavation and landfilling of impacted soils at a specially designed facility. This plan was implemented pursuant to a Brownfield Site Rehabilitation Agreement with the State. Following remediation, the property will be redeveloped by the City as a park that will have stormwater ponds, nature trails, and recreational space, all of which were considered in the remediation plan's design. The duration of the groundwater monitoring program will be for the duration of the permit, and that timeframe is open to the results of what the sampling data shows.

Based upon GRU's analysis of the cost to clean up this site, GRU has accrued a liability to reflect the costs associated with the cleanup effort. During fiscal years 2016 and 2015, expenditures which reduced the liability balance were approximately \$1.0 million and \$1.1 million, respectively. The reserve balance at September 30, 2016 and September 30, 2015, was approximately \$629,000.

GRU is recovering the costs of this cleanup through customer charges. A regulatory asset was established for the recovery of remediation costs from customers. Fiscal 2016 and 2015 customer billings were \$1.1 million and \$1.2 million, respectively. The regulatory asset balance was \$14 million and \$15 million as of September 30, 2016 and 2015, respectively.

Although some uncertainties associated with environmental assessment and remediation activities remain, GRU believes that the current provision for such costs is adequate and additional costs, if any, will not have an adverse material effect on GRU's financial position, results of operations, or liquidity.

GREC

On March 10, 2016, Gainesville Renewable Energy Center, LLC ("GREC"), filed arbitration (American Arbitration Association Case No. 01-16-0000-8157) against the City doing business as the Gainesville Regional Utilities ("GRU"), initially challenging GRU's withholding payment of invoiced amounts pursuant to the long-term power purchase agreement between GRU and GREC ("PPA"). As of January 31, 2017, \$7.4 million (including accrued interest) has been withheld by GRU based on disputed amounts actually invoiced by GREC. In addition, GREC has alleged claims in contract and tort that it asserts could result in aggregate damages to GREC of over

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

14. Commitments and Contingencies (concluded)

GREC (concluded)

\$100 million. Likewise, GRU has alleged claims in contract that could result in aggregate damages to GRU of over \$100 million. At this stage in the proceedings, neither party has substantiated the dollar value of these additional claims to the tribunal. At this stage in the proceedings, it is not possible for GRU to predict the outcome of these claims. However, GRU is vigorously defending against the GREC Counts in arbitration and believes that (i) some or all of any damages resulting from the GREC Counts constituting tort claims would be subject to sovereign immunity claims processes and statutory caps, (ii) some or all of any damages resulting from the tort claims may be covered by liability insurance of the City, and (iii) regardless of whether GREC is successful on any of the GREC Counts, GRU Management believes that any potential liability of GRU will not have a material adverse effect on the financial conditions of GRU.

Operating Leases

GRU leases various equipment, facilities and property under operating leases that are cancelable only under certain circumstances. Rental costs under operating leases for the years ended September 30, 2016 and 2015, were \$125,000 and \$122,000, respectively.

Future minimum rental payments for various operating leases are:

Year ending September 30,	Future Minimum Rental Payments
2017	\$ 109,462
2018	103,333
2019	27,066
2020	7,433
2021	7,203
2022-2026	30,250
2027-2031	30,250
2032-2036	30,250
2037-2041	30,250
2042-2046	30,250
2047	6,050
	<u>\$ 411,797</u>

Gainesville Regional Utilities

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15. Retirement Plans

The City sponsors and administers the Employees' Pension Plan (Employees' Plan) and the Employees' Disability Plan (Disability Plan). The Disability Plan, a single-employer disability plan, was terminated during Fiscal Year 2015.

Defined Benefit Plans

Employees' Plan:

The Employees' Plan is a contributory defined benefit single-employer pension plan that covers all permanent employees of the City, including GRU, except certain personnel who elected to participate in the Defined Contribution Plan and who were grandfathered into that plan. Benefits and refunds of the defined benefit pension plan are recognized when due and payable in accordance with the terms of the plan. The costs of administering the plan, like other plan costs, are captured within the plan itself and financed through contribution and investment income, as appropriate.

The City of Gainesville issues a publicly available financial report that includes financial statements and required supplementary information for the Employees' Plan. That report may be obtained by writing to City of Gainesville, Budget & Finance Department, P.O. Box 490, Gainesville, Florida 32627 or by calling (352) 334-5054.

The Employees' Plan provides retirement, disability, and death benefits. In prior years, disability benefits were provided through a separate plan which was terminated during fiscal year 2015. Existing and future pension assets and pension liabilities were transferred to the Employees' Plan in April 2015.

Retirement benefits for employees are calculated as a fixed percent (often referred to as "the multiplier") of the employee's final average earnings (FAE) times the employee's years of service. The fixed percentage and final average earnings vary depending on the date of hire as follows:

Date of Hire	Fixed percent of FAE (multiplier)	Final Average Earnings
On or before 10/01/2007	2.0%	Highest 36 consecutive months
10/02/2007 – 10/01/2012	2.0%	Highest 48 consecutive months
On or after 10/02/2012	1.8%	Highest 60 consecutive months

For service earned prior to 10/01/2012, the lesser number of unused sick leave or personal critical leave bank credits earned on or before 09/30/2012 or the unused sick leave or personal critical leave bank credits available at the time of retirement may be credited towards the employee's years of service for that calculation. For service earned on or after 10/01/2012, no additional months of service will be credited for unused sick leave or personal critical leave bank credits.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (continued)

Retirement eligibility is also tiered based on date of hire as follows:

Employees are eligible for normal retirement:

- If the date of hire occurred on or before 10/02/2007, after accruing 20 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 65 while still employed.
- If the date of hire was between 10/02/2007 and 10/01/2012, after accruing 25 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 65 while still employed.
- If the date of hire was on or after 10/02/2012, after accruing 30 years of pension service credit, regardless of age or after accruing 10 years of pension service credit and reaching age 65 while still employed.

Employees are eligible for early retirement:

- If the date of hire occurred on or before 10/01/2012, after accruing 15 years of pension service credit and reaching age 55 while still employed.
- If the date of hire was on or after 10/02/2012, after accruing 20 years of pension service credit and reaching age 60 while still employed.
- Under the early retirement option, the benefit is reduced by 5/12ths of one percent for each month (5% for each year) by which the retirement date is less than the date the employee would reach age 65.
- Employees receive a deferred vested benefit if they are terminated after accruing five years of pension service credit but prior to eligibility for regular retirement. Those employees will be eligible to receive a benefit starting at age 65.

A 2% cost of living adjustment (COLA) is applied to retirement benefits each October 1st if the retiree has reached eligibility for COLA prior to that date. Eligibility for COLA is determined as follows:

- If the retiree had at least 20 years of credited service prior to 10/01/2012 and had at least 20 years but less than 25 years of credited service upon retirement, COLA begins after reaching age 62.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (continued)

- If the retiree had at least 20 years of credited service prior to 10/01/2012 and had at least 25 years of credited service upon retirement, COLA begins after reaching age 60.
- If the retiree was hired on or before 10/01/2012 and had less than 20 years of credited service on or before 10/01/2012 and 25 years or more of credited service upon retirement, COLA begins after reaching age 65.
- If the retiree was hired after 10/01/2012 and had 30 years or more of credited service upon retirement, COLA begins after age 65.

Employees hired on or before 10/01/2012 are eligible to participate in the deferred retirement option plan (DROP) when they have completed 27 years of credited service and are still employed by the City. Such employees retire from the Employees' Plan but continue to work for the City. The retirement benefit is calculated as if the employee had terminated employment and is paid to a DROP account held within the pension plan until the employee actually leaves the employment of the City. While in DROP, these payments earn a guaranteed rate of annual interest, compounded monthly. For employees who entered DROP on or before 10/01/2012, DROP balances earn 6% annual interest. For employees who entered DROP on or after 10/02/2012, DROP balances earn 2.25% annual interest. Employees may continue in the DROP for a maximum of 5 years or until reaching 35 years of service, whichever occurs earlier. Upon actual separation from employment, the monthly retirement benefits begin being paid directly to the retiree and the retiree must take their DROP balance plus interest as a lump-sum cash disbursement, roll into a retirement account or choose a combination of the two options.

Death benefits are paid as follows:

- If an active member retires after reaching normal retirement eligibility and had selected a tentative benefit option, benefit payments will be made to the beneficiary in accordance with the option selected.
- If an active member who is married dies after reaching normal retirement eligibility and did not previously select a tentative benefit option, the plan assumes the employee retired the day prior to death and elected the Joint & Survivor option naming their spouse as their beneficiary.
- If an active member who is not married dies after reaching normal retirement eligibility and did not previously select a tentative benefit option, or if an active member dies prior to reaching normal retirement eligibility, or if a non-active member with a deferred vested benefit dies before age 65, the death benefit is a refund of the member's contributions without interest to the beneficiary on record.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (continued)

- Continuation of retirement benefits after the death of a retiree receiving benefits is contingent on the payment option selected upon retirement. If the retiree has chosen a life annuity and dies prior to receiving benefits greater than the retiree's contributions to the plan, a lump sum equal to the difference is paid to the beneficiary on record.

Disability benefits are paid to eligible regular employees of the City who become totally and permanently unable to perform substantial work for pay within a 50-mile radius of the home or city hall, whichever is greater, and who is wholly and continuously unable to perform any and every essential duty of employment, with or without a reasonable accommodation, or of a position to which the employee may be assigned. The basic disability benefit is equal to the greater of the employee's years of service credit times 2% with a minimum 42% for in line of duty disability and a minimum 25% for other than in line of duty disability, times the employee's final average earnings as would be otherwise calculated under the plan. The benefit is reduced by any disability benefit percent up to a maximum of 50% multiplied by the monthly Social Security primary insurance amount to which the employee would be initially entitled to as a disabled worker, regardless of application status. The disability benefit is limited to the lesser of \$3,750 per month or an amount equal to the maximum benefit percent, less reductions above and the initially determined wage replacement benefit made under workers' compensation laws.

At September 30, the following City employees were covered by the benefit terms:

	2016	2015
Active members	1,465	1,450
Retirees members/beneficiaries currently receiving benefits	1,225	1,056
Terminated members/beneficiaries entitled to benefits but not yet receiving benefits	431	539
Total	3,121	3,045

The contribution requirements of plan members and the City are established and may be amended by City Ordinance approved by the City Commission. The City is required to contribute at an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The City contributes the difference between the actuarially determined rate and the contribution rate of employees. Plan members are required to contribute 5% of their annual covered salary. The rates were 16.88% and 14.92% of covered payroll for the years ended September 2016 and 2015, respectively. This rate was influenced by the issuance of the Taxable Pension Obligation

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Employees' Plan: (concluded)

Bonds, Series 2003A. The proceeds from this issue were utilized to retire the unfunded actuarial accrued liability at that time in the Employees' Plan. Differences between the required contribution and actual contribution are due to actual payroll experiences varying from the estimated total payroll used in the generation of the actuarially required contribution rate. Administrative costs are financed through investment earnings.

The net pension liability related to the Employees' Plan was measured as of September 30, 2016 and 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of October 1, 2015 and October 1, 2014, for September 30, 2016 and 2015, respectively.

The net pension liability applicable to GRU as an enterprise fund of the City was \$71.3 million and \$76.1 million at September 30, 2016 and 2015, respectively.

The total pension liability as of September 30, 2016, was determined based on a roll-forward of entry age normal liabilities from the October 1, 2015 actuarial valuation. Below is a summary of the key actuarial assumptions used in the October 1, 2015 actuarial valuation:

Inflation	3.75%
Salary Increases	3.75% to 7.00%
Investment Rate of Return	8.20%, net of pension investment expenses

Mortality Rate:

Mortality rates were based on the RP-2000 Combined Healthy Mortality Table-Dynamic with projection to October 1, 2015.

Long-term Expected Rate of Return:

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These estimates are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Long-term Expected Rate of Return: (concluded)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation are summarized in the following table:

Development of Long Term Discount Rate for General Employees' Pension Plan

	Inflation	Real Risk Free Return	Risk Premium	Total Expected Return	Policy Allocation	Policy Return
Domestic Equity	3.00%	2.00%	4.50%	9.50%	50.00%	4.75%
Intl Equity	3.00%	2.00%	5.50%	10.50%	30.00%	3.15%
Domestic Bonds	3.00%	2.00%	0.50%	5.50%	2.00%	0.11%
Intl Bonds	3.00%	2.00%	1.50%	6.50%	0.00%	0.00%
Real Estate	3.00%	2.00%	2.50%	7.50%	16.00%	1.20%
Alternatives	3.00%	2.00%	3.50%	7.50%	0.00%	0.00%
US Treasuries	3.00%	0.00%	0.00%	3.00%	0.00%	0.00%
Cash	3.00%	-2.00%	0.00%	1.00%	2.00%	0.02%
Total					100.00%	9.23%

Discount Rate:

The discount rates used to measure the total pension liability were 8.20% and 8.30% as of September 30, 2016 and 2016, respectively. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that City contributions will be made at rates equal to the actuarially determined contribution rates less the member contributions. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on the pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Discount Rate: (concluded)

Changes in the Net Pension Liability for GRU (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2015	\$ 262,553	\$ 186,490	\$ 76,063
Changes for the year:			
Service cost	4,622	-	4,622
Interest	22,661	-	22,661
Differences between expected and actual experience	669	-	669
Transfer from terminated Disability Plan	-	-	-
Changes to assumptions	2,884	-	2,884
Contributions - employer	-	8,000	(8,000)
Contributions - employee	-	4,716	(4,716)
Net investment income	-	23,255	(23,255)
Benefit payments, including refunds and DROP payouts	(22,106)	(22,106)	-
Administrative expense	-	(397)	397
Net changes	8,730	13,468	(4,738)
Balances at 09/30/2016	\$ 271,283	\$ 199,958	\$ 71,325

Changes in the Net Pension Liability for GRU (in thousands):

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balances at 10/01/2014	\$ 243,108	\$ 193,720	\$ 49,388
Changes for the year:			
Service cost	3,988	-	3,988
Interest	19,926	-	19,926
Differences between expected and actual experience	1,090	-	1,090
Transfer from terminated Disability Plan	1,369	1,294	75
Changes to assumptions	8,853	-	8,853
Contributions - employer	-	6,549	(6,549)
Contributions - employee	-	2,418	(2,418)
Net investment income	-	(1,386)	1,386
Benefit payments, including refunds and DROP payouts	(15,781)	(15,781)	-
Administrative expense	-	(324)	324
Net changes	19,445	(7,230)	26,675
Balances at 09/30/2015	\$ 262,553	\$ 186,490	\$ 76,063

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

The following presents the net pension liability, calculated using the discount rate of 8.2% and 8.3% as of September 30, 2016 and 2015, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

		2016		
Sensitivity for GRU's Portion (in thousands):		1% Decrease (7.2%)	Current Discount Rate (8.2%)	1% Increase (9.2%)
Net pension liability		\$ 113,976	\$ 71,326	\$ 44,307

		2015		
Sensitivity for GRU's Portion (in thousands):		1% Decrease (7.3%)	Current Discount Rate (8.3%)	1% Increase (9.3%)
Net pension liability		\$ 104,022	\$ 76,062	\$ 52,024

Pension plan fiduciary net position:

Detailed information about the pension plan's fiduciary net position is available in the separately issued Employees' Plan financial report.

Pension expense and deferred outflows of resources and deferred inflows of resources:

For the year ended September 30, 2016 and 2015, GRU recognized pension expense for the Employees' Plan of \$8 million and \$7 million, respectively. At September 30, 2016 and 2015, the City and GRU reported deferred outflows of resources related to the Employees' Plan from the following sources (in thousands):

		2016
		Deferred Outflows of Resources GRU's Portion
Differences between expected and actual experience		\$ 1,302
Net difference between projected and actual earnings on pension plan investments		11,087
Changes to assumptions		8,566
Total		<u>\$ 20,955</u>

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

15. Retirement Plans (continued)

Defined Benefit Plans (continued)

Pension expense and deferred outflows of resources and deferred inflows of resources: (concluded)

	<u>2016</u>
	<u>Deferred Inflows of Resources GRU's Portion</u>
Net difference between projected and actual earnings on pension plan investments	\$ 5,745
Total	<u>\$ 5,745</u>

	<u>2015</u>
	<u>Deferred Outflows of Resources GRU's Portion</u>
Differences between expected and actual experience	\$ 908
Net difference between projected and actual earnings on pension plan investments	13,889
Changes to assumptions	<u>7,378</u>
Total	<u>\$ 22,175</u>

Amounts reported as deferred outflows and inflows of resources related to the Employees' Plan will be recognized in pension expense as follows (in thousands):

<u>Fiscal Year</u>	<u>GRU</u>
2017	\$ 4,763
2018	4,763
2019	4,763
2020	<u>921</u>
Total	<u>\$ 15,210</u>

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

15. Retirement Plans (concluded)

Defined Benefit Plans (concluded)

Disability Plan (terminated during the 2015 fiscal year):

The Disability Plan was a contributory defined benefit single-employer plan that covered all permanent employees of the City, except police officers and firefighters whose disability plan is incorporated in the Consolidated Plan. The Disability Plan was terminated during the 2015 fiscal year. The net pension liability and related pension assets in an amount which covered the liability were transferred into the Employees' Plan. Assets representing the overfunded portion were disbursed to the City and GRU. GRU's disbursement totaled \$3.7 million.

By ordinance enacted by the City Commission, the City has established the Retiree Health Care Plan (RHCP), providing for the payment of a portion of the health care insurance premiums for eligible retired employees. The RHCP is a single-employer defined benefit healthcare plan administered by the City which provides medical insurance benefits to eligible retirees and their beneficiaries. The City of Gainesville issues a publicly available financial report that includes financial statements and required supplementary information for the RHCP. That report may be obtained by writing to City of Gainesville, Finance Department, P.O. Box 490, Gainesville, Florida 32627 or by calling (352) 334-5054.

RHCP members receiving benefits contribute a percentage of the monthly insurance premium. Based on this plan, the RHCP pays up to 50% of the individual premium for each insured according to the age/service formula factor of the retiree. Spouses and other dependents are eligible for coverage, but the employee is responsible for the entire cost, there is no direct RHCP subsidy. The employee contributes the premium cost each month, less the RHCP subsidy calculated as a percentage of the individual premium.

The State of Florida prohibits the City from separately rating retirees and active employees. The City therefore charges both groups an equal, blended rate premium. Although both groups are charged the same blended rate premium, GAAP requires actuarial costs to be calculated using age adjusted premiums approximating claim costs for retirees separate from active employees.

The use of age adjusted premiums results in the addition of an implicit rate subsidy into the actuarial accrued liability. However, the City has elected to contribute to the RHCP at a rate that is based on an actuarial valuation prepared using the blended rate premium that is actually charged to the RHCP.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

16. Other Post-employment Benefits Plan

In July 2005, the City issued \$35,210,000 Taxable Other Post Employment Benefit (OPEB) bonds to retire the unfunded actuarial accrued liability then existing in the RHCP Trust Fund. This allowed the City to reduce its contribution rate. The City's actual regular contribution was less than the annual required contribution calculated using the age-adjusted premiums instead of the blended rate premiums. The difference between the annual required calculation and the City's actual regular contribution was due to two factors. The first is the amortization of the negative net OPEB obligation created in fiscal year 2005 by the issuance of the OPEB bonds.

The other factor is that the City has elected to contribute based on the blended rate premium instead of the age-adjusted premium, described above as the implicit rate subsidy.

In September 2008, the City approved Ordinance 0-08-52, terminating the existing program and trust and creating a new program and trust, effective January 1, 2009. This action changed the benefits provided to retirees, such that the City will contribute towards the premium of those who retire after August 31, 2008 under a formula that provides ten dollars per year of credited service, adjusted for age at first access of the benefit. Current retirees receive a similar benefit, however the age adjustment is modified to be set at the date the retiree first accesses the benefit or January 1, 2009, whichever is later. For current retirees that are 65 or older as of January 1, 2009, the City's contribution towards the premium will be the greater of the amount calculated under this method or the amount provided under the existing Ordinance. The City's contribution towards the premium will be adjusted annually at the rate of 50% of the annual percentage change in the individual premium compared to the prior year.

The cost of providing post-employment benefits to GRU retirees was \$246,000 and \$242,000 for fiscal years ended September 30, 2016 and 2015, respectively.

17. Risk Management

GRU is exposed to various risks of loss related to theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters and insures against these losses. GRU purchases plant and machinery insurance from a commercial carrier. There have been no significant reductions in insurance coverage from the prior year, and settlements have not exceeded insurance coverage for the past three fiscal years. The City is self-insured for workers' compensation, auto liability, and general liability but carries excess workers' compensation coverage. These risks are accounted for under the City's General Insurance Fund.

GRU reimburses the City for premiums and claims paid on its behalf, recording the appropriate expense. However, GRU does maintain its own insurance reserve, for the self-insured portion. An actuarial study completed during fiscal year 2008 resulted in an increase to a balance of \$3.3 million. The present value calculation assumes a rate of return of 4.5% with a confidence level of 75%. This reserve is recorded as a fully amortized deferred credit. All claims for fiscal 2016 and 2015 were paid from current year's revenues.

Gainesville Regional Utilities

Notes to Financial Statements

September 30, 2016 and 2015

17. Risk Management (concluded)

Changes in the insurance reserve as of September 30 (in thousands):

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims</u>	<u>Payments</u>	<u>Change in Reserve</u>	<u>Ending Balance</u>
2016	\$ 3,337	\$ 1,178	\$ (1,178)	\$ -	\$ 3,337
2015	\$ 3,337	\$ 1,957	\$ (1,957)	\$ -	\$ 3,337

SUPPLEMENTARY INFORMATION

Gainesville Regional Utilities
Schedules of Combined Net Revenues
in Accordance with Bond Resolution
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues:		
Electric system:		
Sales of electricity	\$ 287,808,939	\$ 288,969,402
Other revenues	14,907,556	8,133,766
Transfers from (to) rate stabilization	1,040,147	(2,254,681)
Interest/Investment income	1,338,385	1,105,693
Build America Bonds interest income	2,975,136	2,960,079
Total electric system revenues	<u>308,070,163</u>	<u>298,914,259</u>
Water system:		
Sales of water	33,048,658	30,721,119
Other revenues	3,062,392	3,307,878
Transfers to rate stabilization	(3,264,403)	(2,434,339)
Interest/Investment income	137,904	99,446
Build America Bonds interest income	833,766	829,497
Total water system revenues	<u>33,818,317</u>	<u>32,523,601</u>
Wastewater system:		
Sales of wastewater	38,220,254	36,507,374
Other revenues	5,111,199	3,562,876
Transfers to rate stabilization	(2,117,697)	(2,900,758)
Interest/Investment income	191,823	155,474
Build America Bonds interest income	940,799	935,912
Total wastewater system revenues	<u>42,346,378</u>	<u>38,260,878</u>
Gas system:		
Sales of gas	20,316,747	23,458,123
Other revenues	1,228,825	1,439,273
Transfers from (to) rate stabilization	1,986,508	(1,552,394)
Interest/Investment income	170,119	145,879
Build America Bonds interest income	622,829	619,674
Total gas system revenues	<u>24,325,028</u>	<u>24,110,555</u>
Telecommunications system:		
Sales of services	11,684,200	10,884,837
Other revenues	1,294	197,617
Transfers (to) from rate stabilization	(7,402)	1,438,490
Interest/Investment income	66,392	78,794
Total telecommunications system revenue	<u>11,744,484</u>	<u>12,599,738</u>
Total revenues	<u><u>\$ 420,304,370</u></u>	<u><u>\$ 406,409,031</u></u>

Continued on next page.

Gainesville Regional Utilities
Schedules of Combined Net Revenues
in Accordance with Bond Resolution (concluded)
For the Years Ended September 30, 2016 and 2015

	2016	2015
Operation, maintenance and administrative expenses:		
Electric system:		
Fuel expense	\$ 156,070,106	\$ 157,197,363
Operation and maintenance	42,020,231	38,917,185
Administrative and general	27,200,222	20,967,375
Total electric system expense	<u>225,290,559</u>	<u>217,081,923</u>
Water system:		
Operation and maintenance	7,985,190	7,620,989
Administrative and general	6,841,967	5,937,611
Total water system expense	<u>14,827,157</u>	<u>13,558,600</u>
Wastewater system:		
Operation and maintenance	10,939,007	8,643,637
Administrative and general	6,449,144	5,690,062
Total wastewater system expense	<u>17,388,151</u>	<u>14,333,699</u>
Gas system:		
Fuel expense	6,751,817	9,396,610
Operation and maintenance	2,058,670	1,352,256
Administrative and general	5,766,555	4,569,017
Total gas system expense	<u>14,577,042</u>	<u>15,317,883</u>
Telecommunications system:		
Operation and maintenance	4,301,929	4,406,907
Administrative and general	3,120,361	4,052,956
Total telecommunications system expense	<u>7,422,290</u>	<u>8,459,863</u>
Total operation, maintenance, and administrative expenses	<u>279,505,199</u>	<u>268,751,968</u>
Net revenue in accordance with bond resolution:		
Electric	82,780,604	81,832,336
Water	18,991,160	18,965,001
Wastewater	24,958,227	23,927,179
Gas	9,747,986	8,792,672
Telecommunications	4,322,194	4,139,875
Total net revenue in accordance with bond resolution	<u>\$ 140,800,171</u>	<u>\$ 137,657,063</u>
Aggregate bond debt service	<u>\$ 55,821,582</u>	<u>\$ 55,461,104</u>
Aggregate bond debt service coverage ratio	<u>2.52</u>	<u>2.48</u>
Total debt service	<u>\$ 62,027,441</u>	<u>\$ 61,638,702</u>
Total debt service coverage ratio	<u>2.27</u>	<u>2.23</u>

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Electric Utility System
For the Years Ended September 30, 2016 and 2015

	2016	2015
Revenues		
Sales of electricity:		
Residential	\$ 48,414,299	\$ 47,154,370
Non-residential	60,244,513	59,867,164
Fuel adjustment	155,825,143	157,197,363
Sales for resale	3,901,063	5,451,881
Utility surcharge	3,049,201	3,058,030
Other electric sales	16,375,720	16,240,594
Total sales of electricity	<u>287,809,939</u>	<u>288,969,402</u>
Other revenues	14,907,556	8,133,766
Transfers from (to) rate stabilization	1,040,147	(2,254,681)
Interest Income	1,338,385	1,105,693
Build America Bonds interest income	2,975,136	2,960,079
Total revenues	<u>308,071,163</u>	<u>298,914,259</u>
Operation, maintenance and administrative expenses		
Fuel and purchased power	155,825,143	157,197,363
Power production	27,723,441	25,947,596
Transmission	1,735,154	1,541,525
Interchange	244,963	1,694,099
Distribution	12,561,636	9,733,965
Customer accounts and sales	3,855,335	3,341,914
Administrative and general	23,344,887	17,625,461
Total operation, maintenance, and administrative expenses	<u>225,290,559</u>	<u>217,081,923</u>
Total net revenues in accordance with bond resolution	<u><u>\$ 82,780,604</u></u>	<u><u>\$ 81,832,336</u></u>

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Water Utility System
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues		
Residential	\$ 20,391,611	\$ 18,570,332
Non-residential	8,385,314	7,928,002
University of Florida	1,891,566	2,033,206
Utility surcharge	2,380,167	2,189,579
Total sales of water	<u>33,048,658</u>	<u>30,721,119</u>
Other revenues	3,062,392	3,307,878
Transfers to rate stabilization	(3,264,403)	(2,434,339)
Interest income	137,904	99,446
Build America Bonds interest income	833,766	829,497
Total revenues	<u>33,818,317</u>	<u>32,523,601</u>
Operation, maintenance, and administrative expenses		
Pumping and water treatment	5,472,920	5,315,400
Transmission and distribution	2,512,270	2,305,589
Customer accounts and sales	1,469,645	1,304,831
Administrative and general	5,372,322	4,632,780
Total operation, maintenance, and administrative expenses	<u>14,827,157</u>	<u>13,558,600</u>
Total net revenues in accordance with bond resolution	<u>\$ 18,991,160</u>	<u>\$ 18,965,001</u>

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Wastewater Utility System
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues		
Residential	\$ 26,062,781	\$ 24,923,586
Non-residential	9,514,192	8,943,974
Utility surcharge	2,643,281	2,528,779
Other wastewater sales	-	111,035
Total sales of services	<u>38,220,254</u>	<u>36,507,374</u>
Other revenues	5,111,199	3,562,876
Transfers to rate stabilization	(2,117,697)	(2,900,758)
Interest income	191,823	155,474
Build America Bonds interest income	940,799	935,912
Total revenues	<u>42,346,378</u>	<u>38,260,878</u>
Operation, maintenance, and administrative expenses		
Collection	3,669,178	3,299,051
Treatment	7,269,829	5,344,586
Customer accounts and sales	1,172,851	851,324
Administrative and general	5,276,293	4,838,738
Total operation, maintenance, and administrative expenses	<u>17,388,151</u>	<u>14,333,699</u>
Total net revenues in accordance with bond resolution	<u><u>\$ 24,958,227</u></u>	<u><u>\$ 23,927,179</u></u>

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Gas Utility System
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues		
Residential	\$ 7,142,586	\$ 7,420,044
Non-residential	4,753,630	4,421,237
Purchased gas adjustment	6,751,817	9,396,610
Other gas sales	1,668,714	2,220,232
Total sales of gas	<u>20,316,747</u>	<u>23,458,123</u>
Other revenues	1,228,825	1,439,273
Transfers from (to) rate stabilization	1,986,508	(1,552,394)
Interest income	170,119	145,879
Build America Bonds interest income	622,829	619,674
Total revenues	<u>24,325,028</u>	<u>24,110,555</u>
Operation, maintenance, and administrative expenses		
Fuel expense - purchased gas	6,751,817	9,396,610
Operation and maintenance	2,058,670	1,352,256
Customer accounts and sales	2,213,963	2,483,375
Administrative and general	3,552,592	2,085,642
Total operation, maintenance, and administrative expenses	<u>14,577,042</u>	<u>15,317,883</u>
Total net revenues in accordance with bond resolution	<u>\$ 9,747,986</u>	<u>\$ 8,792,672</u>

Gainesville Regional Utilities
Schedules of Net Revenues in Accordance with Bond Resolution –
Telecommunications System
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenues		
Telecommunication	\$ 4,598,731	\$ 4,832,418
Trunking radio	1,733,641	1,772,257
Tower lease	3,179,963	2,244,525
Internet access	2,171,865	2,035,637
Total sales of services	<u>11,684,200</u>	<u>10,884,837</u>
Other revenue	1,294	197,617
Transfers (to) from rate stabilization	(7,402)	1,438,490
Interest income	66,392	78,794
Total revenues	<u>11,744,484</u>	<u>12,599,738</u>
Operation, maintenance, and administrative expenses		
Operation and maintenance	4,301,929	4,406,907
Customer accounts and sales	197,662	253,783
Administrative and general	2,922,699	3,799,173
Total operation, maintenance, and administrative expenses	<u>7,422,290</u>	<u>8,459,863</u>
Total net revenues in accordance with bond resolution	<u>\$ 4,322,194</u>	<u>\$ 4,139,875</u>

Gainesville Regional Utilities
Notes to Schedules of Net Revenues in Accordance with Bond Resolution
For the Years Ended September 30, 2016 and 2015

The Schedules of Net Revenues in Accordance with Bond Resolution differ from the Statements of Revenues, Expenses, and Changes in Net Position as follows:

- ° Operation and maintenance expenses do not include depreciation or amortization expense.
- ° Contributions in aid of construction are excluded.
- ° Operating transfer to the City's General Fund is excluded.
- ° Debt service is excluded.
- ° Utility Plant Improvement Fund cash contributions and withdrawals are excluded.

Gainesville Regional Utilities
Combining Statement of Net Position
September 30, 2016

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Assets						
Current assets:						
Cash and investments	\$ 46,253,462	\$ —	\$ 2,621,310	\$ 10,690,767	\$ 3,069,511	\$ 62,635,050
Accounts receivable, net of allowance for uncollectible accounts	37,279,200	4,298,279	4,271,621	1,520,459	1,981,812	49,351,371
Inventories:						
Fuel	8,162,677	-	-	-	-	8,162,677
Materials and supplies	4,968,730	906,719	-	396,465	674,181	6,946,095
Other assets and regulatory assets	99,637	30,521	39,636	1,643,378	9,821	1,822,993
Total current assets	96,763,706	5,235,519	6,932,567	14,251,069	5,735,325	128,918,186
Restricted and internally designated assets:						
Utility deposits – cash and investments	8,066,522	796,262	592,385	436,211	-	9,891,380
Debt service – cash and investments	27,536,444	3,962,282	5,605,371	2,785,032	1,825,311	41,714,440
Rate stabilization – cash and investments	51,608,386	7,407,768	10,897,518	4,339,664	8,742	74,262,078
Construction fund – cash and investments	9,530,932	658,528	1,175	1,832,816	6,235,063	18,258,514
Utility plant improvement – cash and investments	42,093,872	8,414,607	4,853,180	3,359,291	71,132	58,792,082
Total restricted and internally designated assets	138,836,156	21,239,447	21,949,629	12,753,014	8,140,248	202,918,494
Noncurrent assets:						
Net costs recoverable in future years - regulatory asset	46,423,923	-	-	-	-	46,423,923
Unamortized debt issuance costs - regulatory asset	3,635,450	670,380	817,370	404,529	293,703	5,821,432
Investment in The Energy Authority	1,313,699	-	-	788,982	-	2,102,681
Pollution remediation - regulatory asset	-	-	-	12,826,026	-	12,826,026
Other noncurrent assets and regulatory assets	4,563,425	931,775	1,122,419	373,202	166,007	7,156,828
Pension regulatory asset	32,839,011	6,857,360	8,249,034	4,842,800	3,327,672	56,115,877
Total noncurrent assets	88,775,508	8,459,515	10,188,823	19,235,539	3,787,382	130,446,767
Capital assets:						
Utility plant in service	1,107,010,833	264,030,190	340,615,157	84,396,982	70,601,050	1,866,654,212
Capital lease	1,006,808,754	-	-	-	-	1,006,808,754
Less: accumulated depreciation and amortization	(523,472,764)	(101,993,673)	(137,281,308)	(42,440,343)	(33,037,732)	(838,225,820)
	1,590,346,823	162,036,517	203,333,849	41,956,639	37,563,318	2,035,237,146
Construction in progress	43,675,427	22,755,978	36,059,402	3,780,440	3,420,970	109,692,217
Net capital assets	1,634,022,250	184,792,495	239,393,251	45,737,079	40,984,288	2,144,929,363
Total assets	1,958,397,620	219,726,976	278,464,270	91,976,701	58,647,243	2,607,212,810
Deferred outflows of resources:						
Unamortized loss on refundings of bonds	14,825,906	3,042,118	3,503,502	1,309,395	2,085,402	24,766,323
Accumulated decrease in fair value of hedging derivatives	56,320,283	10,635,328	10,113,142	2,793,991	1,499,755	81,362,499
Pension costs	12,262,755	2,560,678	3,080,357	1,808,400	1,242,620	20,954,810
Total deferred outflows of resources	83,408,944	16,238,124	16,697,001	5,911,786	4,827,777	127,083,632
Total assets and deferred outflows of resources	\$ 2,041,806,564	\$ 235,965,100	\$ 295,161,271	\$ 97,888,487	\$ 63,475,020	\$ 2,734,296,442

Continued on next page.

Gainesville Regional Utilities
Combining Statement of Net Position (concluded)
September 30, 2016

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Liabilities						
Current liabilities:						
Accounts payable and accrued liabilities	\$ 15,524,263	\$ 2,120,101	\$ 2,027,174	\$ 928,613	\$ 554,826	\$ 21,154,977
Fuels payable	11,812,861	-	-	357,952	-	12,170,813
Due to other funds of the City	1,554,102	56,741	(92,531)	(44,851)	16,483	1,489,944
Capital lease – current portion	18,409,781	-	-	-	-	18,409,781
Fuel adjustment	12,902,279	-	-	1,929,285	-	14,831,564
Other liabilities and regulatory liabilities	689,287	284,067	71,419	462,259	392,815	1,899,847
Total current liabilities	60,892,573	2,460,909	2,006,062	3,633,258	964,124	69,956,926
Payable from restricted assets:						
Utility deposits	8,054,877	796,262	592,384	436,211	-	9,879,734
Construction fund:						
accounts payable and accrued liabilities	6,689,886	607,263	1,470,321	225,965	219,990	9,213,425
Utilities system revenue bonds – current portion	79,479,579	12,200,157	12,722,263	706,460	2,426,541	107,535,000
Commercial paper notes – current portion	2,972,480	482,160	1,193,360	952,000	8,000,000	13,600,000
Accrued interest payable	11,091,453	2,481,394	2,931,185	1,369,438	643,295	18,516,765
Total payable from restricted assets	108,288,275	16,567,236	18,909,513	3,690,074	11,289,826	158,744,924
Long-term debt:						
Utilities system revenue bonds	452,639,923	103,277,886	122,690,341	57,014,078	45,917,772	781,540,000
Commercial paper notes	24,361,240	3,951,650	9,783,480	7,803,630	-	45,900,000
Capital lease	941,269,071	-	-	-	-	941,269,071
Unamortized bond premium/discount	11,697,766	1,650,140	3,223,580	966,738	451,984	17,990,208
Fair value of derivative instruments	59,676,345	11,567,103	11,235,561	3,132,950	1,568,335	87,180,294
Total long-term debt	1,489,644,345	120,446,779	146,932,962	68,917,396	47,938,091	1,873,879,573
Noncurrent liabilities:						
Reserve for insurance claims	1,999,960	598,326	546,333	187,085	5,296	3,337,000
Reserve for environmental liability	-	-	-	266,000	-	266,000
Net pension liability	41,739,611	8,715,961	10,484,830	6,155,380	4,229,595	71,325,377
Total noncurrent liabilities	43,739,571	9,314,287	11,031,163	6,608,465	4,234,891	74,928,377
Total liabilities	1,702,564,764	148,789,211	178,879,700	82,849,193	64,426,932	2,177,509,800
Deferred inflows of resources:						
Rate stabilization	51,477,018	7,392,784	10,872,832	4,327,352	7,402	74,077,388
Unrealized gains related to pension	3,362,155	702,077	844,561	495,820	340,697	5,745,310
Total deferred inflows of resources	54,839,173	8,094,861	11,717,393	4,823,172	348,099	79,822,698
Net position:						
Net investment in capital assets	120,859,362	66,323,885	91,814,583	(5,963,555)	(7,711,534)	265,322,741
Restricted	58,681,876	9,910,479	7,552,053	4,787,197	1,254,488	82,186,093
Unrestricted	104,861,389	2,846,664	5,197,542	11,392,480	5,157,035	129,455,110
Total net position	284,402,627	79,081,028	104,564,178	10,216,122	(1,300,011)	476,963,944
Total liabilities, deferred inflows of resources and net position	\$ 2,041,806,564	\$ 235,965,100	\$ 295,161,271	\$ 97,888,487	\$ 63,475,020	\$ 2,734,296,442

Gainesville Regional Utilities
Combining Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended September 30, 2016

	Electric	Water	Wastewater	Gas	GRUCom	Combined
Operating revenue:						
Sales and service charges	\$ 276,623,151	\$ 33,048,659	\$ 38,181,350	\$ 20,293,166	\$ 11,684,200	\$ 379,830,526
Transfers from (to) rate stabilization	1,040,147	(3,264,403)	(2,117,697)	1,986,508	(7,402)	(2,362,847)
Amounts to be recovered from future revenue	33,560,292	-	-	-	-	33,560,292
Other operating revenue	13,675,292	3,026,049	4,874,687	1,213,808	-	22,789,836
Total operating revenues	<u>324,898,882</u>	<u>32,810,305</u>	<u>40,938,340</u>	<u>23,493,482</u>	<u>11,676,798</u>	<u>433,817,807</u>
Operating expenses:						
Operation and maintenance	198,091,986	7,985,190	10,939,007	8,810,487	4,301,929	230,128,599
Administrative and general	27,200,222	6,841,967	6,449,144	6,894,485	3,120,360	50,506,178
Depreciation and amortization	74,817,160	8,093,355	9,746,961	3,403,011	3,282,662	99,343,149
Total operating expenses	<u>300,109,368</u>	<u>22,920,512</u>	<u>27,135,112</u>	<u>19,107,983</u>	<u>10,704,951</u>	<u>379,977,926</u>
Operating income	<u>24,789,514</u>	<u>9,889,793</u>	<u>13,803,228</u>	<u>4,385,499</u>	<u>971,847</u>	<u>53,839,881</u>
Non-operating income (expense):						
Interest income (expense)	63,594	142,444	228,127	109,899	117,002	661,066
Interest expense, net of AFUDC	(22,676,000)	(5,223,520)	(5,271,739)	(2,868,309)	(1,771,965)	(37,811,533)
Other interest related income, BABs	2,975,135	833,766	940,799	622,829	-	5,372,529
Other income	12,491,184	36,342	723,308	38,926	36,753	13,326,513
Total non-operating expense	<u>(7,146,087)</u>	<u>(4,210,968)</u>	<u>(3,379,505)</u>	<u>(2,096,655)</u>	<u>(1,618,210)</u>	<u>(18,451,425)</u>
Income before capital contributions and transfers	<u>17,643,427</u>	<u>5,678,825</u>	<u>10,423,723</u>	<u>2,288,844</u>	<u>(646,363)</u>	<u>35,388,456</u>
Capital contributions:						
Contributions from third parties	194,936	676,636	787,827	-	-	1,659,399
Reduction of plant cost recovered through contributions	(194,936)	-	-	-	-	(194,936)
Net capital contributions	<u>-</u>	<u>676,636</u>	<u>787,827</u>	<u>-</u>	<u>-</u>	<u>1,464,463</u>
Transfer to City of Gainesville General Fund	<u>(19,421,998)</u>	<u>(5,677,873)</u>	<u>(7,497,591)</u>	<u>(2,397,129)</u>	<u>-</u>	<u>(34,994,591)</u>
Change in net position	<u>(1,778,571)</u>	<u>677,588</u>	<u>3,713,959</u>	<u>(108,285)</u>	<u>(646,363)</u>	<u>1,858,328</u>
Net position – beginning of year	<u>286,181,198</u>	<u>78,403,440</u>	<u>100,850,219</u>	<u>10,324,407</u>	<u>(653,648)</u>	<u>475,105,616</u>
Net position – end of year	<u>\$ 284,402,627</u>	<u>\$ 79,081,028</u>	<u>\$ 104,564,178</u>	<u>\$ 10,216,122</u>	<u>\$ (1,300,011)</u>	<u>\$ 476,963,944</u>

Gainesville Regional Utilities

Schedule of Utility Plant Properties – Combined Utility System

	Balance September 30, 2015	Additions	Sales, Retirements, and Transfers	Balance September 30, 2016
Plant in service				
Electric utility system:				
Production plant	\$ 1,627,112,409	\$ 19,528,649	\$ 6,262,447	\$ 1,640,378,611
Transmission and distribution plant	346,992,533	9,683,714	2,440,106	354,236,141
General and common plant	118,903,048	1,582,814	1,281,027	119,204,835
Total electric utility system	2,093,007,990	30,795,177	9,983,580	2,113,819,587
Water utility system:				
Supply, pumping, and treatment plant	57,172,299	15,145,834	569,960	71,748,173
Transmission and distribution plant	161,742,026	8,220,599	420,798	169,541,827
General plant	22,560,409	278,619	98,838	22,740,190
Total water utility system	241,474,734	23,645,052	1,089,596	264,030,190
Wastewater utility system:				
Pumping and treatment plant	101,154,860	27,805,178	–	128,960,038
Collection plant	151,813,500	3,919,636	22,504	155,710,632
Reclaimed water plant	27,030,889	914,399	232,247	27,713,041
General plant	27,432,261	1,104,990	305,805	28,231,446
Total wastewater utility system	307,431,510	33,744,203	560,556	340,615,157
Gas utility system:				
Distribution plant	65,077,168	5,195,844	40,892	70,232,120
General plant	9,317,621	252,612	56,007	9,514,226
Plant acquisition adjustment	4,650,636	–	–	4,650,636
Total gas utility system	79,045,425	5,448,456	96,899	84,396,982
GRUCom utility system:				
Distribution plant	57,677,386	1,434,505	341,113	58,770,778
General plant	11,841,909	71,962	83,599	11,830,272
Total GRUCom utility system	69,519,295	1,506,467	424,712	70,601,050
Total plant in service	\$ 2,790,478,954	\$ 95,139,355	\$ 12,155,343	\$ 2,873,462,966
Construction in progress				
Electric utility system	\$ 32,901,685	\$ 43,084,533	\$ 32,310,792	\$ 43,675,426
Water utility system	38,818,437	7,830,059	23,892,518	22,755,978
Wastewater utility system	51,941,664	17,867,232	33,749,494	36,059,402
Gas utility system	6,799,524	2,447,002	5,466,085	3,780,441
GRUCom utility system	1,134,945	3,875,779	1,589,754	3,420,970
Total construction in progress	\$ 131,596,255	\$ 75,104,605	\$ 97,008,643	\$ 109,692,217

Gainesville Regional Utilities
Schedule of Accumulated Depreciation and Amortization –
Combined Utility System

	Balance September 30, 2015	Additions	Sales, Retirements, and Transfers	Balance September 30, 2016
Electric utility system:				
Production plant	\$ 288,380,806	\$ 51,331,029	\$ 3,913,038	\$ 335,798,797
Transmission and distribution plant	126,160,190	12,557,732	3,680,318	135,037,604
General and common plant	48,027,390	5,799,006	1,190,033	52,636,363
Total electric utility system	462,568,386	69,687,767	8,783,389	523,472,764
Water utility system:				
Supply, pumping, and treatment plant	17,653,416	2,586,690	567,191	19,672,915
Transmission and distribution plant	73,499,870	4,438,152	318,512	77,619,510
General plant	4,122,566	660,877	82,195	4,701,248
Total water utility system	95,275,852	7,685,719	967,898	101,993,673
Wastewater utility system:				
Pumping and treatment plant	53,296,050	2,900,952	(47,429)	56,244,431
Collection plant	66,176,508	4,386,467	(106,964)	70,669,939
Reclaimed water plant	2,438,001	793,910	213,684	3,018,227
General plant	6,302,673	1,306,409	260,371	7,348,711
Total wastewater utility system	128,213,232	9,387,738	319,662	137,281,308
Gas utility system:				
Distribution plant	31,983,026	2,797,610	12,425	34,768,211
General plant	2,573,549	478,417	30,471	3,021,495
Plant acquisition adjustment	4,650,637	-	-	4,650,637
Total gas utility system	39,207,212	3,276,027	42,896	42,440,343
GRUCom utility system:				
Distribution plant	28,782,931	2,345,461	387,699	30,740,693
General plant	1,939,279	441,432	83,672	2,297,039
Total GRUCom utility system	30,722,210	2,786,893	471,371	33,037,732
Total depreciation and amortization	\$ 755,986,892	\$ 92,824,144	\$ 10,585,216	\$ 838,225,820

OTHER REPORT

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and City Commissioners
Gainesville, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Gainesville Regional Utilities (the Utility) of the City of Gainesville, Florida (the City), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements and have issued our report thereon dated March 6, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Certified Public Accountants

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MEMBERS OF AMERICAN AND FLORIDA INSTITUTES OF CERTIFIED PUBLIC ACCOUNTANTS
MEMBER OF AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS PRIVATE COMPANIES AND S.E.C. PRACTICE SECTIONS

To the Honorable Mayor and City Commissioners
Gainesville, Florida


**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Concluded)**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Utility's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Utility's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Purvis, Gray and Company, LLP".

March 6, 2017
Gainesville, Florida

APPENDIX C

THE SYSTEM

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APPENDIX C

THE SYSTEM

General

Under its home rule powers and pursuant to the Charter, the City owns and operates the System, which provides the City and certain unincorporated areas of the County with electric, natural gas, water, wastewater, and telecommunications service (including certain utility services to the University of Florida). The System also provides wholesale wastewater service to the City of Waldo. Natural gas service is also provided to retail customers within the corporate limits of the City of Alachua, Florida ("Alachua"), and the City of High Springs, Florida ("High Springs"). All facilities of the System are owned and operated by the City. The System is governed by the City Commission.

The electric system was established in 1912 to provide street lighting and electric service to the downtown area. Continuous expansion of the electric system and its generating capacity has resulted in the electric system serving an average of 94,795 customers in the fiscal year ended September 30, 2016 and having a maximum net summer generating capacity of 525 MW.

The natural gas system was acquired from the Gainesville Gas Company in 1990 to provide gas distribution throughout the City. The gas system served an average of 34,496 customers in the fiscal year ended September 30, 2016.

The water and wastewater systems were established in 1891 to provide water and wastewater service to the City. The water and wastewater systems served an average of 71,546 and 64,781 customers, respectively, in the fiscal year ended September 30, 2016. The water system has a nominal capacity of 54 million gallons per day ("Mgd") and the wastewater system has a treatment capacity of 22.4 Mgd annual average daily flow ("AADF").

The telecommunications system, GRUCom, was established in 1995 to provide communication services to the Gainesville area in a manner that would minimize duplication of facilities, maximize interconnectivity, simplify access, and promote the evolution of new technologies and business opportunities. GRUCom operates a state-of-the-art fiber optic network and current product lines include telecommunications transport services, Internet access services, communication tower antenna space leasing services, and public safety radio services. GRUCom served an average of 6,472 Internet access customer connections and 152 dial-up customers in the fiscal year ended September 30, 2016.

Utility Advisory Board

For nearly two years (February 2014 to October 2015), the City Commission studied and evaluated governing board options for the City owned utilities doing business as "Gainesville Regional Utilities" ("GRU"). That effort culminated with the City Commission's adoption of Ordinance No. 140384 on November 19, 2015, which created a new utility advisory board (the "Utility Advisory Board") to advise and make recommendations to the City Commission on all aspects of governance of the System's electric, gas, telecommunications, water and wastewater utilities. The Utility Advisory Board is comprised of seven members appointed by the City Commission, all of whom reside within the System's service area and receive utility service from GRU. The Utility Advisory Board serves as an advisor to the City Commission on all policy and governance decisions to be made by the City Commission regarding utility services; serves as a channel of communications between the City Commission, utility staff and the utility customers; and

considers and makes recommendations regarding proposed changes in fees, rates, or charges for utility services. The Utility Advisory Board has no rate setting authority.

Legislative Matters

On February 9, 2017, State Representative Chuck Clemons, Sr., filed House Bill 759 which would change the governance of the City of Gainesville's utilities. The bill generally proposes a voter referendum to amend the City's Charter by creating a utility authority that is a unit of the City, with a non-salaried five member board appointed by the Gainesville City Commission. The utility authority board would replace the City Commission as the governing body vested with final decision making authority over utility matters including, but not limited to, the authority to employ a utilities manager, set rates, and reduce over time the percentage of revenue that is transferred from the System to the City's General Fund.

House Bill 759 was approved by both the House and Senate and was signed into law by the Governor on June 6, 2017. The referendum is scheduled for November, 2018. The City does not know whether or not such referendum will pass. The City may also call a referendum in November, 2018 to propose an alternative structure for such governing body to give voters a choice.

The City and the System may, from time to time in the future, be subject to changes in laws or regulations, many of which are beyond the control of the City, and which could have an effect on the existence, governance, revenues, management, operations and finances of the City and the System.

Management of the System

The daily operations of the System are managed by the General Manager for Utilities. In addition to the General Manager for Utilities, key members of the System's leadership team include five operational managers, a Chief Operating Officer, the Chief Financial Officer and the Utilities Attorney. The operational managers consist of an Energy Delivery Officer, Water/Wastewater Officer, Chief Customer Officer, Energy Supply Officer and a Business Services Officer.

Mr. Edward J. Bielarski, Jr., General Manager for Utilities, joined the System as a Charter Officer and General Manager in June of 2015 replacing the Interim General Manager who had served since November 2013. Mr. Bielarski has over 20 years of experience in the utility industry, having worked with Constellation Energy Group (Maryland) as a Project General Manager and a Project Chief Financial Officer, and Lehigh County Authority (Pennsylvania) as a Chief Operating Officer and Chief Financial Officer. As a Charter Officer, he reports directly to the seven-member City Commission and to the Utilities Advisory Board (UAB). Mr. Bielarski currently serves on the Board of Directors for The Energy Authority, Inc. (TEA) and the Florida Reliability Coordinating Council (FRCC). In his role as General Manager, Mr. Bielarski oversees all operations of the combined electric, natural gas, water, wastewater and telecommunications utilities. Principal responsibilities include management for all planning, administration, customer service, engineering, organizational development, construction and operations for all utility responsibility areas in accordance with City policies. Additionally, he oversees the preparation and administration of the annual budget and is responsible for policy development and the implementation of policies adopted by the City Commission.

Mr. Gary L. Baysinger, Energy Delivery Officer, joined the System in 2006. He was appointed interim Energy Delivery Officer in January 2016 and was made permanent in January 2017. Mr. Baysinger previously served as Work & Resource Management Manager and holds a Bachelor of Science in Industrial

Engineering from Kent State University. Mr. Baysinger currently serves as Vice-Chair of the Florida Society of Maintenance and Reliability Professionals and maintains CMRP and CMM credentials. As the Energy Delivery Officer, Mr. Baysinger oversees the construction, operation and maintenance of the System's electric transmission and distribution facilities and the natural gas transmission and distribution facilities, and is also responsible for operations engineering, system control, substations and relay/control, City gate stations, electric and gas metering, and field services.

Mr. Thomas R. Brown, P.E., Chief Operating Officer, joined the System in September of 2015 and was appointed to this role in July 2016. Mr. Brown has worked as an energy industry executive for 37 years, including most recently as the Vice President/Commercial Manager of Leidos-Plainfield Renewable Energy in Plainfield, Connecticut. He also served in executive management positions with Cogentrix, El Paso Merchant Energy and Ridgewood Power Corporation. Mr. Brown holds a Master of Business Administration degree from Indiana University of Pennsylvania and a Bachelor of Science degree in Mechanical Engineering from Pennsylvania State University, and is a registered Professional Engineer. In his current role, Mr. Brown oversees and manages the System's Energy Supply, Energy Delivery, and Water/Wastewater business operations.

Mr. Justin M. Locke, Chief Financial Officer, joined the System in October 2015. Mr. Locke has worked in the utilities industry for more than 20 years, including most recently as Vice President of Finance at CPS Energy in San Antonio, Texas. He also served as Business Manager and CFO of Guadalupe Valley Electric Cooperative, and Director of Finance and CFO of the Brownsville Public Utilities Board. A graduate of Rice University's Executive Education program, he also holds a degree in Finance and Risk Management from St. Mary's University, San Antonio. Mr. Locke is responsible for the accounting and finance departments, which maintain the financial integrity of the combined System.

Nicolle M. Shalley, Esq., City Attorney, presently serving as Utilities Attorney, Nicolle M. Shalley, Esq., City Attorney has been with the City Attorney's Office since 2006 and has been the City Attorney and supervisor of the Utilities Attorney since October 2012. She is acting as Utilities Attorney for this transaction.

Keino Young, Esq., Utilities Attorney, has been with the City since May, 2017. The Utilities Attorney works under the direction and supervision of the City Attorney. He will act as Utilities Attorney for all transactions going forward.

Mr. Anthony Cunningham, P.E., Water/Wastewater Officer, has been with the System for over 15 years, was appointed to his position in 2016 and previously served as Water/Wastewater Engineering Director. Mr. Cunningham's entire 22 year professional career has been in the water and wastewater industry including 7 years as a consulting civil engineer at Causseuax & Ellington, Inc. He has held various positions through his years at the System including; Strategic Planning Engineer, Senior Environmental Engineer, Acting Water Distribution and Wastewater Collection Director, and Engineering Director. He holds a Bachelor of Science degree in Engineering from the University of Florida and is a registered Professional Engineer in the State of Florida. Mr. Cunningham is responsible for planning, directing, coordinating and administering all activities and personnel of the Water and Wastewater Department. He directs the design, construction, operation and maintenance of all the water and wastewater systems to deliver safe, reliable, and competitively priced services.

Mr. William J. Shepherd, Chief Customer Officer, has been with the System for over 23 years, was appointed to his position in September 2015 and previously served as the Director of Customer Operations.

The majority of Mr. Shepherd's career has been in Energy and Business services where he has played a critical part in the design and development of the System's nationally recognized energy efficiency programs. Mr. Shepherd holds a Masters of Business Administration from the University of Florida and a Bachelor of Science in Aeronautical Science from Embry Riddle Aeronautical University, and is a Certified Energy Manager (CEM). Mr. Shepherd is responsible for customer service, billing, collections, mail services, quality control, facilities, purchasing, cashiers, energy and business services, and new services.

Mr. Dino. De Leo, Energy Supply Officer, joined the System in September 2006 and formerly served as Production Assurance Support Director. Mr. De Leo was appointed interim Energy Supply Officer in February 2016 and was made permanent in January 2017. Mr. De Leo has worked as an executive in the energy industry for over 36 years and, prior to joining GRU, served in various leadership roles in the US Navy Submarine force where he retired after 26 years of service in 2006. He holds a Bachelor of Science in Nuclear Engineering from the University of Florida, a Bachelor of Science in Business Administration degree from Columbia College and a Master of Business Administration from Brenau University. Mr. De Leo is responsible for planning, directing, coordinating and administering all activities and personnel for the System's Energy Supply Department including the System's power generation functions, a power engineering group, and a fuels management group including the design, construction, operation, and maintenance of related systems, projects, and contracts. He also assists with risk management oversight on an executive team and acts as the System's Energy Supply Department's liaison with local, state, and federal agencies.

Mr. J. Lewis Walton, Chief Business Services Officer, joined the System in March 2008, and has more than 20 years of experience developing, implementing, marketing and managing customer-driven products and services in both competitive markets and the utility industry. Before his appointment to Chief Business Services Officer in September 2015, Mr. Walton served progressively as Marketing & Communications Manager, Director of Marketing and Business Solutions, and most recently as Chief of Staff for GRU's combined utility systems. Mr. Walton holds a Communications Degree from Auburn University and previous to his arrival at GRU, progressed through various operations, sales, marketing, and management positions at both Roadway Package Systems, which is now FedEx Ground, and at Lee County Electric Cooperative in Southwest Florida. Mr. Walton oversees the planning, operations and administration of GRUCom, the System's competitive fiber optic telecommunications unit, as well as the natural gas marketing program, economic development and development of ancillary products and services for the combined System.

Labor Relations

The System presently employs approximately 850 persons. All personnel are City employees and are solely under the management of the City. Florida law prohibits public employees from striking.

The City has historically maintained good labor relations with respect to the System. Approximately 560 of the System's employees are represented by Local No. 3170 of the Communications Workers of America (the CWA). The current agreements with the CWA (Non-Supervisory and Supervisory), represent a term that expires December 31, 2018.

Permits, Licenses and Approvals

Management believes that all principal permits, licenses and approvals required to construct and operate the System's facilities have been acquired. Management further believes that the System is

operating in compliance in all material respects with all such permits, licenses and approvals and with all applicable federal, state and local regulations, codes, standards and laws.

THE ELECTRIC SYSTEM

Service Area

The System provides retail electric service to customers in the Gainesville urban area which includes the City and a portion of the surrounding unincorporated area. Wholesale electric services are currently provided to Alachua and the City of Winter Park, Florida ("Winter Park"). See "Energy Sales – Retail and Wholesale Sales" below. The electric facilities of the System currently serve approximately 124.5 square miles of the County, and approximately 77% of the population of the County, including the entire City, with the exception of the University of Florida campus, which is served principally by Duke. Electric service is also provided in the unincorporated areas of the County by Duke, Clay Electric Cooperative ("Clay"), Florida Power & Light Company ("FPL"), and Central Florida Electric Cooperative, Inc. The System has a territorial agreement with Clay which establishes a service boundary between the two utilities in the unincorporated areas of the County in order to clearly delineate, for existing and future service, those areas to be served by the System and those areas to be served by Clay. This agreement has been approved by the Florida Public Service Commission ("FPSC") through 2017 and is currently in negotiations for further extension. See the UTILITY SERVICE AREA MAP on the following page.

Customers

The System has experienced modest growth in customers of 0.06% per year since 2012. The following tabulation shows the average number of electric customers for the fiscal years ended September 30, 2012 through and including September 30, 2016.

	Fiscal Years ended September 30,				
	2012	2013	2014	2015	2016
Retail Customers (Average):					
Residential	82,039	82,440	83,117	83,796	84,069
Commercial and Industrial	10,423	10,467	10,602	10,677	10,726
Total	92,462	92,907	93,719	94,473	94,795

Of the 94,795 customers in the fiscal year ended September 30, 2016, 10,726 commercial and industrial customers provided approximately 56% of revenues from retail energy sales.

Energy Sales

The Energy Authority

TEA is a Georgia nonprofit corporation founded by publicly owned utilities in 1997 to maximize the value of their generation and energy resources in a competitive wholesale market. The System became an equity member of TEA on May 1, 2000. Other equity members include City Utilities of Springfield, Missouri, Cowlitz County Public Utility District, JEA (Jacksonville), the Municipal Electric Authority of Georgia ("MEAG Power"), Nebraska Public Power District, South Carolina Public Service Authority, and

American Municipal Power. TEA has offices in Jacksonville, Florida and Seattle, Washington and provides power marketing, trading, and risk management services throughout most of the United States.

TEA currently works with over 50 public power clients that represent of 24,000 MW of peak demand and 30,000 MW of installed generation capacity across the U.S. TEA manages a diverse generation portfolio that has proven advantageous in terms of market presence. Operations include the purchase and sale of power, transmission capacity acquisition and scheduling, natural gas and oil purchase and transportation, and financial trading and hedging under strictly observed risk policies.

Other than for retail load and applicable pre-existing bi-lateral long-term wholesale power agreements, TEA markets the System's generating resources in real-time, day-ahead, and longer-term power markets up to twelve months ahead. TEA also purchases all of the System's natural gas and optimizes the System's gas transportation entitlements. TEA's ability to execute energy transactions on behalf of the System includes arranging for any transmission services required to accommodate such transactions. Each transaction is accomplished through the execution of a letter of commitment between the System and TEA for a specific capacity amount and duration, and with negotiated terms and prices. Examples of these power sales include short-term, emergency and economy sales, ranging from a period of months to a single hour. TEA also executes and manages financial hedges for its members, primarily in the form of NYMEX natural gas futures and options. TEA constantly monitors the credit of counterparties and manages credit security requirements on behalf of the System as well as other TEA members.

TEA settles the transactions it makes for its members under terms set forth in settlement procedures adopted by its Board of Directors. The excess (or deficiency) of TEA's revenues over (or under) its costs also are allocated among its members pursuant to such procedures.

The System provides guarantees to TEA and to TEA's banks to secure letters of credit issued by the banks to cover purchase and sale contracts for electric energy, natural gas and related transmission. In accordance with the membership agreement between the System and its joint venture members and with the executed guaranties delivered to TEA and to TEA's banks, the System's aggregate obligation for electric energy marketing transactions entered into by TEA on behalf of its members was \$9.6 million as of September 30, 2016. The System's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties as of September 30, 2016 and 2015, was \$13.5 million and \$7.4 million respectively.

For a discussion of the System's investment in TEA and its commitments to TEA as of September 30, 2016 and 2015, see Note 3 to the financial statements of the System "Investment in The Energy Authority" referenced in APPENDIX B attached hereto. See also "Energy Supply System – *Fuel Supply – Natural Gas*" below for additional discussion of TEA's role in supplying natural gas for the System.

With support from TEA, GRU had been exploring the benefits and consequences of combining GRU's generation with that of another entity and economically dispatching the combined fleet through coordinated dispatch. The coordinated dispatch model allows JEA (also part owner of TEA) and GRU to dispatch their generation fleets as if they were one. The most economical units can supply power to meet the combined demand.

The coordinated dispatch model creates another option to provide power at a lower price point, but is not an obligation. GRU and JEA would dispatch their two systems as one and establish day-ahead (and in the potential future, week-ahead and month-ahead transactions) schedules for power flows

between the entities. The pricing of the power flowing during each hour is determined by the avoided cost of the entity selling the power plus a margin. The margin is determined by the savings between dispatching the systems separately versus together.

The analysis of the benefits showed the ability to reduce JEA's production cost by running their fleet at a point of better thermal efficiency when serving part of the GRU demand. GRU's savings were the result of serving load with lower-cost power generated by JEA, rather than from its own fleet. The agreement was signed in March 2016 and coordinated dispatch began in May 2016. As of February 2017, GRU has realized approximately \$1.8 million in savings as a result of the agreement.

Retail and Wholesale Energy Sales

In the fiscal year ended September 30, 2016, the System sold 2,018,118 megawatt hours (MWh) of electric energy to its retail and firm wholesale customers (excluding interchange and economy sales). The System currently has a firm "all requirements" wholesale sales contract with Alachua. This contract, which originated in 1988, was renewed April 1, 2016 for a term of seven years. "All requirements" services include control area voltage and frequency regulation and all other ancillary services. The following table shows the System's sales in MWh and average use of electricity, in kilowatt hours (kWh) by customer class, for the fiscal years ended September 30, 2012 through September 30, 2016. Year-to-year variability is due primarily to the effects of weather on heating and cooling loads. For the fiscal year ended September 30, 2016, there was a 4.3% increase in residential MWh sales from the prior year.

Retail and Wholesale Energy Sales

	Fiscal Years ended September 30,				
	2012	2013	2014	2015	2016
Energy Sales–MWh:					
Residential	753,513	752,131	771,884	792,704	819,431
General Service, Large					
Power and Other	945,131	937,112	941,578	951,412	977,797
Firm Wholesale ⁽¹⁾	193,717	130,990	119,447	190,103	220,890
Total	<u>1,892,361</u>	<u>1,820,233</u>	<u>1,832,909</u>	<u>1,934,219</u>	<u>2,018,118</u>
Average Annual Use per Customer–kWh:					
Residential	9,185	9,123	9,287	9,460	9,747
General Service, Large					
Power and Other	90,686	89,530	88,811	89,109	91,161

⁽¹⁾ The System had been in an "all requirements" wholesale sales contract with Seminole Electric Cooperative, Inc. until December 31, 2012. The decrease in Firm Wholesale from 2012 and 2013 is a result of the expiration of the Seminole "all-requirements" contract. Sales to the City of Winter Park began January 2015.

The contract referred to prior to the table includes management of Alachua's 0.019% share of the St. Lucie Unit project, as well as, compliance responsibilities of the North American Electric Reliability Corporation, Inc. ("NERC"). During the fiscal year ended September 30, 2016, the System sold 133,040 MWh to Alachua and received \$8,632,823 in revenue from those sales, which represented approximately 6.6% of total energy sales (excluding interchange sales) and 3.2% of total sales revenues.

Pursuant to Florida's Interlocal Cooperation Act of 1969, Chapter 163, Florida Statutes, the System entered into an Interlocal Agreement with Winter Park on February 24, 2014, effective January 1, 2015 and expiring on December 31, 2018. Pursuant to this Agreement, the System has agreed to sell 10 MW of capacity and the associated energy on a 7 day/24 hours a day "must-take" basis, except that Winter Park may designate up to 500 hours per year during which the "must-take" quantity may be 5 MW.

Interchange and Economy Wholesale Sales

The System has participated in short-term power sales to other utilities through TEA where market opportunities exist. Due to new natural gas-fired generation in the market, and low and stable natural gas prices, these opportunities are limited. In recent years, net revenues from interchange sales as reflected in the following table have been modest.

Net Revenues from Interchange and Economy Wholesale Sales⁽¹⁾ (Fiscal Years ended September 30) (dollars in thousands)					
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net Revenues (Loss)	(\$693)	\$123	\$673	\$369	\$126
Percent of Total Electric System Net Revenues	0.0%	0.1%	0.9 %	0.5%	0.2%

⁽¹⁾ Variable in nature due to regional capacity availability, weather effects on demand and fuel price volatility.

Interchange and Economy Wholesale Purchases

Interchange and economy wholesale purchases made when power is available from the market at prices below the System's production costs are among the factors that allow the System to assure competitive power costs for retail and firm wholesale customers. Purchases of less than a duration of 24 months are made through TEA. Longer-term contracts are negotiated by the System's staff. The benefits of the System's purchases are passed on to retail and firm wholesale customers by affecting the fuel and purchased power adjustment portion of their rates (see "RATES – Electric System" herein). In the fiscal year ended September 30, 2016, 21% of power for retail and wholesale sales was obtained through non-firm off-system purchases, allowing customers to benefit from less expensive gas-fired power available for purchase from the market.

Renewable Energy

Since 2006, renewable energy and carbon management strategies became a major component of the System's long-term power supply acquisition program. These renewable resources include additional landfill gas to energy capacity, bio-mass and solar. The System instituted the nation's first European-style solar feed-in-tariff (FIT) (discussed below) to be offered by a utility. The System also entered into a thirty (30) year long-term power purchase agreement (PPA) for the purchase of 102.5 MW (net firm) of biomass-fueled power generation from the Gainesville Renewable Energy Center (GREC) described under "Energy Supply System – Power Purchase Arrangements – Gainesville Renewable Energy Center" herein. The costs of acquiring these resources are included in the System's fuel and purchased power adjustment clause, resulting in recovery from all customers. The System's renewable energy portfolio is part of a long-term

strategy to hedge against potential future carbon tax and trade programs. See "Future Power Supply" below for more information on the System's renewable energy resources. See also "FACTORS AFFECTING THE UTILITY INDUSTRY - Air Emissions - *The Clean Air Interstate Rule (CAIR)*" below concerning the cap and trade program under which utilities have several options for complying with the emissions cap, including installation of emission controls, purchasing allowances or switching fuels.

Energy Supply System

Generating Facilities

The System owns generating facilities having a net summer continuous capability of 520.5 MW. In addition, the System has exclusive rights to the capacity and energy from a 102.5 MW plant pursuant to a PPA. Combined PPA entitlements and System owned generation total 623 MW of net dispatchable summer continuous capacity. The System also is entitled to the capacity and non-dispatchable energy from a landfill gas to energy plant of approximately 3.0 MW. These facilities are connected to the Florida Grid and to the System's service territory over 138 kilovolt (kV) and 230 kV transmission facilities that include three interconnections with Duke and one interconnection with FPL.

See also "Energy Sales – *Interchange and Economy Wholesale Purchases*" above for a discussion of certain power purchases employed to allow the System to assure competitive power costs.

The Generating Facilities are set forth in the following table and described herein.

Existing Generating Facilities		Fuels		Net Summer Capability (MW)
Plant Name	Unit No.	Primary	Alternative	
<u>JRK Station</u>				
	Steam Unit 8	Waste Heat	—	36
	Combustion Turbine 4	Natural Gas	Distillate Fuel Oil	72
				108
<u>Deerhaven Generating Station</u>				
	Steam Unit 2	Bituminous Coal	—	228
	Steam Unit 1	Natural Gas	Residual Fuel Oil	75
	Combustion Turbine 3	Natural Gas	Distillate Fuel Oil	71
	Combustion Turbine 2	Natural Gas	Distillate Fuel Oil	17.5
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	17.5
				409
<u>South Energy Center</u>				
	SEC-1	Natural Gas	—	3.5
				520.5
<u>Plant Entitlement</u>	GREC	Biomass	—	102.5
				623
<u>Base Landfill</u>		Landfill Gas	—	3
				626.0

JRK Station – The John R. Kelly Station (the "JRK Station") is located in downtown Gainesville. The JRK Station consists of one combined cycle combustion turbine (CC1) unit with a net summer generation capability of 108 MW. The unit's primary fuel is natural gas and the alternate fuel is #2 oil. The addition of 102.5 MW of biomass power to the System's generation mix by the PPA with Gainesville Renewable Energy Center, LLC (GREC LLC) originally resulted in a long range forecast of lower capacity factors for CC1. However, as natural gas prices have generally been lower, CC1 operates more as a baseload unit. That theme was true in fiscal year 2016 and continues in fiscal year 2017.

Deerhaven – The Deerhaven Generating Station ("Deerhaven" or DGS) is located approximately six miles northwest of Gainesville and encompasses approximately 3,474 acres, which provides room for future expansion as well as a substantial natural buffer. The DGS consists of two steam turbines and three combustion turbines with a cumulative net summer capability of 409 MW. Unit 1 (DH 1) is a conventional steam unit with a net summer capability of 75 MW. Its primary fuel is natural gas and its alternate fuel is #6 oil. Unit 2 (DH 2) is a coal-fired, conventional steam unit with a net summer capability of 228 MW. Two combustion turbines are rated at 17.5 MW each and the third combustion turbine at 71 MW. All three combustion turbines have natural gas as their primary fuel and #2 oil as an alternate fuel.

DH 2 was the first zero liquid discharge power plant built east of the Mississippi River. No industrial wastewater or contact storm water leaves the site. Brine salt by-product from process water treatment is transported off site to a Class III landfill due to capacity constraints. The Deerhaven site has a coal combustion products/coal combustion residuals (CCP/CCR) landfill that provides disposal capacity for CCR, fly and bottom ash, as well as flue gas scrubber by-product from the air quality control system (AQCS). DH 2 has an AQCS consisting of an electrostatic precipitator and fabric filter for particulate control, a dry circulating scrubber for sulfur dioxide (SO₂), acid gas, and mercury (Hg) reduction, and a selective catalytic reduction (SCR) system for reduction of the oxides of nitrogen (NO_x) to meet or exceed regulatory requirements.

Since 2009, the operational mode of DH 2 has shifted from a high capacity factor base load to deep load cycling operation. This is the result of many factors including: flat megawatt-hour sales, the availability of low cost gas and the addition of 102.5 MW of biomass power to the System's generation mix by the PPA with GREC LLC. A cost of cycling engineering study has been performed to accurately determine the long term maintenance cost resulting from this operational mode. The costs are utilized in both long range generation planning and short term unit commitment. Additionally, operational and physical changes necessary to reduce the cost of this mode of operation have been identified and are in various stages of implementation. The findings of the cycling engineering study have been incorporated into the budget and reflected in the CIP.

To assure reliability, considerable investment continues to be made in both physical components and control systems. In addition, the System has invested in a full scale, high fidelity simulator for operator training and control logic quality control. During fiscal year 2017, the System projects to spend approximately \$1.4 million on decommissioning the circulating dry scrubber that was installed in 2009 due to structural integrity issues. This environmental control equipment is being replaced with upgraded structural support and a corrosion/erosion resistance liner that is made of C-276 alloy. The replacement and upgrades are expected to be completed before the summer peak season and is expected to cost the System approximately \$4.6 million but will better ensure the long-term reliability of the environmental control equipment.

Crystal River 3– Crystal River 3 (CR-3) is a retired nuclear powered electric generating unit which had a net summer capability of 838 MW, located on the Gulf of Mexico in Citrus County, Florida, approximately 55 miles southwest of Gainesville. Duke was the majority owner. In February of 2013, Duke announced that CR-3 would be permanently shut down and retired. The System owned a 1.4079% ownership share of CR-3 equal to approximately 12.7 MW (11.846 MW delivered to the System). In 2012, the minority owners, including the System, agreed to have the Florida Municipal Power Agency (FMPA) represent their interests in negotiating a settlement with Duke for damages resulting from the premature retirement of CR-3. Duke maintained insurance for property damage and incremental costs of replacement power resulting from prolonged accidental outages from Nuclear Electric Insurance, LTD. (NEIL). The System has received its allocated insurance proceeds of \$1,308,211, of which \$660,951 was credited on invoices.

FMPA, on behalf of the minority owners, negotiated a settlement with Duke. The settlement was executed by all parties with an effective date of September 26, 2014. The settlement transferred all of the System's ownership interests in CR-3 and the requisite Decommissioning Funds to Duke. In October 2014, the System received reimbursement of \$219,706 in operation and maintenance expenses forgiven by the settlement. The ownership transfer was approved by the Nuclear Regulatory Commission (NRC) on May 20, 2015. Upon the NRC's approval of ownership transfer, the minority owners received certain cash settlements and Duke agreed to be responsible for all future costs and liabilities relating to CR-3 including decommissioning costs. On October 30, 2015, the transfer of ownership interests in CR-3 closed, and the System received a settlement of \$9.56 million as a minority owner of CR-3 and \$618,534 as a former purchaser of power from CR-3. Consequently, CR-3 is not shown on the table of generating facilities.

For further discussion regarding the Crystal River 3 generating unit, see Note 5 to the audited financial statements of the System "Jointly Owned Electric Plant" referenced in APPENDIX B attached hereto.

South Energy Center – The South Energy Center is a combined heat and power facility dedicated to serve a 500,000 square foot, 200-bed teaching hospital with Level I trauma center belonging to UF Health/Shands Teaching Hospital and Clinics ("UF Health") at the University of Florida. The South Energy Center provides for all of the hospital's energy needs for electricity, steam, and chilled water. The South Energy Center is also responsible for providing medical gas infrastructure.

The South Energy Center provides the hospital with a highly redundant electric microgrid that is capable of operating either grid-connected or grid-independent to meet 100% of the hospital's needs. The South Energy Center has two grid connections for normal power, and a 3.5 MW on-site combustion turbine to provide full standby power to the hospital and energy center, as well as a planned 2.25 MW fast-start diesel generator to provide code-compliant essential power for the hospital. The combustion turbine is installed in a combined-heat-and-power configuration and is typically run base-loaded to provide export power to the grid and steam to the hospital. All plant systems for electric, chilled water, and steam have high levels of equipment redundancy to minimize the potential of an outage. During 2016, the South Energy Center provided 1.5% of the System's generation.

The South Energy Center is owned and operated by the System, and provides services under a 50-year "cost plus" contract with UF Health. The medical campus has been master planned for 3,000,000 square feet of facilities at build out, the timing of which is contingent upon future economic conditions. In August 2013, UF Health advised the System of its commitment to construct an additional hospital tower of similar size next to the existing tower, approximately doubling the loads served by the South Energy

Center. The South Energy Center Phase II may also provide services to customers other than UF Health. Construction commenced on the new hospital and the System's infrastructure in late 2014 and completion is expected in December 2017.

The System is currently adding energy and thermal capacity to the South Energy Center to serve a new 500,000 square foot cardiovascular and neuromedicine hospital tower under construction. As part of this expansion, the System is adding a 7.4 MW natural gas-fired reciprocating engine, a 3,000 ton chiller, a 3 MW diesel-fired engine, and ancillary equipment. The cost for this capacity addition will be approximately \$30 million. All capital and operating costs associated with this capacity addition will be recovered under the System's long-term contract with UF Health. The System's capacity additions will be completed in summer 2017, while the new hospital tower will open in December 2017.

Power Purchase Arrangements

Gainesville Renewable Energy Center – The System has a PPA for all the available energy, delivered energy and environmental attributes from GREC, a 102.50 MW biomass fuel generating facility, located on property leased from the System at the DGS site. The fuel supply is primarily forest residuals left in the field after normal timber harvesting as well as materials from urban forestry and suitable sources of clean wood, and biomass such as pallets, and mill residues. Such fuel is in accordance with the strict sustainability standards of the PPA. GREC began commercial operation on December 17, 2013 (COD). The pricing elements for energy under the PPA include four components: (a) a non-fuel energy charge (NFEC); (b) a fixed operating and maintenance charge (FOM); (c) the fuel cost; and (d) a variable operating and maintenance charge (VOM). The NFEC and FOM charges constitute approximately 65% of the total cost (assuming 90% availability and capacity factors) and are fixed over the term of the PPA. Fuel cost is based on actual costs with gain sharing when the actual cost is lower than target, which it has been since COD. The VOM charge escalates according to a consumer price index. The PPA provides liquidated damages for performance below contractual levels of reliability. If the unit is unavailable, the PPA is constructed such that there will be no cost to the System, other than reimbursement of ad valorem taxes.

GREC is a merchant power plant within the System's NERC Balancing Authority. This imposes regulatory responsibilities on both GREC LLC and the System. Pursuant to the rights and obligations of the PPA and regulatory requirements of NERC, the System has sole control of the dispatch of GREC. GREC is equipped with Best Available Control Technology (BACT) air emission controls including; dry sorbent injection, selective catalytic reduction of NO_x and fabric filters for particulate control. The type of fuel to be employed makes it unnecessary to control SO₂ or mercury. GREC received its Title V Operating Air Emissions Permit effective January 1, 2015, which must be renewed every five years.

For information about preliminary discussions regarding the potential purchase of the GREC biomass power generation plant by the City, see "SUMMARY OF COMBINED NET REVENUES" herein.

Pursuant to the PPA with GREC LLC, GREC LLC may not sell GREC, either directly or indirectly, through a change of control of GREC LLC during the term of the PPA unless GREC LLC has complied with the following: prior to selling GREC, GREC LLC must give notice to the System of GREC LLC's intent to sell GREC and the System has 60 days from such notice to prepare an offer (the "First Offer") to purchase GREC. GREC LLC must negotiate in good faith exclusively with the System for a minimum of 30 days from receipt of the First Offer to attempt to reach agreement on the terms of a purchase. If the System and GREC LLC cannot reach an agreement on sale terms within the 30 days of receipt of the First Offer, then GREC LLC is provided 360 days from the date of the System delivering the First Offer to close on a sale of

GREC to an unaffiliated third party for a price and for terms that are no less than the price and no more onerous than the terms of the System's First Offer.

The recent decline in the costs of natural gas and coal have made CC1 and DH 2 more cost beneficial than GREC. As such, GREC has remained in standby and it is anticipated that GREC will remain in standby unless needed for reasons of System reliability or when System demand and economics dictate otherwise. For more information, see "SUMMARY OF COMBINED NET REVENUES" below.

Baseline Landfill – The System entered into a fifteen-year contract for the entire output of electricity generated from landfill gas derived from the Baseline Landfill in Marion County, Florida, which was placed in service in December 2008. The Baseline Landfill is actively expanding and additional capacity is projected for the future. Power from the Baseline Landfill is wheeled to the System over Duke's transmission system.

Fuel Supply

The objectives of the System's fuel procurement and management strategy are: (1) diversification of fuel mix and fuel sources, (2) continuous improvement of delivered fuel cost through innovative contract procurement and the use of short-term suppliers, (3) optimization of the quality of fuel and market price to achieve environmental compliance in the most effective and competitive manner possible, (4) reduction in the impact of price volatility in fuel markets through physical and financial risk management of the fuel supply portfolio and (5) participation in joint procurement programs with other municipal systems to maximize the price benefits of volume purchasing. The flexibility afforded by these actions allows the System to take advantage of changes in relative fuel prices and strategically adjust its use of coal, natural gas or fuel oil to optimize its fuel costs. For fiscal year 2016, net energy for load (NEL) was served as follows: coal 20.66%; biomass 0.86%; natural gas 54.53%; landfill gas 1.19%; solar 1.14%; oil 0.01%. The remainder of NEL was served by spot purchase power. The System, as both a buyer in the fuel markets and a producer of power, hedges risk and volatility by the use of futures and options. The System's hedging activities are primarily limited to natural gas futures and options. The System's exposure to financial market risk through hedging activity is limited by a written policy and procedure, oversight by a committee of senior division managers, financial control systems, and reporting systems to the General Manager for the System.

Coal – The System currently owns a fleet of 111 aluminum rapid-discharge rail cars that are in continuous operation between the DGS and the coal supply regions. Coal inventory at the Deerhaven Generating Station (DGS) is maintained at approximately 40-50 day supply, based on projected burn, anticipated disruptions in coal supply or rail transportation, or short-term market pricing fluctuations. The System's coal procurement considers both short-term and long-term fuel supply agreements with reputable coal producers. This strategy allows the System to reduce supply risk, decrease price volatility, insulate customers from short-term price swings, and exert better control over the quality of coal delivered. The strategy also retains opportunities for cost savings through spot purchases, the ability to evaluate new coal sources through test burns, or to take advantage of a producer's excess coal production capacity. Typically, the System maintains 70-75% of its coal supply under one to three year term contracts and the remainder under short-term contracts of one year or less. The System does not currently have an active contract for the supply of coal. The System does currently have a long-term transportation contract for coal with CSX Transportation that expires in 2019. A consultant that specializes in fuel transportation and logistics has been retained to explore additional transport options and finalize the rail renegotiation strategy. Effective October 2014, the City Commission instituted a policy prohibiting the procurement of coal from mountain

top removal (MTR) sources unless a 5% savings over deep mined coal is achieved by doing so, which policy has not had a material impact on the System to date.

See also "Ratings Triggers and Other Factors That Could Affect the System's Liquidity, Results of Operations or Financial Condition - Coal Supply Agreements" herein.

Natural Gas – Natural gas supply for both the electric system and the natural gas distribution system is transported to the System by Florida Gas Transmission (FGT) under long-term contracts for daily firm pipeline transport capacity. The contracts are priced under transportation tariffs filed with the Federal Energy Regulatory Commission (FERC). The System's natural gas supplies are transported from Gulf Coast producing regions in Texas, Louisiana, Mississippi and Alabama. Natural gas volumes greater than the System's firm transportation contract entitlements are supplied either through interruptible transportation capacity or through the use of excess delivered capacity from other suppliers on FGT, as arranged by TEA which has combined purchasing power to ensure capacity. For fiscal year 2016, the System consumed 11,346,889 million British thermal units (MMBtu) of natural gas in electric generation and 2,060,554 MMBtu for the gas distribution system. The average cost of gas delivered to the System was \$3.14/MMBtu. The System analyzes, investigates, and participates in opportunities to hedge its natural gas requirements as well as provide greater reliability of supply and transportation for customers. These opportunities include pipeline tariff discussions and negotiations, review of potential liquefied natural gas projects and supply offers, review of potential long-term purchases, natural gas supply baseload contracts, and the purchase and sale of financial NYMEX commodity contracts and options. TEA is a market participant that provides comprehensive energy trading, analysis, strategies and recommendations to the System's Risk Oversight Committee (ROC). TEA is responsible for the procurement of daily physical volumes and management of pipeline transportation entitlements, as well as the execution of financial hedging transactions on the System's behalf. ROC provides direction and oversight on hedging to TEA. See "Energy Sales – *The Energy Authority*" above.

Oil – At current and projected price levels, the System's oil capable units are not projected to operate on fuel oil except in emergency backup modes. For fiscal year 2016, fuel oil accounted for approximately 0.01% of net generation. This level of contribution is not projected to change in the near term. When it does become necessary to replenish inventory for any unit, the System seeks to control the costs by purchasing forward supply at fixed prices and timing market entry points to take advantage of favorable pricing trends.

Transmission System, Interconnections and Interchange Agreements

The System's transmission system infrastructure consists of approximately 117.2 circuit miles operated at 138 kV and 2.5 circuit miles operated at 230 kV. There are four interconnections with the Florida transmission grid thereby connecting the System to Duke to the west and south as well as FPL to the east. Specifically, there are three (3) interconnections with Duke: one at their Archer Substation at 230 kV and two at their Idylwild Substation at 138 kV. There is also one interconnection to FPL's Hampton Substation at 138kV. The Hague transmission switching station was constructed to serve as the interconnection point to GREC. The transmission system has ample interconnection capacity to import sufficient power from the State grid system to serve native load under normal circumstances.

The System's 138 kV transmission system encircles its service area and connects three transmission switching stations, six loop-fed distribution substations, and four radial-fed distribution substations. This

configuration provides a high degree of reliability to serve the System's retail load, delivering wholesale power to Alachua and providing transmission service to a portion of Clay's service territory.

The System is a member of the Florida Reliability Coordinating Council (FRCC), which is a not-for-profit company incorporated in the State of Florida. The purpose of the FRCC is to ensure and enhance the reliability and adequacy of bulk electricity supply in Florida. As a member of FRCC, the System participates in sharing reserves for reliability purposes with other generating utilities in Florida, resulting in a substantial reduction in the amount of reserves required for proper operation and reliability.

FRCC serves as a regional entity with delegated authority from the North American Electric Reliability Corporation (NERC) for the purposes of proposing and enforcing reliability standards within the FRCC Region. The area of the State of Florida that is within the FRCC Region is peninsular Florida east of the Apalachicola River, which area is under the direction of the FRCC Reliability Coordinator.

Electrical Distribution

All of the System's distribution substations are served from the 138 kV transmission system. The System is a 12.47 kV distribution system. If the transmission line supplying a radial-fed distribution substation should fault, the retail loads affected can be served by remote and field actuated switching to adjacent and unaffected distribution circuits. Additional substations have been planned near and within the northern and eastern quadrants of the System's service area to serve load growth in those areas and improve system reliability and resiliency.

The transmission and distribution facilities are fully modeled in a geographical information system (GIS). The GIS is integrated with the System's outage management system to enable the linkage of customer calls to specific devices. This integration promotes enhanced and expedited service restoration. Integrated software systems are also used extensively to assign loads to specific circuits, planning distribution and substation system improvements, and supporting restoration efforts resulting from extreme weather. In addition, greater than 60% of the distribution system's circuit miles are underground, which is among the highest percentages in Florida.

Capital Improvement Program

The System's current six-year electric capital improvement program requires approximately \$188.5 million in capital expenditures between fiscal years ended September 30, 2017 through and including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process. The South Energy Center expansion at Shands is included in the 2017 budget and is anticipated to cost approximately \$30 million in capital through completion in 2018.

Electric Capital Improvement Program

	Fiscal Years ended September 30,						
	2017	2018	2019	2020	2021	2022	Total
	(dollars in thousands)						
Generation and Control	\$ 18,975 ¹	\$ 14,570	\$ 7,675	\$ 5,625	\$ 4,275	\$ 2,175	\$53,295
Transmission and Distribution	9,874	17,286	16,981	12,211	8,428	9,760	74,540
Miscellaneous and	12,695	11,496	10,022	8,554	8,801	9,055	60,623
Contingency							
Total	<u>\$ 41,544</u>	<u>\$ 43,352</u>	<u>\$ 34,678</u>	<u>\$ 26,390</u>	<u>\$ 21,504</u>	<u>\$ 20,990</u>	<u>\$188,458</u>

⁽¹⁾ Includes \$5.2 million of projected expense for environmental control equipment replacement with upgrades at Deerhaven.

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Loads and Resources

A summary of the System's generating resources and firm interchange sales compared to historical and projected capacity requirements is provided below:

Fiscal Year	Net Summer System Capability (MW) ⁽¹⁾	Firm Interchange Sales (MW)	Peak Load (MW) ⁽²⁾	Actual / Projected Planning Reserve Margin	
				MW	Percent
Historical					
2012	667	0	415	252	61
2013	657	0	416	241	58
2014	645	0	409	236	58
2015	645	0	421	228	56
2016	645	0	428	223	54
Projected					
2017	645	0	437	227	52
2018	645	0	444	222	50
2019	645	0	438	215	49
2020	645	0	441	216	49

⁽¹⁾ Based upon summer ratings. A purchase of 50 MW of firm baseload capacity ended December 31, 2013. Imported firm capacity has been adjusted for losses in the table above. Additional resources include 4 MW per year solar beginning in 2009, and continuing through 2013, with a coincident capacity factor of 35%, and 3.8 MW from the Baseline Landfill. No additional FIT solar capacity was added after 2013. 10MW of FIT solar capacity are represented in the table above but are not included in the existing generating facilities. The GREC biomass plant became commercially operational on December 17, 2013 and 102.5 MW are included in projected values.

⁽²⁾ Summer peak forecast historically incorporated the System's aggressive conservation and DSM plan. In 2014, conservation planning was reduced significantly, which lessened the impact on peak loads. The plan continues to include conservation incentive retail rates and distributed renewable resources as with fewer incentive and information programs related to appliance and end use efficiency. The summer peak forecast presented here also includes Alachua all-requirements wholesale contract which is given the same precedence as native load.

Mutual Aid Agreement for Extended Generation Outages

The System has entered into a mutual aid agreement for extended generation outages with six other consumer-owned generating utilities in north central Florida and Georgia. Participating with the System in this agreement are FMPA, JEA, Lakeland Electric, Orlando Utilities Commission, the City of Tallahassee, and MEAG Power. Participants have committed to provide replacement power in the event of a long-term (two to twelve month) outage of one of the baseload generating units designated under the agreement. Each utility will provide a pro-rata share of the replacement power and will be reimbursed at an indexed price of coal assuming a heat rate of 11,000 BTU/kWh and an indexed price for gas assuming a

heat rate of 9,250 BTU/kWh. The System has designated 100 MW of the capacity of DH 2 and 100 MW of the capacity at JRK Station to be covered under the agreement. This agreement has been amended and restated over time. The current agreement is set to renew for an additional 5-year term beginning October 1, 2017. The System has provided aid under this agreement, but has never requested aid pursuant to this agreement.

Future Power Supply

General

While the System's existing generating units can maintain a 15% reserve margin through at least 2022, if all generating units are available, the reserve margin can fall from 40+% to a generation deficit with the loss of the System's largest unit, DH 2. As such, power supply planning must address this first contingency event. The reliability of the System's generating sources and the availability of purchased power have been such that the System has never had to declare a generation deficiency. The next scheduled retirement of a generating facility is DH 1 in 2022. Management's strategy to maintain competitive power costs is to maintain the System's status as a self-generating electric utility with a diverse fuel supply that is hedged with a renewable PPA portfolio and meets all environmental standards and expectations of the local community. The ability to be self-generating has proven itself to be a powerful hedge against market volatility while maximizing reliability for native load. Important aspects of this strategy are the management of potentially stranded costs, maintenance of adequate transmission capacity, use of financial as well as physical techniques to hedge fuel costs, and long-term management of pipeline and rail transportation contracts and capacity.

The Planning Process

The primary factors currently affecting the utility industry include environmental regulations, restructuring of the wholesale energy markets, the formation of independent bulk power transmission systems, the formation of an Electric Reliability Organization (ERO) under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida. The purpose of the planning process is to develop a plan to best meet the System's obligation to the reliability and security of the bulk electric system (BES) of the State of Florida and best serve the needs of the System's customers, the most significant of which being competitive pricing of services. The System's current coal transportation contract expires December 31, 2019. Although negotiation strategies and additional options are being explored, the as-delivered cost of coal is anticipated to significantly increase. Compliance with some elements of the EPA Clean Power Plan may also impact future power supply planning regarding the System (see "Climate Change" below). The year 2020 characterizes a time frame and does not limit considerations of future events.

At last review, the Power 2020 plan raised questions that go beyond the current options being considered. As a result, TEA was chosen to create an Integrated Resource Plan (IRP) to help model a better answer to some of the unknowns going forward. Using modeling algorithms, the IRP will take a look at the aspects of the system requirements and provide recommendations for the best path forward. That path may include, amongst other strategies, additional generation, import capability, and demand side management, to accomplish the needs of the System. Delivery of the final report and recommendations is expected by July 2017.

In the fall of 2016, GRU applied for a Point-to-Point Transmission Service Request ("TSR") with Duke Energy Florida ("DEF") and Florida Power & Light ("FPL") with the intent of obtaining worst-case costs and facility upgrades necessary to provide GRU with 340MW of firm power service from either provider. The amount of 340MW was chosen as the "upper envelope" of import power needs in the event GRU retires all native generation with the exception of GREC. Based on the study results, DEF concluded that extensive projects work must be completed in the 10 year planning horizon and provided a non-binding estimate of \$400 million to mitigate impacts on the DEF system. FPL, based on its own TSR results, provided a non-binding estimate of \$75.5 million for its own required system upgrades and identified multiple third party impacts, confirming DEF's findings. Should GRU pursue large firm power purchases, third party impacts shall be reassessed in a coordinated study with the FRCC TWG.

Solar FIT

The System became the first utility in the nation to adopt a European-style solar FIT in March 2009. The System purchases 100% of the electricity produced by a photovoltaic (PV) solar system, which is delivered directly to the System's distribution system. What distinguishes a European-style FIT from any other FIT are the following three factors: (a) the price paid per kWh is designed to allow the owner/operator to earn a profit (the System applied a 5% internal rate of return after taxes to a reference system design); (b) the tariff is fixed over a sufficient period of time by a contract that is designed to promote investment (the System provides a twenty-year fixed price purchase power agreement); and (c) there are distinctions between different types of projects in terms of the price paid (in the case of the System, there are different rates for building/pavement mount and green field ground mount systems). FIT can be applied to any form of renewable energy, but the System chose to focus on solar. The System acquires all the environmental attributes of the solar energy purchased under the FIT, such as renewable energy credits and carbon offsets. The System stopped accepting new installations after 2013; However, approximately 23.3 MW of solar PV capacity was installed and continues to supply energy to the System.

Solar Net Metering

Net metering systems generally consist of solar panels, or other renewable energy generators, connected to a public utility power grid. The surplus power produced is transferred to the grid, allowing customers to offset the cost of power drawn from the utility. The net meter system includes both residential and commercial customers. To date, approximately 2.9 MW of solar PV capacity have been installed.

THE WATER SYSTEM

The water system currently includes 1,146 miles of water transmission and distribution lines throughout the Gainesville urban area, 16 water supply wells located in a protected well field, and one treatment plant (the "Murphree Plant") possessing a rated peak day capacity of 54 Mgd. Treatment processes include lime-softening, recarbonation, filtration, chlorination and fluoridation. The Murphree Plant's design allows for expansion to at least 60 Mgd of capacity at the plant site without interruption of treatment or service. The System renewed its consumptive use permit (CUP) in September 2014 which will expire on September 10, 2034. The water system also includes a total of 19.5 million gallons of water storage capacity, comprised of pumped ground storage and elevated tanks.

Service Area

The water system serves customers within the City limits and in the immediate surrounding unincorporated area. Comprehensive land use plans for the Gainesville urban area mandate connection of new construction to the water system for all but very low density residential developments. Much of the water system's growth is in areas served by Clay for electricity or redevelopment of areas with higher density development. The area presently served includes approximately 118 square miles and approximately 75% of the County's total population. The University of Florida and a small residential development in Alachua are the only wholesale water sales customers.

Customers

The System has experienced average customer growth of 0.8% per year over the last five years. The System has extension policies and connection fees for providing water supply services to new developments appropriately designed to assure that new customers do not impose rate pressure on existing customers. The following tabulation shows the average number of water customers for the fiscal years ended September 30, 2012 through and including 2016.

	Fiscal Years ended September 30,				
	2012	2013	2014	2015	2016
Customers (Average)	69,329	69,847	70,300	70,903	71,546

Most of the System's individual water customers are residential. Commercial and industrial customers comprised approximately 8.7% of the 71,546 average customers in the fiscal year ended September 30, 2016, and 62% of all water sales revenues were from residential customers.

Water Treatment and Supply

The System's water supply is groundwater obtained from a well field tapping into a confined portion of the Floridan aquifer. Groundwater is treated at the Murphree Plant prior to distribution and eventual use. Water treatment and supply facilities are planned based on the need to provide reserve capacity under extreme conditions of extended drought, with attendant maximum demands for water and lowered aquifer water levels. Under these design conditions, current water treatment and supply facilities are adequate through at least 2034. No limitation of supply imposed by the aquifer's sustained yield has been identified by groundwater studies to date.

Water treatment at the Murphree Plant consists of softening to protect the distribution system and improve customer satisfaction, fluoridation for improved cavity protection in young children, filtration, and chlorination for protection from microbial contamination. Specific treatment processes include sulfide oxidation, lime softening, pH stabilization, filtration, fluoridation, and chlorination. Treated water is collected in a clearwell for transfer to ground storage reservoirs prior to distribution. The filter system has been upgraded with two additional filter cells to provide additional treatment capacity. The System has been upgrading plant components that are outdated or at or near the end of the operating lives in order to ensure the reliability and longevity of the plant. One such upgrade is replacing the electrical system at the water plant. This project will replace the original large electrical equipment, generator, conductors, and construct a new electrical building at the plant. The original equipment which was installed in 1974 has reached the end of its serviceable life and requires replacement to ensure the continued reliable operation

of the Murphree Plant. The cost of the project is approximately \$11 million and is included in the System's 6 year capital budget.

Raw water requirements for the water system are supplied by sixteen deep wells drilled into the Floridan aquifer. Vertical turbine pumps raise the water and deliver it to the Murphree Plant for treatment. In 2000, the System, along with the local water management districts, purchased a conservation easement over 7,000 acres of silvicultural property immediately to the north and northwest of the Murphree Plant. The conservation easement provides protection to the System's sixteen existing wells and will accommodate the construction of additional wells. Existing and future wells within the conservation easement are anticipated to yield a minimum of 60 Mgd of water supply to match the long-term future treatment capacity of the Murphree Plant site.

The System's groundwater withdrawals are permitted through the St. Johns River Water Management District (SJRWMD) and Suwannee River Water Management District (SRWMD). The SJRWMD and the SRWMD have adopted a 20-year water supply plan through 2035. The intent of the water supply planning process is to ensure adequate water supply on a long-term basis while protecting natural resources. Computer groundwater modeling performed to date by the water management districts indicates that there may be future constraints on groundwater supplies. One of the regulatory constraints used by the water management districts and the Florida Department of Environmental Protection (FDEP) to protect water bodies is the "minimum flows and levels" (MFL) program. The water management districts and the FDEP have developed and are continuing to develop MFL for individual springs, lakes and rivers to ensure that they are not adversely impacted by groundwater withdrawals. The water management districts are developing refined groundwater models to better define and evaluate potential constraints for both water supply planning and the MFL program. The System is participating in both the model development and MFL development efforts. The System is required to comply with existing and future MFLs and with water supply plans which may result in increased costs to the System. The System will comply with its consumptive use permit and meet the System's future water supply needs primarily through a combination of increased water conservation efforts and an increased use of reclaimed water.

The Cabot/Koppers Superfund site is located approximately 2 miles to the southwest of the Murphree Plant. The site includes two properties: The Cabot Carbon area, covering 50 acres on the eastern side of the site and The Koppers area, covering 90 acres on the western side of the site. The Cabot property was used primarily for producing charcoal and pine products. The Koppers property was used for wood treating. Both production facilities are owned by corporations unrelated to the System.

The EPA placed the site on the National Priorities List under the Superfund program in 1984 because of contaminated soil and groundwater resulting from facility operations. The EPA then issued a Record of Decision (ROD) for the site in 1990 which described the plan for cleaning up the site. Actions were taken in the 1990s to contain and partially remove contamination at the site. The presence of protective geologic confining layers over the aquifer has greatly impeded the migration of contamination. However, additional investigations of the site since 2001, conducted at the urging of the System, the County and members of the community, have indicated that additional measures are needed to contain the contamination and clean up the site to ensure that the water supply is protected. Although the System is not a potentially responsible party (PRP) for this site, it has been and intends to continue being highly proactive in protecting Gainesville's water supply. The System has actively participated as a stakeholder working with the EPA and the PRPs for the site (Beazer East, Inc. and Cabot Corporation) to develop remediation plans. The System has assembled a team of experts in the groundwater contamination field to assist and advise the System, and to assist the System in interacting with the EPA and the PRPs to ensure

that the appropriate steps are taken. The System regularly tests both the raw and finished water at the well field and there has been no trace of contamination. Based on the System's request, an extensive Floridan aquifer groundwater monitoring network has been constructed at the Koppers portion of the site and is routinely monitored.

In February 2011, the EPA issued a second ROD which described additional cleanup actions needed at the site. The ROD includes a multiple barrier approach for containing contamination at the Koppers portion of the site: (1) areas containing creosote will be treated with two different in situ treatment technologies to immobilize the creosote; (2) a slurry wall will be constructed around the most contaminated areas; and (3) contaminated groundwater from the Floridan aquifer below the site is being pumped and treated. The EPA and Beazer East, Inc., the PRP for the Koppers portion of the site, have entered into a consent decree which requires the PRP to implement the remediation described in the ROD. The consent decree has been approved by the federal district court. The consent decree has not had a material adverse effect on the System or its financial condition. Beazer is currently implementing the cleanup plan per the ROD and it is anticipated that the cleanup of the Koppers portion of the site will be completed by 2021. The System and its expert consultants are continuing to be highly engaged in the design and implementation of the cleanup site.

Additional cleanup measures will also be implemented for the Cabot portion of the site. These measures will include construction of subsurface slurry walls around contaminated areas and may include additional soil removal. It is anticipated that remediation of this site will also be completed by 2021.

The System performs routine monitoring of drinking water quality at the Murphree Plant and in the water distribution system in accordance with the EPA and state regulations including EPA Lead and Copper Rule. The System has been in compliance with the Lead and Copper Rule since its inception 26 years ago. The drinking water supply does not contain lead. Also, since the drinking water supply comes from a limestone aquifer, the water is naturally non-corrosive which protects against lead leaching into the water from plumbing fixtures.

Transmission and Distribution

The water transmission system consists primarily of cast and ductile iron water mains from 10 to 36 inches in diameter providing a hydraulically looped system. The Murphree Plant high service pumps, and the Santa Fe Repump station and two elevated storage tanks provide water flow and pressure stabilization throughout the service area. The water distribution system consists primarily of cast iron, ductile iron, and polyvinyl chloride (PVC) water mains from 2 to 8 inches in diameter and covers a service area of approximately 118 square miles. The System not only installs new water distribution system additions, but also approves plans for and inspects private developers' water distribution systems which ultimately are deeded over to the System to become an integral part of the System's overall distribution system. The System monitors pressure in several locations throughout the distribution system to ensure that adequate pressures are maintained. In addition, the System utilizes a computer model to assess future conditions and to ensure that system improvements are constructed to ensure adequate pressures in the future.

Capital Improvement Program

The System's current six-year water capital improvement program requires approximately \$65.6 million in capital expenditures for the fiscal years of September 30, 2017 through and including 2022. A

breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process.

Water Capital Improvement Program

	Fiscal Years ended September 30,					2022	Total
	2017	2018	2019	2020	2021		
	(dollars in thousands)						
Plant Improvements	\$6,585	\$7,845	\$3,365	\$2,445	\$500	\$2,345	\$23,085
Transmission and Distribution	3,599	3,230	3,715	3,765	4,215	8,115	26,639
Miscellaneous and Contingency	3,222	3,048	2,654	2,262	2,311	2,362	15,859
Total	\$13,406	\$14,123	\$9,734	\$8,472	\$7,026	\$12,822	\$65,583

THE WASTEWATER SYSTEM

The wastewater system serves most of the Gainesville urban area and consists of 635 miles of gravity sewer collection system, 168 pump stations with 142 miles of associated force main, and two major wastewater treatment plants with a combined treatment capacity of 22.4 Mgd AADF.

All of the effluent from the plants is beneficially reused either for aquifer recharge through recharge wells or groundwater recharge systems, environmental restoration, irrigation, or industrial cooling. The System is continuing to expand its reuse systems at both of its treatment plants in order to conserve groundwater resources and provide additional effluent disposal capacity expansion.

Service Area

The wastewater system service area is essentially the same as the water system service area. Similar to the water system, extension policies and connection fees for providing wastewater facilities and service to new customers are appropriately designed to protect existing customers from rate pressure that would result from adding new customers to the wastewater system. Comprehensive land use plans for the Gainesville urban area mandate connection of new construction to the wastewater system for all but very low density residential developments. Much of the wastewater system's growth is in areas served by Clay for electricity or redevelopment of areas with higher density development. The System also provides wholesale wastewater service to the City of Waldo. The wastewater system does not serve the majority of the University of Florida campus.

Customers

The System has experienced customer growth of 0.9% per year over the last five years. The following tabulation shows the average number of wastewater customers, including reclaimed water customers, for the fiscal years ended September 30, 2012 through and including 2016.

	Fiscal Years ended September 30,				
	2012	2013	2014	2015	2016
Customers (Average)	62,536	63,001	63,501	64,121	64,781

The composition of the System's wastewater customers is predominantly residential. Commercial and industrial customers comprised approximately 6.7% of the 64,781 average customers in the fiscal year ended September 30, 2016, and residential customers were the source of 68% of all the wastewater system's revenues in the fiscal year ended September 30, 2016.

In 2011, the System executed an agreement with the City of Waldo, Florida ("Waldo") to provide Waldo with wastewater service on a wholesale basis. Waldo currently provides wastewater service to approximately 850 of its residents. However, Waldo's water reclamation facility could not meet required environmental permit limits. Waldo constructed a lift station and force main which collects Waldo's raw wastewater and discharges it to one of the System's existing lift stations. The facilities provide adequate capacity for Waldo to more than double its service population with future growth, which will in turn result in more revenue opportunities for the System.

Treatment

The wastewater system currently includes two major wastewater treatment facilities, the Main Street Water Reclamation Facility (the MSWRF) and the Kanapaha Water Reclamation Facility (the KWRF). Currently, these facilities have a combined capacity of 22.4 Mgd AADF, which is sufficient capacity to meet projected demands through at least 2034. Although these facilities receive flow from adjacent but distinct collection areas, a pump station that allows wastewater to be routed to either the MSWRF or KWRF allows treatment capacity at both facilities to be fully utilized.

The MSWRF has a treatment capacity of 7.5 Mgd AADF and was upgraded in 1992 to include advanced tertiary activated sludge treatment process units. The new facilities include effluent filtration, gravity belt sludge thickeners, and major improvements to plant headworks to control odors and improve plant reliability. Existing sludge treatment facilities are adequate to meet current federal sludge regulations. Effluent from the MSWRF is discharged to the Sweetwater Branch and must meet requirements of the FDEP for discharge to Class III surface waters. The MSWRF is in compliance with its National Pollutant Discharge Elimination System (NPDES) permit. The MSWRF NPDES permit is a 5-year permit that expires March 18, 2020.

In addition, the MSWRF includes a reclaimed water pumping station and distribution system. The reclaimed water distribution system currently includes a pipeline, which provides reclaimed water to the South Energy Center where it is then used for process cooling and irrigation. See "THE ELECTRIC SYSTEM – Energy Supply System – Generation Facilities – South Energy Center" herein. This pipeline also provides reclaimed water for pond augmentation and irrigation at the Depot Park Project (MGP remediation site) (see "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein) and at the System's Innovation Energy Center chilled water facility (see "MANAGEMENT'S DISCUSSION OF SYSTEM OPERATIONS – Competition" herein). The pipeline will also provide reclaimed water for other irrigation and cooling uses that develop near the pipeline corridor.

Under the FDEP Total Maximum Daily Load (TMDL) regulations, FDEP assesses the water quality in water bodies and sets requirements for reduction in pollutant sources. FDEP adopted a TMDL in January 2006 which requires reductions in total nitrogen discharges from the MSWRF and other nitrogen sources. Florida's TMDL regulations allow the FDEP to negotiate basin management plans involving all of the parties affecting the water bodies. Subsequent to the adoption of this TMDL, the FDEP promulgated its Numeric Nutrient Criteria ("NNC") Rule effective September 17, 2014. The System will achieve its TMDL limits and comply with the NNC Rule by implementing a cooperative environmental restoration project

known as the Paynes Prairie Sheetflow Restoration project. The combination of the project and the reclaimed water distribution (described above) will allow the System to beneficially reuse 100% of the MSWRF effluent.

The MSWRF NPDES permit requires the Paynes Prairie Sheetflow Restoration project be fully operational and comply with TMDL requirements by April 2019. Construction of the project was completed in 2016 and is in the start-up phase of operation. It is expected to be fully compliant with all criteria, as required, by April 2019. In conjunction with the project, the System is currently working with the FDEP to establish site specific criteria for the Sweetwater Branch Creek in accordance with the NNC Rule. The System is following established procedures for developing site specific criteria. However, the System also has a backup plan in the unlikely event that it was not able to obtain site specific criteria. The backup plan would consist of the construction of an \$8 million pipeline which would meet numeric nutrient criteria.

Another regulatory change that the System has responded to the reuse of biosolids generated from the wastewater treatment process. Prior to 2016, the System beneficially reused its biosolids through Class B land application in accordance with FDEP and EPA requirements. However, changes in local land use ordinances made it necessary to transition to a new program that includes biosolids dewatering and use of a contractor that will process the biosolids to produce a fertilizer product. The System has completed construction on the dewatering facilities and other plant improvements to facilitate dewatering at a cost of \$17 million and is currently in full operation. In addition, enhanced screening facilities at the KWRF were replaced to reduce solids entering the plant and thereby reducing wear and tear on the new dewatering equipment.

The KWRF is permitted to discharge into a potable zone of the Floridan aquifer. Construction was completed in June 2004 to provide a capacity of 14.9 Mgd AADF. The KWRF has two distinct treatment processes incorporated into its design: a modified Ludzack-Ettinger Treatment process and a carousel advanced wastewater treatment activated sludge system. The treatment processes conclude with filtration and disinfection prior to discharge into aquifer recharge wells and a reclaimed water distribution system. The disinfection system was recently modified to meet more stringent regulatory limits. The System consistently meets the required primary and secondary drinking water standards for discharge to recharge wells as set forth in its NPDES permit.

The MSWRF East Train rehabilitation project is scheduled to be completed in or before fiscal year 2021 at an estimated cost of \$3.3 million, and is part of the six-year capital improvements program. The east train is the oldest treatment train at the MSWRF, originally installed in the 1960's. The mechanical components in the east train have signs of deterioration and the aerators are nearly 40 years old. This rehabilitation project will replace the clarifier mechanism, electrical gears, control panels, PLC, aerators and rehabilitate the concrete basin structure.

The Southwest Reuse Project distributes reclaimed water from the KWRF to commercial and residential customers for landscape irrigation and golf course irrigation. The System also has numerous "aesthetic water features," which provide a public amenity and wildlife habitat in addition to recharging the aquifer. All reclaimed water not reused directly recharges the Floridan aquifer through deep recharge wells that discharge to a depth of 1,000 feet.

In the fiscal years ended September 30, 2016 and 2015, the System delivered approximately 2.9 Mgd AADF and 2.3 Mgd AADF, respectively, of reclaimed water. The regional water management districts

encourage the use of reclaimed water to reduce demands on groundwater. The FDEP encourages reuse as an environmentally appropriate means of effluent disposal.

Wastewater Collection

The wastewater gravity collection system consists of 15,309 manholes with 635 miles of gravity sewer, 50% of which consists of vitrified clay pipe. New facilities are primarily constructed of PVC high density polyethylene (HDPE) pipe. The System maintains three television sealing and inspection units which are routinely employed in inspecting new additions to the System to ensure they meet specifications of the System and in inspecting older lines. The television inspections allow the System to identify segments of piping which have high infiltration and inflow or structural concerns. These pipes are restored through a process known as slip-lining, in which a cured in place fiberglass sleeve is installed in the pipe. The System performs slip-lining using its own crews. In addition, the System routinely utilizes contractors to perform slip-lining of longer segments of piping. As a result, infiltration and inflow to the System are not excessive.

The force main system which routes flow to the treatment plant consists of 168 pump stations and over 142 miles of pipe. Existing lines less than 12 inches in diameter are generally constructed of PVC pipe and existing lines 12 inches in diameter and over are generally constructed of ductile iron pipe. For new construction, force mains 16 inches and smaller are generally constructed of PVC or HDPE. The System has instituted a preventative maintenance program to assure long life and efficiency at all pumping stations.

Capital Improvement Program

The System's current six-year wastewater capital improvement program requires approximately \$95.2 million in capital expenditures for the fiscal years of September 30, 2017 through and including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process.

Wastewater Capital Improvement Program

	Fiscal Years ended September 30,						
	2017	2018	2019	2020	2021	2022	Total
	(dollars in thousands)						
Plant Improvements	\$3,895	\$7,195	\$5,500	\$2,955	\$2,600	\$7,225	\$29,370
Reclaimed Water	705	660	535	235	195	1,405	3,735
Collection System	7,633	4,794	6,184	7,399	9,074	8,599	43,683
Miscellaneous and Contingency	3,527	3,558	3,113	2,670	2,733	2,795	18,399
Total	\$15,760	\$16,207	\$15,332	\$13,259	\$14,602	\$20,027	\$95,187

THE NATURAL GAS SYSTEM

The natural gas system was acquired in January 1990 and since then has met the System's customers' preferences for natural gas as a cooking and heating fuel as well as provided a cost-effective DSM program alternative. The natural gas system consists primarily of underground gas distribution and service lines, six points of delivery or interconnections with FGT, and metering and measuring equipment. Liquid propane (LP) systems are utilized for new developments that are beyond the existing natural gas distribution network. As the natural gas system is expanded, the LP systems and customer appliances are converted from LP to natural gas.

Service Area

The natural gas system services customers within the City limits and in the surrounding unincorporated area. The natural gas system covers approximately 115 square miles and provides service to 30% of the County's population. In addition, the natural gas system serves customers within the city limits of Alachua and High Springs. The franchise agreement with Alachua expired on November 10, 2007. The parties are continuing to operate under the terms of the franchise agreement, and the City anticipates addressing this agreement in the near future. The terms and conditions of the expired franchise remain in effect and negotiations for an extended franchise are in process. Service has continued uninterrupted and the customer base continues to expand in that community. Service provided to Alachua represents approximately 6% of total retail gas sales of the System. The System has also entered into franchise agreements to provide natural gas to the City of Archer ("Archer") and Hawthorne and has ongoing negotiations to receive a franchise agreement in Newberry. To date, there are no budgeted funds or anticipated timelines for capital infrastructure developments into Archer or Hawthorne.

Customers

The following tabulation shows the average number of natural gas customers for the fiscal years ended September 30, 2012 through and including 2016. Over 90% of new single family developments in the Gainesville urban area have been connected to the System over this period.

	Fiscal Years ended September 30,				
	2012	2013	2014	2015	2016
Customers (Average)	33,264	33,465	33,780	34,152	34,496

The composition of the System's natural gas customers is predominantly residential. Commercial and industrial customers comprised approximately 4.7% of the 34,496 average customers served in the fiscal year ended September 30, 2016, while approximately 95.3% were residential customers.

Natural Gas Supply

Natural gas is procured and delivered in much the same manner as the System's electric generation operations. TEA purchases the commodity, optimizes pipeline capacity entitlements, and executes physical and financial hedging strategies on behalf of the System as it does for electric operations. The non-coincident occurrences of electric system and gas retail distribution (LDC) system peak demands provide opportunities to switch electric fuels to free up pipeline capacity for the LDC and/or manage pipeline entitlements to enhance the reliability and cost performance of the gas system. The average cost of gas delivered to the System for the natural gas distribution system in the fiscal year ended September 30, 2016

was \$3.33/MMBtu. Fuel costs for the natural gas system differ from those of the electric system only in that the gas system has no fuel switching capability and must carry sufficient pipeline reserve capacity to meet peak demands, resulting in higher delivered fuel costs.

Natural Gas Distribution

The natural gas system consists of 775 miles of gas distribution mains. The predominant and standard pipe materials in service are polyethylene (580 miles) and coated steel (187 miles). All coated steel pipelines are cathodically protected using magnesium anodes. The distribution system is comprised of 6.2 miles of uncoated steel and black plastic. The replacement of all three of these pipeline materials has been programmed within the immediate planning/construction horizon and will be completed by the end of fiscal year 2018.

Manufactured Gas Plant

Gainesville's natural gas system originally distributed blue water gas, which was produced in town by gasification of coal using distillate oil. Although manufactured gas was replaced by pipeline gas in the mid-1950's, coal residuals and spilt fuel contaminated soils at and adjacent to the manufactured gas plant (MGP) site. When the natural gas system was purchased, the System assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former MGP. The System has pursued recovery for the MGP from past insurance policies and, to date, has recovered \$2.2 million from such policies. Site investigations on properties affected by MGP residuals have been completed and the System has completed limited removal actions. The System has received final approval of its proposed overall Remedial Action Plan which will entail the excavation and landfilling of impacted soils at a specially designed facility. This plan was implemented pursuant to a Brownfield Site Rehabilitation Agreement with the State. Following remediation, the property was redeveloped by the City as a park with stormwater ponds, nature trails, and recreational space, all of which were considered in the remediation plan's design. The duration of the groundwater monitoring program will be for the duration of the permit, and that timeframe is open to the results of what the sampling data shows.

Based upon GRU's analysis of the cost to clean up this site, GRU has accrued a liability to reflect the costs associated with the cleanup effort. During fiscal years ended September 30, 2016 and 2015, expenditures which reduced the liability balance were approximately \$1.0 million and \$1.1 million, respectively. The reserve balance at September 30, 2016 and 2015 was approximately \$629,000.

GRU is recovering the costs of this cleanup through customer charges. A regulatory asset was established for the recovery of remediation costs from customers. Through fiscal years ended September 30, 2016 and 2015, customer billings were \$1.1 million and \$1.2 million, respectively and the regulatory asset balance was \$14 million and \$15 million, respectively.

Although some uncertainties associated with environmental assessment and remediation activities remain, GRU believes that the current provision for such costs is adequate and additional costs, if any, will not have an adverse material effect on GRU's financial position, results of operations, or liquidity.

Capital Improvement Program

The System's current six-year natural gas capital improvement program requires approximately \$26.8 million in capital expenditures during the fiscal years ended September 30, 2017 through and

including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process.

Gas Capital Improvement Program

	Fiscal Years ended September 30,					2022	Total
	2017	2018	2019	2020	2021		
Distribution Mains	\$1,000	\$1,374	\$1,088	\$1,286	\$1,057	\$1,326	\$7,131
Meters, Services and Regulators	1,226	1,357	1,653	1,295	1,670	1,362	8,563
Miscellaneous and Contingency	2,102	1,957	1,820	1,684	1,734	1,785	11,082
Total	<u>\$4,328</u>	<u>\$4,688</u>	<u>\$4,561</u>	<u>\$4,265</u>	<u>\$4,461</u>	<u>\$4,473</u>	<u>\$26,776</u>

GRUCOM

The System has been providing retail telecommunications services since 1995 under the brand "GRUCom." Services provided by GRUCom include data transport services to other local businesses, government entities, local and inter-exchange carriers, and Internet service providers. Additional services provided by GRUCom include tower space leases for wireless personal communications (cellular telephone) providers, public safety radio services for all the major public safety agencies operating in the County and collocation services in the System's central office. GRUCom is licensed by the FPSC as an Alternative Access Vendor and as an Alternative Local Exchange Carrier.

Service Area

GRUCom provides telecommunications and related services to customers located primarily in the Gainesville urban area and holds telecommunications licenses that allow it to provide telecommunication services throughout the state. GRUCom operates network connections to interface with all major Interexchange Carriers (IXC) who maintain facilities in the County, as well as interconnections with both of the County's two incumbent local exchange carriers. The system, through interlocal agreements, also provides public safety radio services across the entire County.

Services Provided

The services provided by GRUCom fall primarily into the following five major product lines: telecommunications services; Internet access services; communication tower antenna space leasing; public safety radio services; and collocation services.

The telecommunications services provided by GRUCom are primarily Private Line and Special Access transport circuits (both described below) delivered in whole, or in part, on the GRUCom fiber optic network. These high bandwidth circuits are capable of carrying voice, data or video communications. Private Line circuits are point-to-point, unswitched channels connecting two or more customer locations with a dedicated communication path. Special Access circuits are also unswitched and provide a dedicated communication path, but these circuits connect a customer location to the Point of Presence of another telecommunications company. GRUCom transport services are provided at various levels ranging from 1.5 megabits per second (Mbps) to 10 gigabit per second (Gbps). Part of GRUCom's business strategy is to use unbundled network elements from the incumbent local exchange carrier, AT&T, in anticipation of fiber

extensions to specific service locations. GRUCom also uses the fiber optic network to provide multiple classes of Internet access services. Business Internet and Dedicated Internet Access (DIA) class service connections are offered at access speeds ranging from 10 Mbps up to 10 Gbps. High speed residential Internet access is offered in participating multi-dwelling communities at speeds up to 1 Gbps under the brand name GATOR NET. In 2017, GRUCom has upgraded our GATORNET services to deliver Symmetrical bandwidth, a first in the Gainesville area. Additionally, GRUCom offers dial-up Internet access services under the brand name GRU.Net. The dial-up access speeds available are 56 kilobits per second (Kbps). Additionally, between now and September 30, 2018 GRUCom will be replacing legacy telecommunications equipment with the latest technology equipment to provide enhanced telecommunication services.

GRUCom operates eleven communications towers in the Gainesville area and leases antenna space on these towers as well as on two of the System's water towers, for a total of thirteen antenna attachment sites. Two of the five transmitter sites for the countywide public safety radio system are also located on these communications towers. Wireless communications service providers lease space on the towers and, in most cases, also purchase fiber transport services from GRUCom to receive and deliver traffic at the towers. GRUCom provides transport services that carry a substantial portion of cell phone traffic in the Gainesville urban area. The GRUCom public safety radio system began operation in 2000. These services are provided over Federal Communications Commission (FCC)-licensed 800 MHz frequencies, utilizing a trunked radio system that is compliant with the current frequency allocations enacted by the FCC in 2010 to accommodate personal communication services (PCS) providers. The trunked radio system meets current industry standards for interagency operability. The trunked radio system consists of 22 trunked voice frequencies. Antenna sites are linked to the network controller and various dispatch centers utilizing GRUCom's transport services.

Customers

GRUCom's customer base is growing as the fiber optic network is expanded and new product offerings are introduced. Customer types vary for each GRUCom business activity.

GRUCom's fiber transport customers include other land-line telecommunications companies, cellular telecommunications companies, private commercial and industrial businesses, federal, state and local governmental agencies, public and private schools, public libraries, Santa Fe College, the University of Florida, UF Health and the University of Florida Health Science Center. As of September 30, 2016, GRUCom had a total of 498 transport circuits in service.

Dedicated Internet access services are provided to other Internet service providers, local businesses and organizations, and participating multi-dwelling complexes. Dial-up Internet access services are provided to the general public in the local calling area. As of September 30, 2016, GRUCom had 6,472 Internet access customer connections, while dial-up customers totaled 152. GRUCom tower space leasing services are used primarily by wireless providers, which include cellular telephone and PCS companies. As of September 30, 2016, GRUCom executed 32 tower leases, for space on eleven of its thirteen antenna attachment sites with eight different lessees, including national and regional cellular service providers.

Public safety radio system customers consist solely of government entities due to restrictions on the use of the frequencies allocated to the System under licenses issued by the FCC. The primary radio system users include: the System, the Gainesville Police Department, the Gainesville Fire Rescue Department, the Gainesville Regional Transit System, the City's Public Works Department, the University of Florida Police Department, the Santa Fe College Police Department, the City of Alachua Police

Department, the City of High Springs Police Department, the County's Sheriff's Office, the County's Fire Rescue Operations and the County's Public Works Departments. These users have entered into a service agreement which is valid through 2020, with minimum commitments for the number of users and monthly fees per user established for voice and dispatch subscriber units. The public safety radio system is operated by GRUCom on an enterprise basis, but an interagency Radio Management Board has been established to govern user protocols, monitor system service levels, and review system changes that could increase rates. The public safety radio system was designed to accommodate additional participants, and the contract with each participating agency provides incentives to allow the system to expand. Currently, the public safety radio system is in full operation with 2,628 subscriber units in service. Negotiations are underway with the current Radio System Users to provide for upgrading the radio system with technology that will provide for user needs well into the next decade, ongoing negotiations for a system upgrade to the public safety radio system may lead to some capital investment to the system in late 2017 or early 2018.

GRUCom Projected Revenue and Customer Count

Does not include projections for products and services under development

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Data & Internet Services	\$7,627,602	\$7,862,920	\$8,177,742	\$8,564,151	\$9,018,635	\$9,541,056
Wireless Services	1,781,119	1,870,524	1,957,246	2,047,721	2,142,141	2,240,708
Tower Leasing Services	1,688,047	1,713,367	1,739,068	1,765,154	1,791,631	1,818,506
Other Revenue From Customers	<u>179,345</u>	<u>182,931</u>	<u>186,590</u>	<u>190,322</u>	<u>194,128</u>	<u>198,011</u>
Total Revenue from Customers	\$11,276,112	\$11,629,743	\$12,060,645	\$12,567,347	\$13,146,536	\$13,798,281
Projected Business Customer Count	248	267	286	302	317	333
Projected Residential Retail Internet Customer Count	82 ⁽¹⁾	24	24	24	24	24

⁽¹⁾ 2017 is the last year GRUCom is projecting to have any dial-up customers.

Description of Facilities

As of September 30, 2016, GRUCom had 512.5 miles of fiber optic cable installed throughout Gainesville and the County. The fiber strand count included in the cable depends on service requirements for the particular area and ranges from 12 to 144 strands. The fiber is installed in a ringed topology consisting of a backbone loop and several subtending rings. Service is provisioned on the network in two ways: for services requiring transmission through Synchronous Optical Network standard protocol, GRUCom has deployed equipment manufactured by Ciena (primarily); and for services requiring transmission through Ethernet standard protocol, GRUCom uses equipment manufactured by Cisco and Telco System. GRUCom is in the process of retiring the Cisco Systems equipment and migrating all Ethernet to the Telco System's transmission platform. The Telco Systems equipment will enable GRUCom to provide multi-protocol line switching functionality and reduce network infrastructure equipment complexity. The Ethernet protocol provides GRUCom with increased flexibility for managing bandwidth delivered to the customer. The maximum transport speed currently utilized in the fiber optic network is 10 Gbps, which is enough bandwidth to deliver more than 125,000 simultaneous phone calls (as an illustration). Bandwidth on this network is a function of the electronic equipment utilized and, with technologies such as dense wave division multiplexing, expansion of the transport capability of the network is virtually unlimited. To exchange network traffic, GRUCom also is interconnected with other major telecommunications companies serving the Gainesville area.

The public radio system employs a Motorola 800 MHz simulcast system configured with six transmit and receive tower sites including 22 simulcast voice and two additional mutual aid channels. GRUCom has begun the process of migrating to the P25 protocol.

GRUCom maintains a point-of-presence at the Telx Group, Inc. collocation and interconnection facility located in Atlanta, Georgia (the "Telx ATL1 data center"). The Telx ATL1 data center provides access to hundreds of leading domestic and international carriers as well as physical connection points to the world's telecommunications networks and internet backbones. Atlanta, Georgia is a major fiber interconnection point from Florida to New York and the ATL1 data center sits on top of most of the fiber. GRUCom maintains an ultra-high bandwidth backbone transmission interconnection on diverse routes between Gainesville and the ATL1 data center to provide highly reliable Internet access to customers in Gainesville. GRUCom is also a member of the Telx Internet Exchange (TIE), a separate peering point in the ATL1 data center. The TIE allows GRUCom to quickly and easily exchange Internet protocol (IP) traffic directly with over 60 of the world's largest Internet Service Providers (ISPs), Content Providers, Gaming Providers and Enterprises, including companies such as Google, Netflix, Apple, McAfee Akami, Hurricane Electric (a major Internet service), Sprint, Level 3 and several other Internet service providers. TIE participants can route IP traffic efficiently, providing faster, more reliable and lower-latency internet or voice over Internet protocol (VoIP) access to their customers, by bypassing intermediate router points so that Internet traffic may have direct access to destination networks.

GRUCom maintains a second point-of-presence at the NAP of the Americas (NOTA) collocation and interconnection facility which is located in Miami, Florida. NOTA is one of the most significant telecommunications projects in the world. The Tier-IV facility was the first purpose-built, carrier-neutral Network Access Point (NAP) and is the only facility of its kind specifically designed to link Latin America with the rest of the world. NOTA is located in downtown Miami in close proximity to numerous other telecommunications carrier facilities, fiber loops, international cable landings and multiple power grids. More than 160 global carriers exchange data at NOTA including seven Tier-1 world-wide Internet service providers. GRUCom maintains an ultra-high bandwidth backbone transmission interconnection between Gainesville and NOTA, separate from the ATL1 data center interconnection circuits, which allows GRUCom to maintain a second, fully diverse data gateway and exchange to further enhance the reliability of the Internet services provided to customers in Gainesville. In Miami, GRUCom is also connected to the FL-IX Peering facility to provide additional and duplicate peering points with various Internet Service Providers (ISPs) including Content Providers, Gaming Providers and enterprises similar to the YIE connection in Atlanta.

GRUCom is developing a third point-of-presence in Jacksonville,. Currently, GRUCom has dual 10G circuits and a 1G circuit for several customers. This point-of-presence will be expanded to mirror our others as service demand expands. Further negotiations are underway to expand the P 25 system to provide for user needs well into the next decade.

Capital Improvement Program

The System's current six-year GRUCom capital improvement program requires approximately \$17.3 million in capital expenditures for years ended September 30, 2017 through and including 2022. A breakdown of the categories included in the six-year capital improvement program is outlined below and reflects the approved program from the fiscal year 2017 budget process.

GRUCom Capital Improvement Program

	Fiscal Years ended September 30,						
	2017	2018	2019	2020	2021	2022	Total
	(dollars in thousands)						
Fiber Optic Expansion	\$2,434	\$2,286	\$1,840	\$1,895	\$1,952	\$2,011	\$11,918
Special Project	385	330	165	-	-	-	880
General Plant	117	81	83	86	89	91	547
Miscellaneous and Contingency	613	630	648	666	684	704	3,945
Total	\$3,549	\$3,327	\$2,736	\$2,647	\$2,725	\$2,806	\$17,290

RATES

General

In general, the rates of municipal electric utilities in Florida are established by the governing bodies of such utilities. The governing bodies of municipal water, wastewater and natural gas utilities in Florida have exclusive jurisdiction over the setting of rates for said systems, subject only to certain statutory restrictions upon water and wastewater rates outside the municipal corporate limits. The City Commission's sole authority to set the level of the rates and charges of the System is constrained by the Resolution to set rates that comply with the rate covenant in the Resolution and takes into account recommendations of the Utilities Advisory Board regarding proposed changes in fees, rates, or charges for utility services. See "Utilities Advisory Board" above and "SECURITY FOR THE 2012 SERIES B BONDS – Rate Covenant" in the forepart of this Reoffering Memorandum. Future projected revenue requirement changes provided in this Reoffering Memorandum have been developed by the System's staff based on the most recent forecasts and operation projections available. Under Chapter 366, Florida Statutes, the FPSC has jurisdiction over municipal electric utilities only to prescribe uniform systems and classifications of accounts, to require electric power conservation and reliability, to regulate electric impact fees, to establish rules and regulations regarding cogeneration, to approve territorial agreements, to resolve territorial disputes, to prescribe rate structures, to prescribe and enforce safety standards for transmission and distribution facilities and to prescribe and require the periodic filing of reports and other data. Pursuant to the rules of the FPSC, rate structure is defined as "... the classification system used in justifying different rates and, more specifically the rate relationship between various customer classes, as well as the rate relationship between members of a customer class." However, the FPSC and the Florida Supreme Court have determined that, except as to rate structure, the FPSC does not have jurisdiction over municipal electric utility rates. The FPSC also has the authority to determine the need for certain new transmission and generation facilities.

Although the rates of the System are not subject to federal regulation, the National Energy Act of 1978 contains provisions which require the City to hold public proceedings to consider and determine the appropriateness of adopting certain enumerated federal standards in connection with the establishment of its retail electric rates. Such proceedings have been completed and the results currently are reflected in the System's policies and electric rate structure.

Electric System

Each of the System's various rates for electric service consists of a "base rate" component and a "fuel and purchased power rate" component. The base rates are evaluated annually and adjusted as required to

fund projected revenue requirements for each fiscal year. The fuel and purchased power adjustment clause provides for increases or decreases in the charge for electric energy to cover increases or decreases in the cost of fuel and purchased power to the extent such cost varies from a predetermined base of 6.5 mills per kWh. The current fuel and purchased power adjustment formula is a one-month forward-looking projected formula which is based on a true-up calculation, from the second month preceding the billing month, based on actual fuel costs valued on a weighted average accounting basis, including purchased power, and the upcoming month's estimates of fuel and purchased power costs.

The table below presents electric system base rate revenue, fuel and purchased power adjustment revenue and total bill changes since 2012 and Management's most recent projections of future base rate revenue, fuel and purchased power adjustment revenue and total bill changes. The percentage changes shown do not represent the percentage change in the base rate revenue, fuel and purchased power adjustment revenue or total bill for any particular customer classification or customer. Rather, they represent the aggregate amount required to fund changes in projected non-fuel and fuel and purchased power revenue requirements for the electric system.

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Electric System
Base Rate Revenue, Fuel and Purchased Power
Adjustment Revenue and Total Bill Changes

	Percentage Base Rate Revenue Increase/(Decrease) ⁽¹⁾	Percentage Fuel and Purchased Power Adjustment Revenue Increase/(Decrease) ⁽²⁾	Total Bill Increase/(Decrease) ⁽³⁾
Historical (Fiscal Year Beginning):			
October 1, 2012	0.00	(4.70)	(2.20)
October 1, 2013	(5.60)	37.20	11.10
October 1, 2014	(8.50)	17.00	2.80
October 1, 2015	0.00	(6.70)	(4.30) ⁽³⁾
October 1, 2016	0.00	(3.70)	(2.00)
Projected (Fiscal Year Beginning): ⁽⁴⁾			
October 1, 2017	2.00	0.00	1.00
October 1, 2018	2.00	0.00	1.00
October 1, 2019	3.00	0.00	1.20
October 1, 2020	3.00	0.00	1.20
October 1, 2021	3.00	0.00	1.20

⁽¹⁾ Change in overall non-fuel revenues collected from all retail customer classes from billing elements, including monthly service charges, kWh energy usage charges, and demand charges for the rate classes with demand metered separately from energy (General Service Demand and Large Power rate categories). Fuel revenue requirements are collected as a uniform charge on all kWh of energy used. Increases or decreases are applied to billing elements to reflect the most recent cost of service studies and to yield the overall revenue requirement.

⁽²⁾ Historical fuel revenue increase represents the change in weighted average retail fuel adjustment.

⁽³⁾ Historical bill increase represents the change in system average delivered residential price. Projections are based on change in monthly bill at 1,000 kwh.

⁽⁴⁾ All changes in the System's revenue requirements are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

The electric and natural gas systems use amounts on deposit in a reserve known as the "fuel adjustment levelization balance" that the System accumulates. The balance of the reserve at fiscal year-end, September 30, 2016, was approximately \$12 million for both electric and natural gas combined. The balance of this fund is anticipated to carry a balance of approximately 5% of the annual fuel expense budget on an average year.

In 2014, the City Commission approved the addition of an Economic Development Rate for new and existing general service demand and large power commercial electric customers of the System in an effort to attract large, regionally competitive new commercial customers and incentivize local growth. Approval of the applicable changes to the City of Gainesville Code of Ordinances occurred in November

2014. The Economic Development rate allows for a 5-year, 20% discount to the base rate portion of the electric bill of a new customer who adds a load of at least 100,000 kWh per month or a 15% discount to the base rate portion of the electric bill of an existing customer who increases its baseline usage by a minimum of 20%. There is no discount on the fuel adjustment portion of the bill under this program, but the addition of load will distribute the fixed costs of the PPA with GREC LLC across a greater number of kWh, lowering the fuel adjustment for all customers. This program is base revenue neutral during the five year discount period, with additional base revenues after the discount ends. The System does not have any customers currently participating in this program.

Public streets in Gainesville and in portions of the unincorporated areas of the County within the System's service territory are lit by streetlights served by the System, which bills the appropriate jurisdiction for payment. Currently, the City of Gainesville General Fund (the "General Fund") pays for streetlights in Gainesville. Pursuant to a 1990 agreement, the General Fund reimburses the Board of County Commissioners of the County to, in effect, pay for the streetlights in such portions of the unincorporated areas served by the System.

Rates and Charges for Electric Service

The electric rates, effective October 1, 2016, are provided below by class of service. Though the rates are functionally unbundled, they are commonly presented in a bundled format.

Residential Standard Rate

Customer charge, per month.....	\$14.25
First 850 kWh, Total charge per kWh.....	\$0.043
All kWh per month over 850, Total charge per kWh	\$0.064

Non-Residential General Service Non-Demand Rates

Customers in this class have not established a demand of 50 kW. Charges for electric service are:

Customer charge, per month.....	\$29.50
First 1,500 kWh per month, Total charge per kWh.....	\$0.069
All kWh per month over 1,500, Total charge per kWh	\$0.100

Non-Residential General Service Demand Rates

Customers in this class have established a demand of between 50 and 1,000 kW. Charges for electric service are:

Customer charge, per month.....	\$100.00
Total Demand charge, per kW	\$8.50
Total Energy charge, per kWh.....	\$0.040

Non-Residential Large Power Rates

Customers in this class have established a demand of 1,000 kW or greater. Charges for electric service are:

Customer charge, per month	\$350.00
Total Demand charge, per kW	\$8.50
Total Energy charge, per kWh.....	\$0.036

Customers in all classes are charged a fuel and purchased power adjustment. Chapter 203, Florida Statutes, imposes a tax at the rate of 2.5% on the gross receipts received by a distribution company for utility services that it delivers to retail consumers in the state of Florida and requires that the distribution company report and remit its Florida Gross Receipts tax to the Florida Department of Revenue on a monthly basis. All non-exempt customers residing within the City's corporate limits pay a municipal public service tax of 10% on portions of their bill. All non-exempt customers not residing within the City's corporate limits are assessed a surcharge of 10% and also pay a County utility tax of 10% on portions of their bill. All non-residential taxable customers pay a State sales tax of 6.95% on portions of their bill. The minimum bill is the customer charge plus any applicable demand charge. The billing demand is defined as the highest demand (integrated for 30 minutes) established during the billing month. The City's codified rate ordinances include clauses providing for primary service metering discounts and facilities leasing adjustment.

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Comparison with Other Utilities

The table below shows the average monthly bills for electric service for certain selected Florida electric utilities, including the System. The System's average annual use per residential customer was 9,747 kWh in the fiscal year ended September 30, 2016.

Comparison of Monthly Electric Bills⁽¹⁾

	Residential 1,000 kWh	General Service		Large Power 430,000 kWh 1,000 kW
		Non-Demand 1,500 kWh	Demand 30,000 kWh 75 kW	
Gainesville Regional Utilities	\$130.40	\$238.00	\$4,037.50	\$53,803.40
Kissimmee Utility Authority	\$ 95.69	\$156.15	\$2,638.39	\$36,086.42
Orlando Utilities Commission	\$106.00	\$165.22	\$2,574.60	\$35,172.40
Lakeland Electric	\$ 97.27	\$141.99	\$2,315.99	\$32,012.45
Tampa Electric Company	\$108.18	\$169.63	\$2,605.79	\$35,686.07
City of Tallahassee	\$108.88	\$141.54	\$2,675.65	\$36,389.20
JEA	\$108.50	\$155.64	\$2,715.10	\$37,886.50
Ft. Pierce Utilities Authority	\$115.84	\$182.93	3,140.85	\$46,937.20
Ocala Electric Authority	\$112.6	\$166.86	\$2,860.31	\$41,107.43
Clay Electric Cooperative, Inc.	\$109.90	\$168.05	\$2,728.25	\$35,806.00
City of Vero Beach	\$116.08	\$181.11	\$3,222.05	\$45,444.30
Duke (Energy Florida)	\$121.17	\$185.39	\$2,812.75	\$39,329.77
Florida Power & Light Company	\$105.98	\$158.79	\$2,578.45	\$35,882.27
Gulf Power Company	\$135.83	\$196.26	\$2,951.81	\$41,552.85

⁽¹⁾ Rates in effect for April 2017 applied to noted billing units, ranked by residential bills. Includes 6% franchise fees for investor-owned utilities FPL, Gulf Power Company, TECO and Duke. Excludes public utility taxes, sales taxes and surcharges.

Source: Prepared by the Finance Department of the System based upon published base rates and charges for the time period given with fuel costs provided by personal contact with utility representatives unless otherwise published.

Water and Wastewater System

Since the start of the fiscal year ended September 30, 2013, the table below presents water system base rate revenue and total bill changes since 2013 and Management's most recent projections of future revenue requirements and total bill changes. The percentage increases shown represent the aggregate amount required to fund increases in projected revenue requirements for the water system.

Water System Revenue Requirement and Total Bill Changes

	Percentage Revenue Requirement Increase ⁽¹⁾	Total Bill Increase ⁽²⁾
Historical		
October 1, 2012	3.50%	3.30%
October 1, 2013	3.85	5.50
October 1, 2014	3.75	6.30
October 1, 2015	3.75	5.80
October 1, 2016	3.00	2.50
Projected ⁽³⁾		
October 1, 2017	3.00	3.00
October 1, 2018	3.00	3.00
October 1, 2019	3.00	3.00
October 1, 2020	5.00	5.00
October 1, 2021	5.00	5.00

-
- (1) Change in overall revenue requirements collected from all retail customer classes from billing elements, including monthly customer service charges and water usage charges. Increases are applied to billing elements to reflect the most recent cost of service study and to yield the overall revenue requirement.
- (2) Historical bill increase represents the change in system average delivered residential price. Projections are based on monthly bill at 6 Kgal.
- (3) All changes in the System's revenue requirements are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

The table below presents wastewater system base rate revenue and total bill changes since fiscal year 2013 and Management's most recent projections of future revenue requirement and total bill changes. The percentage increases shown represent the aggregate amount required to fund increases in projected revenue requirements for the wastewater system.

**Wastewater System
Revenue Requirement and Total Bill Changes**

	Percentage Revenue Requirement Increase ⁽¹⁾	Total Bill Increase ⁽²⁾
Historical		
October 1, 2012	3.00%	5.00%
October 1, 2013	2.40	2.00
October 1, 2014	4.85	5.10
October 1, 2015	4.85	3.70
October 1, 2016	3.00	1.50
Projected ⁽³⁾		
October 1, 2017	3.00	3.00
October 1, 2018	3.00	3.00
October 1, 2019	3.00	3.00
October 1, 2020	4.00	4.00
October 1, 2021	4.00	4.00

⁽¹⁾ Change in overall revenue requirements collected from all retail customer classes from billing elements, including monthly customer service charges and wastewater usage charges (as a function of water usage). Increases are applied to billing elements to reflect the most recent cost of service study and to yield the overall revenue requirement.

⁽²⁾ Historical bill increase represents the change in system average delivered residential price. Projections are based on monthly bill at 5 Kgal.

⁽³⁾ All changes in the System's rates are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

Rates and Charges for Water and Wastewater Services

Total water and wastewater system revenues are derived from two basic types of charges which reflect costs: (a) monthly service charges and (b) connection charges. The current schedule of fees, rates and charges, combined with other revenues for the water and wastewater systems, provides sufficient funds to meet all operation and maintenance expenses, prorated debt service, and internally generated capital expense. The connection charges are designed to provide for the capital costs associated with the water and wastewater system expansion. Growth in retail revenues due to projected customer growth provides for all other increased costs.

Residential customers are subject to inverted block rates. As of October 1, 2015, the first tier pricing is applied to the first 4,000 gallons used, the second tier pricing is applied to gallons greater than 4,000 and equal to or less than 16,000, and the third tier pricing is applied to gallons greater than 16,000. A three block/tier billing structure has been in place since 2001. Over time the thresholds for quantities of water billed in each block has been lowered to current break points.

The City Commission adopted a new Multi-Family water rate as part of the fiscal year 2015 budget. The pricing for the rate is approaching that of the second tier of the three tier residential rate. The increase continued to be phased in during the fiscal year 2016 and fiscal year 2017 budget approval processes.

The University of Florida is charged different rates than other customers, because of the City's commitment not to receive General Fund transfers from sales to the University of Florida and because the University of Florida owns and maintains its own on-campus water distribution system. The General Fund transfer policy reflects a historical commitment which enticed the University of Florida to locate in the City of Gainesville in the early 1900s. In October 1999, the University of Florida water rates were indexed to non-residential water rates. Specifically, the off-campus price was established at 89% of the published System price. The on-campus price was 78% of the off-campus price. In 2004, the University of Florida rates became cost-of-service based.

Monthly Service Charges

Monthly customer charges are levied for the actual units of service rendered to individual customers. Customers pay a rate per thousand gallons of water consumed or wastewater treated, and all customers pay a monthly customer charge, as shown on Table 1 below. All wastewater customers are subject to rate surcharges for wastewater discharges which exceed normal domestic strength. Commercial customers are billed 95% of their water usage as wastewater while residential customers have individual maximum charges, established by consumption during non-irrigating seasons, to eliminate non-returned water from their wastewater bill. Customers are subject to fees to pay the costs associated with monitoring their discharge. Table 2 below lists the charges for water and wastewater service that became effective October 1, 2016.

Table 1. Monthly Water Customer Charge by Meter Size

<u>Meter Size</u>	<u>Monthly Customer Charge</u>
5/8" and 3/4"	\$ 9.45
1"	9.65
1.5"	12.50
2"	20.00
3"	74.00
4"	100.00
6"	140.00
8"	200.00
10"	275.00

Table 2. Current Monthly Charges For Water and Wastewater Services

Water Rates:

Residential

Customer Billing Charge Based on meter size

Consumption Rate:

1,000 to 4,000 gallons \$2.45 per 1,000
gallons

5,000 to 16,000 gallons \$3.75 per 1,000
gallons

17,000 or more gallons..... \$6.00 per 1,000
gallons

Commercial

Customer Billing Charge Based on meter size

Consumption Rate \$3.85 per 1,000
gallons

University of Florida

Customer Billing Charge Based on meter size

Consumption Rate:

On-campus facilities..... \$2.84 per 1,000
gallons

Off-campus facilities..... \$3.67 per 1,000
gallons

City of Alachua⁽¹⁾

Customer Billing Charge Based on meter size

Consumption Rate \$1.62 per 1,000
gallons

Wastewater Rates:

Residential and Commercial

Customer Billing Charge..... \$9.10 per month

All Usage⁽²⁾ \$6.30 per 1,000
gallons

⁽¹⁾ The System provides wholesale water service to Alachua for resale to four locations.

⁽²⁾ Wastewater rates apply to all metered water consumption up to a specified maximum. The residential maximum is established for each customer based upon its winter (December or January) maximum water consumption. The non-residential maximum is 95% of metered water use.

Comparison with Other Cities

The System's average water and wastewater charges in effect for the month of January 2017 are compared to those for thirteen other Florida cities (also based on rates in effect for January 2017) in the table below.

Comparison of Monthly Residential Water and Wastewater⁽¹⁾

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Winter Haven	\$26.72	\$46.27	\$72.99
Orange County	\$16.26	\$41.94	\$58.20
Ocala	\$16.64	\$44.57	\$61.21
Lakeland	\$22.60	\$45.62	\$68.22
Orlando	\$13.71	\$50.37	\$64.08
Tampa	\$21.04	\$44.08	\$65.12
Jacksonville	\$23.37	\$46.33	\$69.70
Pensacola (ECUA)	\$28.18	\$49.86	\$78.04
Tallahassee	\$21.69	\$55.61	\$77.30
St. Augustine	\$35.35	\$45.95	\$81.30
Gainesville Regional Utilities	\$30.50	\$53.20	\$83.70
Ft. Pierce	\$38.73	\$53.73	\$92.46
Lake City	\$34.84	\$63.12	\$97.96
Daytona Beach	\$47.17	\$74.02	\$121.19

⁽¹⁾ Comparisons are based on 7,000 gallons of metered water and 7,000 gallons of wastewater treated and rates in effect for April 2017. Excludes all taxes, surcharges, and franchise fees. Sorted in ascending order by total charges.

Source: Prepared by the Finance Department of the System based upon published rates and charges and/or personal contact with utility representatives of the applicable system.

Surcharge

Non-exempt water customers residing within the City's corporate limits are assessed a 10% utility tax. Non-exempt water customers residing outside the City's corporate limits are assessed a 25% surcharge and pay a 10% County utility tax. There is no utility tax on wastewater. However, non-exempt wastewater customers residing outside the City's corporate limits are assessed a 25% surcharge. Effective October 1, 2001, water and wastewater connection charges were subject to the 25% surcharge imposed on non-exempt customers not residing within the City's corporate limits. This surcharge on connection fees was suspended for fiscal year 2015 and was re-implemented in fiscal year 2016.

Connection Charge Methodology

Beginning October 1, 2016 GRU made a change in its assessment of connection charges to more equitably distribute the costs of demand on the System to each customer based on their anticipated demand on the System. The change is intended to be revenue neutral for the System. New single family connections and small non-residential connections will continue to pay a Minimum Connection Charge, which is similar to how GRU currently charges for these small connections. Larger non-residential connections, with

an estimated use greater than 280 gallons per day, will pay a flow-based connection charge. Multi-family connections will continue to pay flow-based connection charges and are not affected by these changes.

Calculation of the estimated average water use for a non-residential customer is based on the total square footage of the business multiplied by the water use coefficient to obtain gallons per day. If the average water use is estimated to be 280 gpd or less the Minimum Connection Charge will be assessed. If the water use is estimated to be greater than 280 gpd the customer will pay a flow-based connection charge.

Effective October 1, 2016, transmission and distribution/collection system connection charges for individual lots are \$433 to connect to the water system and \$719 to connect to the wastewater system. Water and wastewater plant connection charges for individual lots are \$646 and \$3,216, respectively. The water meter installation charge is \$677 for a typical single family dwelling (requiring 3/4 inch meter). The total water system connection charges for a typical single family dwelling (requiring 3/4 inch meter) are \$1,756 for new water service and the total wastewater connection charges are \$3,935 for new wastewater service. Total water and wastewater connection charges for a typical single family dwelling are \$5,691. Also, there is a 25% surcharge applied to new connections located outside of the incorporated area of the City.

Infrastructure Improvement Area

The System's water and wastewater extension policy requires that new development projects pay the cost for the infrastructure improvements needed to serve them. Under this policy, developers typically design and install most of these improvements, with the System's review and approval, as part of the design and construction for their development projects. In some cases, the System may construct these improvements, with the developer reimbursing the System for the cost.

The City Commission, by adoption of Ordinance No. 110541 on April 7, 2016, established the "Innovation District Infrastructure Improvement Area." Within the designated area, the System developed a master plan for major water distribution and wastewater collection capacity improvements needed to facilitate current and anticipated future development. The System is constructing these improvements according to the master plan. The System has constructed \$1.26 million in water system improvements and \$1.02 million in wastewater collection system improvements as of the date of this Reoffering Memorandum. The cost for these improvements will be recovered through "infrastructure improvement area user fees" which new development projects pay at the time of connection to the System. These user fees are calculated for each development project based on the size of the project and type of project. The user fees are set based on recovering the System's expenditures with interest over a 20 year period. The City Commission enacted Ordinance No. 160725 on March 16, 2017 increasing the fees for the improvement area.

Natural Gas System

Each of the System's various rates for natural gas service consists of a "base rate" component and a "purchased gas" component. The base rates are evaluated annually and adjusted as required to fund projected revenue requirements for each fiscal year. The purchased gas adjustment clause provides for increases or decreases in the charge for natural gas to cover increases or decreases in the cost of gas delivered to the System. The current purchased gas adjustment is calculated with a formula using a one-month forward-looking projection and a true-up of the second month preceding the billing months actual fuel costs.

The table below presents natural gas system base rate revenue, purchased gas adjustment revenue and total bill changes since 2012 and Management's most recent projections of future base rate revenue, purchased gas adjustment revenue and total bill changes. The percentage changes shown do not represent

the percentage change in the base rate revenue, purchased gas adjustment revenue or total bill for any particular customer classification or customer. Rather, they represent the aggregate amount required to fund changes in projected non-fuel and purchased gas revenue requirements for the natural gas system.

**Natural Gas System
Base Rate Revenue
Purchased Gas Adjustment and Total Bill Changes**

	Percentage Base Rate Revenue Increase/(Decrease) ⁽¹⁾	Percentage Purchased Gas Adjustment Revenue Increase/(Decrease) ⁽²⁾	Total Bill Increase/(Decrease) ⁽³⁾
Historical			
October 1, 2012	0.00	(24.30)	(13.00)
October 1, 2013	0.85	0.00	(1.20)
October 1, 2014	4.25 ⁽⁴⁾	4.10	4.30
October 1, 2015	4.75	(36.40)	(1.70)
October 1, 2016	9.00	(13.10)	2.10
Projected⁽⁵⁾			
October 1, 2017	3.00	0.00	2.50
October 1, 2018	3.00	0.00	2.50
October 1, 2019	3.00	0.00	2.50
October 1, 2020	5.00	0.00	4.20
October 1, 2021	5.00	0.00	4.20

⁽¹⁾ Change in overall non-fuel revenues collected from all retail customer classes from billing elements, including monthly service charges and energy usage charges (therms). Fuel revenue requirements are collected as a uniform charge on all therms of energy used. Increases or decreases are applied to billing elements to reflect the most recent cost of service studies and to yield the overall revenue requirement. A separate charge for remediation of the MGP site was implemented in 2002. For additional information on the MGP site, see "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein.

⁽²⁾ Historical purchased gas adjustment revenue increase represents the change in weighted average purchased gas adjustment.

⁽³⁾ Historical bill increase represents the change in system average delivered residential price. Projections are based on change in monthly bill at 25 therms.

⁽⁴⁾ All changes in the System's revenue requirements are subject to approval by the City Commission, which usually occurs in conjunction with its approval of the System's annual budget.

Rates and Charges for Natural Gas Service

The current natural gas rates, effective October 1, 2016, are provided below by class of service:

Residential Service Rate	
Customer Charge	\$9.75 per month
Non-Fuel Energy Charge	\$0.63 per therm
Small Commercial Rate.....	
Customer Charge.....	\$20.00 per month
Non-Fuel Energy Charge.....	\$0.62 per therm
General Firm Service Rate	
Customer Charge	\$45.00 per month
Non-Fuel Energy Charge	\$0.44 per therm
Large Volume Interruptible Rate	
Customer Charge	\$400.00 per month
Non-Fuel Energy Charge	\$0.27 per therm
Manufactured Gas Plant Cost Recovery Factor (Applied to All Rate Classes)	
\$0.0556 per therm	

Customers in all classes are charged a purchased gas adjustment and the Manufactured Gas Plant Cost Recovery Factor. Chapter 203, Florida Statutes, imposes a 2.5% tax based on an index price applied to the quantity of gas billed. All non-exempt customers residing within the City's corporate limits pay a City tax of 10% on portions of their bill. All non-exempt customers not residing within the City's corporate limits pay a 10% County utility tax on portions of their bill and a 10% surcharge on portions of their bill. All non-residential taxable customers pay a State sales tax of 6% on portions of their bill. For firm customers, the minimum bill equals the customer charge.

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Comparison with Other Utilities

The System's average natural gas charges in effect for the month of January 2017 are compared to those for eleven other municipal and private natural gas companies (also based on rates effective October 1, 2016) in the following table. The System's gas rates are among the lowest in the State.

Comparison of Monthly Natural Gas Bills⁽¹⁾

	Residential <u>25 therms</u>	General Firm <u>300 therms</u>	Large Volume <u>30,000 therms</u>
Gainesville Regional Utilities	\$32.64	\$262.68	\$17,068.00
Okaloosa Gas District	\$34.09	\$275.16	\$19,086.69
Tallahassee	\$38.24	\$376.74	\$20,750.38
City of Sunrise	\$43.71	\$369.84	\$18,773.72
Pensacola	\$66.95	\$650.72	\$17,435.93
Ft. Pierce	\$47.33	\$334.72	\$23,989.19
Central Florida Gas	\$57.03	\$456.60	\$30,659.40
Kissimmee ⁽²⁾	\$46.25	\$350.01	\$28,275.40
Lakeland ⁽²⁾	\$46.25	\$350.01	\$28,275.40
Orlando ⁽²⁾	\$46.25	\$350.01	\$28,275.40
Tampa ⁽²⁾	\$46.25	\$350.01	\$28,275.40
Clearwater	\$46.75	\$436.00	\$32,950.00

⁽¹⁾ Rates in effect for April 2017 applied to noted billing volume (excludes all taxes).

⁽²⁾ Service provided by People's Gas.

Source: Prepared by the Finance Department of the System based upon published base rates and charges for the time period given with fuel costs provided by personal contact with utility representatives unless otherwise published.

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Comparison of Total Monthly Cost of Electric, Gas, Water and Wastewater Services for Residential Customers in Selected Florida Locales

The following table shows comparisons of the total monthly cost for a "basket" of electric, gas, water and wastewater services for residential customers in selected Florida locales for the month of January 2017, based upon (a) actual average annual usage by the System's residential customers by category of service during the fiscal year ended September 30, 2016 and (b) standard industry benchmarks for average annual usage by residential customers.

Comparison of Monthly Utility Costs⁽¹⁾

	Based Upon Actual Average Annual Usage by Residential Customers <u>of the System⁽²⁾</u>	Based Upon Standard Industry <u>Usage Benchmarks⁽³⁾</u>
Gainesville Regional Utilities	\$189.54	\$246.74
Lakeland	\$172.01	\$211.74
Orlando	\$174.84	\$216.33
Tampa	\$169.78	\$219.55
Ocala	\$182.18	\$220.06
Jacksonville	\$182.47	\$224.45
Tallahassee	\$178.05	\$224.43
Clay County	\$184.25	\$222.83
Vero Beach	\$186.72	\$230.66
Kissimmee	\$170.86	\$210.17
Ft. Pierce	\$200.37	\$255.63
Pensacola	\$216.52	\$280.82

(1) Based upon rates in effect for April 2017 by the actual providers of the specified services in the indicated locales, applied to the noted billing units. Excludes public utility taxes, sales taxes, surcharges, and franchise fees.

(2) Monthly costs of service have been calculated based upon actual average annual usage by residential customers of the System during the fiscal year ended September 30, 2016, as follows: for electric service: 812 kWh; for natural gas service: 18 therms; for water service: 5,000 gallons of metered water; and for wastewater service: 4,000 gallons of wastewater treated.

(3) Monthly costs of service have been calculated based upon standard industry benchmarks for average annual usage by residential customers, as follows: for electric service: 1,000 kWh; for natural gas service: 25 therms; for water service: 7,000 gallons of metered water; and for wastewater service: 7,000 gallons of wastewater treated.

Source: Prepared by the Finance Department of the System based upon (a) in the case of electric and gas service, published base rates and charges for the time period given, with fuel costs provided by personal contact with utility representatives of the applicable system unless otherwise published and (b) in the case of water and wastewater service, published rates and charges and/or personal contact with utility representatives.

Since the System's rates for electric, water and wastewater service are designed to encourage conservation, actual average usage of those utility services by residential customers of the System are lower

than the standard industry benchmarks for average annual usage by residential customers that typically are used for rate comparison purposes. As a result, the total monthly cost of electric, gas, water and wastewater service for residential customers of the System, calculated based upon actual average usage by such customers during the fiscal year ended September 30, 2016, compares favorably to what the total monthly cost of such services would have been, calculated based upon such standard industry benchmarks.

SUMMARY OF COMBINED NET REVENUES

The following table sets forth a summary of combined net revenues for the fiscal years 2013, 2014, 2015 and 2016. The information is derived from the audited financial statements of the City for the System. Such information should be read in conjunction with the City's audited financial statements for the System and the notes thereto for the fiscal years ended September 30, 2013, 2014, 2015 and 2016, referenced in APPENDIX B attached hereto or in prior audited financial statements.

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	Fiscal Years Ended September 30, (in thousands)			
	2013	2014	2015	2016
Revenues:				
Electric	\$249,410	\$280,482	\$298,914	\$308,070
Water	32,367	31,826	32,524	33,818
Wastewater	37,667	36,052	38,261	42,346
Gas	24,241	25,801	24,110	24,325
GRUCom	12,206	10,694	12,600	11,745
Total Revenues	<u>\$355,891</u>	<u>\$384,855</u>	<u>\$406,409</u>	<u>\$420,304</u>
Operation and Maintenance Expenses ⁽¹⁾ :				
Electric	\$167,524	\$203,506	\$217,082	\$225,291
Water	13,132	13,321	13,558	14,827
Wastewater	13,583	13,968	14,334	17,388
Gas	14,779	16,726	15,318	14,577
GRUCom	5,374	6,492	8,460	7,422
Total Operation and Maintenance Expenses	<u>\$214,392</u>	<u>\$254,013</u>	<u>\$268,752</u>	<u>\$279,505</u>
Net Revenues:				
Electric	\$81,886	\$76,976	\$81,832	\$82,781
Water	19,236	18,506	18,965	18,991
Wastewater	24,083	22,084	23,927	24,958
Gas	9,462	9,075	8,793	9,748
GRUCom	6,832	4,202	4,140	4,322
Total Net Revenues	<u>\$141,499</u>	<u>\$130,843</u>	<u>\$137,657</u>	<u>\$140,800</u>
Aggregate Debt Service on Bonds	\$56,101	\$54,860	\$55,461	\$55,822
Debt Service Coverage Ratio for Bonds	2.52	2.39	2.48	2.52
Debt Service on Subordinated	<u>\$11,789</u>	<u>\$5,182</u>	<u>\$6,178</u>	<u>\$6,205</u>
Indebtedness ⁽²⁾				
Total Debt Service on Bonds and Subordinated Indebtedness	\$67,890	\$60,042	\$61,639	\$62,027
Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness	2.08	2.18	2.23	2.27

⁽¹⁾ Includes administrative expenses.

⁽²⁾ Excludes principal of maturing commercial paper notes which were paid from newly-issued commercial paper notes.

Source: Prepared by the Finance Department of the System.

As described above under "THE ELECTRIC SYSTEM—Renewable Energy," in order to further its goal to make renewable energy and carbon management strategies a more significant component of the System's long-term power supply acquisition program, the System entered into the PPA in 2009 for thirty (30) years for the purchase of 102.5 MW (net firm) of biomass-fueled power generation from GREC

described under "Energy Supply System – Power Purchase Arrangements – Gainesville Renewable Energy Center" herein. The annual costs of acquiring these resources are included in the System's fuel and purchased power adjustment clause, resulting in recovery from all customers. The System's renewable energy portfolio is part of a long-term strategy to hedge against potential future carbon tax and trade programs. As described in "LITIGATION" in the forepart of this Reoffering Memorandum, there is ongoing binding arbitration between GREC and the City relating to the PPA. Relating thereto, the City and GREC have initiated preliminary discussions regarding the potential purchase of the GREC biomass power generation plant which new construction was completed in 2013 (and the associated permits) by the City only if it would result in fiscal savings for the System. Such potential savings would be expected to derive from termination of the PPA, more optimal utilization of the biomass power generation plant, and a potential re-engineering/re-purposing of such plant to some degree which could alleviate some of the otherwise necessary capital improvements at Deerhaven Unit # 1. For more information about the capital improvement program for the Electric System, see "THE ELECTRIC SYSTEM—Capital Improvement Program" which does not take into account any possible changes in the capital improvement program needs resulting from any such purchase. Such discussions have led to the execution and delivery of a Memorandum of Understanding executed by both parties as of April 24, 2017 ("MOU") which, amongst other things, includes a proposed asset purchase price of \$750 million. The parties are now negotiating the terms of an Asset Purchase Agreement. Such purchase, while probable, is not guaranteed to occur. In addition to the benefits described above, GRU management believes that termination of the PPA and the simultaneous purchase of such plant would further the System's goal to make renewable energy and carbon management strategies a more significant component of the System's long-term power supply acquisition program, by removing some limitations, uncertainty and inflexibility that exist because of the PPA and by giving the System more cost-effective control of its long-term power supply acquisition program. However, if such purchase does occur, historical debt service coverage levels shown in the table above would not be indicative of anticipated future debt service coverage levels in effect after such purchase, in part, because of the debt which would be necessary to finance the costs of such purchase. The amount of such coverage level decrease is unknown at this very early and speculative stage of discussion. In any event, such purchase is not expected to adversely affect the City's ability to pay debt service on the Bonds, or to otherwise comply with any of its obligations under the Senior Bond Resolution, including the rate covenant.

The operating results of the System reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and purchased power and other operating costs, environmental regulation, increased competition in the electric utility industry, economic growth of the community, labor contracts, population, weather, and other matters, the nature and effect of which cannot at present be determined. Net Revenues take into account amounts transferred to or from the Rate Stabilization Fund.

See also "Management's Discussion and Analysis" in the audited financial statements of the System referenced in APPENDIX B attached hereto. In addition, for a discussion of derivative transactions entered into by the System, see Note 9 to the audited financial statements of the System in APPENDIX B attached hereto.

ADDITIONAL FINANCING REQUIREMENTS

The System's current six-year capital improvement program requires a total of approximately \$393.4 million in capital expenditures in the fiscal years ending September 30, 2017 through and including 2022, and does not include the GREC biomass power generation plant purchase proposal described above.

Such amount is expected to be funded in part from remaining construction funds from previous financings, construction fund interest earnings, Revenues, and approximately \$123.5 million of future additional Bonds and/or Subordinated Indebtedness (including additional commercial paper notes) that the City expects will be during that timeframe.

MANAGEMENT'S DISCUSSION OF SYSTEM OPERATIONS

Results of Operations

The operating results of the System reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and other operating costs, environmental regulation, increased competition in the electric utility industry, economic growth of the community, labor contracts, population, weather, and other matters, the nature and effect of which cannot at present be determined.

For the electric system, base rate revenue requirements for the fiscal year ended September 30, 2015 and 2014 by 8.5% and 5.6%, respectively. For the fiscal year ended September 30, 2016, requirements were unchanged and will remain unchanged through 2017. While the System has experienced upward rate pressure due to sales growth, increased efficiencies and cost controls have kept the overall customer bill increases, including fuel, in line with inflation. For the fiscal years ended September 30, 2014 and 2015, the electric system deposited \$6.4 million and \$2.3 million, respectively, to the Rate Stabilization Fund. For the fiscal year ended September 30, 2016, the electric system is projected to withdraw approximately \$1.0 million from the Rate Stabilization Fund.

Energy sales (in MWh) to retail customers increased 1.4% per year from the fiscal year ended September 30, 2012 to the fiscal year ended September 30, 2016. The number of electric customers increased at an average annual rate of 0.6% for the fiscal years ended September 30, 2012 and 2016. Energy sales to the City of Alachua also decreased 3.7% per year during this period.

Native load fuel costs for the electric system between the fiscal years ended September 30, 2014 and 2015 increased by approximately \$17.1 million (11%). This increase in native load fuel costs is due to the addition of the City of Winter Park in our wholesale energy load as well as fluctuating fuel prices. Between the fiscal years ended September 30, 2015 and 2016, the electric fuel cost decreased by approximately \$1.0 million (1%). From the fiscal year ended September 30, 2014 to the fiscal year ended September 30, 2015, fuel revenues increased by \$20.3 million (13%). This increase in revenues was due to the increase in Fuel Adjustment Revenue required to offset the above cost increases. From the fiscal year ended September 30, 2015 to the fiscal year ended September 30, 2016 fuel revenues decreased by approximately \$10.2 million (7%). This decrease is mainly attributable to the decrease in Fuel Adjustment Revenue collected from customers during this time period.

For the fiscal years ended September 30, 2012 and 2016, natural gas sales increased by 0.9% per year. The number of gas customers increased at an annual rate of approximately 0.90% between fiscal years ended September 30, 2012 and 2016.

Natural gas fuel cost decreased by approximately \$1.2 million (12%) between the fiscal years ended September 30, 2014 and 2015, and increased by approximately \$410 thousand (4%) between the fiscal years ended September 30, 2015 and 2016. This fluctuation in gas cost is reflective of the natural gas commodity market prices during the same timeframe. Since these costs are passed along to customers as part of the purchased gas adjustment charge each month, any natural gas cost increases or decreases are offset by

purchased gas adjustment revenues. The base rate revenue requirement for the natural gas system remained unchanged for the fiscal year ended September 30, 2013, with a nominal increase of 0.85% for the fiscal year ended September 30, 2014. For each of the fiscal years ended September 30, 2015 and 2016, base rate revenue requirements for the gas system were increased by 4.75% and for fiscal year 2017 the base rate revenue requirement was increased by 9.0%. For the fiscal year ended September 30, 2014, the natural gas system withdrew approximately \$1.0 million from the Rate Stabilization Fund. For the fiscal year ended September 30, 2015, the natural gas system deposited approximately \$1.6 to the Rate Stabilization Fund. For the fiscal year ended September 30, 2016, the natural gas system withdrew approximately \$2.0 million from the Rate Stabilization Fund. In order to recover costs associated with the remediation of soil contamination caused by the operation of an MGP, the City established a per therm charge as part of the gas system's customer rate in the fiscal year ended September 30, 2003. The estimated remaining cost to be recovered is approximately \$17.0 million. See "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein. The MGP has billed at a rate of \$0.0556 per therm since October 1, 2014.

Water system sales are impacted by seasonal rainfall. For the fiscal year ended September 30, 2012 and 2016, sales decreased by an average annual rate of 1.9% and customers grew by 0.8%. Revenues from water sales increased by approximately \$3,175,682 for the fiscal year ended September 30, 2012 and 2016. The water revenue increases were primarily the result of rate increases, kept moderate by low customer growth and slow sales growth due to price sensitivity and conservation efforts.

Water base rate revenue requirements were increased by 3.5% in the fiscal year ended September 30, 2013, 3.85% in the fiscal year ended September 30, 2014, 3.75% in each of the fiscal years ended September 30, 2015 and 2016, and for the fiscal year ending September 30, 2017, the base rate revenue requirement was increased by 3.0%. For the fiscal years ended September 30, 2014 and 2015, the water system contributed approximately \$540,000 and \$2.4 million, respectively, to the Rate Stabilization Fund. For the fiscal year ended September 30, 2016, the water system deposited approximately \$3.3 million to the Rate Stabilization Fund.

Wastewater system billings generally track water system sales. From the fiscal year ended September 30, 2012 to 2016, the wastewater system billing volumes decreased 1.1% per year. Revenues during this same period increased 10.9% due to base rate revenue requirement increases. Approximately 0.4% more wastewater was billed for the fiscal year ended September 30, 2016, as compared to fiscal year ended September 30, 2015, while revenues increased by 4.8% during the period, also due to base rate revenue requirement increases.

Wastewater base rate revenue requirements were increased by 3.00% in the fiscal year ended September 30, 2013, 2.4% in the fiscal year ended September 30, 2014, 4.85% in each fiscal years ended September 30, 2015 and 2016, and for the fiscal year ending September 30, 2017 the base rate revenue requirement was increased by 3.0%.

For the fiscal years ended September 30, 2014 and 2015, the wastewater system deposited approximately \$2.1 million and \$2.9 million, respectively, to the Rate Stabilization Fund. The wastewater system deposited approximately \$2.1 million to the Rate Stabilization Fund for the fiscal year ended September 30, 2016. GRUCom's sales have increased from \$10.9 million in fiscal year ended September 30, 2012 to \$11.7 million in fiscal year ended September 30, 2016. This is a 7.27% increase over this 4 year time period. Sales were \$10.7 million, \$11.2 million and \$10.9 million in fiscal years ended September 30, 2013, 2014 and 2015, respectively. For the fiscal year ended September 30, 2014, GRUCom deposited approximately \$570,000 to the Rate Stabilization Fund. GRUCom withdrew approximately \$1.4 million

from the Rate Stabilization Fund, for the fiscal year ended September 30, 2015 and for the fiscal year ended September 30, 2016, GRUCom deposited approximately \$7,400 to the Rate Stabilization Fund.

The debt service coverage ratio (DSCR) is a financial ratio that measures a company's ability to service its current debts by comparing its net operating income with its total debt service obligations. The below table shows GRU's DSCR for year's fiscal year 2011 through and including fiscal year 2016.

	Debt Service Coverage					
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Total Net Revenues	153,547,019	149,549,879	141,499,181	130,842,529	137,657,063	140,800,171
Total Debt Service including Swaps	70,268,626	69,793,875	67,889,965	60,042,332	61,638,702	62,027,441
Debt Service Coverage Ratio	2.19	2.14	2.08	2.18	2.23	2.27

The operating results of the System reflect the results of past operations and are not necessarily indicative of results of operations for any future period. Future operations will be affected by factors relating to changes in rates, fuel and purchased power and other operating costs, environmental regulation, increased competition in the electric utility industry, economic growth of the community, labor contracts, population, weather, and other matters, the nature and effect of which cannot at present be determined. Net Revenues take into account amounts transferred to or from the Rate Stabilization Fund.

Transfers to General Fund

The City Commission established a General Fund transfer formula for the System for fiscal year 2015 through fiscal year 2019 pursuant to Resolution Number 140166, adopted on July 23, 2014. The general fund transfer formula will be up for renewal beginning with the fiscal year ending September 30, 2020. The transfer formula established the base amount of the fiscal year 2015 transfer, less the amount of ad valorem revenue received each year by the City from GREC. The fiscal year 2015 base transfer amount increases each fiscal year over the period between fiscal year 2016 through fiscal year 2019 by 1.5%.

This transfer formula is to be reviewed at least every other year by the System's staff and the City's General Government staff. The transfer amount may be paid from any part of the System's revenue or a combination thereof. The City Commission may modify the transfer amount or the transfer formula at any time.

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The transfers to the General Fund made in the fiscal years ended September 30, 2012 through and including 2016 were as follows:

<u>Fiscal Years ended September 30,</u>	<u>Transfers to General Fund</u>	
	<u>Amount</u>	<u>% Increase/(Decrease)</u>
2012	\$36,004,958	2.2%
2013	36,656,458	1.8%
2014	37,316,841 ⁽¹⁾	1.5%
2015	34,892,425	(7.1)%
2016	34,994,591	0.03%

⁽¹⁾ Year ended September 30, 2014 was the last year of a four year agreement regarding General Fund Transfer calculation methodology, where the agreed upon value was compared to prior formulaic calculation and a gain/loss sharing was applied.

Source: Prepared by the Finance Department of the System.

The projected transfers to the General Fund made in the fiscal years ended September 30, 2017 through and including 2020 are as follows:

<u>Fiscal Years ended September 30,</u>	<u>Projected Transfers to General Fund</u>	
	<u>Amount</u>	<u>% Increase/(Decrease)</u>
2017	\$35,456,059	2.3%
2018	36,009,861	1.6%
2019	36,571,971	1.6%
2020	37,142,512	1.65%

Source: Prepared by the Finance Department of the System.

Investment Policies

The System's investment policy provides for investment of its funds. The primary goals of the investment policy are (1) preservation of capital, (2) providing sufficient liquidity to meet expected cash flow requirements, and (3) providing returns commensurate with the risk limitations of the program. The System's funds are invested only in securities of the type and maturity as permitted by the Senior Bond Resolution and the Subordinated Bond Resolution, Florida Statutes and its internal investment policy. The System does not presently have, nor does it intend to acquire in the future, derivative or leveraged investments or investments in mortgage-backed securities. The System does not invest its funds through any governmental or private investment pool (including, without limitation, the Florida PRIME or the former Local Government Surplus Funds Trust Fund administered by the State's Board of Administration).

Debt Management Policy

The System's debt management policy applies to all current and future debt and related hedging instruments issued by the System and approved by the City Commission. The purpose of the policy is to provide guidance for issuing and managing debt. The System debt is required to be managed with an overall philosophy of taking a long term approach in borrowing funds at the lowest possible interest cost. To achieve this goal, the System will continuously work towards developing an optimal capital structure, including the types of variable rate exposure, in view of the System's risk tolerance to market fluctuations,

capital market outlook, future capital funding needs, rating agency considerations, and counterparty credit profiles.

Competition

In recent years, energy-related enterprises have become more influenced by the competitive pressures of an increasingly deregulated industry, especially the wholesale power market. The Florida retail electric system is under no immediate threat of market loss due to the current laws and regulations governing the supply of electricity in Florida, which presently prohibit any form of retail competition. The System's other enterprises currently are operating in competitive environments of one form or another. These competitive environments include the natural gas system by-pass and competition against other LP distributors and alternative fuel types, private wells, septic tanks and privately owned water and wastewater systems, and the entire telecommunications arena for GRUCom.

Management's response to the increasing competition in the wholesale power market (including interchange and economy sales), and the corollary open access changes in the electric transmission network has been to stay involved and form strategic alliances. These alliances fall into two categories, joint ventures and industry associations. The most significant joint venture the System is currently involved in is TEA, a Georgia nonprofit corporation established for power marketing, fuels procurement, and financial hedging and risk management (see "ELECTRIC SYSTEM – Energy Sales – *The Energy Authority*" herein). The System's staff is very involved with the American Public Power Association, the Florida Municipal Electric Association (FMEA), and FMPA. These industry associations have proven to be a powerful way to stay informed, plan, and help shape federal and state policies to protect customer interests and assure the fair treatment of municipal systems.

The natural gas system has been subjected to competition due to the deregulation that has occurred in that industry since the early 1990's. A consequence of this deregulation for municipal gas utilities in Florida is that "end-users" are allowed to secure and purchase their gas requirements directly from gas producers, thereby "bypassing" the monopoly producer/pipeline systems. The System's rate structures largely avoid this concern. The System passes fuel costs directly through its purchased gas adjustment, and rates applicable for transportation of system by-pass are allowed to earn a return on distribution infrastructure, which is the sole basis for the System's revenue requirements. Thus, a customer electing to bypass the System simply substitutes its ability to buy gas for the System's ability to buy gas. The sole example of bypass experienced by the System to date was in the case of service to Duke's cogeneration plant at the University of Florida where the amount of non-fuel revenue realized from the customer was virtually unchanged by its decision to contract for its own gas supply. Several strategies are being implemented to gain a competitive advantage for the System in natural gas sales growth. Two very significant competitive advantages are the System's position of having among the lowest gas rates in the State, and the environmental benefits of natural gas for certain appliance end uses. Appliance rebates and distribution system construction credits are employed to encourage and stimulate customer growth. In addition, temporary LP distribution systems may be constructed to encourage and rapidly accommodate the acquisition of a customer base that is just beyond an economic expansion of the natural gas distribution system. These LP systems and customer appliances are converted to natural gas when gas pipeline extensions become feasible. Rebates are also used to assist customers in overcoming the short-term economic obstacles of converting existing electric appliances to natural gas in order to allow them to obtain long-term financial, convenience, and environmental benefits, both inside and outside the System's electrical service territory. The System has franchises to provide retail natural gas services to several nearby

cities in the County. See "THE NATURAL GAS SYSTEM – Service Area" herein for a discussion of the status of the System's franchise agreement to provide natural gas service in the County.

Private wells, septic tanks, and privately owned water utilities are the traditional alternatives for water and wastewater utility services and serve small populations where service from centralized facilities is less practical or desirable. Comprehensive planning in the City and the surrounding unincorporated areas strongly discourages urban sprawl, and the System's incumbent status, competitive rates and environmental record have resulted in a very favorable competitive position, with sustained high levels of market capture from population growth.

GRUCom operates in a fully deregulated and competitive telecommunications environment. Management has taken a targeted approach to this enterprise, seeking opportunities that maximize use of System assets, which include widely deployed fiber optic communication facilities and existing elevated antenna structures (communications towers and water tanks), while also taking advantage of its professional employee expertise in areas of utility and public safety operations, information technology (IT) and its close working relationships within the local businesses community and the commercial property development industry. GRUCom primarily engages its customer markets as a business-to-business (B2B) enterprise taking a consultative sales approach to solicit its services to private companies, governments, telecommunications carriers, major institutions and other similar commercial users of high volume voice, data and Internet bandwidth applications.

GRUCom also provides data center co-location services within its telecommunications central office building providing leased access to conditioned space, redundant power and building systems and highly available communications facilities. Tenants include private businesses and government agencies co-located for the purpose of off-site data back-up and storage, on-line hosting service providers co-located for the purpose of accessing reliable high-capacity Internet connectivity, and other Internet and telecommunications service providers who gain access to GRUCom's excellent local fiber transmission services at preferential rates available only to co-located resellers.

The System currently is pursuing opportunities related to several large development projects occurring in the service territory to diversify revenues while investing in energy efficient systems, as was successfully pursued in the South Energy Center. Due to the existing knowledge, experience, infrastructure and resources within the System's core utilities, it has a competitive advantage as it focuses on chilled water services, and emergency backup power opportunities.

Chilled water provides an additional revenue source, while providing a more efficient, cost effective cooling system that is consistent with environmental stewardship. The System's strategy for chilled water service does not depend on extensive distribution systems. Instead, each chilled water and generation facility is located near the premises of the development. Additionally, the chilled water systems are modular and can be expanded incrementally as the customer base grows. This strategy will limit the System's exposure for stranded assets or investing in infrastructure without having full subscription to the available service, especially at a time when development has slowed significantly.

The Innovation District is an area of approximately 80 acres between the University of Florida's campus and downtown Gainesville that has been master planned and is being transformed into an area of high urban density to house and support scientific research and development and technology based businesses as well as residential, retail, and hospitality development. The Innovation District is currently a mixture of low density office, commercial and residential uses, and includes the former Shands at Alachua

General Hospital ("AGH") site. The former Shands at AGH hospital was demolished and the entire site is now called Innovation Square. The University of Florida has constructed a three story building known as Innovation Hub on the site and has another building known as Innovation Hub Phase II under construction. Innovation Square is a research oriented development that forms the nucleus of the Innovation District. The Innovation District is projected to be comprised of approximately 3.7 million square feet of lab, business, residential, commercial, and institutional space. The System will have the opportunity to provide commercial power, emergency power, natural gas, water, wastewater, reclaimed water, chilled water, and telecommunication services to the Innovation District. The Innovation District is projected to constitute significant utility loads, including an electric load of more than 10 MW.

Redevelopment of the Innovation District is an ambitious undertaking and has required that basic utility infrastructure be upgraded to support the dense urban development that is envisioned. Redevelopment in and around downtown Gainesville, particularly when coupled with the University of Florida's international reputation as a premier scientific research institution, presents tremendous opportunities for economic growth.

In order to help facilitate development in the Innovation District the System has designated an Innovation District "Infrastructure Improvement Area" within which the System is constructing water distribution system and wastewater collection system capacity improvements according to a master plan. The System is charging an additional fee to new development projects within the area to recover its costs. This mechanism allows critical capacity improvements to be constructed as efficiently as possible. For more information, see "Rates—Water and Wastewater System—Infrastructure Improvements Area" above

The System owns and operates a recently constructed facility, known as the Innovation Energy Center, dedicated to serve Innovation Square. The facility provides chilled water and emergency power for the Innovation Hub building and future buildings being planned for the Innovation Square development, under an exclusive provider contract with the University of Florida Development Corporation. The modular facility has a current capacity of 870 tons of chilled water with planned expansion to 7,000 tons as additional customers are connected to the facility.

Currently, there is no initiative and little indication of interest in pursuing retail electric deregulation either in Florida or nationwide. Management has a renewed focus on maintaining and improving the projected levels of Net Revenues, debt service coverage, and the overall financial strength of the System. To be successful at this, the System will require many of the same goals and targets necessary to be prepared for retail competition. These goals and targets relate to enhancing customer loyalty and satisfaction by providing safe and reliable utility services at competitive prices.

Ratings Triggers and Other Factors That Could Affect the System's Liquidity, Results of Operations or Financial Condition

The System has entered into certain agreements that contain provisions giving counterparties certain rights and options in the event of a downgrade in the System's credit ratings below specified levels and/or the occurrence of certain other events or circumstances. Given its current levels of ratings, Management does not believe that the rating and other credit-related triggers contained in any of its existing agreements will have a material adverse effect on the System's liquidity, results of operations or financial condition. However, the System's ratings reflect the views of the rating agencies and not of the

System, and therefore, the System cannot give any assurance that its ratings will be maintained at current levels for any period of time.

Liquidity Support for the System's Variable Rate Bonds

The System has entered into separate standby bond purchase agreements with certain commercial banks in order to provide liquidity support in connection with tenders for purchase of the 2005 Series C Bonds, the 2006 Series A Bonds, the 2007 Series A Bonds, the 2008 Series B Bonds and the 2012 Series B Bonds (collectively the "Liquidity Supported Bonds"). The following details the Liquidity Supported Bonds, the bank providing the liquidity support and the termination date of the current facility:

<u>Series</u>	<u>Bank</u>	<u>Expiration</u>
2005C	Landesbank Hessen Thüringen Girozentrale	November 24, 2020
2006A	Landesbank Hessen Thüringen Girozentrale	November 24, 2020
2007A	State Street Bank and Trust Company	March 1, 2018*
2008B	Bank of Montreal	July 7, 2017*
2012B	Sumitomo Mitsui Banking Corporation	January 12, 2018*

* Substitution of the liquidity facilities are in process. The 2008 Series B Bonds with Bank of Montreal is being replaced by Barclay's Bank PLC and the 2012 Series B Bonds with Sumitomo Mitsui Banking Corporation is being replaced by Citibank, N.A. as described in the forepart of this Reoffering Memorandum.

The standby bond purchase agreements relating to the Liquidity Supported Bonds provide that any Liquidity Supported Bond that is purchased by the applicable bank pursuant to its standby bond purchase agreement may be tendered or deemed tendered to the System for payment upon the occurrence of certain "events of default" with respect to the System under such standby bond purchase agreement. Upon any such tender or deemed tender, the Liquidity Supported Bond so tendered or deemed tendered will be due and payable immediately.

The standby bond purchase agreements relating to the 2005 Series C Bonds and the 2006 Series A Bonds, provides that it is an "event of default" on the part of the System thereunder if any of the ratings fall below "A2" (or its equivalent) by Moody's and below "A" (or its equivalent) by S&P, or below "A" (or its equivalent) by Fitch or is withdrawn or suspended. The standby bond purchase agreement relating to the 2007 Series A Bonds provides that it is an "event of default" on the part of the System thereunder if the ratings on the 2007 Series A Bonds, without taking into account third-party credit enhancement, fall below "Baa3" by Moody's and "BBB-" by S&P or are withdrawn or suspended. The standby bond purchase agreement relating to the 2008 Series B Bonds provides that it is an "event of default" on the part of the System thereunder if any rating on the 2008 Series B Bonds or any Parity Debt, without taking into account third-party credit enhancement, falls below "Baa3" by Moody's, "BBB-" by S&P or "BBB-" by Fitch or is withdrawn or suspended (other than any withdrawal or suspension that is taken for non-credit related reasons). The standby bond purchase agreement relating to the 2012 Series B Bonds provides that it is an "event of default" on the part of the System thereunder if the ratings on the 2012 Series B Bonds, without giving effect to any third-party credit enhancement, fall below "A" by Fitch, "A2" by Moody's or "A" by S&P or are withdrawn or suspended for credit-related reasons. Any Liquidity Supported Bond purchased by the applicable bank under a standby bond purchase agreement will bear interest at the rate per annum set

forth in such standby bond purchase agreement, which rate may be significantly higher than market rates of interest borne by such Bonds when held by investors.

Liquidity Support for the System's Commercial Paper Program

The System also has entered into separate credit agreements with certain commercial banks in order to provide liquidity support for the CP Notes. The CP Notes constitute Subordinated Indebtedness under the Senior Bond Resolution. If, on any date on which a CP Note of a particular series matures, the System is not able to issue additional CP Notes of such series to pay such maturing CP Note, subject to the satisfaction of certain conditions, the applicable bank is obligated to honor a drawing under its credit agreement in an amount sufficient to pay the principal of such maturing CP Note. The credit agreements for the Series C Notes and the Series D Notes currently have stated termination dates of November 30, 2018 and August 28, 2020, respectively, which dates are subject to extension in the sole discretion of the respective banks. The System will renew the credit agreement with State Street Bank and Trust on the Series D Notes with a three year extension.

The credit agreements provide that, upon the occurrence and continuation of certain "tender events" on the part of the System thereunder, the banks may, among other things, (a) issue "No-Issuance Instructions" to the issuing agent for the CP Notes of the applicable series, instructing such paying agent not to issue any additional CP Notes of such series thereafter, (b) terminate the commitment and the applicable bank's obligation to make loans or (c) require immediate payment from the System for any outstanding principal and accrued interest due under the respective credit agreement.

With respect to the Series C Notes, among others, it is an immediate termination event under the related credit agreement if the ratings assigned to any of the System's Bonds fall below "Baa3" by Moody's, "BBB-" by S&P or "BBB-" by Fitch or are suspended or withdrawn for credit-related reasons.

With respect to the Series D Notes, among others, it is an immediate termination event under the related credit agreement if the ratings assigned to any of the System's Bonds fall below "Baa" by Moody's, "BBB-" by S&P or "BBB-" by Fitch or are suspended or withdrawn for credit-related reasons.

Any drawing made under a credit agreement bears interest at the rate per annum set forth in such credit agreement, which rate may be significantly higher than market rates of interest borne by the related CP Notes.

Interest Rate Swap Transactions

The System has entered into interest rate swap transactions with three different counterparties under interest rate swap master agreements with respect to the 2005 Series B Bonds, the 2005 Series C Bonds, the 2006 Series A Bonds, the 2007 Series A Bonds and the 2008 Series B Bonds, as well as the Series C Notes. The current counterparties are Merrill Lynch Capital Services, Inc., Goldman Sachs Mitsui Marine Derivative Products, L.P. and JP Morgan Chase Bank, National Association. For additional information concerning those interest rate swap transactions, ratings of the counterparties, etc., see the footnotes to the table under "OUTSTANDING DEBT" in the forepart of this Reoffering Memorandum.

Under the master agreements, the interest rate swap transactions entered into pursuant to such master agreements are subject to early termination upon the occurrence of certain "events of default" and upon the occurrence of certain "termination events." One such "termination event" with respect to the System is a suspension or withdrawal of certain credit ratings with respect to the System, or a downgrade

of such ratings below the levels set forth in the master agreement or in the confirmation related to a particular interest rate swap transaction. Upon the early termination of an interest rate swap transaction, the System may owe the applicable counterparty a termination payment, the amount of which could be substantial. The amount of any such potential termination payment would be determined in the manner provided in the applicable master agreement and would be based primarily upon prevailing market interest rate levels and the remaining term of the interest rate swap transaction at the time of termination. In general, the ratings triggers on the part of the System contained in the master agreements range from (x) if any two ratings on the Bonds are below "Baa2" by Moody's and/ or "BBB" by S&P and/ or "BBB" by Fitch to (y) if the City fails to have at least one rating on the Bonds of "Baa3" by Moody's, "BBB-" by S&P or "BBB-" by Fitch.

As of September 30, 2016, the System's estimated aggregate exposure under all of its then outstanding interest rate swap transactions (*i.e.*, the net amount of the termination payments that the System would owe its counterparties if all of the interest rate swap transactions were terminated) was \$93,138,518.72. As of September 30, 2015, the System's estimated aggregate exposure under all of its then outstanding interest rate swap transactions was \$77,042,766.58. As of September 30, 2014, the System's estimated aggregate exposure under all of its then outstanding interest rate swap transactions was \$55,103,516.23.

The System adopted Governmental Accounting Standards Board ("GASB") Statement No. 53, Accounting and Reporting for Financial Reporting and Derivative Instruments, which addresses the recognition, measurement and disclosure of information for derivative instruments, and was effective for periods beginning after June 15, 2009. GASB Statement No. 53 requires retrospective adoption, which requires a restatement of the financial statements for the earliest year presented. GASB Statement No. 53 requires the fair market value of derivative instruments, including interest rate swap transactions, to be recorded on the balance sheet. Changes in fair value for effective derivative instruments are recorded as a deferred inflow or outflow, while changes in fair value for ineffective derivative instruments are recorded as investment income. This is a significant change from previous practice, which required the fair value of derivative instruments to be disclosed in the footnotes to the financial statements.

The System records assets and liabilities in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement.

Fair value is defined in Statement No. 72 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). Fair value is a market-based measurement for a particular asset or liability based on assumptions that market participants would use in pricing the asset or liability. Such assumptions include observable and unobservable inputs of market data, as well as assumptions about risk and the risk inherent in the inputs to the valuation technique.

As a basis for considering market participant assumptions in fair value measurements, Statement No. 72 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. U.S. Treasury securities are examples of Level 1 inputs.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. U.S. agencies, corporate bonds and financial hedges are examples of Level 2 inputs.

Level 3 inputs are unobservable inputs that reflect GRU's own assumptions about factors that market participants would use in pricing the asset or liability (including assumptions about risk).

Valuation methods of the primary fair value measurements are as follows:

U.S. Treasury securities are valued using quoted market prices (Level 1 inputs).

Investments in debt securities are valued using Level 2 measurements because the valuations use interest rate curves and credit spreads applied to the terms of the debt instrument (maturity and coupon interest rate) and consider the counterparty credit rating.

Commodity derivatives, such as futures, swaps and options, which are ultimately settled using prices at locations quoted through clearinghouses are valued using level 1 inputs.

Other hedging derivatives, such as swaps settled using prices at locations other than those quoted through clearinghouses and options with strike prices not identically quoted through a clearinghouse, are valued using Level 2 inputs. For these instruments, fair value is based on pricing algorithms using observable market quotes

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. GRU's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their place within the fair value hierarchy levels. GRU's fair value measurements are performed on a recurring basis.

The City entered into the 2005 Series C Swap Transaction in order to synthetically fix, subject to the "basis risk" described in such footnote, the interest rate on the 2005 Series C Bonds. Since the Refunded Tax-Exempt 2005 Bonds were refunded through the issuance of the variable rate 2012 Series B Bonds, the City left that portion of the 2005 Series C Swap Transaction allocable to the Refunded Tax-Exempt 2005 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of the 2005 Series C Swap Transaction does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds. In addition, the City entered into the 2006 Series A Swap Transaction in order to synthetically fix, subject to the "basis risk" described in such footnote, the interest rate on the 2006 Series A Bonds. Since the Refunded Tax-Exempt 2006 Bonds were refunded through the issuance of the variable rate 2012 Series B Bonds, the City left that portion of the 2006 Series A Swap Transaction allocable to the Refunded Tax-Exempt 2006 Bonds outstanding following the issuance of the 2012 Series B Bonds, as a partial hedge against the interest rates to be borne by the 2012 Series B Bonds, although such portion of the 2006 Series A Swap Transaction does not specifically match, in terms of its notional amount and amortization, the 2012 Series B Bonds.

See Note 9 to the audited financial statement of the System "Hedging Activities" for the fiscal year ended September 30, 2016 in APPENDIX B attached hereto for a discussion of the various risks borne by the City relating to interest rate swap transactions.

Coal Supply Agreements

The System had two coal contracts that ended in 2016 and is currently not under any coal supply agreements. At this time, the System makes coal purchases off the spot market as needed.

GREC LLC PPA

The PPA with GREC LLC contains provisions entitling GREC LLC to exercise certain rights based upon the System's creditworthiness.

Pursuant to the PPA, the System is required to pay or provide GREC LLC with a security deposit equal to \$40 million as security for the System's performance of its obligations under the PPA (the "Purchaser's Performance Security"), if the System has a senior unsecured debt rating below "A-" from S&P or below "A3" from Moody's. At the sole discretion of the System, such security deposit may be in the form of an interest bearing cash account, an irrevocable direct pay letter of credit, or a performance bond. In the event the System's senior unsecured debt has an S&P credit rating of "A-" or above or a Moody's credit rating of "A3" or above, then the System's obligations to provide the Purchaser's Performance Security no longer shall be required.

Additionally, the PPA provides that the System is required to provide GREC LLC, if reasonably requested, with performance assurances if there is a material adverse change in (i) the business, assets, operation or financial condition of the System taken as a whole or (ii) the ability of the System to pay or perform its material obligations under the PPA in accordance with the terms thereof. Failure to provide such assurances would constitute a "Purchaser Event of Default" and would provide GREC LLC with the right to terminate the PPA.

The City, in consultation with its auditors, concluded that the PPA with GREC LLC should be classified for accounting purposes as a "capital lease." Accordingly, beginning in fiscal year ended September 30, 2014, a capital lease liability and a related asset of the PPA with GREC LLC was recorded in the financial statements for approximately \$1 billion.

FACTORS AFFECTING THE UTILITY INDUSTRY

General

The primary factors currently affecting the utility industry include environmental regulations, Operating, Planning and Critical Infrastructure Protection Standards promulgated by NERC under FERC jurisdiction, and the increasing strategic and price differences among various types of fuels. No state or federal legislation is pending or proposed at this time for retail competition in Florida.

The role of municipalities as telecommunications providers pursuant to the 1996 Federal Telecommunications Act resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this issue culminated in the passage, in 2005, of legislation codified in Section 350.81, Florida Statutes (Section 350.81) that defined the conditions under which municipalities are allowed to provide retail telecommunications services. Although the System has special status as a grandfathered entity under this legislation, the provision of certain additional retail telecommunications services by the System would implicate certain requirements of Section 350.81. Management of the System does not expect that any required compliance with the requirements of Section 350.81 would have a material adverse effect on the operations or financial condition of GRUCom.

Environmental and Other Natural Resource Regulations

The System and its operations are subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, SO₂ and NO_x into the air; discharges of pollutants, including heat, into surface or ground water; the disposal of wastes and reuse of products generated by wastewater treatment and combustion processes; management of hazardous materials; and the nature of waste materials discharged into the wastewater system's collection facilities. Environmental regulations generally are becoming more numerous and more stringent and, as a result, may substantially increase the costs of the System's services by requiring changes in the operation of existing facilities as well as changes in the location, design, construction and operation of new facilities (including both facilities that are owned and operated by the System as well as facilities that are owned and operated by others (including, particularly, GREC), from which the System purchases output, services, commodities and other materials). There is no assurance that the facilities in operation, under construction or contemplated will always remain subject to the regulations currently in effect or will always be in compliance with future regulations. Compliance with applicable regulations could result in increases in the costs of construction and/or operation of affected facilities, including associated costs such as transmission and transportation, as well as limitations on the operation of such facilities. Failure to comply with regulatory requirements could result in reduced operating levels or the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties.

Increasing concerns about climate change and the effects of GHGs on the environment have resulted in EPA finalizing on August 3, 2015 carbon regulations, the Clean Power Plan, for existing power plants. Currently, the Clean Power Plan is being litigated and on April 28, 2017, the U.S. Court of Appeals for the D.C. Circuit issued orders in the challenges to the Clean Power Plan and the greenhouse gas new source performance standards ("GHG NSPS") holding the challenges in abeyance for 60 days, or until June 27, 2017. EPA is directed to file status reports every 30 days in both challenges. Further litigation is expected regardless of the DC Circuit Court of Appeals decision. In addition, the EPA has been given presidential direction to review the Clean Power Plan. The court has also ordered the parties to file supplemental briefs addressing whether the challenges should be remanded to EPA rather than held in abeyance. The briefs were filed on May 15, 2017.

Air Emissions

The Clean Air Act

The Clean Air Act regulates emissions of air pollutants, establishes national air quality standards for major pollutants, and requires permitting of both new and existing sources of air pollution. Among the provisions of the Clean Air Act that affect the System's operations are (1) the acid rain program, which requires nationwide reductions of SO₂ and NO_x from existing and new fossil-fueled electric generating plants, (2) provisions related to toxic or hazardous pollutants, and (3) requirements to address regional haze.

The Clean Air Act also requires persons constructing new major air pollution sources or implementing significant modifications to existing air pollution sources to obtain a permit prior to such construction or modifications. Significant modifications include operational changes that increase the emissions expected from an air pollution source above specified thresholds. In order to obtain a permit for these purposes, the owner or operator of the affected facility must undergo a "new source review," which requires the identification and implementation of BACT for all regulated air pollutants and an analysis of

the ambient air quality impacts of a facility. In 2009, the EPA announced plans to actively pursue new source review enforcement actions against electric utilities for making such changes to their coal-fired power plants without completing new source review. Under Section 114 of the Clean Air Act, the EPA has the authority to request from any person who owns or operates an emission source, information and records about operation, maintenance, emissions, and other data relating to such source for the purpose of developing regulatory programs, determining if a violation occurred (such as the failure to undergo new source review), or carrying out other statutory responsibilities.

The Cross-State Air Pollution Rule (CSAPR)

On July 6, 2011, the EPA released its final Cross-State Air Pollution Rule (CSAPR). This rule is the final version of the Transport Rule and replaces CAIR. In Florida, only ozone season NO_x emissions are regulated by CSAPR through the use of allowances.

Various states, local governments, and other stakeholders challenged CSAPR and, on August 21, 2012, a three-judge panel of the D.C. Circuit Court, by a 2-1 vote, held that the EPA had exceeded its statutory authority in issuing CSAPR and vacated CSAPR along with certain related federal implementation plans. As part of its holding, the D.C. Circuit Court panel held that the EPA should continue to administer the original CAIR program until the EPA promulgates a valid replacement.

On October 5, 2012, the EPA filed a petition for rehearing *en banc* with the D.C. Circuit Court requesting that the full court reconsider the August 21, 2012 decision. That request was denied. On Friday, March 29, 2013, the Department of Justice and several environmental groups filed Petitions for *certiorari*, asking the Supreme Court to accept the case and overturn CSAPR. The Supreme Court granted *certiorari* on June 24, 2013. On April 29, 2014, the Supreme Court reversed part of the D.C. Circuit Court's decision, upholding parts of the CSAPR program, and remanded other issues back to the D.C. Circuit Court for further proceedings. The D.C. Circuit Court set a deadline of July 3, 2014 for the parties to brief on how they would like to proceed with the remaining issues and lawsuits. On June 26, 2014, the EPA filed a Motion with the D.C. Circuit Court to lift the stay of the CSAPR. EPA has indicated that, at this time, CAIR remains in place and that no immediate action by the states or affected sources is expected. EPA is reviewing the Supreme Court's decision and is evaluating next steps, including how to address compliance deadlines that passed during the ongoing litigation and stay. On October 23, 2014, the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") granted EPA's request that the court lift the stay of the Cross State Air Pollution Rule (CSAPR). While the court did not specifically address EPA's request that the court extend CSAPR's compliance deadlines by three years, the System believes that, by granting EPA's motion, the court granted EPA's request.

On July 28, 2015, the D.C. Circuit ruled that Florida's allowance budget is invalid and remanded CSAPR to EPA. On October 26, 2016 EPA published, in the *Federal Register* at 81 Fed. Reg. 74504, an update to the Cross-State Air Pollution Rule (CSAPR) to address the 2008 Ozone National Ambient Air Quality Standards. For three states (North Carolina, South Carolina and Florida), EPA is removing the states from the CSAPR ozone season NO_x trading program because modeling for the Final Rule indicates that these states do not contribute significantly to ozone air quality problems in downwind states under the 2008 ozone NAAQS. Therefore, GRU will not have to meet ozone season limits in 2017 and, most likely, 2018.

Mercury and Air Toxics Standards (MATS)

On December 16, 2011, the EPA promulgated a rule to reduce emissions of toxic air pollutants from power plants. Specifically, these mercury and air toxics standards or MATS for power plants will reduce emissions from new and existing coal- and oil-fired electric utility steam generating units (EGU). The EPA also signed revisions to the new source performance standards for fossil fuel-fired EGUs. Such revisions revised the standards that new coal- and oil-fired power plants must meet for particulate matter, SO₂ and NO_x. On November 25, 2014, the United States Supreme Court accepted certiorari to hear challenges to the mercury rules.

On June 29, 2015, the U.S. Supreme Court issued a 5-to-4 decision reversing the D.C. Circuit's decision to uphold EPA's rule establishing mercury and air toxics standards (MATS) for electric generating units. The case is *Michigan, et al. v. EPA, et al.*, No. 14-46. The Court granted review on a single issue: "Whether the Environmental Protection Agency unreasonably refused to consider costs in determining whether it is appropriate to regulate hazardous air pollutants emitted by electric utilities." Writing for the majority, Justice Scalia held that EPA "strayed far beyond" the "bounds of reasonable interpretation" when the Agency interpreted the Clean Air Act to mean that it "could ignore costs when deciding to regulate power plants." The Court remanded the case to the D.C. Circuit for further proceedings consistent with the Court's opinion. On August 10, 2015, EPA stated in a motion filed with the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit") that the Agency plans to revise its "appropriate and necessary" determination for the Mercury and Air Toxics Standards (MATS) by the spring of 2016, prior to the extended MATS compliance deadline of April 15, 2016. EPA also stated that it intends to request that the D.C. Circuit remand the rule without vacatur while EPA works on this revision. Since the Court did not vacate the rule, the MATS rule is still in effect.

On April 14, 2016, the Administrator of the Environmental Protection Agency (EPA) signed the final supplemental finding in the Mercury and Air Toxic Standard (MATS) rule. The new "appropriate and necessary" finding responds to the U.S. Supreme Court decision in *Michigan v. EPA*, and explains how EPA has taken cost into account in evaluating whether it is appropriate and necessary to regulate coal- and-oil-fired electric utility steam generating units (EGUs) under Section 112 of the Clean Air Act (CAA). EPA still concludes it is proper to regulate mercury emissions from power plants.

On May 6, 2016, EPA filed a brief urging the U.S. Supreme Court to deny a *writ of certiorari* filed by 20 states requesting that the Court review and reverse a decision by the U.S. Court of Appeals for the D.C. Circuit to remand EPA's Mercury and Air Toxics Standards (MATS) rule to the Agency without vacating the rule. According to EPA's brief, the Supreme Court should deny review of whether the MATS rule should have been vacated while EPA made its "appropriate and necessary" finding because the issue is moot now that EPA has issued the finding. Additionally, EPA argues that the Clean Air Act (CAA), not the Administrative Procedure Act, governs whether the MATS rule should have been vacated and the CAA does not mandate vacatur of a rule on remand. Rather, the CAA gives a court discretion on whether to vacate a remanded rule based on the circumstances. Finally, EPA asserts that the D.C. Circuit was correct in not vacating the MATS rule on remand because EPA could quickly remedy the legal deficiency and vacating the rule would have been harmful to the public because it would have allowed an increase in emissions of HAPs from EGUs.

Murray Energy became the first party to appeal the final MATS Appropriate and Necessary Finding, filing its petition for review on April 25, 2016, the same day the rule was published in the *Federal Register*. 81 Fed. Reg. 24,420 (Apr. 25, 2016). All petitions for review of the Finding must be filed in the U.S.

Court of Appeals for the District of Columbia Circuit no later than June 24, 2016. As of the deadline, the following petitions for review have been filed in the U.S. Court of Appeals for the District of Columbia Circuit ("D.C. Circuit"):

- *Murray Energy Corp. v. EPA*, No. 16-1127
- *ARIPPA v. EPA*, No. 16-1175
- *Michigan v. EPA*, No. 16-1204
- *Oak Grove Management Co. v. EPA*, No. 16-1206
- *Southern Company Services, Inc. v. EPA*, No. 16-1208
- *Utility Air Regulatory Group v. EPA*, No. 16-1210

The cases have been consolidated under the lead case *Murray Energy Corp. v. EPA*, No. 16-1127.

On October 14, 2016, the U.S. Court of Appeals for the District of Columbia Circuit issued orders establishing the briefing schedule for the challenge related to EPA's Mercury and Air Toxic Standard (MATS). In *Murray v. EPA*, 16-1127 (D.C. Cir.), industry petitioners challenge EPA's supplemental determination that it was "appropriate and necessary" to regulate emissions of hazardous air pollutants from electric generating units. The briefing schedules were as follows:

- EPA Brief: January 19, 2017
- Brief(s) of Respondent-Intervenors: February 10, 2017
- Reply brief(s) of State and Industry Petitioners: February 24, 2017
- Final Briefs: March 24, 2017

On April 27, 2017, the U.S. Court of Appeals for the District of Columbia Circuit granted EPA's motions to postpone oral argument in the challenge to EPA's supplemental determination that it was "appropriate and necessary" to regulate emissions of hazardous air pollutants from electric generating units ("Supplemental Finding"), *Murray v. EPA*, No. 16-1127 (D.C. Cir.), as well as in industry's challenge to EPA's denial of administrative petitions for reconsideration of the Mercury and Air Toxics Standards ("MATS"), *ARIPPA v. EPA*, No. 15-1180 (D.C. Cir.). Oral argument in both cases was previously scheduled for May 18, 2017.

The court also ordered both challenges held in abeyance "pending further order of the court." EPA is directed to file status reports with the court every 90 days. The parties will be directed to file motions to govern future proceedings within 30 days of EPA notifying the court and the parties of any action it has or will be taking with respect to the Supplemental Finding and the MATS reconsideration petitions.

So far, since the MATS program became effective on April 16, 2015, GRU's Deerhaven Unit #2 (the only MATS unit) has been able to comply with all requirements.

Effluent Limitation Guidelines

In November 2010, the EPA agreed to propose the power plant Effluent Limitation Guidelines (ELG) for coal-fired steam electric plants by July 23, 2012 and finalize the guidelines in May 2014. The ELGs were last revised in 1982. The EPA is considering more stringent limits for new metals and parameters for individual wastewater streams generated by steam electric power plants with emphasis on coal-fired power plants. The EPA will evaluate the technologies and costs to remove those metals and identify the Best Available Technology (BAT) to affect their control in coal-fired power plant effluent. After a number of delays in issuing the proposed ELG rule, EPA issued a draft rule on June 7, 2013 and accepted comments on the rule until September 20, 2013. On April 7, 2014, the EPA signed a settlement agreement with environmental groups that commits the Agency to take final action by September 30, 2015 on EPA's proposed rule addressing effluent limitation guidelines for power plants under the Clean Water Act.

On September 30, 2015, EPA issued a final rule addressing effluent limitation guidelines (ELG) for power plants under the Clean Water Act. The final rule establishes Best Available Technology Economically Achievable (BAT), New Source Performance Standards (NSPS), Pretreatment Standards for Existing Sources (PSES), and Pretreatment Standards for New Sources (PSNS) that may apply to discharges of six waste streams: flue gas desulfurization (FGD) wastewater, fly ash transport water, bottom ash transport water, FGMC wastewater, gasification wastewater, and combustion residual leachate.

EPA did not finalize the proposed best management practices (BMP) for surface impoundments containing coal combustion residuals (e.g., ash ponds and FGD ponds) in order to avoid "unnecessary duplication" with EPA's final rule pertaining to coal combustion residuals, 80 Fed. Reg. 21,302 (April 17, 2015).

On November 3, 2015, the final Effluent Limitation Guidelines for Steam Electric Generating Units was published in the Federal Register. As a result, the final rule was effective on January 4, 2016.

The Utility Water Act Group ("UWAG"), On March 24, 2017, filed an administrative petition for reconsideration of EPA's "Effluent Limitations Guidelines and Standards for the Steam Electric Power Generating Point Source Category" ("ELG Rule") finalized in 2015. The petition requests EPA reconsider the ELG Rule and seeks an administrative stay to suspend all compliance deadlines, while EPA works to reconsider and revise the rule.

On April 12, 2017, the EPA Administrator, Scott Pruitt, announced that he will reconsider the effluent limitation guidelines ("ELG") for the power sector, in response to the two petitions for reconsideration received from the Utility Water Act Group, and the Small Business Administration's Office of Advocacy. Both petitions raised concerns that the 2015 ELG Rule imposed unreasonable costs and lacked scientific support.

Sierra Club, Clean Water Action, and a handful of other groups filed on May 3, 2017, a legal challenge against EPA's ELG stay. The complaint, filed in the U.S. District Court for the D.C. Circuit, cites six supposed legal deficiencies in EPA's stay, and the groups ask the court to vacate the stay and compel EPA to reinstate the compliance deadlines. All parties are now waiting on a decision by the court.

Regional Haze

On June 15, 2005, the EPA issued the Clean Air Visibility Rule, amending its 1999 regional haze rule, which had established timelines for states to improve visibility in national parks and wilderness areas

throughout the United States. Under the amended rule, certain types of older sources may be required to install best available retrofit technology (BART). Some of the effects of the amended rule could be requirements for newer and cleaner technologies and additional controls for particulate matter, SO₂ and NO_x emissions from utility sources. The states were to develop their regional haze implementation plans by December 2007, identifying the facilities that will have to reduce emissions and then set emissions limits for those facilities. However, states have not met that schedule and on January 15, 2009, the EPA published a notice finding that 37 states, the District of Columbia and the Virgin Islands failed to submit all or a portion of their regional haze implementation plans. The EPA's notice initiates a two-year period during which each jurisdiction must submit a haze implementation plan or become subject to a Federal Implementation Plan issued by the EPA that would set the basic program requirements. See "THE ELECTRIC SYSTEM – Energy Supply System – *Generating Facilities – Deerhaven*" herein for a description of the actions that have been taken by the System to install additional emission control equipment at DH 2 and reduce SO₂ and NO_x emissions that potentially contribute to regional haze.

Recently, emissions modeling was completed for DH 1 to determine its impact on visibility in the Class I areas within 300 km of the DGS. Results of this modeling confirmed that DH 1 had impacts on the applicable Class I areas below the 0.5 deciview threshold and therefore is exempt from the BART program associated with the regional haze program.

The reasonable further progress (RFP) section of Florida's regional haze state implementation plan, which has been approved by EPA, applies to DH 2. The System has voluntarily requested a cap on SO₂ emissions, which provides DH 2 with an exemption from the RFP section. A draft permit from the FDEP was issued on June 1, 2012 approving the System's requested cap on SO₂ emissions, and the final permit was issued on June 26, 2012.

Internal Combustion Engine MACT

On August 20, 2010, the EPA published a final rule for the National Emissions Standards for Hazardous Air Pollutants for Reciprocating Internal Combustion Engines, which covers existing stationary spark ignition reciprocating internal combustion engines located at major sources of hazardous air pollutant emissions such as power plant sites. This final rule, which became effective on October 19, 2010, requires the reduction of emissions of hazardous air pollutants from covered engines. Several of the System's reciprocating engines are covered by this new rule and all are in full compliance.

Climate Change

On June 25, 2013, President Obama issued a Presidential Memorandum directing the EPA to work expeditiously to complete GHG standards for the power sector. The agency is using its authority under section 111(d) of the Clean Air Act to issue emission guidelines to address GHG emissions from existing power plants. The Presidential Memorandum specifically directed EPA to build on state leadership, provide flexibility and take advantage of a wide range of energy sources and technologies towards building a cleaner power sector. It also directed EPA to issue proposed GHG standards, regulations or guidelines, as appropriate, for existing power plants by no later than June 1, 2014, and issue final standards, regulations or guidelines, as appropriate, by no later than June 1, 2015. In addition, the Presidential Memorandum directed EPA to include in the guidelines, addressing existing power plants, a requirement that states submit to EPA the implementation plans required under section 111(d) of the Clean Air Act and its implementing regulations by no later than June 30, 2016. States would be able to request more time to submit complete implementation plans with the EPA being able to allow states until June 30, 2017 or

June 30, 2018, as appropriate, to submit additional information completing the submitted plan no later than June 30, 2016.

Accordingly, on June 2, 2014, EPA released a proposed rule, the Clean Power Plan Rule, that would limit and reduce carbon dioxide emissions from certain fossil fuel power plants, including existing plants. Finally, on August 3, 2015, EPA released the final version of the Clean Power Plan. On October 23, 2015, EPA published in the *Federal Register* the final greenhouse gas (GHG) existing source performance standards ("ESPS") for power plants (the "Clean Power Plan"), and the final new source performance standards ("NSPS") for GHG emissions from new, modified and reconstructed fossil fuel-fired power plants. The final Clean Power Plan was published at 80 Fed. Reg. 64662, and the final GHG NSPS were published at 80 Fed. Reg. 64510.

On October 23, 2015, the American Public Power Association ("APPA") and the Utility Air Regulatory Group (UARG) filed a joint petition for review of the Environmental Protection Agency's final Section 111(d) rule to regulate carbon dioxide (CO₂) emissions from existing electric generating sources (EGU) in the U.S. Court of Appeals for the District of Columbia Circuit. In addition, the state of West Virginia joined by Texas, Alabama, Arkansas, Colorado, Florida, Georgia, Indiana, Kansas, Kentucky, Louisiana, Michigan, Missouri, Montana, Nebraska, New Jersey, Ohio, South Carolina, South Dakota, Utah, Wisconsin, Wyoming, the Arizona Corporation Commission, and the North Carolina Department of Environmental Quality also filed their motion to stay the final Section 111(d) rule under the Clean Air Act. Such a stay would put implementation of the rule on hold until the court decides on its legality.

On January 26, 2016, 29 states requested that the U.S. Supreme Court stay implementation of the final greenhouse gas ("GHG") existing source performance standards for power plants (the "Clean Power Plan" or CPP (80 Fed. Reg. 64662 - Oct. 23, 2015)), pending judicial review of the rule. On February 9, 2016, the Supreme Court granted the applications of numerous parties to stay the Clean Power Plan pending judicial review of the rule. The stay will remain in effect pending Supreme Court review if such review is sought. Since the US Supreme Court stayed the EPA rulemaking on the Clean Power Plan, that extraordinary action will delay any regulatory action until at least 2017 at the earliest, GRU continues to closely monitor any activities with respect to Climate Change and GHGs.

The D.C. Circuit issued an order on April 28, 2017, holding the consolidated CPP cases in abeyance for 60 days. The court is requiring EPA to file status reports concerning its ongoing regulatory deliberations at 30 days intervals. The court also asked the parties to file supplemental briefs by May 15 addressing whether the judicial process should be ended and the matter should be remanded to EPA.

Coal Combustion Products

The Environmental Protection Agency (EPA) published a final rule (40 CFR 257), effective October 14, 2015, to regulate the disposal of coal combustion residuals (CCR) as solid waste under subtitle D of the Resource Conservation and Recovery Act (RCRA). The rule includes national minimum criteria for existing and new CCR landfills and existing and new CCR surface impoundments. GRU is subject to the requirements of the promulgated rule that are applicable to CCR ponds and landfill at Deerhaven.

On May 1, 2017, EPA Administrator Scott Pruitt sent a letter informing states that EPA is working on guidance for implementing state permitting programs that allow flexibility in individual permits to manage the safe disposal of coal combustion residuals, known as CCR or "coal ash." EPA expects that its new guidance will allow for the safe disposal and continued beneficial use of coal ash, while enabling states

to decide what works best for their environment. GRU, through the Florida Electric Power Coordinating Group (FCG) on this issue, made contact with FDEP's Tim Bahr on May 2, 2017 and he confirmed that EPA shared some draft CCR permit program materials (draft FAQs, draft checklist, etc.) last week. FDEP is planning to discuss that internally this week. EPA has not finished drafting the guidance document that is intended to assist States in ensuring that their permit program applications are complete. GRU continues to follow closely.

Storage Tanks

GRU is required to demonstrate financial responsibility for the costs of corrective actions and compensation of third-parties for bodily injury and property damage arising from releases of petroleum products and hazardous substances from certain underground and above-ground storage tank systems. GRU has eleven fuel oil storage tanks. The South Energy Center has two underground distillate (No. 2) oil tanks, the JRK Station has four above-ground distillate oil tanks, two of which are empty and out of service, and two above-ground No. 6 oil tanks which are empty and out of service. DH has one above-ground distillate and two above-ground No. 6 oil tanks, one of which is out of service. All of the GRU's fuel storage tanks have secondary containment and/or interstitial monitoring and GRU is insured for the requisite amounts.

Remediation Sites

Several site investigations have been completed at the JRK Station, most recently in 2011. According to previous assessments, the horizontal extent of soils impacted with No. 6 fuel oil extends from the northern containment wall of the aboveground storage tanks (AST) to the wastewater filter beds and from the old plant building to Sweetwater Branch Creek. The results of the most recent soil assessment document the presence of Benzo[a]pyrene in one soil sample at a concentration greater than its default commercial/industrial direct exposure based soil cleanup target levels (SCTL). Four of the soil samples contained Benzo[a]pyrene equivalents at concentrations greater than its default commercial/industrial direct exposure based SCTLs. In addition, two of the soil samples contained total recoverable petroleum hydrocarbons (TRPH) at concentrations greater than its default commercial/industrial direct exposure based SCTLs.

In the Site-Wide Monitoring Report dated March 24, 2011, measurable free product was detected in four wells. An inspection in April 2013 showed that groundwater contains four of the polynuclear aromatic hydrocarbons ("PAH") (Benzo[a]anthracene, Benzo[a]pyrene, Benzo[b]fluoranthene, and Dibenzo[a,h]anthracene) at concentrations greater than their groundwater cleanup target levels ("GCTL"). With the exception of Benzo[a]pyrene, the concentration of the remainder of these parameters did not exceed their Natural Attenuation Default Concentrations. The groundwater quality data reported in the 2011 Site-Wide Groundwater Monitoring Report documents that groundwater quality meets applicable GCTLs at the locations sampled. It is likely that groundwater quality impacts exist in the area where residual number 6 Fuel Oil is present as a non-aqueous phase liquid.

In August 2013, the System submitted a no further action proposal to the FDEP requesting that the site be granted a no further action status based on an evaluation of the soil and groundwater data with respect to site conditions and operations. The FDEP has not formally responded to the NFA request and there is currently no further update.

See "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" and "THE WATER SYSTEM – Water Treatment and Supply" herein for a discussion of other remediation issues.

Water Use Restrictions

Pursuant to Florida law, a water management district in Florida may mandate restrictions on water use for non-essential purposes when it determines such restrictions are necessary. The restrictions may either be temporary or permanent. The SJRWMD has mandated permanent district-wide restrictions on residential and commercial landscape irrigation. The restrictions limit irrigation to no more than two days per week during Daylight Savings Time, and one day per week during Eastern Standard Time. The restrictions apply to centralized potable water as provided by the System as well as private wells. All irrigation between the hours of 10:00 a.m. and 4:00 p.m. is prohibited.

In addition, in April 2010, the County adopted, and the City subsequently opted into, an Irrigation Ordinance that codified the above-referenced water restrictions which promote and encourage water conservation. County personnel enforce this ordinance, which further assists in reducing water use and thereby extending the System's water supply.

The SJRWMD and the SRWMD each have promulgated regulations referred to as "Year-Round Water Conservation Measures," for the purpose of increasing long-term water use efficiency through regulatory means. In addition, the SJRWMD and the SRWMD each have promulgated regulations referred to as a "Water Shortage Plan," for the purpose of allocating and conserving the water resource during periods of water shortage and maintaining a uniform approach towards water use restrictions. Each Water Shortage Plan sets forth the framework for imposing restrictions on water use for non-essential purposes when deemed necessary by the applicable water management district. On August 7, 2012, in order to assist the SJRWMD and the SRWMD in the implementation and enforcement of such Water Conservation Measures and such Water Shortage Plans, the Board of County Commissioners of the County enacted an ordinance creating year-round water conservation measures and water shortage regulations (the "County Water Use Ordinance"), thereby making such Water Conservation Measures and such Water Shortage Plans applicable to the unincorporated areas of the County. On December 20, 2012, the City Commission adopted a resolution to opt into the County's "year round water conservation measures" and "water shortage regulations" ordinances in order to give the Alachua County Environmental Protection Department the authority to enforce water shortage orders and water shortage emergencies within the City.

Based upon GRU's analysis of the cost to clean up this site, GRU has accrued a liability to reflect the costs associated with the cleanup effort. During fiscal years 2016 and 2015, expenditures which reduced the liability balance were approximately \$1.0 million and \$1.1 million, respectively. The reserve balance at September 30, 2016 and September 30, 2015 was approximately \$629,000.

GRU is recovering the costs of this cleanup through customer charges. A regulatory asset was established for the recovery of remediation costs from customers. Fiscal 2016 and 2015 customer billings were \$1.1 million and \$1.2 million, respectively. The regulatory asset balance was \$14 million and \$15 million as of September 30, 2016 and 2015, respectively.

Although some uncertainties associated with environmental assessment and remediation activities remain, GRU believes that the current provision for such costs is adequate and additional costs, if any, will not have an adverse material effect on GRU's financial position, results of operations, or liquidity.

Manufactured Gas Plant

Gainesville's natural gas system originally distributed blue water gas, which was produced in town by gasification of coal using distillate oil. Although manufactured gas was replaced by pipeline gas in the mid-1950's, coal residuals and spilt fuel contaminated soils at and adjacent to the manufactured gas plant (MGP) site. When the natural gas system was purchased, the System assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former MGP. The System has pursued recovery for the MGP from past insurance policies and, to date, has recovered \$2.2 million from such policies. The System has received final approval of its Remedial Action Plan which entailed the excavation and landfilling of impacted soils at a specially designed facility. This plan was implemented pursuant to a Brownfield Site Rehabilitation Agreement with the State. Following remediation, the property has been redeveloped by the City as a park with stormwater ponds, nature trails, and recreational space, all of which were considered in the remediation plan's design. The duration of the groundwater monitoring program will be for the duration of the permit, and that timeframe is open to the results of what the sampling data shows.

Wholesale and Retail Electric Restructuring

Energy Policy Act of 2005

The 2005 Energy Policy Act empowered FERC to enforce mandatory compliance with the Bulk Electric System reliability standards. FERC delegated policy enforcement and standard development to NERC who, in turn, delegated regional enforcement and monitoring to the FRCC in the State to become the ERO monitoring the System's compliance. The System is a "registered entity" with NERC and FRCC under the following nine functional categories and must comply with all standards applicable to those categories:

- Balancing Authority
- Distribution Provider
- Generation Owner
- Generation Operator
- Planning Authority
- Resource Planner
- Transmission Owner
- Transmission Operator
- Transmission Planner

Electric utilities registered as a Balancing Authority or Transmission Operator are required to undergo an on-site audit for compliance with the reliability standards once every three years. The System is registered as both a Balancing Authority and a Transmission Operator and is therefore subject to the 3-year on-site audit cycle. In addition to the NERC O&P reliability standards, Version 5 of NERC's Critical

Infrastructure Protection (CIP) standards became applicable to GRU July 1, 2016. Compliance with these standards helps ensure the cyber and physical security of GRU's Bulk Electric System (BES). On February 22-23, 2017, FRCC compliance auditors conducted an on-site audit for compliance with the standards and requirements associated with the System's functions within the Florida bulk power system as listed above, and no violations were found. The System's next on-site reliability compliance audit is anticipated to occur in November, 2017.

FERC Order 779

FERC Order 779 was issued in May 2013 to deal with the establishment of Geomagnetic Disturbances ("GMD") reliability standards in two stages. Stage one became effective in April 2015 and required the development and implementation of operating procedures that mitigate the impact of GMD events. Stage two (Notice of Proposed Rulemaking, May 14, 2015) will require that the transmission system will be planned in a manner to mitigate the risks associated with GMD events such as system instability and/or uncontrolled separation. Order 779 will have a minor impact on the System.

FERC Order 1000

FERC Order 1000 became effective 60 days after publication of the final order in the Federal Register, August 11, 2011. Order 1000 affects transmission planning and cost allocation requirements and drives reform in three areas: planning, cost allocation and non-incumbent developers.

Planning element reforms:

- Each public utility transmission provider must participate in the development of a regional transmission plan.
- Regional and local transmission plans are to be driven by state or federal laws or regulation. Transmission needs and associated solutions are to be weighed against those requirements.
- Neighboring transmission regions are to coordinate the satisfaction of mutual transmission needs (efficiency and cost).

Cost allocation reforms:

- Each public utility transmission provider must participate in a regional cost sharing allocation method for the selected transmission solution.
- A similar cost allocation is required when neighboring transmission regions select an interregional solution.
- Participant finding is permitted. However, it may not be the regional or interregional allocation schema.

Developer reforms:

- With certain limitations, public utility providers must remove from their tariffs a federal right of first refusal for a regional transmission plan needs solution for the purposes of cost allocation.
- The reliability and service requirements of incumbent transmission providers may be dependent upon regional transmission infrastructure. The order requires the reevaluation of the regional transmission plan and the identification of alternative transmission solutions should the delay in infrastructure development adversely impact system reliability and/or the delivery of required services.

The System is a full participant in the regional transmission planning process through the FRCC.

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APPENDIX D

**COPIES OF THE RESOLUTION AND THE TWENTY-FIFTH SUPPLEMENTAL
BOND RESOLUTION**

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CITY OF GAINESVILLE, FLORIDA

Utilities System Revenue Bonds

**AMENDED AND RESTATED
UTILITIES SYSTEM
REVENUE BOND RESOLUTION**

Adopted January 30, 2003

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**AMENDED AND RESTATED
UTILITIES SYSTEM
REVENUE BOND RESOLUTION**

WHEREAS, on June 6, 1983, the City of Gainesville, Florida ("the City") adopted a resolution entitled "Utilities System Revenue Bond Resolution" (such Resolution, as the same heretofore has been amended and supplemented and as it hereafter may be amended and supplemented, being referred to herein sometimes as the "Bond Resolution") for the purpose of authorizing the issuance of Bonds (as defined in the Bond Resolution) from time to time to provide for the payment of Costs of Acquisition and Construction of the System (as such terms are defined in the Bond Resolution); and

WHEREAS, Section 1102 of the Bond Resolution provides that, except as otherwise provided therein, any modification or amendment of the Bond Resolution and of the rights and obligations of the City and of the holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution (as defined in the Bond Resolution), with the written consent given as provided in Section 1103 of the Bond Resolution of the holders of not less than a majority in principal amount of the Bonds Outstanding (as defined in the Bond Resolution) at the time such consent is given; and

WHEREAS, the City desires to amend and restate the Bond Resolution in the manner set forth herein, which amendment and restatement the City hereby determines requires the written consent of the holders of not less than a majority in principal amount of the Bonds Outstanding as provided in said Section 1102 of the Bond Resolution;

NOW THEREFORE, BE IT RESOLVED by the City Commission of the City of Gainesville, Florida that in the event that written consents to the amendment and restatement of the Bond Resolution as provided herein of the holders of not less than a majority in principal amount of the Bonds then Outstanding shall be filed with the Trustee (as defined in the Bond Resolution) in the manner provided in Section 1103 of the Bond Resolution, then on the date on which the conditions set forth in Section 1103 of the Bond Resolution with respect thereto shall be satisfied (the "Effective Date"), the Bond Resolution shall be amended and restated to read in its entirety as set forth herein.

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

SECTION 101. Definitions. The following terms shall, for all purposes of the Resolution, have the following meanings:

Accountant's Report shall mean a report signed by an independent certified public accountant of recognized standing or a firm of independent certified public accountants of recognized standing (who may be the accountant or firm of accountants who regularly audit the books of the City) selected by the City.

Accreted Value shall mean, as of any date of computation with respect to any Capital Appreciation Bond, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the periodic date specified in the Supplemental Resolution authorizing such Capital Appreciation Bond on which interest on such Bond is

to be compounded (hereinafter in this definition, a "Periodic Compounding Date") next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Capital Appreciation Bonds set forth in the Supplemental Resolution authorizing such Bonds, compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Accreted Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Accreted Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Supplemental Resolution authorizing such Capital Appreciation Bonds, Accreted Value accrues in equal daily amounts on the basis of a year of twelve 30-day months.

Accrued Aggregate Debt Service shall mean, as of any date of calculation, an amount equal to the sum of (a) the amounts of accrued Debt Service with respect to all Series of Bonds, calculating the accrued Debt Service with respect to each Series at an amount equal to the sum of (i) interest on the Bonds of such Series accrued and unpaid and to accrue to the end of the then current calendar month, and (ii) Principal Installments due and unpaid and that portion of the Principal Installments for such Series next due which would have accrued (if deemed to accrue in the manner set forth in the definition of Debt Service) to the end of such calendar month; provided, however, that (i) there shall be excluded from the calculation of Accrued Aggregate Debt Service any Principal Installments which are Refundable Principal Installments, (ii) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Accrued Aggregate Debt Service at the times and in the manner provided in subsection 1 of Section 208 and (iii) if the calculation of the Debt Service Reserve Requirement for any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund takes into account Accrued Aggregate Debt Service, then, for purposes of such calculation, Accrued Aggregate Debt Service shall be calculated only with respect to the Bonds of the Series secured thereby and (b) the amounts of accrued Debt Service with respect to all Parity Hedging Contract Obligations.

Act shall mean the Charter of the City, being Chapter 90-394, Laws of Florida, 1990, as amended, and other applicable provisions of law which, together with the Resolution, authorizes the City to issue its Bonds.

Additionally Secured Series shall mean a Series of Bonds for which the payment of the principal or sinking fund Redemption Price, if any, of, and interest on, the Bonds of such Series shall be secured, in addition to the pledge created pursuant to subsection 1 of Section 501 hereof in favor of all of the Bonds, by amounts on deposit in a separate subaccount to be designated therefor in the Debt Service Reserve Account in the Debt Service Fund.

Adjusted Aggregate Debt Service for any period shall mean, as of any date of calculation, the Aggregate Debt Service for such period except that (a) if any Refundable Principal Installment for any Series of Bonds is included in Aggregate Debt Service for such period, Adjusted Aggregate Debt Service shall mean Aggregate Debt Service determined (i) in the case of Refundable Principal Installments other than Commercial Paper Notes and Medium-Term Notes, as if each such Refundable Principal Installment had been payable, over a period extending from the due date of such Principal Installment through the later of (x) the 30th anniversary of the issuance of such Series of Bonds or (y) the 10th anniversary of the due date of such Refundable Principal Installment, in installments which would have required equal annual payments of principal and interest over such period and (ii) in the case of Refundable Principal Installments relating to Commercial Paper Notes or Medium-Term Notes, in accordance with the then current Commercial Paper Payment Plan or Medium-Term Note Payment Plan, as applicable, with respect thereto and (b) the principal and interest portions of the Accreted Value of

Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Adjusted Aggregate Debt Service at the times and in the manner provided in subsection 1 of Section 208 hereof. Interest deemed payable in any Fiscal Year after the actual due date of any Refundable Principal Installment of any Series of Bonds shall be calculated at such rate of interest as the City, or a banking or financial institution selected by the City, determines would be a reasonable estimate of the rate of interest that would be borne on Bonds maturing at the times determined in accordance with the provisions of the preceding sentence.

Aggregate Debt Service for any period shall mean, as of any date of calculation, the sum of (a) the amounts of Debt Service for such period with respect to all Series of Bonds; provided, however, that (i) for purposes of estimating Aggregate Debt Service for any future period (X) any Variable Rate Bonds Outstanding during such period shall be assumed to bear interest during such period at the greater of (1) the actual rate of interest then borne by such Variable Rate Bonds or (2) the Certified Interest Rate applicable thereto and (Y) any Option Bonds Outstanding during such period shall be assumed to mature on the stated maturity date thereof and (ii) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Aggregate Debt Service at the times and in the manner provided in subsection 1 of Section 208; and provided, further, that if the calculation of the Debt Service Reserve Requirement for any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund takes into account Aggregate Debt Service, then, for purposes of such calculation, Aggregate Debt Service shall be calculated only with respect to the Bonds of the Series secured thereby and (b) the amounts of Debt Service for such period with respect to all Parity Hedging Contract Obligations.

Annual Budget shall mean the annual budget of the System, as amended or supplemented, adopted or in effect for a particular Fiscal Year as provided in Section 708.

Appreciated Value shall mean with respect to any Deferred Income Bond, (i) as of any date of computation prior to the Current Interest Commencement Date therefor, an amount equal to the principal amount of such Bond plus the interest accrued on such Bond from the date of original issuance of such Bond to the periodic date specified in the Supplemental Resolution authorizing such Deferred Income Bond on which interest on such Bond is to be compounded (hereinafter in this definition, a "Periodic Compounding Date") next preceding the date of computation or the date of computation if a Periodic Compounding Date, such interest to accrue at the interest rate per annum of the Deferred Income Bonds set forth in the Supplemental Resolution authorizing such Bonds, compounded periodically on each Periodic Compounding Date, plus, if such date of computation shall not be a Periodic Compounding Date, a portion of the difference between the Appreciated Value as of the immediately preceding Periodic Compounding Date (or the date of original issuance if the date of computation is prior to the first Periodic Compounding Date succeeding the date of original issuance) and the Appreciated Value as of the immediately succeeding Periodic Compounding Date, calculated based upon an assumption that, unless otherwise provided in the Supplemental Resolution authorizing such Deferred Income Bond, Appreciated Value accrues in equal daily amounts on the basis of a year of twelve 30-day months and (ii) as of any date of computation on and after the Current Interest Commencement Date, the Appreciated Value on the Current Interest Commencement Date.

Authorized Newspaper shall mean a newspaper of general circulation in the Borough of Manhattan, City and State of New York or in the City of Gainesville, Florida (including, at such times as they are published, *The New York Times*, *The Daily Bond Buyer* or *The Wall Street Journal*) which is customarily published at least once a day for at least five days (other than legal holidays) in each calendar week, printed in the English language.

Authorized Officer of the City shall mean the Mayor, General Manager for Utilities, the Utility Finance Director, the Assistant General Manager for Customer and Administrative Services of the System or any other officer, employee or agent of the City authorized to perform specific acts or duties by resolution duly adopted by the City.

Bond or Bonds shall mean any bonds, notes or other evidences of indebtedness, as the case may be, authenticated and delivered under and Outstanding pursuant to the Resolution (including Parity Commercial Paper Notes, Parity Medium-Term Notes and Parity Reimbursement Obligations) but shall not mean Parity Hedging Contract Obligations or Subordinated Indebtedness.

Bondholder or Holder of Bonds shall mean any person who shall be the registered owner of any fully registered Bond or Bonds.

Bond Registrar shall mean the Trustee or any other institution qualified to act in the capacity of Bond Registrar as set forth in Section 703 appointed by the City to perform the duties of Bond Registrar enumerated in such Section.

Book Entry Bond shall mean a Bond authorized to be issued to, and issued to and, except as provided in paragraph 4 of Section 309, restricted to being registered in the name of, a Securities Depository for the participants in such Securities Depository or the beneficial owners of such Bond.

Capital Appreciation Bonds shall mean any Bonds issued under this Resolution as to which interest is (i) compounded periodically on dates specified in the Supplemental Resolution authorizing such Capital Appreciation Bonds and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to this Resolution or the Supplemental Resolution authorizing such Bonds.

Certified Interest Rate shall mean, with respect to Commercial Paper Notes, Medium-Term Notes or the Variable Rate Bonds of a particular Series maturing on a particular date, the interest rate set forth in a certificate of an Authorized Officer of the City executed on or prior to the date of the initial issuance of such Commercial Paper Notes, Medium-Term Notes or Variable Rate Bonds of such Series, as the case may be, which interest rate shall be (i) in the case of Variable Rate Bonds, the rate of interest such Variable Rate Bonds would bear (based on the Bond Buyer Revenue Bond Index) if, assuming the same maturity date, terms and provisions (other than interest rate) as the proposed Variable Rate Bonds of such maturity, and on the basis of the City's credit ratings with respect to the Bonds (other than Bonds for which credit enhancement is provided by a third party), such proposed Variable Rate Bonds of such maturity were issued at a fixed interest rate or (ii) in the case of Commercial Paper Notes or Medium-Term Notes, the rate of interest such Commercial Paper Notes or Medium-Term Notes would bear (based on the Bond Buyer Revenue Bond Index) if such Notes were issued as Bonds bearing a fixed interest rate. If at such time of issuance of such Commercial Paper Notes, Medium-Term Notes or Variable Rate Bonds of a particular Series, the Bond Buyer Revenue Bond Index is no longer published, the City shall use a comparable published index accepted by the municipal bond market.

City shall mean the City of Gainesville, Florida.

Commercial Paper Note shall mean any Bond which (a) has a maturity date which is not more than 397 days after the date of issuance thereof and (b) is designated as a Commercial Paper Note in the Supplemental Resolution authorizing such Bond.

Commercial Paper Payment Plan shall mean, with respect to any Series of Commercial Paper Notes and as of any time, the then current Commercial Paper Payment Plan for such notes contained in a certificate of an Authorized Officer of the City delivered on or prior to the date of the first issuance of such Commercial Paper Notes and setting forth the sources of funds expected to be utilized by the City to pay the principal of and interest on such Commercial Paper Notes or any subsequent certificate of an Authorized Officer of the City thereafter executed to reflect changes, if any, in the expectations of the City with respect to the sources of funds to be utilized to pay principal of and interest on such Commercial Paper Notes; provided, however, that if any Commercial Paper Payment Plan provides for the refunding of any Commercial Paper Note with proceeds of (a) Bonds other than Commercial Paper Notes or Medium-Term Notes or (b) Subordinated Indebtedness, in either such case, that the City intends to pay from Revenues, the principal of such Commercial Paper Note shall, for purposes of the Commercial Paper Payment Plan, be assumed to come due over a period commencing with the due date of the Commercial Paper Note and ending not later than the later of (x) the 30th anniversary of the first issuance of Commercial Paper Notes of such Series or (y) the 10th anniversary of the due date of the Commercial Paper Note to be refunded, in installments such that the principal and interest payable on such Commercial Paper Note in each Fiscal Year in such period will be equal to the principal and interest payable on such Commercial Paper Note in each other Fiscal Year in such period.

Commission shall mean the City Commission of the City of Gainesville, Florida.

Construction Fund shall mean the Construction Fund established in Section 502.

Consulting Engineer, in respect of any particular utility system, shall mean the independent engineer(s) or firm(s) at the time employed by the City and having a favorable reputation for skill and experience in the appropriate field of engineering of utility systems of comparable size and character as those forming parts of the System.

Cost of Acquisition and Construction shall mean the City's costs, expenses and liabilities paid or incurred or to be paid or incurred by the City in connection with the planning, engineering, designing, acquiring, constructing, installing, financing, operating, maintaining, retiring, decommissioning and disposing of the System or any part thereof and the obtaining of all governmental approvals, certificates, permits and licenses with respect thereto, including, but not limited to, any good faith or other similar payment or deposits required in connection with the purchase of such part of the System, the cost of acquisition by or for the City of real and personal property or any interests therein, costs of physical construction of such part of the System and costs of the City incidental to such construction or acquisition, the cost of acquisition of fuel or fuel inventory or facilities for the production or transportation of fuel and working capital and reserves therefor and working capital and reserves for reload fuel and for additional fuel inventories, all costs relating to such part of the System, the cost of any indemnity or surety bonds and premiums on insurance, preliminary investigation and development costs, engineering fees and expenses, contractors' fees and expenses, the costs of labor, materials, equipment and utility services and supplies, legal and financial advisory fees and expenses, interest and financing costs, including, without limitation, bank commitment and letter of credit fees, bond insurance and indemnity premiums, discounts to the underwriters or other purchasers thereof, if any, amounts required to be paid under any interest rate exchanges or swaps, cash flow exchanges, options, caps, floors or collars, in each case made in connection with the issuance of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City relating to the System, payments under any Qualified Hedging Contract, fees and expenses of the Fiduciaries, administration and general overhead expense and costs of keeping accounts and making reports required by the Resolution prior to or in connection with the completion of construction of such part of the System, amounts, if any, required by the Resolution to be paid into the Debt Service Fund to provide, among other things, for interest accruing on Bonds and to provide for the Debt Service Reserve Requirement or to be paid into the Utilities Plant Improvement Fund

or for payments when due (whether at the maturity of principal or the due date of interest or upon redemption) on any indebtedness of the City, including notes and Subordinated Indebtedness, incurred in respect of any of the foregoing, amounts, if any, required by a Supplemental Resolution to be paid into the Rate Stabilization Fund, and amounts required for working capital for the System and reserves therefor, and all federal, state and local taxes and payments in lieu of taxes legally required to be paid in connection with any part of the System and shall include reimbursements to the City for any of the above items theretofore paid by or on behalf of the City. It is intended that this definition be broadly construed to encompass all costs, expenses and liabilities of the City related to the System which on the date of the Resolution or in the future shall be permitted to be funded with the proceeds of Bonds pursuant to the provisions of Florida law.

Co-Trustee shall mean, if any, the co-trustee appointed pursuant to Article IX, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

Credit Obligation shall mean any obligation of the City to make payments out of Revenues for property, services or commodities whether or not the same are made available, furnished or received.

Credit Enhancement shall mean, with respect to any Bonds of a Series, the issuance of an insurance policy, letter of credit, surety bond or any other similar obligation, whereby the issuer thereof becomes unconditionally obligated to pay when due, to the extent not paid by the City or otherwise, the principal of and interest on such Bonds.

Credit Enhancer shall mean, with respect to any Bonds, any person of entity which, pursuant to a Supplemental Resolution, is designated as a Credit Enhancer and which provides Credit Enhancement for such Bonds.

Current Interest Commencement Date shall mean, with respect to any particular Deferred Income Bonds, the date specified in the Supplemental Resolution authorizing such Bonds (which date must be prior to the maturity date for such Bonds) after which interest accruing on such Bonds shall be payable periodically on dates specified in such Supplemental Resolution, with the first such payment date being the first such periodic date immediately succeeding such Current Interest Commencement Date.

Debt Service for any period shall mean, as of any date of calculation (a) with respect to any Series of Bonds, an amount equal to the sum of (i) interest accruing during such period on Bonds of such Series, except to the extent that such interest is to be paid from deposits into the Debt Service Account in the Debt Service Fund made from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City (including amounts, if any, transferred thereto from the Construction Fund) and (ii) that portion of each Principal Installment for such Series which would accrue during such period if such Principal Installment were deemed to accrue daily in equal amounts from the next preceding Principal Installment due date for such Series (or, (x) in the case of Bonds other than Reimbursement Obligations, if (1) there shall be no such preceding Principal Installment due date or (2) such preceding Principal Installment due date is more than one year prior to the due date of such Principal Installment, then, from a date one year preceding the due date of such Principal Installment or from the date of issuance of the Bonds of such Series, whichever date is later, and (y) in the case of Reimbursement Obligations, in accordance with the terms thereof and the Supplemental Resolution authorizing such Reimbursement Obligations), except to the extent that such Principal Installment is paid or to be paid from the proceeds of Bonds, Subordinated Indebtedness or other evidences of indebtedness of the City and (b) with respect to each Parity Hedging Contract Obligation, an amount equal to the sum

of all amounts owed thereunder by the City during such period. Such interest and Principal Installments for such Series of Bonds shall be calculated on the assumption that (x) no Bonds (except for Option Bonds actually tendered for payment prior to the stated maturity thereof and paid, or to be paid, from Revenues) of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof, (y) the principal amount of Option Bonds tendered for payment before the stated maturity thereof and paid, or to be paid, from Revenues, shall be deemed to accrue on the date required to be paid pursuant to such tender and (z) the principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds shall be included in the calculation of Debt Service at the times and in the manner provided in subsection 1 of Section 208; provided, however, that if the calculation of the Debt Service Reserve Requirement for any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund takes into account Debt Service, then, for purposes of such calculation, Debt Service shall be calculated only with respect to the Bonds of the Series secured thereby. If the City has in connection with any such Bonds entered into a Qualified Hedging Contract which provides that, in respect of a notional amount equal to the Outstanding principal amount of such Bonds, the City is to pay to a Qualified Hedging Contract Provider an amount determined based upon a variable rate of interest and the Qualified Hedging Contract Provider is to pay to the City an amount determined based upon a fixed rate of interest equal to the rate or rates at which such Bonds bear interest, it will be assumed that such Bonds bear interest at the variable rate of interest to be paid by the City. If the City has in connection with any Variable Rate Bonds, Commercial Paper Notes or Medium-Term Notes entered into a Qualified Hedging Contract which provides that, in respect of a notional amount equal to the Outstanding principal amount of the Variable Rate Bonds, Commercial Paper Notes or Medium-Term Notes, the City is to pay to a Qualified Hedging Contract Provider an amount determined based upon a fixed rate of interest and the Qualified Hedging Contract Provider is to pay to the City an amount determined based upon a variable rate of interest equal or comparable to the rate at which such Variable Rate Bonds, Commercial Paper Notes or Medium-Term Notes bear interest, it will be assumed that such Variable Rate Bonds, Commercial Paper Notes or Medium-Term Notes bear interest at the fixed rate of interest to be paid by the City.

Debt Service Fund shall mean the Debt Service Fund established in Section 502.

Debt Service Reserve Requirement shall mean with respect to each subaccount, if any, in the Debt Service Reserve Account, the amount specified in the Supplemental Resolution pursuant to which such subaccount shall be established; provided, however, that if at any time the City at its option shall have established one or more Reserve Deposits in connection with the issuance of any Additionally Secured Series of Bonds, the Debt Service Reserve Requirement for such Additionally Secured Series of Bonds as of any date of calculation shall be reduced by an amount equal to the sum of all Reserve Deposits not due and payable in such current or future Fiscal Year to which the calculation relates. For purposes of the foregoing calculation, it shall be assumed that Variable Rate Bonds will bear interest during any period at the greater of (i) the actual rate of interest then borne by such Bonds or (ii) the Certified Interest Rate applicable thereto.

Defaulted Interest shall have the meaning given to such term in Section 308.

Defeasance Securities shall mean, unless otherwise provided with respect to the Bonds of a Series in the Supplemental Resolution authorizing such Bonds,

(a) any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America, and any certificates or any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described

in this clause (a), in any such case, which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof or as to which an irrevocable notice of redemption of such securities on a specified redemption date has been given and such securities are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof,

(b) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (A) which are (x) not callable prior to maturity or (y) as to which irrevocable instructions have been given to the trustee of such bonds or other obligations by the obligor to give due notice of redemption and to call such bonds for redemption on the date or dates specified in such instructions, (B) which are secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (a) hereof which fund may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (C) as to which the principal of and interest on the bonds and obligations of the character described in clause (a) hereof which have been deposited in such fund along with any cash on deposit in such fund are sufficient to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this clause (b) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (A) of this clause (b), as appropriate, and any certificates or any other evidences of an ownership interest in obligations or specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (b);

(c) obligations of any state of the United States of America or any political subdivision thereof or any agency or instrumentality of any state or political subdivision which are not callable for redemption prior to maturity, or which have been duly called for redemption by the obligor on a date or dates specified and as to which irrevocable instructions have been given to a trustee in respect of such obligations by the obligor to give due notice of such redemption on such date or dates, which date or dates shall also be specified in such instructions, and which shall be rated in the highest whole rating category by two nationally recognized rating agencies,

(d) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by any corporation which are, at the time of purchase, rated by a nationally recognized rating agency in its highest rating category, and by at least one other nationally recognized rating agency in either of its two highest rating categories, for comparable types of debt obligations so long as such securities evidence ownership of the right to payments of principal and/or interest on obligations described in clauses (a) and (b) hereof or obligations described in the foregoing clause (c), in any such case, which shall not be subject to redemption prior to their maturity other than at the option of the holder thereof or as to which an irrevocable notice of redemption of such obligations on a specified redemption date has been given and such obligations are not otherwise subject to redemption prior to such specified date other than at the option of the holder thereof,

(e) deposits in interest-bearing time deposits or certificates of deposit which shall not be subject to redemption or repayment prior to their maturity or due date other than at the option of the depositor or holder thereof or as to which an irrevocable notice of redemption or repayment of such time deposits or certificates of deposit on a specified redemption or repayment date has been given and such time deposits or certificates of deposit are not otherwise subject to redemption or repayment prior to such specified date other than at the option of the depositor or

holder thereof, and which are fully secured by obligations described in clause (a) or clause (b) hereof to the extent not insured by the Federal deposit Insurance Corporation, and

(f) upon compliance with the provisions of subsection 6 of Section 1201, such securities (I) as are described in clause (a) of this definition and (II) as are described in clause (d) hereof so long as such securities evidence ownership of the right to payments of principal and/or interest on obligations described in clause (a) hereof, in each case, which are subject to redemption prior to maturity at the option of the issuer thereof on a specified date or dates.

Deferred Income Bonds shall mean any Bonds issued under this Resolution as to which interest accruing prior to the Current Interest Commencement Date is (i) compounded periodically on dates specified in the Supplemental Resolution authorizing such Deferred Income Bonds and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to this Resolution or the Supplemental Resolution authorizing such Bonds.

Depository shall mean any bank or trust company organized under the laws of any state of the United States or any national banking association selected by the City as a depository of moneys and securities held under the provisions of the Resolution, and may include the Trustee or the Co-Trustee.

Event of Default shall have the meaning given to such term in Section 801.

Fiduciary or Fiduciaries shall mean the Trustee, the Co-Trustee, the Bond Registrar, the Paying Agents, the Depositaries, or any or all of them, as may be appropriate.

Fiscal Year shall mean the twelve month period established by the City from time to time as its fiscal year.

Investment Securities shall mean and include all securities, obligations or investments that, at the time, shall be permitted by Florida law for investment of the City's funds.

Medium-Term Note shall mean any Bond which (a) has a maturity date which is more than 365 days, but not more than 15 years, after the date of issuance thereof and (b) is designated as a Medium-Term Note in the Supplemental Resolution authorizing such Bond.

Medium-Term Note Payment Plan shall mean, with respect to any Series of Medium-Term Notes and as of any time, the then current Medium-Term Note Payment Plan for such notes contained in a certificate of an Authorized Officer of the City delivered on or prior to the date of the first issuance of such Medium-Term Notes and setting forth the sources of funds expected to be utilized by the City to pay the principal of and interest on such Medium-Term Notes or any subsequent certificate of an Authorized Officer of the City thereafter executed to reflect changes, if any, in the expectations of the City with respect to the sources of funds to be utilized to pay principal of and interest on such Medium-Term Notes; provided, however, that if any Medium-Term Note Payment Plan provides for the refunding of any Medium-Term Note with proceeds of (a) Bonds other than Commercial Paper Notes or Medium-Term Notes or (b) Subordinated Bonds, in either such case, that the City intends to pay from Revenues, the principal of such Medium-Term Note shall, for purposes of the Medium-Term Note Payment Plan, be assumed to come due over a period commencing with the due date of the Medium-Term Note and ending not later than the later of (x) the 30th anniversary of the first issuance of Medium-Term Notes of such Series or (y) the 10th anniversary of the due date of the Medium-Term Note to be refunded, in installments such that the principal and interest payable on such Medium-Term Note in each Fiscal Year

in such period will be equal to the principal and interest payable on such Medium-Term Note in each other Fiscal Year in such period.

Net Revenues for any period shall mean the Revenues during such period plus (x) the amounts, if any, paid from the Rate Stabilization Fund into the Revenue Fund during such period (excluding from (x), for the purpose of avoiding double counting, amounts already included in the Revenues for such period representing interest earnings transferred from the Rate Stabilization Fund to the Revenue Fund pursuant to Section 603) and minus (y) the sum of (a) Operation and Maintenance Expenses during such period and (b) the amounts, if any, paid from the Revenue Fund into the Rate Stabilization Fund during such period.

Operation and Maintenance Expenses shall mean all expenses incurred in connection with the operation and maintenance of the System including, without limiting the generality of the foregoing, all operating and maintenance expenses included in the Uniform System of Accounts exclusive of interest, depreciation and amortization charges. Operation and Maintenance Expenses shall include all Credit Obligations except as provided in Section 206 hereof.

Opinion of Counsel shall mean an opinion in writing signed by an attorney or firm of attorneys (who may be counsel to the City) selected by the City.

Option Bonds shall mean Bonds which by their terms may be tendered by and at the option of the Holder thereof for payment by the City prior to the stated maturity thereof, or the maturities of which may be extended by and at the option of the Holder thereof.

Original Resolution shall mean the Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as amended and supplemented prior to the adoption of this Amended and Restated Utilities System Revenue Bond Resolution.

Outstanding, when used with reference to Bonds, shall mean, as of any date of calculation, Bonds theretofore or thereupon being authenticated and delivered under the Resolution except:

- (i) Bonds (or portions of Bonds) cancelled by the Trustee at or prior to such date;
- (ii) Bonds (or portions of Bonds) for the payment or redemption of which moneys, equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held in trust under the Resolution and set aside for such payment or redemption (whether at or prior to the maturity or redemption date), provided that if such Bonds (or portions of Bonds) are to be redeemed, notice of such redemption shall have been given as provided in Article IV or in the Supplemental Resolution authorizing the Series of which such Bonds are a part or provision satisfactory to the Trustee shall have been made for the giving of such notice;
- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III or Section 406 or 1106 unless proof satisfactory to the Trustee is presented that any such Bonds are held by a bona fide purchaser in due course; and
- (iv) Bonds (or portions thereof) deemed to have been paid as provided in paragraph 2 of Section 1201 or in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

Parity Commercial Paper Notes shall have the meaning given to such term in paragraph 1 of Section 210.

Parity Hedging Contract Obligation shall have the meaning given to such term in Section 209. For purposes of Section 803 hereof, any Parity Hedging Contract Obligation shall specify, to the extent applicable, the interest and principal components of, or the scheduled payments corresponding to interest under, such Parity Hedging Contract Obligation.

Parity Medium-Term Notes shall have the meaning given to such term in paragraph 1 of Section 211.

Parity Reimbursement Obligation shall have the meaning given to such term in Section 207.

Paying Agent shall mean any bank or trust company organized under the laws of any state of the United States or any national banking association designated as paying agent for the Bonds of any Series, and its successor or successors hereafter appointed in the manner provided in the Resolution.

Principal Installment shall mean, as of any date of calculation and with respect to any Series, so long as any Bonds thereof are Outstanding, (i) the principal amount of Bonds (including the principal amount of any Option Bonds tendered for payment prior to the stated maturity thereof) of such Series due (or so tendered for payment) on a certain future date for which no Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in Section 511) of any Sinking Fund Installments due on a certain future date for Bonds of such Series, plus the amount of the sinking fund redemption premiums, if any, which would be applicable upon redemption of such Bonds on such future date in a principal amount equal to said unsatisfied balance of such Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Sinking Fund Installments due on such future date plus such applicable redemption premiums, if any.

Prior Bonds shall mean the Bonds Outstanding under the Original Resolution as of the Effective Date.

Prudent Utility Practice shall mean, in respect of any particular utility industry, any of the practices, methods and acts which, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods and acts engaged in or approved by a significant portion of such utility industry prior thereto, known at the time the decision was made, would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather is a spectrum of possible practices, methods or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety and expedition.

Qualified Hedging Contract shall mean, to the extent from time to time permitted by law, any financial arrangement (i) which is entered into by the City with an entity that is a Qualified Hedging Contract Provider at the time the arrangement is entered into, (ii) which is a cap, floor or collar; an interest rate swap, including a forward rate or future rate swap; asset, index, price or market-linked transaction or agreement; other exchange or rate protection transaction agreement; agreement for the future delivery or price management of fuel or other commodities; other similar transaction (however designated); or any combination thereof; or any option with respect thereto, executed by the City for the purpose of moderating interest rate or commodity price fluctuations or

otherwise, and (iii) which has been designated in writing to the Trustee by an Authorized Officer of the City as a Qualified Hedging Contract (which writing shall specify, in the case of a Qualified Hedging Contract that is entered into in connection with any Bonds, the Bonds with respect to which such Qualified Hedging Contract is entered into).

Qualified Hedging Contract Provider shall mean an entity whose senior unsecured long-term debt obligations, financial program rating, counterparty rating or claims paying ability is rated, or whose payment obligations under a financial arrangement of the type referred in clause (ii) of the definition of Qualified Hedging Contract are guaranteed or insured by an entity whose senior unsecured long-term obligations, financial program rating, counterparty rating or claims paying ability is rated, on the date a Qualified Hedging Contract is entered into, either (i) at least as high as the third highest Rating Category of each Rating Agency then maintaining a rating for the Qualified Hedging Contract Provider, but in no event lower than any Rating Category designated by each such Rating Agency for the Bonds, or (ii) at any such lower Rating Categories which each such Rating Agency indicates in writing to the City and the Trustee will not, by itself, result in a reduction or withdrawal of its rating on the Outstanding Bonds that is in effect prior to entering into such Qualified Hedging Contract and which is an authorized counterparty pursuant to the City's investment policy as from time to time approved by the City.

Rate Stabilization Fund shall mean the Rate Stabilization Fund established in Section 502.

Rating Agency shall mean each nationally recognized securities rating agency then maintaining a rating on the Bonds at the request of the City.

Rating Category shall mean one of the generic rating categories of any Rating Agency without regard to any refinement or gradation of such rating by a numerical modifier or otherwise; provided, however, that for purposes hereof any requirement that an obligation be rated in the highest short-term Rating Category shall be deemed to be satisfied if such obligation is rated A-1 or better by Standard & Poor's, VMIG-1 or better by Moody's Investors Service, Inc. or F-1 or better by Fitch Ratings.

Redemption Price shall mean, with respect to any Bond, the principal amount thereof plus the applicable premium, if any, payable upon redemption thereof pursuant to such Bond or the Resolution.

Refundable Principal Installment shall mean any Principal Installment for any Series of Bonds, including Variable Rate Bonds, any Commercial Paper Notes or any Medium-Term Notes, which the City intends to pay with moneys which are not Revenues, provided that (i) in the case of Bonds other than Commercial Paper Notes or Medium-Term Notes, such intent shall have been expressed in the Supplemental Resolution authorizing such Series of Bonds, (ii) in the case of Commercial Paper Notes, such intent shall be expressed in the then current Commercial Paper Payment Plan for such Commercial Paper Notes and (iii) in the case of Medium-Term Notes, such intent shall be expressed in the then current Medium-Term Note Payment Plan for such Medium-Term Notes; and provided, further, that any such Principal Installment, other than Principal Installments for Commercial Paper Notes and Medium-Term Notes, shall be a Refundable Principal Installment only through the penultimate day of the month preceding the month in which such Principal Installment comes due or such earlier time as the City no longer intends to pay such Principal Installment with moneys which are not Revenues and with respect to Bonds that are Commercial Paper Notes or Medium-Term Notes, any Commercial Paper Note or Medium-Term Note shall cease to be a Refundable Principal Installment at such time, if any, as shall be provided in the Commercial Paper Payment Plan or Medium-Term Note Payment Plan, as the case may be, applicable thereto.

Refunding Bonds shall mean all Bonds, whether issued in one or more Series, authenticated and delivered on original issuance pursuant to Section 204, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 406 or Section 1106.

Regular Record Date shall have the meaning given to such term in Section 308.

Reimbursement Obligations shall mean all Bonds issued pursuant to Section 207 and any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 406 or Section 1106 and the Supplemental Resolution authorizing such Reimbursement Obligations.

Reserve Deposit, in respect of the Bonds of any Additionally Secured Series, shall mean an amount which shall be deposited monthly into the subaccount in the Debt Service Reserve Account in the Debt Service Fund established with respect to the Bonds of such Additionally Secured Series equal to the product of a fraction, the numerator of which shall be one and the denominator of which shall equal the number of months (which shall be not greater than sixty (60) months), designated by the City in the Supplemental Resolution authorizing the issuance of the Bonds of such Additionally Secured Series, in which the Reserve Deposit for the Bonds of such Additionally Secured Series is to be paid, times the excess (if any) of the Debt Service Reserve Requirement on such date on all Additionally Secured Series of Bonds secured by such subaccount Outstanding including such Additionally Secured Series of Bonds, over the Debt Service Reserve Requirement on all Additionally Secured Series of Bonds secured by such subaccount excluding such Additionally Secured Series of Bonds, such excess to be reduced by (i) the amount, if any, by which the amount on deposit in the separate subaccount in the Debt Service Reserve Account on the date of issuance of such Series of Bonds exceeds the Debt Service Reserve Requirement on all Additionally Secured Series of Bonds secured by such subaccount excluding such Additionally Secured Series of Bonds being issued, and (ii) the amount of proceeds of the Bonds of such Additionally Secured Series being issued or other funds, if any, deposited in such subaccount in the Debt Service Reserve Account on the date of issuance of the Additionally Secured Series of Bonds being issued; provided, however, that the Reserve Deposit may be reduced whenever any additional deposit allocable to the Reserve Deposits for such Additionally Secured Series is made into the separate subaccount in the Debt Service Reserve Account.

Resolution shall mean this Amended and Restated Utilities System Revenue Bond Resolution as from time to time amended or supplemented by Supplemental Resolutions in accordance with the terms hereof.

Revenue Fund shall mean the Revenue Fund established in Section 502.

Revenues shall mean, to the extent accrued to or received by the System or any board or agency in control of the management and operation of the System, (i) all rates, fees, rentals, other charges, and other income properly allocable to the System, resulting from the ownership and operation of the System, excluding customer deposits and any other deposits subject to refund until such deposits have become the property of the City, (ii) the proceeds of any insurance covering business interruption loss relating to the System, and (iii) interest earned on any moneys or securities held pursuant to the Resolution and paid or to be paid into the Revenue Fund.

Securities Depository shall mean, with respect to a Book Entry Bond, the person, firm, association or corporation specified in the Supplemental Resolution authorizing the Bonds of the Series of which such Book Entry Bond is a part to serve as the securities depository for such Book Entry Bond, or

its nominee, and its successor or successors and any other person, firm, association or corporation which may at any time be substituted in its place pursuant to the Resolution or such Supplemental Resolution.

Series shall mean all of the Bonds authenticated and delivered on original issuance and identified pursuant to this Resolution or the Supplemental Resolution authorizing such Bonds as a separate Series of Bonds, or any Bonds thereafter authenticated and delivered in lieu of or in substitution for such Bonds pursuant to Article III or Section 406 or Section 1106, regardless of variations in maturity, interest rate, Sinking Fund Installments, or other provisions.

Sinking Fund Installment shall mean an amount so designated which is established pursuant to the Supplemental Resolution authorizing the Series of Bonds to which such Sinking Fund Installment relates.

Special Record Date shall have the meaning given to such term in Section 308.

Subordinated Commercial Paper Notes shall have the meaning given to such term in paragraph 1 of Section 210.

Subordinated Hedging Contract Obligation shall have the meaning given to such term in Section 209.

Subordinated Indebtedness shall mean an evidence of indebtedness referred to in, and complying with the provisions of, Section 512, and shall include Subordinated Commercial Paper Notes, Subordinated Hedging Contract Obligations, Subordinated Medium-Term Notes and Subordinated Reimbursement Obligations.

Subordinated Indebtedness Fund shall mean the Subordinated Indebtedness Fund established in Section 502.

Subordinated Medium-Term Notes shall have the meaning given to such term in paragraph 1 of Section 211.

Subordinated Reimbursement Obligation shall have the meaning given to such term in Section 207.

Supplemental Resolution shall mean any resolution supplemental to or amendatory of the Resolution, adopted by the City in accordance with Article X.

System shall mean the entire combined and consolidated electric system, water system, wastewater system, natural gas system and telecommunications system of the City, now existing and hereafter acquired by lease, contract, purchase or otherwise or constructed by the City, including any interest or participation of the City in any facilities in connection with said system, together with all additions, betterments, extensions and improvements to said system or any part thereof hereafter constructed or acquired and together with all lands, easements, licenses and rights of way of the City and all other works, property or structures of the City and contract rights and other tangible and intangible assets of the City now or hereafter owned or used in connection with or related to said System; provided, however, that upon compliance with the provisions of Section 717, the term System shall be deemed to include other utility functions added to the System such as the production, distribution and sale of process steam, the providing of cable television services or other utility functions that are, in accordance with Prudent Utility Practice, reasonably related to the services provided by the System. Notwithstanding the foregoing definition of the term System, such term shall not include any properties or interests in

properties of the City which the City determines shall not constitute a part of the System for the purpose of the Resolution.

Trust Estate shall mean (i) the proceeds of the sale of the Bonds, (ii) the Revenues and (iii) all Funds established by the Resolution (other than the Debt Service Reserve Account in the Debt Service Reserve Fund and any fund which may be established pursuant to paragraph 2 of Section 502 hereof), including the investments and income, if any, thereof.

Trustee shall mean the trustee appointed pursuant to Article IX, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

Uniform System of Accounts shall mean, as to the electric utility portion of the System, that system of accounting principles at the time prescribed by the Federal Energy Regulatory Commission, or its successor for such purpose, for Class A and B electric utilities; and as to the other utility portions of the System, shall mean those same principles as appropriately modified for such utilities.

Utilities Plant Improvement Fund shall mean the Utilities Plant Improvement Fund established in Section 502.

Variable Rate Bond shall mean any Bond not bearing interest throughout its term at a specified rate or specified rates determined at the time of issuance of the Series of Bonds of which such Bond is one.

Except where the context otherwise requires, words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, corporations, districts, agencies and bodies.

All references in the Resolution to Articles, Sections, and other subdivisions are to the corresponding Articles, Sections or subdivisions of the Resolution, and the words herein, hereof, hereunder and other words of similar import refer to the Resolution as a whole and not to any particular Article, Section or subdivision of the Resolution. The headings or titles of the several articles and sections of the Resolution, and any Table of Contents appended to copies of the Resolution, shall be solely for convenience of reference and shall not affect the meaning, construction or effect of the Resolution.

SECTION 102. Authority for this Resolution. This Amended and Restated Utilities System Revenue Bond Resolution is supplemental to the Original Resolution, and constitutes a "Supplemental Resolution" within the meaning of the Original Resolution.

SECTION 103. Resolution to Constitute Contract. In consideration of the purchase and acceptance of any and all of the Bonds authorized to be issued hereunder by those who shall hold the same from time to time, the Resolution shall be deemed to be and shall constitute a contract between the City and the Holders from time to time of the Bonds; and the security interest granted and the pledge and assignment made in the Resolution and the covenants and agreements therein set forth to be performed on behalf of the City shall be for the equal benefit, protection and security of the Holders of any and all of the Bonds, all of which, regardless of the time or times of their authentication and delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof except as expressly provided in or permitted by this Resolution.

ARTICLE II

AUTHORIZATION AND ISSUANCE OF BONDS

SECTION 201. Authorization of Bonds. 1. The Resolution authorizes Bonds of the City to be designated as "Utilities System Revenue Bonds". The aggregate principal amount of the Bonds which may be executed, authenticated and delivered under the Resolution is not limited except as may hereafter be provided in the Resolution or in any Supplemental Resolution or as may be limited by law.

2. The Bonds may, if and when authorized by the City pursuant to one or more Supplemental Resolutions, be issued in one or more Series, and the designation thereof, in addition to the name "Utilities System Revenue Bonds", shall include such further appropriate particular designation added to or incorporated in such title for the Bonds of any particular Series as the City may determine. Each Bond shall bear upon its face the designation so determined for the Series to which it belongs.

3. Nothing in the Resolution shall be deemed to preclude or restrict the consolidation into a single Series for purposes of issuance and sale of Bonds otherwise permitted by the Resolution to be issued at the same time in two or more separate Series, provided that solely for the purpose of satisfying the requirements of Section 202, Section 203 or Section 204, as the case may be, the Bonds otherwise permitted by the Resolution to be issued as a separate Series shall be considered separately as if such Bonds were to be issued as a separate Series. In the event that separate Series are combined for purposes of issuance and sale, they may be issued under a single Supplemental Resolution notwithstanding any other provision of the Resolution.

SECTION 202. General Provisions for Issuance of Bonds. 1. Except in the case of Parity Reimbursement Obligations, Parity Commercial Paper Notes and Parity Medium-Term Notes (the issuance of which shall be governed by the provisions of Sections 207, 210 and 211, respectively), all (but not less than all) the Bonds of each Series shall be executed by the City for issuance under the Resolution and delivered to the Trustee and thereupon shall be authenticated by the Trustee and by it delivered to the City or upon its order, but only upon the receipt by the Trustee (with copies of all documents to the Co-Trustee, if any) of:

(1) An Opinion of Counsel of recognized standing in the field of law relating to municipal bonds to the effect that (i) the City has the right and power under the Act as amended to the date of such Opinion to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the City, is in full force and effect and is valid and binding upon the City in accordance with its terms, and no other authorization for the Resolution is required; (ii) the Resolution creates the valid pledge which it purports to create of, the Trust Estate and, if such Series of Bonds shall be an Additionally Secured Series, the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund established for the benefit of such Bonds, subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution; and (iii) the Bonds of such Series are valid and binding obligations of the City as provided in the Resolution and entitled to the benefits of the Resolution and of the Act as amended to the date of such Opinion, and such Bonds have been duly and validly authorized and issued in accordance with law, including the Act as amended to the date of such Opinion, and in accordance with the Resolution. Such opinion may take exception for limitations imposed by or resulting from bankruptcy, insolvency, moratorium, reorganization or other laws affecting creditors' rights generally and may state that no opinion is being rendered as to the availability of any particular remedy. No opinion need be expressed as to the priority of the pledge and assignment created by the Resolution over the rights of other

persons in the Trust Estate and, if applicable, such separate subaccount in the Debt Service Reserve Account in the Debt Service Fund;

(2) A written order as to the delivery of such Bonds, signed by an Authorized Officer of the City;

(3) A copy of the Supplemental Resolution authorizing such Bonds, certified by an Authorized Officer of the City, which shall specify such terms and conditions relative to the Bonds of such Series, and such other matters relative thereto, as the City may determine;

(4) The amount, if any, required by the Supplemental Resolution to be deposited in the Debt Service Account in the Debt Service Fund for the payment of interest on Bonds and, if such Series shall be an Additionally Secured Series, the amount, if any, necessary for deposit in the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund designated therefor so that the amount on deposit in such subaccount shall equal the Debt Service Reserve Requirement related thereto calculated immediately after the authentication and delivery of such Series of Additional Obligations; provided, however, that a Supplemental Resolution establishing a separate subaccount in the Debt Service Reserve Account in the Debt Service Fund may provide that, in lieu of maintaining all or a portion of the moneys or investments required to be maintained in such separate subaccount in the Debt Service Reserve Account in the Debt Service Fund, there may be credited to said subaccount at any time an irrevocable surety bond, an insurance policy, a letter of credit or any other similar obligation, or any combination thereof, of the type specified therein, or such amount may be deposited thereafter from Revenues or otherwise, in such manner as may be specified therein;

(5) The amount, if any, required by the Supplemental Resolution to be deposited in the Rate Stabilization Fund;

(6) Except in the case of any Series of Refunding Bonds, a certificate of an Authorized Officer of the City stating that either (a) no Event of Default has occurred and is continuing under the Resolution or (b) the application of the proceeds of sale of such Series of Bonds as required by the Supplemental Resolution will cure any such Event of Default;

(7) All amounts not deposited in other Funds under the Resolution for deposit in the Construction Fund;

(8) Except in the case of any Series of Refunding Bonds, the City shall have filed with the Trustee a certificate of an Authorized Officer stating (i) that the Net Revenues of the System in any twelve consecutive months out of the most recent eighteen months preceding the sale of Bonds, as determined from the financial statements of the System, were not less than one hundred twenty-five percent (125%) of the Aggregate Debt Service over such twelve month period in respect of the then Outstanding Bonds;

(9) Except in the case of any Series of Refunding Bonds, a certificate of an Authorized Officer of the City stating that the Net Revenues for each of the full Fiscal Years in the period specified in the next sentence, as such Net Revenues are estimated by the City in accordance with Section 205 hereof, shall be at least equal to 1.40 times the Adjusted Aggregate Debt Service for each such Fiscal Year, as estimated by the City in accordance with Section 205 hereof. The period to be covered by such certificate shall be the period beginning with the Fiscal Year in which the Series of Bonds is authenticated and delivered and ending with the later of (a) the fifth full Fiscal Year after such date of authentication and delivery or (b) the first full

Fiscal Year in which less than 10% of the interest coming due on Bonds estimated by the City to be Outstanding is to be paid from deposits made from Bond proceeds in the Debt Service Account in the Debt Service Fund (including amounts, if any, to be transferred thereto from the Construction Fund);

(10) In the case of each Series of Bonds any portion of the proceeds of which is to be deposited in the Debt Service Account in the Debt Service Fund, a certificate of an Authorized Officer of the City setting forth the then estimated application of such proceeds so deposited for the payment of interest on any particular Series of Bonds, whether or not such Series of Bonds is then Outstanding, or then being issued, or to be issued thereafter; and

(11) Such further documents, moneys and securities as are required by the provisions of Section 204 or Article X or any Supplemental Resolution adopted pursuant to Article X.

2. All the Bonds of each Series of like maturity shall be identical in all respects, except as to interest rate, denominations, numbers and letters. After the original issuance of Bonds of any Series other than Parity Reimbursement Obligations, Parity Commercial Paper Notes and Parity Medium-Term Notes, no Bonds of such Series shall be issued except in lieu of or in substitution for other Bonds of such Series pursuant to Article III or Section 406 or Section 1106.

SECTION 203. Bonds Other than Refunding Bonds, Parity Commercial Paper Notes, Parity Medium-Term Notes and Parity Reimbursement Obligations. 1. One or more Series of Bonds may be issued at any time for the purpose of paying all or a portion of the Cost of Acquisition and Construction of the System. Bonds of each such Series shall be authenticated and delivered by the Trustee only upon compliance with the terms and conditions set forth in Section 202.

2. Proceeds, including accrued interest, of each Series of Bonds authorized under this Section 203 shall be applied simultaneously with the delivery of such Bonds as shall be provided in the Supplemental Resolution authorizing such Series.

SECTION 204. Refunding Bonds. 1. One or more Series of Refunding Bonds may be issued at any time to refund any Outstanding Bonds. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys available therefor, to accomplish such refunding and to make the deposits in the Funds and Accounts under the Resolution required by the provisions of the Supplemental Resolution authorizing such Bonds.

2. Refunding Bonds of each Series shall be authenticated and delivered by the Trustee only upon receipt by the Trustee (with copies of all documents to the Co-Trustee, if any), in addition to the documents required by Section 202, of:

(a) Instructions to the Trustee, satisfactory to it, to give due notice of redemption, if applicable, of all the Bonds to be refunded on a redemption date or dates specified in such instructions;

(b) If the Bonds to be refunded are not by their terms subject to redemption or paid at maturity within the next succeeding 60 days, instructions to the Trustee, satisfactory to it, to give due notice of defeasance in the manner provided for in Section 1201 of the Resolution or the Supplemental Resolution authorizing the Bonds of the Series being refunded; and

(c) Either (i) moneys (including moneys withdrawn and deposited pursuant to paragraph 4 of Section 507 and paragraph 5 of Section 508) in an amount sufficient to effect

payment at the applicable Redemption Price of the Bonds to be redeemed and at the principal amount of the Bonds to be paid at maturity together with accrued interest on such Bonds to the redemption date or maturity date, as applicable, which moneys shall be held by the Trustee or any one or more of the Paying Agents in a separate account irrevocably in trust for and assigned to the respective Holders of the Bonds to be refunded, or (ii) Defeasance Securities in such principal amounts, of such maturities, bearing such interest, and otherwise having such terms and qualifications and any moneys, as shall be necessary to comply (x) with the provisions of paragraph 3 of Section 1201, which Defeasance Securities and moneys shall be held in trust and used only as provided in said paragraph 3 or (y) the provisions relating to defeasance of the Bonds being refunded set forth in the Supplemental Resolution authorizing the Bonds of the Series being refunded, as applicable, which Defeasance Securities and moneys shall be held in trust and used only as provided in said provisions.

3. The proceeds, including accrued interest, of the Refunding Bonds of each Series shall be applied simultaneously with the delivery of such Bonds for the purposes of making deposits in such Funds and Accounts under the Resolution as shall be provided by the Supplemental Resolution authorizing such Series of Refunding Bonds and shall be applied to the refunding purposes thereof in the manner provided in said Supplemental Resolution.

SECTION 205. Estimates by the City. 1. In estimating Net Revenues for each of the Fiscal Years covered by any certificate required to be delivered by it pursuant to clause (9) of paragraph 1 of Section 202 hereof or Section 206 hereof, the City may base its estimate upon such factors as it shall consider reasonable.

2. In estimating the Adjusted Aggregate Debt Service for each of the Fiscal Years covered by any certificate required to be delivered by it pursuant to clause (9) of paragraph 1 of Section 202 hereof or Section 206 hereof, the City shall include the Adjusted Aggregate Debt Service on all Bonds estimated to be Outstanding during each such Fiscal Year. With respect to (a) any Bonds which are not Outstanding on the date such certificate is delivered but which are projected to be issued during the period covered by such certificate, and (b) any Variable Rate Bonds Outstanding on the date such certificate is delivered, the City shall estimate the Debt Service on such Bonds upon such assumptions as the City shall consider reasonable and set forth in such certificate, including assumptions with respect to the interest rate or rates to be borne by such Bonds and the amounts and due dates of the Principal Installments for such Bonds; provided, however, that the interest rate or rates assumed to be borne by any Variable Rate Bonds shall not be less than the interest rate borne by such Variable Rate Bonds at the time that the Authorized Officer of the City delivers such certificate.

SECTION 206. Credit Obligations. Payments owed by the City with respect to any Credit Obligation shall constitute Operation and Maintenance Expenses only if at the time the City enters into the contract relating to such Credit Obligation the City shall file with the Trustee a certificate of an Authorized Officer of the City stating that, assuming such payments are made as Operation and Maintenance Expenses from the Revenue Fund, the Net Revenues for each of the full Fiscal Years in the period specified in the next sentence, as such Net Revenues are estimated by the City in accordance with Section 205 hereof, shall be at least equal to 1.25 times the Aggregate Debt Service for each such Fiscal Year, as estimated by the City in accordance with Section 205 hereof. The period to be covered by such certificate shall be the period beginning with the Fiscal year in which the contract relating to the Credit Obligation becomes effective and ending with the later of (a) the fifth full Fiscal Year after such effective date or (b) the first full Fiscal Year in which less than 10% of the interest coming due on Bonds estimated by the City to be Outstanding is to be paid from deposits made from Bond proceeds in the Debt Service Account in the Debt Service Fund (including amounts, if any, to be transferred thereto from the Construction Fund).

SECTION 207. Reimbursement Obligations. One or more Series of Reimbursement Obligations may be issued concurrently with the issuance of the Bonds of a Series authorized pursuant to the provisions of Section 203 or 204 hereof for which Credit Enhancement or liquidity support is being provided with respect to such Bonds (or a maturity or maturities or interest rate within a maturity thereof) by a third-party. Such Reimbursement Obligations shall be issued for the purpose of evidencing the City's obligation to repay any advances or loans made to, or on behalf of, the City in connection with such Credit Enhancement or liquidity support; provided, however, that the stated maximum principal amount of any such Series of Reimbursement Obligations shall not exceed the aggregate principal amount of the Bonds with respect to which such Credit Enhancement or liquidity support is being provided, and such number of days' interest thereon as the City shall determine prior to the issuance thereof, but not in excess of 366 days' interest thereon, computed at the maximum interest rate applicable thereto; and provided, further, that principal amortization requirements shall be equal to the amortization requirements of the related Bonds, without acceleration. Any Reimbursement Obligation, which may include interest calculated at a rate higher than the interest rate on the related Bonds, may be secured by a pledge and assignment of the Trust Estate on a parity with the pledge and assignment created by paragraph 1 of Section 501 to secure the Bonds (a "Parity Reimbursement Obligation"), but only to the extent principal amortization requirements with respect to such reimbursement are equal to the amortization requirements for such related Bonds, without acceleration, or may be secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge and assignment shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds and Parity Hedging Contract Obligations but on a parity with the pledge and lien securing Subordinated Indebtedness (a "Subordinated Reimbursement Obligation"), as determined by the City. Parity Reimbursement Obligations shall not include any payments of any fees, expenses, indemnification or other obligations to any provider of Credit Enhancement, or any payments pursuant to term-loan or other principal amortization requirements in reimbursement of any such advance that are more accelerated than the amortization requirements on such related Bonds, which payments shall be Subordinated Reimbursement Obligations.

SECTION 208. Special Provisions Relating to Capital Appreciation Bonds, Deferred Income Bonds and Parity Reimbursement Obligations. 1. The principal and interest portions of the Accreted Value of Capital Appreciation Bonds or the Appreciated Value of Deferred Income Bonds becoming due at maturity or by virtue of a Sinking Fund Installment shall be included in the calculations of accrued and unpaid and accruing interest or Principal Installments made under the definitions of Debt Service, Accrued Aggregate Debt Service, Adjusted Aggregate Debt Service and Aggregate Debt Service only from and after the date (the "Calculation Date") which is one year prior to the date on which such Accreted Value or Appreciated Value, as the case may be, becomes so due, and the principal and interest portions of such Accreted Value or Appreciated Value shall be deemed to accrue in equal daily installments from the Calculation Date to such due date.

2. For the purposes of (i) receiving payment of the Redemption Price if a Capital Appreciation Bond is redeemed prior to maturity, or (ii) receiving payment of a Capital Appreciation Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default, as provided in Section 801 of the Resolution or (iii) computing the principal amount of Bonds held by the Holder of a Capital Appreciation Bond in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its then current Accreted Value.

3. For the purposes of (i) receiving payment of the Redemption Price if a Deferred Income Bond is redeemed prior to maturity, or (ii) receiving payment of a Deferred Income Bond if the principal of all Bonds is declared immediately due and payable following an Event of Default, as provided in Section 801 of the Resolution or (iii) computing the principal amount of Bonds held by the

Holder of a Deferred Income Bond in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Deferred Income Bond shall be deemed to be its then current Appreciated Value.

4. Except as otherwise provided in a Supplemental Resolution authorizing a Series of Parity Reimbursement Obligations, for the purposes of (i) receiving payment of a Parity Reimbursement Obligation, whether at maturity, upon redemption or if the principal of all Bonds is declared immediately due and payable following an Event of Default, as provided in Section 801 of the Resolution or (ii) computing the principal amount of Bonds held by the Holder of a Parity Reimbursement Obligation in giving to the City or the Trustee any notice, consent, request, or demand pursuant to the Resolution for any purpose whatsoever, the principal amount of a Parity Reimbursement Obligation shall be deemed to be the actual principal amount that the City shall owe thereon, which shall equal the aggregate of the amounts advanced to, or on behalf of, the City in connection with the Bonds of the Series or maturity or interest rate within a maturity for which such Parity Reimbursement Obligation has been issued to evidence the City's obligation to repay any advances or loans made in respect of the Credit Enhancement or liquidity support provided for such Bonds, less any prior repayments thereof.

SECTION 209. Provisions Concerning Qualified Hedging Contracts. The City may, to the extent from time to time permitted pursuant to law, enter into Qualified Hedging Contracts. The City's obligation to pay any amount under any Qualified Hedging Contract may be secured by a pledge and assignment of the Trust Estate on a parity with the pledge and assignment created by paragraph 1 of Section 501 to secure the Bonds (a "Parity Hedging Contract Obligation"), or may be secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge and assignment shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds but on a parity with the pledge and assignment securing Subordinated Indebtedness (a "Subordinated Hedging Contract Obligation"), as determined by the City. Notwithstanding the foregoing, Parity Hedging Contract Obligations shall not include any payments of any termination payments owed to a counterparty to a Qualified Hedging Contract, which payments shall be Subordinated Hedging Contract Obligations.

SECTION 210. Commercial Paper Notes. 1. Commercial Paper Notes may be issued from time to time in Series secured by a pledge and assignment of the Trust Estate on a parity with the pledge and assignment created by paragraph 1 of Section 501 to secure the Bonds ("Parity Commercial Paper Notes"). Commercial Paper Notes may also be issued from time to time in series secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds but on a parity with the pledge and lien securing Subordinated Indebtedness ("Subordinated Commercial Paper Notes"). The Trustee shall authenticate and deliver Commercial Paper Notes to the City or upon its order, but only upon satisfaction of the following conditions:

(a) If so required by the Supplemental Resolution, the Trustee shall have received a credit facility or a liquidity facility with respect to such Commercial Paper Notes containing such terms and conditions, including with respect to reimbursement, as shall be approved by the Commission;

(b) The Trustee shall have received a certificate of an Authorized Officer of the City setting forth the Commercial Paper Payment Plan with respect to such Commercial Paper Notes. Such certificate shall be amended from time to time by a new certificate of an Authorized Officer of the City to reflect changes, if any, in the expectations of the City with respect to the sources of funds to be utilized to pay principal of and interest on such Commercial Paper Notes; and

(c) If such Commercial Paper Notes shall be Parity Commercial Paper Notes, the Trustee shall have received, prior to the initial issuance of Commercial Paper Notes of a Series, the items referred to in paragraph 1 of Section 202, modified to refer to the Commercial Paper Notes rather than Bonds, and, if applicable, Section 204.

2. The City may appoint a fiscal agent to perform such duties of the Trustee hereunder as the City shall specify in the Supplemental Resolution authorizing such Commercial Paper Notes. Any such fiscal agent shall meet the minimum qualifications applicable to a successor Trustee set forth in Section 909.

3. The proceeds, including accrued interest, if any, of Commercial Paper Notes shall be applied simultaneously with the delivery of such Commercial Paper Notes as provided in the Supplemental Resolution authorizing such Commercial Paper Notes.

SECTION 211. Medium-Term Notes. 1. Medium-Term Notes may be issued from time to time in Series secured by a pledge and assignment of the Trust Estate on a parity with the pledge and lien created by paragraph 1 of Section 501 to secure the Bonds ("Parity Medium-Term Notes"). Medium-Term Notes may also be issued from time to time in series secured by a pledge and assignment of the Subordinated Indebtedness Fund which pledge shall be subordinate in all respects to the pledge of the Trust Estate created by the Resolution in favor of the Bonds but on a parity with the pledge and lien securing Subordinated Indebtedness ("Subordinated Medium-Term Notes"). The Trustee shall authenticate and deliver Medium-Term Notes to the City or upon its order, but only upon satisfaction of the following conditions:

(a) If so required by the Supplemental Resolution, the Trustee shall have received a credit facility or a liquidity facility with respect to such Medium-Term Notes containing such terms and conditions, including with respect to reimbursement, as shall be approved by the Commission;

(b) The Trustee shall have received a certificate of an Authorized Officer of the City setting forth the Medium-Term Note Payment Plan with respect to such Medium-Term Notes. Such certificate shall be amended from time to time by a new certificate of an Authorized Officer of the City to reflect changes, if any, in the expectations of the City with respect to the sources of funds to be utilized to pay principal of and interest on such Medium-Term Notes; and

(c) If such Medium-Term Notes shall be Parity Medium-Term Notes, the Trustee shall have received, prior to the initial issuance of Medium-Term Notes of a Series, the items referred to in paragraph 1 of Section 202, modified to refer to the Medium-Term Notes rather than Bonds,* and, if applicable, Section 204.

2. The City may appoint a fiscal agent to perform such duties of the Trustee hereunder as the City shall specify in the Supplemental Resolution authorizing such Medium-Term Notes. Any such fiscal agent shall meet the minimum qualifications applicable to a successor Trustee set forth in Section 909.

3. The proceeds, including accrued interest, if any, of Medium-Term Notes shall be applied simultaneously with the delivery of such Medium-Term Notes as provided in the Supplemental Resolution authorizing such Medium-Term Notes.

ARTICLE III

GENERAL TERMS AND PROVISIONS OF BONDS

SECTION 301. Medium of Payment; Form and Date; Letters and Numbers.

1. The Bonds of each Series shall be payable, with respect to interest, principal and Redemption Price, in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts.

2. Unless otherwise provided in a Supplemental Resolution, the Bonds of each Series shall be issued in the form of fully registered Bonds without coupons. The Bonds shall be in substantially the form set forth in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

3. Each Bond shall be lettered and numbered as provided in the Supplemental Resolution authorizing the Series of which such Bond is a part and so as to be distinguished from every other Bond.

4. Bonds of each Series shall be dated the date of their authentication, except as may be otherwise provided in the Supplemental Resolution authorizing the Bonds of such Series, and shall bear interest as provided in the Supplemental Resolution authorizing the Bonds of such Series.

SECTION 302. Legends. The Bonds of each Series may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of the Resolution as may be necessary or desirable to comply with custom, the rules of any securities exchange or commission or brokerage board, or otherwise, as may be determined by the City prior to the authentication and delivery thereof.

SECTION 303. Execution and Authentication. 1. The Bonds shall be executed in the name of the City by the manual or facsimile signature of its Mayor and the seal of the City (or a facsimile thereof), shall be impressed, imprinted, engraved or otherwise reproduced thereon and attested by the manual or facsimile signature of the Clerk of the Commission of the City; provided however, that the signature of either the Mayor or the Clerk of the Commission shall be manual signatures, or in such other manner as may be required or permitted by law. The Bonds shall be approved as to form and legality by the City Attorney. In case any one or more of the officers who shall have signed or sealed any of the Bonds shall cease to be such officer before the Bonds so signed and sealed shall have been authenticated and delivered by the Trustee, such Bonds may, nevertheless, be authenticated and delivered as herein provided, and may be issued as if the persons who signed or sealed such Bonds had not ceased to hold such offices. Any Bond of a Series may be signed and sealed on behalf of the City by such persons as at the time of the execution of such Bonds shall be duly authorized or hold the proper office in the City, although at the date borne by the Bonds of such Series such persons may not have been so authorized or have held such office.

2. The validation certificate appearing on the Bonds, if any, shall be signed by the facsimile signature of the Mayor and attested with the facsimile signature of the Clerk of the Commission of the City, or in such other manner as may be required or permitted by law, and the City may adopt and use for that purpose the facsimile signature of any person or persons who shall have been Mayor or Clerk of the Commission of the City at any time on or after the date borne by the Bonds of such Series, notwithstanding that such person may not have been such Mayor or Clerk of the Commission of the City at the date of any such Bond or may have ceased to be such Mayor or Clerk of the Commission of the City at the time when any such Bond shall be authenticated and delivered.

3. The Bonds of each Series shall bear thereon a certificate of authentication, in the form set forth in the Supplemental Resolution authorizing the Bonds of such Series, executed manually by the Trustee. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under the Resolution and no Bond shall be valid or obligatory for any purpose until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of the Trustee upon any Bond executed on behalf of the City shall be conclusive evidence that the Bond so authenticated has been duly authenticated and delivered under the Resolution and that the Holder thereof is entitled to the benefits of the Resolution.

SECTION 304. Interchangeability of Bonds. Bonds, upon surrender thereof at the office of the Bond Registrar with a written instrument of transfer satisfactory to the Bond Registrar, duly executed by the registered owner or such owner's duly authorized attorney, may, at the option of the registered owner thereof, and upon payment by such registered owner of any charges which the Bond Registrar may make as provided in Section 306, be exchanged for an equal aggregate principal amount of fully registered Bonds of the same Series, maturity and interest rate of any other authorized denominations.

SECTION 305. Negotiability, Transfer and Registry. 1. Bonds shall be transferable only upon the books of the City, which shall be kept for such purposes at the office of the Bond Registrar, by the registered owner thereof in person or by such owner's attorney duly authorized in writing, upon surrender thereof together with a written instrument of transfer satisfactory to the Bond Registrar duly executed by the registered owner or such owner's duly authorized attorney. Upon the transfer of any such Bond the City shall issue in the name of the transferee a new Bond or Bonds of the same aggregate principal amount and Series, maturity and interest rate as the surrendered Bond.

2. The City and each Fiduciary may deem and treat the person in whose name any Bond shall be registered upon the books of the City as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal and Redemption Price, if any, of and interest on such Bond and for all other purposes, and all such payments so made to any such registered owner or upon such owner's order shall be valid and effectual to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid, and neither the City nor any Fiduciary shall be affected by any notice to the contrary. The City agrees to indemnify and save each Fiduciary harmless from and against any and all loss, cost, charge, expense, judgment or liability incurred by it, acting in good faith and without negligence under the Resolution, in so treating such registered owner.

SECTION 306. Regulations With Respect to Exchanges and Transfers. In all cases in which the privilege of exchanging Bonds or transferring Bonds is exercised, the City shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of the Resolution. All Bonds surrendered in any such exchanges or transfers shall forthwith be delivered to the Trustee and cancelled or retained by the Trustee. For every such exchange or transfer of Bonds, the City or the Bond Registrar may make a charge sufficient to reimburse it for any tax, fee or other governmental charge imposed in connection with said exchange, transfer or registration by a governmental unit other than the City. Unless otherwise provided in a Supplemental Resolution, neither the City nor the Bond Registrar shall be required (a) to transfer or exchange any Bond of any Series for the period next preceding any interest payment date for the Bonds of such Series beginning with the Regular Record Date for such interest payment date and ending on such interest payment date, or for the period next preceding any date for the proposed payment of Defaulted Interest with respect to such Bond beginning with the Special Record Date for the date of such proposed payment and ending on the date of such proposed payment, (h) to transfer or exchange Bonds of any Series for a period beginning 15 days before the first

mailing of any notice of redemption and ending on the day of such mailing, or (c) to transfer, exchange or register any Bonds called for redemption.

SECTION 307. Bonds Mutilated, Destroyed, Stolen or Lost. If any Bond becomes mutilated or is lost, stolen or destroyed, the City shall execute and the Trustee shall authenticate and deliver a new Bond of like Series, date of issue, maturity date, principal amount, interest rate per annum and redemption provisions as the Bond so mutilated, lost, stolen or destroyed, provided that (i) in the case of such mutilated Bond, such Bond is first surrendered to the City, (ii) in the case of any such lost, stolen or destroyed Bond, there is first furnished evidence of such loss, theft or destruction satisfactory to the City together with indemnity satisfactory to the City, (iii) all other reasonable requirements of the City are complied with, and (iv) expenses in connection with such transaction are paid by the Holder. Any such Bond surrendered for exchange shall be cancelled. Any such new Bonds issued pursuant to this Section in substitution for Bonds alleged to be destroyed, stolen or lost shall constitute original additional contractual obligations on the part of the City, whether or not the Bonds so alleged to be destroyed, stolen or lost be at any time enforceable by anyone, and shall be equally secured by and entitled to equal and proportionate benefits with all other Bonds issued under the Resolution in the Trust Estate.

SECTION 308. Payment of Interest on Bonds; Interest Rights Reserved. Interest on any Bond which is payable, and is punctually paid or duly provided for, on any interest payment date shall be paid to the person in whose name that Bond is registered at the close of business on the date (hereinafter the "Regular Record Date") which, unless otherwise provided in the Supplemental Resolution authorizing such Bond, is the 15th day of the calendar month next preceding such interest payment date.

Any interest on any Bond which is payable, but is not punctually paid or duly provided for, on any interest payment date (hereinafter "Defaulted Interest") shall forthwith cease to be payable to the registered owner on the relevant Regular Record Date by virtue of having been such owner; and such Defaulted Interest shall be paid by the City to the persons in whose names the Bonds are registered at the close of business on a date (hereinafter the "Special Record Date") for the payment of such Defaulted Interest, which shall be fixed in the following manner. The City shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the City shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the persons entitled to such Defaulted Interest as in this Section provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the City of such Special Record Date and, in the name and at the expense of the City, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Bondholder at such Bondholder's address as it appears in the books of the City kept at the office of the Bond Registrar, not less than 10 days prior to such Special Record Date.

Subject to the foregoing provisions of this Section, each Bond delivered under this Resolution upon transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Bond.

SECTION 309. Book Entry Bonds. 1. Anything in the Resolution to the contrary notwithstanding, if and to the extent provided in the Supplemental Resolution authorizing the

Bonds of the Series of which such Bond is a part, any Bond may be authorized and issued as a Book Entry Bond.

2. For all purposes of the Resolution, the Holder of a Book Entry Bond shall be the Securities Depository therefor and neither the City nor any Fiduciary shall have any responsibility or obligation to the beneficial owner of such Bond or to any direct or indirect participant in such Securities Depository. Without limiting the generality of the foregoing, neither the City nor any Fiduciary shall have any responsibility or obligation to any such participant or to the beneficial owner of a Book Entry Bond with respect to (i) the accuracy of the records of the Securities Depository or any participant with respect to any beneficial ownership interest in such Bond, (ii) the delivery to any participant of the Securities Depository, the beneficial owner of such Bond or any other person, other than the Securities Depository, of any notice with respect to such Bond, including any notice of the redemption thereof, or (iii) the payment to any participant of the Securities Depository, the beneficial owner of such Bond or any other person, other than the Securities Depository, of any amount with respect to the principal or Redemption Price of, or interest on, such Bond. The City and the Fiduciaries may treat the Securities Depository therefor as, and deem such Securities Depository to be, the absolute owner of a Book Entry Bond for all purposes whatsoever, including, but not limited to, (w) payment of the principal or Redemption Price of, and interest on, such Bond, (x) giving notices of redemption and of other matters with respect to such Bond, (y) registering transfers with respect to such Bond and (z) giving to the City or the Trustee any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever. The Paying Agents shall pay the principal or Redemption Price of, and interest on, a Book Entry Bond only to or upon the order of the Securities Depository therefor, and all such payments shall be valid and effective to satisfy fully and discharge the City's obligations with respect to such principal or Redemption Price, and interest, to the extent of the sum or sums so paid. Except as otherwise provided in subsection 4 of this Section 309 or in any Supplemental Resolution authorizing a Book Entry Bond, no person other than the Securities Depository shall receive a Bond or other instrument evidencing the City's obligation to make payments of the principal or Redemption Price thereof, and interest thereon.

3. The City, in its sole discretion and without the consent of any other person, may, by notice to the Trustee and a Securities Depository, terminate the services of such Securities Depository with respect to the Book Entry Bonds for which such Securities Depository serves as securities depository if the City determines that (i) the Securities Depository is unable to discharge its responsibilities with respect to such Bond or (ii) a continuation of the requirement that all of the Bonds issued as Book Entry Bonds be registered in the registration books of the City in the name of the Securities Depository is not in the best interests of the beneficial owners of such Bonds or of the City. Additional or other terms and provisions relating to the termination or resignation of a Securities Depository may be provided in the Supplemental Resolution authorizing a Book Entry Bond.

4. Upon the termination of the services of a Securities Depository with respect to a Book Entry Bond pursuant to clause (ii) of the first sentence of subsection 3 of this Section 309, such Bond no longer shall be restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository. Upon the termination of the services of a Securities Depository with respect to a Book Entry Bond pursuant to clause (i) of the first sentence of subsection 3 of this Section 309, the City may within 90 days thereafter appoint a substitute securities depository which, in the opinion of the City, is willing and able to undertake the functions of Securities Depository under the Resolution upon reasonable and customary terms. If no such successor can be found within such period, such Book Entry Bond shall no longer be restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository. In the event that a Book Entry Bond shall no longer be restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository, (a) the City shall execute and the Trustee shall authenticate and deliver, upon presentation and surrender of the Book Entry Bond, Bond certificates as requested by the Securities

Depository so terminated of like Series, principal amount, maturity and interest rate, in authorized denominations, to the identifiable beneficial owners in replacement of such beneficial owners' beneficial ownership interests in such Book Entry Bond and (b) the Trustee shall notify the Bond Registrar and the Paying Agents that such Bond is no longer restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository.

5. Anything in the Resolution to the contrary notwithstanding, payment of the Redemption Price of a Book Entry Bond, or portion thereof, called for redemption prior to maturity may be paid to the Securities Depository by check or draft mailed to the Securities Depository or by wire transfer. Anything in the Resolution to the contrary notwithstanding, such Redemption Price may be paid without presentation and surrender to the Paying Agent of the Book Entry Bond, or portion thereof, called for redemption; provided, however, that payment of (a) the principal payable at maturity of a Book Entry Bond and (b) the Redemption Price of a Book Entry Bond as to which the entire principal amount thereof has been called for redemption shall be payable only upon presentation and surrender of such Book Entry Bond to the Paying Agent; and provided, further, that no such Redemption Price shall be so payable without presentation and surrender unless such Book Entry Bond shall contain or have endorsed thereon a legend substantially to the following effect (or such other legend(s) of similar content as may be specified in the Supplemental Resolution authorizing the Series of Bonds of which such Book Entry Bond is a part as may be determined to be necessary or desirable by the City or such Securities Depository):

"AS PROVIDED IN THE RESOLUTION REFERRED TO HEREIN, UNTIL THE TERMINATION OF THE CITY OF BOOK-ENTRY-ONLY TRANSFERS THROUGH [NAME OF SECURITIES DEPOSITORY] (TOGETHER WITH ANY SUCCESSOR SECURITIES DEPOSITORY APPOINTED PURSUANT TO THE RESOLUTION, "[NAME OF SECURITIES DEPOSITORY]"), AND NOTWITHSTANDING ANY OTHER PROVISION OF THE RESOLUTION TO THE CONTRARY, (A) THIS BOND MAY BE TRANSFERRED, IN WHOLE BUT NOT IN PART, ONLY TO A NOMINEE OF [NAME OF SECURITIES DEPOSITORY], OR BY A NOMINEE OF [NAME OF SECURITIES DEPOSITORY] TO [NAME OF SECURITIES DEPOSITORY OR A NOMINEE OF [NAME OF SECURITIES DEPOSITORY], OR BY [NAME OF SECURITIES DEPOSITORY] OR A NOMINEE OF [NAME OF SECURITIES DEPOSITORY] TO ANY SUCCESSOR SECURITIES DEPOSITORY OR ANY NOMINEE THEREOF AND (B) A PORTION OF THE PRINCIPAL AMOUNT OF THIS BOND MAY BE PAID OR REDEEMED WITHOUT SURRENDER HEREOF TO THE PAYING AGENT. [NAME OF SECURITIES DEPOSITORY] OR A NOMINEE, TRANSFEREE OR ASSIGNEE OF [NAME OF SECURITIES DEPOSITORY] OF THIS BOND MAY NOT RELY UPON THE PRINCIPAL AMOUNT INDICATED HEREON AS THE PRINCIPAL AMOUNT HEREOF OUTSTANDING AND UNPAID. THE PRINCIPAL AMOUNT HEREOF OUTSTANDING AND UNPAID SHALL, FOR ALL PURPOSES BE THE AMOUNT DETERMINED IN THE MANNER PROVIDED IN THE RESOLUTION."

Anything in the Resolution to the contrary notwithstanding, upon any such payment to the Securities Depository without presentation and surrender, for all purposes of (i) the Book Entry Bond as to which such payment has been made and (ii) the Resolution, the unpaid principal amount of such Book Entry Bond Outstanding shall be reduced automatically by the principal amount so paid. In such event, the Paying Agent shall notify forthwith the Trustee and the Bond Registrar as to the particular Book Entry Bond as to which such payment has been made, and the principal amount of such Bond so paid, and the Bond Registrar shall note such payment on the registration books of the City maintained by it, but failure to make any such notation shall not affect the automatic reduction of the principal amount of such Book Entry Bond Outstanding as provided in this subsection.

6. For all purposes of the Resolution authorizing or permitting the purchase of Bonds, or portions thereof, by, or for the account of, the City for cancellation, and anything in the Resolution to the contrary notwithstanding, a portion of a Book Entry Bond may be deemed to have been purchased and cancelled without surrender thereof upon delivery to the Bond Registrar of a certificate executed by the City and a participant of the Securities Depository therefor to the effect that a beneficial ownership interest in such Bond, in the principal amount stated therein, has been purchased by, or for the account of, the City through the participant of the Securities Depository executing such certificate; provided, however, that any purchase for cancellation of the entire principal amount of a Book Entry Bond shall be effective for purposes of the Resolution only upon surrender of such Book Entry Bond to the Bond Registrar; and provided, further, that no portion of a Book Entry Bond may be deemed to have been so purchased and cancelled without surrender thereof unless such Book Entry Bond shall contain or have endorsed thereon the legend(s) referred to in subsection 5 of this Section 309. Anything in the Resolution to the contrary notwithstanding, upon delivery of any such certificate to the Bond Registrar, for all purposes of (i) the Book Entry Bond to which such certificate relates and (ii) the Resolution, the unpaid principal amount of such Book Entry Bond Outstanding shall be reduced automatically by the principal amount so purchased. In such event, the Bond Registrar shall notify forthwith the Trustee as to the particular Book Entry Bond as to which a beneficial ownership interest therein has been so purchased, and the principal amount of such Bond so purchased, and the Bond Registrar shall note such reduction in principal amount of such Book Entry Bond Outstanding on the registration books of the City maintained by it, but failure to make any such notation shall not affect the automatic reduction of the principal amount of such Book Entry Bond Outstanding as provided in this subsection.

7. Anything in the Resolution to the contrary notwithstanding, a Securities Depository may make a notation on a Book Entry Bond (i) redeemed in part or (ii) purchased by, or for the account of, the City in part for cancellation, to reflect, for informational purposes only, the date of such redemption or purchase and the principal amount thereof redeemed or deemed cancelled, but failure to make any such notation shall not affect the automatic reduction of the principal amount of such Book Entry Bond Outstanding as provided in subsection 5 or 6 of this Section 309, as the case may be.

8. Anything in the Resolution to the contrary notwithstanding, in the case of a Book Entry Bond, the City shall be authorized to redeem or purchase (by or for the account of the City), or issue Refunding Bonds to refund, less than all of the entire Outstanding principal amount thereof (in portions thereof of \$5,000 integral multiples thereof, or such other denominations as shall be specified in the Supplemental Resolution authorizing such Book Entry Bond), and in the event of such partial defeasance, redemption, purchase or refunding, the provisions of the Resolution relating to the defeasance, redemption, purchase or refunding of a Bond or Bonds shall be deemed to refer to the redemption, purchase or refunding of a portion of a Bond.

ARTICLE IV

REDEMPTION OF BONDS

SECTION 401. Privilege of Redemption and Redemption Price. Bonds subject to redemption prior to maturity pursuant to their terms or to the terms of the Resolution shall be redeemable, upon notice given as provided in this Article IV, at such times, at such Redemption Prices and upon such terms in addition to or different than the terms contained in this Article IV as may be specified in such Bonds or in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

SECTION 402. Redemption at the Election or Direction of the City. In the case of any redemption of Bonds at the election or direction of the City, the City shall give written notice

to the Trustee of its election or direction so to redeem, of the redemption date, of the Series, and of the principal amounts of the Bonds of each maturity of such Series and of the Bonds of each interest rate within a maturity to be redeemed (which Series, maturities, interest rates within a maturity and principal amounts thereof to be redeemed shall be determined by the City in its sole discretion, subject to any limitations with respect thereto contained in the Resolution or any Supplemental Resolution authorizing the Series of which such Bonds are a part). Such notice shall be given at least 40 days prior to the redemption date or such shorter period (a) as shall be specified in the Supplemental Resolution authorizing the Series of Bonds to be redeemed or (b) as shall be acceptable to the Trustee. In the event notice of redemption shall have been given as in Section 405 provided, and unless such notice shall have been revoked or cease to be in effect in accordance with the terms thereof, there shall be paid on or prior to the redemption date to the appropriate Paying Agents an amount which, in addition to other moneys, if any, available therefor held by such Paying Agents, will be sufficient to redeem on the redemption date at the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, all of the Bonds to be redeemed. The City shall promptly notify the Trustee in writing of all such payments by it to a Paying Agent.

SECTION 403. Redemption Otherwise Than at City's Election or Direction.

Whenever by the terms of the Resolution the Trustee is required or authorized to redeem Bonds otherwise than at the election or direction of the City, the Trustee shall (i) select the Bonds to be redeemed, (ii) give the notice of redemption and (iii) pay out of moneys available therefor the Redemption Price thereof, plus interest accrued and unpaid to the redemption date, to the appropriate Paying Agents in accordance with the terms of this Article IV and, to the extent applicable, Section 507.

SECTION 404. Selection of Bonds to be Redeemed.

If fewer than all of the Bonds of like maturity or interest rate within a maturity of any Series shall be called for prior redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate; provided, however, that for any Bond of a denomination of more than the minimum denomination for such Series, the portion of such Bond to be redeemed shall, unless otherwise specified in the Supplemental Resolution relating to such Series, be in a principal amount equal to such minimum denomination or an integral multiple thereof, and that, in selecting portions of such Bonds for redemption, the Trustee shall treat each such Bond as representing that number of Bonds of such minimum denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by the amount of such minimum denomination.

SECTION 405. Notice of Redemption.

When the Trustee shall receive notice from the City of its election or direction to redeem Bonds pursuant to Section 402, and when redemption of Bonds is authorized or required pursuant to Section 403, the Trustee shall give notice, in the name of the City, of the redemption of such Bonds, which notice shall specify the Series and maturities and interest rates within maturities, if any, of the Bonds to be redeemed, the redemption date and the place or places where amounts due upon such redemption will be payable and, if fewer than all of the Bonds of any like Series and maturity and interest rate within maturities are to be redeemed, the letters and numbers or other distinguishing marks of such Bonds so to be redeemed, and, in the case of Bonds to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date, unless such notice has been rescinded or has ceased to be in effect in accordance with the terms thereof, there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Bonds to be redeemed in part only, together with interest accrued to the redemption date, and that from and after such date interest thereon shall cease to accrue and be payable. Such notice shall be mailed by first class mail, postage prepaid, not less than 30 nor more than 60 days before the redemption date, to the registered owners of any Bonds or portions of Bonds which are to be redeemed, at their last addresses, if any, appearing upon the registry books. Failure to give notice by

mail, or any defect in such notice, shall not affect the validity of the proceedings for the redemption of Bonds. Notwithstanding the foregoing, a Supplemental Resolution authorizing the Bonds of a Series may specify a different method for the giving of a notice of redemption, or a different time by which such notice shall be given.

SECTION 406. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 405 or in the Supplemental Resolution authorizing the Bonds of a Series, on the redemption date so designated, (a) unless such notice shall have been revoked or shall cease to be in effect in accordance with the terms thereof and (b) if there shall be sufficient moneys available therefor, then the Bonds or portions thereof so called for redemption shall become due and payable on the redemption date at the Redemption Price, plus interest accrued and unpaid to the redemption date, and, if presentation and surrender shall be required hereby, upon presentation and surrender thereof at the office specified in such notice, such Bonds, or portions thereof, shall be paid at the Redemption Price, plus interest accrued and unpaid to the redemption date. If there shall be drawn for redemption less than all of a Bond, if presentation and surrender thereof are required thereby, the City shall execute and the Trustee shall authenticate and the Paying Agent shall deliver, upon the surrender of such Bond, without charge to the owner thereof, for the unredeemed balance of the principal amount of the Bond so surrendered, Bonds of like Series, maturity, interest rate and redemption provisions in any of the authorized denominations. If, on the redemption date, moneys for the redemption of all the Bonds or portions thereof of any like Series, maturity or interest rate to be redeemed, together with interest to the redemption date, shall be held by the Paying Agents so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid and has not been rescinded or ceased to be in effect, then, from and after the redemption date interest on the Bonds or portions thereof of such Series, maturity and interest rate so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the redemption date, such Bonds or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

SECTION 407. Limitation on City's Ability to Condition or Revoke Notice of Redemption. Notwithstanding anything to the contrary contained in this Article IV, in the case of any redemption of any Bonds issued prior to the Effective Date, the City shall not be entitled to cause the notice of the redemption thereof to be conditional, nor to revoke (or cause to be revoked) any such notice once given.

SECTION 408. Cancellation and Destruction of Bonds. Except as may be otherwise provided with respect to Option Bonds in the Supplemental Resolution providing for the issuance thereof, all Bonds paid or redeemed, either at or before maturity, shall be delivered to the Trustee when such payment or redemption is made, and such Bonds, together with all Bonds purchased which have been delivered to the Trustee for application as a credit against Sinking Fund Installments and all Bonds purchased by the Trustee, shall thereupon be promptly cancelled. Bonds so cancelled may at any time be destroyed by the Trustee, who shall execute a certificate of destruction in duplicate by the signature of one of its authorized officers describing the Bonds so destroyed, and one executed certificate shall be filed with the City and the other executed certificate shall be retained by the Trustee.

ARTICLE V

ESTABLISHMENT OF FUNDS AND APPLICATION THEREOF

SECTION 501. The Pledge Effected by the Resolution. 1. The Bonds shall be direct and special obligations of the City payable solely from and secured as to the payment of the principal and Redemption Price thereof, and interest thereon, in accordance with their terms and the provisions of the Resolution solely by the Trust Estate and the Trust Estate hereby is pledged and

assigned to the Trustee for the benefit of the holders of the Bonds, subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

2. The Trust Estate shall immediately be subject to the lien and charge of this Resolution without any physical delivery thereof or further act, and the lien and charge of this Resolution shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise, against the City, irrespective of whether such parties have notice thereof.

3. Amounts on deposit in any separate subaccount established in the Debt Service Reserve Account in the Debt Service Fund, including the investments, if any, thereof, are hereby pledged and assigned to the Trustee as additional security for the payment of the principal and Redemption Price thereof, and interest thereon, the Bonds of each Additionally Secured Series secured thereby, subject to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

4. The Bonds shall not constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision or limitation of indebtedness. No Bondholder shall ever have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal of or interest on the Bonds or the making of any payments hereunder. The Bonds and the obligations evidenced thereby shall not constitute a lien on any property of or in the City, other than the Trust Estate and, in the case of the Bonds of each Additionally Secured Series, the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund established therefor as herein provided.

5. Nothing contained in the Resolution shall be construed to prevent the City from acquiring, constructing or financing through the issuance of its bonds, notes or other evidences of indebtedness any facilities which do not constitute a part of the System for the purposes of the Resolution or from securing such bonds, notes or other evidences of indebtedness by a mortgage of the facilities so financed or by a pledge of, or other security interest in, the revenues therefrom or any lease or other agreement with respect thereto or any revenues derived from such lease or other agreement; provided that such bonds, notes or other evidences of indebtedness shall not be payable out of or secured by the Trust Estate and neither the cost of such facilities nor any expenditure in connection therewith or with the financing thereof shall be payable from the Trust Estate.

SECTION 502. Establishment of Funds. 1. The following Funds and Accounts are hereby established:

- (1) Construction Fund, to be held by the City,
- (2) Revenue Fund, to be held by the City,
- (3) Rate Stabilization Fund, to be held by the City,
- (4) Debt Service Fund, to be held by the Trustee, consisting of a Debt Service Account and a Debt Service Reserve Account,
- (5) Subordinated Indebtedness Fund, to be held by the Trustee, and
- (6) Utilities Plant Improvement Fund, to be held by the City.

2. In the event that the City shall so determine, there may be established by Supplemental Resolution one or more other funds that may be required from time to time by Federal, State or local regulations, by contractual obligations, or in order to operate the System in accordance with Prudent Utility Practice, so as to provide, among other things, for costs of decommissioning, retirement or disposal of facilities, for costs of nuclear waste storage and disposal including the cost of disposal of spent fuel, for maintaining financial responsibility for the closure of hazardous waste storage facilities, or for self insurance. Such funds, if any, shall be held in trust by the City for the sole purpose set forth in the Supplemental Resolution establishing such funds. Deposits into such funds shall be made only after all required deposits have been made into the funds established by paragraph 1 of this Section 502 and shall be made in amounts set forth in the Supplemental Resolution. Deposits into any funds established pursuant to this paragraph shall be made only with amounts defined by the Resolution to be available for use by the City for any lawful purpose and shall neither be governed by the provisions of the Resolution nor considered to be a part of the Trust Estate.

3. Any Fund or Accounts held by the City pursuant to this Section 502 (other than funds established pursuant to paragraph 2 of this Section) shall be maintained in an account at the Trustee or, at the option of the City, at one or more Depositaries in the manner contemplated by Section 601 hereof.

SECTION 503. Construction Fund. 1. There shall be paid into the Construction Fund the amounts required to be so paid by the provisions of the Resolution and any Supplemental Resolutions, and there may be paid into the Construction Fund, at the option of the City, any moneys received for or in connection with the System by the City from any other source, unless required to be otherwise applied as provided by the Resolution. Amounts in the Construction Fund shall be applied to the Cost of Acquisition and Construction of the System in the manner provided in this Section.

2. The City shall withdraw amounts from the Construction Fund for the payment of amounts due and owing on account of the Cost of Acquisition and Construction of the System upon determination of an Authorized Officer of the City (or such officer's designee) that an obligation in the amount to be paid from the Construction Fund has been incurred by the City and that each item thereof is a proper and reasonable charge against the Construction Fund, and that such amount has not been paid theretofore.

3. Notwithstanding any of the other provisions of this Section, to the extent that other moneys are not available therefor, amounts in the Construction Fund shall be applied to the payment of principal of and interest on Bonds when due.

4. Amounts credited to the Construction Fund which the City at any time determines to be in excess of the amounts required for the purposes thereof shall be transferred to the Debt Service Reserve Account in the Debt Service Fund, if and to the extent necessary to make the amount in any separate subaccount therein equal to the Debt Service Reserve Requirement related thereto (or, if such excess shall be less than the amount necessary to make up deficiencies with respect to all of the separate subaccounts in the Debt Service Reserve Account, then such excess shall be applied ratably, in proportion to the deficiency in each such subaccount), and any balance of such excess shall, at the option of the City, be transferred to the Utilities Plant Improvement Fund for application to any of the purposes thereof.

5. Nothing in this Section 503 shall be construed to prevent the City from permanently discontinuing the acquisition or construction of any portion of the System the Cost of Acquisition and Construction of which is at the time being paid out of the Construction Fund, if the

Commission determines by resolution that such discontinuance is necessary or desirable in the conduct of the business of the City and not disadvantageous to the Holders of the Bonds.

SECTION 504. Revenues and Revenue Fund. As soon as practicable after the receipt of any Revenues, and in any event within ten days of such receipt, the City shall deposit such Revenues in the Revenue Fund.

SECTION 505. Disposition of Revenues. 1. On or before the last business day of each calendar month, the Revenues actually received by the City and deposited into the Revenue Fund shall be applied, to the extent available, only in the following manner and in the following order of priority (such application to be made in such a manner so as to assure good funds in such Funds and Accounts on the last business day of such month):

(1) Each month the City shall pay from the Revenue Fund such sums as are necessary to meet Operation and Maintenance Expenses for such month;

(2) The City shall transfer from the Revenue Fund to the Rate Stabilization Fund the amount, if any, budgeted for deposit into such Fund for the then current month as set forth in the current Annual Budget or the amount otherwise determined by the City to be credited to such Fund for the month;

(3) The City shall next forward to the Trustee, for deposit in the Debt Service Fund (i) for credit to the Debt Service Account, the amount, if any, required so that the balance in said Account shall equal the Accrued Aggregate Debt Service as of the last day of the then current month plus, to the extent not theretofore deposited therein as Debt Service, the amount coming due in such month on Parity Hedging Contract Obligations; provided that, for the purposes of computing the amount to be deposited in said Account, there shall be excluded from the balance in said Account the amount, if any, set aside in said Account from the proceeds of Bonds (including amounts, if any, transferred thereto from the Construction Fund) for the payment of interest on Bonds less that amount of such proceeds to be applied in accordance with the Resolution to the payment of interest accrued and unpaid and to accrue on Bonds to the last day of the then current calendar month; and (ii) for credit to each separate subaccount in the Debt Service Reserve Account, the amount, if any, required so that the balance in each such subaccount shall equal the Debt Service Reserve Requirement related thereto including any amount required to be credited to any separate subaccount in the Debt Service Reserve Account to satisfy any Reserve Deposits established for any Additionally Secured Series of Bonds as of the last day of the then current month (or, if the amount on deposit in the Revenue Fund shall not be sufficient to make the deposits required to be made pursuant to this clause (ii) with respect to all of the separate subaccounts in the Debt Service Reserve Account, then such amount on deposit in the Revenue Fund shall be applied ratably, in proportion to the amount necessary for deposit into each such subaccount);

(4) The City shall next forward to the Trustee, for deposit from Revenues in the Subordinated Indebtedness Fund, the amount, if any, as shall be required to be deposited therein in the then current month to pay principal or sinking fund installments of and premiums, if any, and interest on each issue of Subordinated Indebtedness coming due in such month, whether as a result of maturity or prior call for redemption, and to provide reserves therefor, as required by the Supplemental Resolution authorizing such issue of Subordinated Indebtedness; and

(5) The City shall next pay into the Utilities Plant Improvement Fund such amount as it shall deem appropriate provided that for each Fiscal Year deposits into such Fund shall be at

least equal to one-half (1/2) of the Net Revenues including interest income, but excluding other non-operating revenues and expenses, during the immediately preceding Fiscal Year, less the sum of (i) Aggregate Debt Service during the immediately preceding Fiscal Year and (ii) interest and principal paid during the immediately preceding Fiscal Year with respect to all Subordinated Indebtedness payable out of Revenues under this Resolution.

2. The balance of any moneys remaining in the Revenue Fund after the above required payments have been made may be used by the City for any lawful purpose; provided, however, that none of the remaining moneys shall be used for any purpose other than those hereinabove specified unless all current payments, including payments to the Utilities Plant Improvement Fund calculated on a pro rata annual basis, and including all deficiencies in prior payments, if any, have been made in full and unless the City shall have complied fully with all the covenants and provisions of the Resolution; and provided, further, that so long as there shall be held in the Debt Service Fund an amount sufficient to pay in full all Outstanding Bonds and Parity Hedging Contract Obligations in accordance with their terms (including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), no transfers shall be required to be made to the Debt Service Fund.

SECTION 506. Rate Stabilization Fund. 1. Each month the City shall transfer from the Rate Stabilization Fund to the Revenue Fund the amount budgeted for transfer into such Fund for the then current month as set forth in the current Annual Budget or the amount otherwise determined by the City to be deposited into such Fund for the month. The City may also from time to time withdraw amounts currently on deposit in the Rate Stabilization Fund and (i) transfer such amounts to any other Fund or Account established under the Resolution, (ii) use such amounts to purchase or redeem Bonds and/or Subordinated Indebtedness; provided, however, that in the case of the purchase of Bonds and/or Subordinated Indebtedness, the Bonds and/or Subordinated Indebtedness shall be purchased at a price not to exceed the Redemption Price which would be applicable if the Bonds and/or Subordinated Indebtedness were redeemed at the time of the intended purchase or as soon thereafter as such Bonds and/or Subordinated Indebtedness shall be subject to redemption, or (iii) use such amounts to otherwise provide for the payment of Bonds and/or Subordinated Indebtedness.

2. At any time and from time to time the City may transfer for deposit in the Rate Stabilization Fund from any source such amounts as the City deems necessary or desirable; such amounts shall be applied for purposes of the Rate Stabilization Fund in accordance with paragraph 1 of this Section 506.

SECTION 507. Debt Service Fund – Debt Service Account. 1. The Trustee shall pay out of the Debt Service Account to the respective Paying Agents (i) on or before each interest payment date for any of the Bonds the amount required for the interest payable on such date; (ii) on or before each Principal Installment due date, the amount required for the Principal Installment payable on such due date; and (iii) on or before any redemption date for the Bonds, the amount required for the payment of interest on the Bonds then to be redeemed. Such amounts shall be applied by the Paying Agents on and after the due dates thereof. The Trustee shall also pay out of the Debt Service Account the accrued interest included in the purchase price of Bonds purchased for retirement and, at the direction of an Authorized Officer of the City, on or before the due date thereof, amounts due in respect of any Parity Hedging Contract Obligation.

2. Amounts accumulated in the Debt Service Account with respect to any Sinking Fund Installment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Installment was established) may and, if so directed by the City, shall be applied by the Trustee, on or prior to the 60th day preceding the due date of such Sinking Fund Installment, to (i) the purchase of Bonds of the Series, maturity and interest rate within each maturity for

which such Sinking Fund Installment was established, or (ii) the redemption at the applicable sinking fund Redemption Price of such Bonds, if then redeemable by their terms. After the 60th day but on or prior to the 40th day preceding the due date of such Sinking Fund Installment, any amounts then on deposit in the Debt Service Account (exclusive of amounts, if any, set aside in said Account which were deposited therein from proceeds of Bonds) may, and, if so directed by the City, shall, be applied by the Trustee to the purchase of Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established in an amount not exceeding that necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment. All purchases of any Bonds pursuant to this paragraph 2 shall be made at prices not exceeding the applicable sinking fund Redemption Price of such Bonds plus accrued interest, and such purchases shall be made by the Trustee as directed by the City. The applicable sinking fund Redemption Price (or principal amount of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Account until such Sinking Fund Installment date, for the purpose of calculating the amount of such Account. As soon as practicable after the 40th day preceding the due date of any such Sinking Fund Installment, the Trustee shall proceed to call for redemption, by giving notice as provided in Section 405, on such due date Bonds of the Series, maturity and interest rate within each maturity for which such Sinking Fund Installment was established (except in the case of Bonds maturing on a Sinking Fund Installment date) in such amount as shall be necessary to complete the retirement of the unsatisfied balance of such Sinking Fund Installment after making allowance for any Bonds purchased or redeemed pursuant to Section 510 which the City has directed the Trustee to apply as a credit against such Sinking Fund Installment as provided in Section 511. The Trustee shall pay out of the Debt Service Account to the appropriate Paying Agents, on or before such redemption date (or maturity date), the amount required for the redemption of the Bonds so called for redemption (or for the payment of such Bonds then maturing), and such amount shall be applied by such Paying Agents to such redemption (or payment). All expenses in connection with the purchase or redemption of Bonds shall be paid by the City from the Revenue Fund.

3. The amount, if any, deposited in the Debt Service Account from the proceeds of each Series of Bonds shall be set aside in such Fund and applied to the payment of interest on Bonds in accordance with certificates of the City delivered to the Trustee pursuant to clause (10) of paragraph 1 of Section 202 or, in the event that the City shall modify or amend any such certificate by a subsequent certificate signed by an Authorized Officer of the City and filed with the Trustee, (with a copy to the Co-Trustee, if any), then in accordance with the most recent such certificates or amended certificates.

4. In the event of the refunding or defeasance of any Bonds, the Trustee shall, if the City so directs, withdraw from the Debt Service Account in the Debt Service Fund all, or any portion of, the amounts accumulated therein and deposit such amounts with itself as Trustee to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to paragraph 2 of Section 1201, and (b) the amount remaining in the Debt Service Account in the Debt Service Fund, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the requirement of such Account pursuant to clause (3) of paragraph 1 of Section 505. In the event of such refunding or defeasance, the City may also direct the Trustee to withdraw from the Debt Service Account in the Debt Service Fund all, or any portion of, the amounts accumulated therein and deposit such amounts in any Fund or Account under this Resolution; provided, however, that such withdrawal shall not be made unless items (a) and (b) referred to hereinabove have been satisfied and provided, further, that, at the time of such withdrawal, there shall exist no deficiency in any Fund or Account held under this Resolution.

SECTION 508. Debt Service Fund – Debt Service Reserve Account. 1. There shall be established in the Debt Service Reserve Account in the Debt Service Fund one or more

separate subaccounts, each of which subaccounts shall be for the benefit and security of one or more Series of Bonds, in the manner and to the extent provided in the Supplemental Resolution establishing each such subaccount. The Prior Bonds shall not be secured by any such separate subaccounts. If on the last business day of any month the amount in the Debt Service Account shall be less than the amount required to be in such Account pursuant to clause (3) of paragraph 1 of Section 505, the Trustee shall apply amounts from each separate subaccount in the Debt Service Reserve Account to the extent necessary to cure the deficiency.

2. Whenever the moneys on deposit in any subaccount established in the Debt Service Reserve Account shall exceed the Debt Service Reserve Requirement related thereto, after giving effect to any surety bond, insurance policy, letter of credit, or other similar obligation deposited in such Account pursuant to paragraph 4 of this Section 508, such excess shall upon the request of the City be transferred to the City and credited upon the City's receipt thereof to make up any deficiencies in the Subordinated Indebtedness Fund and the Utilities Plant Improvement Fund, in that order. Any balance of such excess shall be credited to the Revenue Fund.

3. Whenever the amount in any subaccount established in the Debt Service Reserve Account, without giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in such Account pursuant to paragraph 4 of this Section 508, together with the amount in the Debt Service Account, is sufficient to pay in full all Outstanding Bonds and Parity Hedging Contract Obligations in accordance with their terms (including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), the funds on deposit in the Debt Service Reserve Account shall be transferred to the Debt Service Account. Prior to said transfer, all investments held in the Debt Service Reserve Account shall be liquidated to the extent necessary in order to provide for the timely payment of principal and interest (or Redemption Price) on Bonds. Any provision of the Resolution to the contrary notwithstanding, so long as there shall be held in the Debt Service Fund an amount sufficient to pay in full all Outstanding Bonds in accordance with their terms (including the maximum amount of principal or applicable sinking fund Redemption Price and interest which could become payable thereon), no deposits shall be required to be made into the Debt Service Reserve Account.

4. In lieu of the required transfers of moneys to the Debt Service Reserve Account, the City may cause to be deposited into any subaccount established in the Debt Service Reserve Account for the benefit of the holders of the Bonds of each Additionally Secured Series secured thereby an irrevocable surety bond, an insurance policy, a letter of credit or any other similar obligation in an amount equal to the difference between the Debt Service Reserve Requirement related thereto and the sums of moneys or value of Investment Securities then on deposit in such subaccount, if any. The surety bond, insurance policy, letter of credit or other similar obligation shall be payable (upon the giving of notice as required thereunder) on any due date on which moneys will be required to be withdrawn from such subaccount and applied to the payment of a Principal Installment of or interest on any Bonds of each Additionally Secured Series secured thereby and such withdrawal cannot be met by amounts on deposit in such subaccount. The entity providing any such surety bond, insurance policy letter of credit or similar obligation shall the qualifications set forth in the Supplemental Resolution establishing such subaccount. If a disbursement is made pursuant to a surety bond, an insurance policy, a letter of credit or any other similar obligation provided pursuant to this subsection, the City shall within twelve months either (i) reinstate the maximum limits of such surety bond, insurance policy, letter of credit or other similar obligation or (ii) deposit into the subaccount established in the Debt Service Reserve Account funds in the amount of the disbursement made under such surety bond, insurance policy, letter of credit or other similar obligation, or a combination of such alternatives, as shall provide that the amount in such subaccount equals the Debt Service Reserve Requirement related thereto. In the event that the rating attributable to any insurer providing any surety bond, insurance policy or other similar obligation or any

bank or trust company providing any letter of credit or other similar obligation held as above provided in any separate subaccount in the Debt Service Reserve Account shall fall below that required as above provided, the City shall within twelve months either (i) replace such surety bond, insurance policy, letter of credit or other similar obligation with a surety bond, insurance policy, letter of credit or other similar obligation which shall meet the above provided requirements or (ii) deposit into such separate subaccount in the Debt Service Reserve Account sufficient funds, or a combination of such alternatives, as shall provide that the amount in such separate subaccount in the Debt Service Reserve Account equals the Debt Service Reserve Requirement related thereto.

5. In the event of the refunding or defeasance of any Bonds of an Additionally Secured Series, the Trustee shall, if the City so directs, withdraw from the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund established for the benefit of the Bonds of such Additionally Secured Series all, or any portion of, the amounts accumulated therein and deposit such amounts with itself as Trustee to be held for the payment of the principal or Redemption Price, if applicable, and interest on the Bonds being refunded; provided that such withdrawal shall not be made unless (a) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to paragraph 2 of Section 1201, and (b) the amount remaining in such separate subaccount in the Debt Service Reserve Account in the Debt Service Fund, after giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in such subaccount pursuant to paragraph 4 of this Section 508, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the Debt Service Reserve Requirement related thereto. In the event of such refunding or defeasance, the City may also direct the Trustee to withdraw from such separate subaccount in the Debt Service Reserve Account all or any portion of the amounts accumulated therein and deposit such amounts in any Fund or Account under the Resolution; provided that such withdrawal shall not be made unless items (a) and (b) referred to hereinabove have been satisfied; and provided further, that, at the time of such withdrawal, there shall exist no deficiency in any Fund or Account held under the Resolution.

SECTION 509. Subordinated Indebtedness Fund. 1. Subject to paragraph 3 hereof, the Trustee shall apply amounts in the Subordinated Indebtedness Fund to the payment of the principal or sinking fund installments of and interest and premium on each issue of Subordinated Indebtedness and reserves therefor in accordance with the provisions of, and subject to the priorities and limitations and restrictions provided in, the Supplemental Resolution authorizing each issue of Subordinated Indebtedness.

2. At any time and from time to time the City may deposit in the Subordinated Indebtedness Fund for the payment of the principal or sinking fund installments of and interest and premium on each issue of Subordinated Indebtedness amounts received from the proceeds of additional issues of Subordinated Indebtedness or amounts received from any other source.

3. If at any time the amounts in the Debt Service Account or in any separate subaccount in the Debt Service Reserve Account shall be less than the current requirements of such accounts, respectively, pursuant to clause (3) of paragraph 1 of Section 505 and there shall not be on deposit in the Utilities Plant Improvement Fund available moneys sufficient to cure such deficiency, then the Trustee shall withdraw from the Subordinated Indebtedness Fund and deposit in the Debt Service Account or such separate subaccount(s) in the Debt Service Reserve Account, as the case may be, the amount necessary (or all the moneys in said Fund, if less than the amount necessary) to make up such deficiency (or, if the amount in said Fund shall be less than the amount necessary to make up the deficiencies with respect to the Debt Service Account and all of the separate subaccounts in the Debt Service Reserve Account, then the amount in said Fund shall be applied first to make up the deficiency in the Debt Service Account, and any balance remaining shall be applied ratably to make up the deficiencies

with respect to the separate subaccounts in the Debt Service Reserve Account, in proportion to the deficiency in each such subaccount).

SECTION 510. Utilities Plant Improvement Fund. 1. Amounts deposited in the Utilities Plant Improvement Fund shall be applied to (i) payments into the Debt Service Account or into any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund; (ii) payments for the cost of extensions, enlargements or additions to, or the replacement of capital assets of the System and emergency repairs thereto; (iii) payments into the Subordinated Indebtedness Fund; (iv) purchasing or redeeming Bonds and/or Subordinated Indebtedness; provided, however, that in the case of the purchase of Bonds and/or Subordinated Indebtedness, the Bonds and/or Subordinated Indebtedness shall be purchased at a price not to exceed the principal amount and Redemption Price which would be applicable if the Bonds and/or Subordinated Indebtedness were redeemed at the time of the intended purchase or as soon thereafter as such Bonds and/or Subordinated Indebtedness shall be subject to redemption; or (v) otherwise to provide for the payment of the Bonds and/or Subordinated Indebtedness. If at any time amounts on deposit in the Utilities Plant Improvement Fund are determined by the City to be in excess of the requirements thereof, and other moneys are not available for the payment of Operation and Maintenance Expenses, then such excess may be used for the payment of Operation and Maintenance Expenses.

2. If and to the extent provided in a Supplemental Resolution authorizing Bonds of a Series, amounts from the proceeds of such Bonds may be credited to the Utilities Plant Improvement Fund as specified in the Supplemental Resolution for any purpose of such Fund.

3. No payments shall be made from the Utilities Plant Improvement Fund if and to the extent that the proceeds of insurance or other moneys recoverable as the result of damage, if any, are available to pay the costs otherwise payable from such Fund.

4. If at any time the amounts in the Debt Service Account or in any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund shall be less than the current requirement of such Accounts, respectively, pursuant to clause (3) of paragraph 1 of Section 505, then the City shall transfer from the credit of the Utilities Plant Improvement Fund to the Trustee for deposit in the Debt Service Account or any separate subaccount in the Debt Service Reserve Account, as the case may be, the amount necessary (or all the moneys in said Fund if less than the amount necessary) to make up any deficiencies in payments to said Accounts required by clause (3) of paragraph 1 of Section 505; provided, however, if the amount in said Fund shall be less than the amount necessary to make up the deficiencies with respect to the Debt Service Account and all of the separate subaccounts in the Debt Service Reserve Account, then the amount in said Fund shall be applied first to make up the deficiency in the Debt Service Account, and any balance remaining shall be applied ratably to make up the deficiencies with respect to the separate subaccounts in the Debt Service Reserve Account, in proportion to the deficiency in each such subaccount.

5. If at any time the amounts in the Subordinated Indebtedness Fund shall be less than the current requirement of such Fund and the amounts on deposit in the Debt Service Account and in each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund shall equal the current requirement of such Accounts, respectively, pursuant to clause (3) of paragraph 1 of Section 505 and such amounts are not required for payment of Operation and Maintenance Expenses, then the City shall transfer from the credit of the Utilities Plant Improvement Fund to the Trustee for deposit in the Subordinated Indebtedness Fund the amount necessary (or all the moneys in said Fund if less than the amount necessary) to make up such deficiency.

SECTION 511. Credits Against Sinking Fund Installments. If at any time Bonds of any Series or maturity for which Sinking Fund Installments shall have been established are purchased or redeemed other than pursuant to paragraph 2 of Section 507 or deemed to have been paid pursuant to paragraph 2 of Section 1201 and, with respect to such Bonds which have been deemed paid, irrevocable instructions have been given to the Trustee to redeem or purchase the same on or prior to the due date of the Sinking Fund Installment to be credited under this Section 511, the City may from time to time and at any time by written notice to the Trustee specify the portion, if any, of such Bonds so purchased, redeemed or deemed to have been paid and not previously applied as a credit against any Sinking Fund Installment which are to be credited against future Sinking Fund Installments. Such notice shall specify the amounts of such Bonds to be applied as a credit against such Sinking Fund Installment or Installments and the particular Sinking Fund Installment or Installments against which such Bonds are to be applied as a credit; provided, however, that none of such Bonds may be applied as a credit against a Sinking Fund Installment to become due less than 45 days after such notice is delivered to the Trustee. All such Bonds to be applied as a credit shall be surrendered to the Trustee for cancellation on or prior to the due date of the Sinking Fund Installment against which they are being applied as a credit. The portion of any such Sinking Fund Installment remaining after the deduction of any such amounts credited toward the same (or the original amount of any such Sinking Fund Installment if no such amounts shall have been credited toward the same) shall constitute the unsatisfied balance of such Sinking Fund Installment for the purpose of calculation of Sinking Fund Installments due on a future date.

SECTION 512. Subordinated Indebtedness. The City may, at any time, or from time to time, issue Subordinated Indebtedness for any lawful purpose payable out of, and which may be secured by a security interest in and pledge and assignment of such amounts in the Subordinated Indebtedness Fund as may from time to time be available for the purpose of payment thereof as provided in Section 509; provided, however, that any security interest and pledge and assignment shall be, and shall be expressed to be, subordinate in all respects to the security interest in and pledge and assignment of the Trust Estate created by the Resolution as security for the Bonds.

ARTICLE VI

DEPOSITARIES OF MONEYS, SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS

SECTION 601. Depositaries. 1. All moneys held by the Trustee and the Co-Trustee under the provisions of the Resolution shall constitute trust funds and the Trustee and Co-Trustee may deposit such moneys with one or more Depositaries in trust for said parties. All moneys held by the City under the Resolution shall constitute trust funds and the City shall deposit such moneys with one or more Depositaries in trust for the Trustee and the Co-Trustee, if any. All moneys deposited under the provisions of the Resolution with the Trustee, the Co-Trustee or any Depositary shall be held in trust and applied only in accordance with the provisions of the Resolution, and each of the Funds and Accounts established by the Resolution shall be a trust fund for the purposes thereof.

2. Each Depositary shall be a bank, savings and loan association or trust company organized under the laws of any state of the United States or a national banking association having capital stock, surplus and undivided earnings aggregating at least \$10,000,000 and willing and able to accept the office on reasonable and customary terms and authorized by law to act in accordance with the provisions of the Resolution.

3. Moneys and securities credited to any Fund or Account under the Resolution held by the City may be commingled with moneys and securities credited to other Funds or Accounts under the Resolution held by the City for purposes of establishing checking or other bank accounts, for purposes

of investing funds or otherwise; provided, however, the City shall at all times maintain or cause to be maintained accurate books and records reflecting the amounts credited to each Fund and Account under the Resolution held by the City. All withdrawals from any commingled moneys shall be charged against the proper Fund or Account under the Resolution and no moneys shall be withdrawn from commingled moneys if there is not on credit to the Fund or Account under the Resolution to be charged sufficient funds to cover such withdrawal.

SECTION 602. Deposits. 1. All Revenues and other moneys held by any Depository under the Resolution may be placed on demand or time deposit, if and as directed by the City, provided that such deposits shall permit the moneys so held to be available for use at the time when needed. All such moneys deposited with a Fiduciary, acting as a Depository, may be made in the commercial banking department of any Fiduciary which may honor checks and drafts on such deposit with the same force and effect as if it were not such Fiduciary. All moneys held by any Fiduciary, as such, may be deposited by such Fiduciary in its banking department on demand or, if and to the extent directed by the City and acceptable to such Fiduciary, on time deposit, provided that such moneys on deposit be available for use at the time when needed. Such Fiduciary shall allow and credit on such moneys such interest, if any, as it customarily allows upon similar funds of similar size and under similar condition or as required by law.

2. All moneys held under the Resolution by the Trustee, Co-Trustee or any Depository shall not at any time exceed 10% of the combined capital, surplus and undivided earnings of the Trustee, Co-Trustee or such Depository, as the case may be, unless such moneys are either (1) fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, or (2) secured, to the extent not insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation, by lodging with the Trustee, or Co-Trustee, as custodian, as collateral security, Investment Securities having a market value (exclusive of accrued interest) not less than the amount of such moneys (or portion thereof not insured by the Federal Deposit Insurance Corporation), and held in such other manner as may then be required by applicable Federal or State of Florida laws and regulations and applicable state laws and regulations of the state in which the Trustee, Co-Trustee or such Depository (as the case may be) is located, regarding security for, or granting a preference in the case of, the deposit of trust funds; provided, however, that, to the extent permitted by law, it shall not be necessary for the Fiduciaries to give security under this paragraph 2 for the deposit of any moneys with them held in trust and set aside by them for the payment of the principal or Redemption Price of or interest on any Bonds, or for the Trustee, Co-Trustee or any Depository to give security for any moneys which shall be represented by obligations or certificates of deposit purchased as an investment of such moneys.

3. All moneys deposited with the Trustee, Co-Trustee and each Depository shall be credited to the particular Fund or Account to which such moneys belong.

4. Whenever moneys are required to be transferred from one Fund or Account created under the Resolution to another Fund or Account, such transfer may be made by the transfer of cash or the transfer of Investment Securities in an amount sufficient to satisfy the purpose for which such transfer is required.

SECTION 603. Investment of Certain Funds. Moneys held in the Debt Service Account in the Debt Service Fund and in the Debt Service Reserve Account in the Debt Service Fund shall be invested and reinvested to the fullest extent practicable in Investment Securities as shall be directed by the City which mature not later than at such times as shall be necessary to provide moneys when needed for payments to be made from such Accounts. Subject to the terms of any resolutions, indentures, or other instruments securing any issue of Subordinated Indebtedness, moneys in the

Subordinated Indebtedness Fund shall be invested and reinvested to the fullest extent practicable in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from said Fund. Moneys held in the Revenue Fund and the Construction Fund may be invested and reinvested in Investment Securities which mature not later than such times as shall be necessary to provide moneys when needed for payments to be made from such Funds. Moneys in the Rate Stabilization Fund and the Utilities Plant Improvement Fund may be invested in Investment Securities which mature within five years from the date of such investment, and in any case the Investment Securities in such Funds or in the Accounts therein shall mature not later than such times as shall be necessary to provide moneys when needed to provide payments from such Funds or Accounts. The Trustee or the Co-Trustee, as the case may be, shall make all such investments of moneys held by it in accordance with written instructions received from any Authorized Officer of the City. In making any investment in any Investment Securities with moneys in any Fund or Account established under the Resolution, the City may, and may instruct the Trustee and the Co-Trustee to, combine such moneys with moneys in any other Fund or Account, but solely for purposes of making such investment in such Investment Securities.

Interest (net of that which represents a return of accrued interest paid in connection with the purchase of any investment) earned on any moneys or investments in such Funds and Accounts, other than the Construction Fund, shall be paid into the Revenue Fund; provided, however, that if the City so directs, such income earned on moneys or investments in any Fund or Account, or any portion thereof, shall be paid into the Construction Fund. Interest earned on any moneys or investments in the Construction Fund shall be held in such Fund for application as provided in Section 503 or, if so directed by the City, paid into the Revenue Fund.

Nothing in the Resolution shall prevent any Investment Securities acquired as investments of funds held under the Resolution from being issued or held in book-entry form on the books of the Department of the Treasury of the United States.

SECTION 604. Valuation and Sale of Investments. Obligations purchased as an investment of moneys in any Fund created under the provisions of the Resolution shall be deemed at all times to be a part of such Fund and any profit realized from the liquidation of such investment shall be credited to such Fund and any loss resulting from the liquidation of such investment shall be charged to such Fund.

In computing the amount in any Fund created under the provisions of the Resolution for any purpose provided in the Resolution, obligations purchased as an investment of moneys therein shall be valued at the amortized cost thereof. The accrued interest paid in connection with the purchase of any obligation shall be included in the value thereof until interest on such obligation is paid. Such computation shall be made as of September 30 in each year and at such other times as the City shall determine. In the event that the City causes to be deposited in any separate subaccount in the Debt Service Reserve Account for the benefit of the holders of Bonds of any Additionally Secured Series, pursuant to the provisions of paragraph 4 of Section 508, an irrevocable surety bond, an insurance policy, a letter of credit or any other similar obligation, such surety bond, insurance policy, letter of credit or other obligation shall be valued at the lesser of the face amount thereof or the maximum amount available thereunder.

Except as otherwise provided in the Resolution, the Trustee or the Co-Trustee, if any, shall sell at the best price obtainable, or present for redemption, any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized Officer of the City so to do. Whenever it shall be necessary in order to provide moneys to meet any payment or transfer from any Fund held by the Trustee or the Co-Trustee, if any, the Trustee or the Co-Trustee, if any, shall sell at the

best price obtainable or present for redemption such obligation or obligations designated by an Authorized Officer of the City necessary to provide sufficient moneys for such payment or transfer; provided, however, that if the City fails to provide such designation promptly after request thereof by the Trustee or the Co-Trustee, if any, the Trustee or the Co-Trustee, if any, may in its discretion select the obligation or obligations to be sold or presented for redemption. Neither the Trustee nor the Co-Trustee, if any, shall be liable or responsible for any loss resulting from the making of any such investment or the sale of any obligation in the manner provided above.

ARTICLE VII

PARTICULAR COVENANTS OF THE CITY

The City covenants and agrees with the Trustee and the Bondholders as follows:

SECTION 701. Payment of Bonds. The City shall duly and punctually pay or cause to be paid, but solely from the Trust Estate, and, in the case of the Bonds of each Additionally Secured Series, the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund with respect thereto, the principal or Redemption Price of every Bond and the interest thereon, at the dates and places and in the manner mentioned in the Bonds, according to the true intent and meaning thereof.

SECTION 702. Extension of Payment of Bonds. The City shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of claims for interest by the funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled, in case of any default under the Resolution, to the benefit of the Resolution or to any payment out of Revenues or Funds established by the Resolution, including the investments, if any, thereof, pledged under the Resolution or the moneys (except moneys held in trust for the payment of particular Bonds or claims for interest pursuant to the Resolution) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. Nothing herein shall be deemed to limit the right of the City to issue Option Bonds or Refunding Bonds, and neither such issuance nor the exercise by the holder of any Option Bond of any of the rights appertaining to such Option Bond shall be deemed to constitute an extension of maturity of Bonds.

SECTION 703. Offices for Servicing Bonds. Except as may be otherwise provided in any Supplemental Resolution with respect to any Series of Bonds, the City shall at all times maintain one or more agencies in New York, New York where Bonds may be presented for payment and shall at all times maintain one or more agencies in New York, New York where Bonds may be presented for registration, transfer or exchange. The City shall at all times maintain one or more agencies in New York, New York where notices, demands and other documents may be served upon the City in respect of the Bonds or of the Resolution. The City hereby appoints the Trustee, initially, as the Bond Registrar to maintain the agency for the registration, transfer or exchange of Bonds, and for the service upon the City of such notices, demands and other documents, and the Trustee or any successor Bond Registrar shall continuously maintain or make arrangements to provide such services. The City hereby appoints the Paying Agents in such cities as its respective agents to maintain such agencies for the payment or redemption of Bonds.

SECTION 704. Further Assurance. At any and all times the City shall, as far as it may be authorized by law, comply with any reasonable request of the Trustee or the Co-Trustee to pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds,

conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues and other moneys, securities and funds hereby pledged or assigned, or intended so to be, or which the City may become bound to pledge or assign.

SECTION 705. Power to Issue Bonds and Pledge Revenues and Other Funds. The City is duly authorized under all applicable laws to create and issue the Bonds and to adopt the Resolution and to pledge the Trust Estate and, in the case of the Bonds of each Additionally Secured Series, the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund with respect thereto, in the manner and to the extent provided in the Resolution. Except to the extent otherwise provided in the Resolution, the Trust Estate and each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the security interest, pledge and assignment created by the Resolution, and all corporate or other action on the part of the City to that end has been and will be duly and validly taken. The Bonds and the provisions of the Resolution are and will be the valid and legally enforceable obligations of the City in accordance with their terms and the terms of the Resolution. The City shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Trust Estate and each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund and all the rights of the Bondholders under the Resolution against all claims and demands of all persons whomsoever.

SECTION 706. Power to Fix and Collect Rates, Fees and Charges. The City has, and will have as long as any Bonds are Outstanding, good right and lawful power to establish and collect rates, fees and charges with respect to the use and the sale of the capacity, output or service of the System subject to the terms of contracts relating thereto and subject to the jurisdiction of any applicable regulatory authority.

SECTION 707. Creation of Liens; Sale and Lease of Property. 1. The City shall not issue any bonds, notes, debentures, or other evidences of indebtedness of similar nature, other than the Bonds and Parity Hedging Contract Obligations, payable out of or secured by a security interest in or pledge or assignment of the Trust Estate, any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund or other moneys, securities or funds held or set aside by the City or by the Fiduciaries under the Resolution and shall not create or cause to be created any lien or charge on the Trust Estate, any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund or such moneys, securities or funds; provided, however, that nothing contained in the Resolution shall prevent the City from issuing, if and to the extent permitted by law, (i) evidences of indebtedness (a) payable out of moneys in the Construction Fund as part of the Cost of Acquisition and Construction of the System, or (b) payable out of, or secured by a security interest in or pledge or assignment of, Revenues to be received on and after such date as the pledge of the Revenues provided in the Resolution shall be discharged and satisfied as provided in Section 1201, or (ii) Subordinated Indebtedness.

2. No part of the System shall be sold, leased, mortgaged or otherwise disposed of, except as follows:

(1) The City may sell or exchange at any time and from time to time any property or facilities constituting part of the System only if it shall determine that the sale or exchange of such property or facilities will not impair the ability of the City to comply during the current or any future Fiscal Year with the provisions of Section 710. The proceeds of any such sale or exchange not used to acquire other property necessary or desirable for the safe or efficient operation of the System shall forthwith be deposited in the Utilities Plant Improvement Fund; and

(2) In addition to any agreement currently in effect to which the City is a party relating to the ownership or operation of any part of the System or the use of the output thereof, the City may lease or make contracts or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights with respect to, any part of the System, provided that any such lease, contract, license, arrangement, easement or right (i) does not impede the operation by the City or its agents of the System and (ii) does not in any manner impair or adversely affect the rights or security of the Bondholders under the Resolution; and provided, further, that if the book value of the property to be covered by any such lease, contract, license, arrangement, easement or other right is in excess of 1% of the book value of the total assets of the System at such time, the City shall first file with the Trustee a certificate of an Authorized Officer of the City setting forth a determination of the Commission that the action of the City with respect thereto does not result in a breach of the conditions under this clause (2). Any payments received by the City under or in connection with any such lease, contract, license, arrangement, easement or right in respect of the System or any part thereof shall constitute Revenues;

(3) The limitations imposed upon the City by clauses (1) and (2) of this paragraph 2 shall not apply to any disposition of property by the City where: (i) such property is leased back to the City under a lease having a term of years (including renewal options) of not less than 75% of the remaining estimated useful life of the property computed from the date of disposition and lease, (ii) fair value to the City (as determined by the City) is received by the City for the property subject to such transaction, (iii) proceeds of such transaction, after payment of expenses, are set aside as a deposit in the Utilities Plant Improvement Fund, and (iv) the Trustee receives a certified copy of resolutions of the Commission to the effect that, based upon such certificates and opinions as the Commission shall deem necessary or appropriate, the Commission has determined that the disposition and lease are not materially adverse to the Holders of the Bonds; and

(4) The City may permanently discontinue the acquisition or construction of any portion of the System as provided in paragraph 5 of Section 503.

SECTION 708. Annual Budget. For each Fiscal Year the City shall prepare and adopt a budget for the System for the next ensuing Fiscal Year. Such budget shall be promptly delivered to the Trustee and the Co-Trustee, if any. If necessary, the City shall immediately increase rates if and when any such increase is required in order to produce budgeted anticipated Revenues, or to comply with the requirements of the rate covenant in Section 710 hereof.

SECTION 709. Operation and Maintenance of System. The City shall at all times use its best efforts to operate or cause to be operated the System properly and in an efficient and economical manner, consistent with Prudent Utility Practice, and shall use its best efforts to maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or use its best efforts to cause to be made, all necessary and proper repairs, replacements and renewals so that at all times the operation of the System may be properly and advantageously conducted.

SECTION 710. Rates, Fees and Charges. 1. The City shall at all times establish and collect rates, fees and charges for the use or the sale of the output, capacity or service of the System which, together with other available Revenues, are reasonably expected to yield Net Revenues which shall be equal to at least 1.25 times the Aggregate Debt Service for the forthcoming 12-month period and, in any event, as shall be required, together with other available funds, to pay or discharge all other indebtedness, charges and liens whatsoever payable out of Revenues under the Resolution;

provided, however, that any Principal Installment which is a Refundable Principal Installment may be excluded from Aggregate Debt Service for purposes of the foregoing but only to the extent that the City intends to pay such Principal Installment from sources other than Revenues. Promptly upon any material change in the circumstances which were contemplated at the time such rates, fees and charges were most recently reviewed, but not less frequently than once in each Fiscal Year, the City shall review the rates, fees and charges so established and shall promptly revise such rates, fees and charges as necessary to comply with the foregoing requirements, provided that such rates, fees and charges shall in any event produce moneys sufficient to enable the City to comply with all its covenants under the Resolution.

2. No free service or service otherwise than in accordance with the established rates, fees and charges shall be furnished by the System, which rates, fees and charges shall not permit the granting of preferential rates, fees or charges among the users of the same class of customers. If and to whatever extent the City receives the services and facilities of the System, it shall pay for such services and facilities according to the City's established rate schedule, and the amounts so paid shall be included in the amount of Revenues.

3. In estimating Aggregate Debt Service on any Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes for purposes of paragraph 1 of this Section 710, the City shall be entitled to assume that such Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes will bear such interest rate or rates as the City shall determine; provided, however, that the interest rate or rates assumed shall not be less than the interest rate borne by such Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes, as the case may be, at the time of determination of Aggregate Debt Service.

SECTION 711. Enforcement of Charges and Connections. The City shall compel the prompt payment of rates, fees, rentals and charges imposed for service rendered by the System, and to that end will vigorously enforce all of the provisions of any ordinance or resolution of the City having to do with electric, water, wastewater, natural gas and telecommunications connections and charges and any other System charges, and all of the rights and remedies permitted the City under law. The City by this Section expressly covenants and agrees to exercise and enforce every right and remedy legally available to it to the end that such rates, fees, rentals and charges will be enforced and promptly collected to the full extent permitted by law.

SECTION 712. Maintenance of Insurance; Reconstruction; Application of Insurance Proceeds. 1. The City shall provide protection for the System both in accordance with the requirements of all agreements, if any, to which the City may at the time be a party with respect to joint ownership by the City with others of electric, water, wastewater, natural gas, telecommunications or other System facilities, and in accordance with Prudent Utility Practice. Said protection may consist of insurance, self insurance and indemnities. The City will keep, or cause to be kept, the works, plants and facilities comprising the properties of the System insured, and will carry such other insurance against fire and other risks, accidents or casualties at least to the extent and of the kinds that insurance is usually carried by utilities operating like properties. Any insurance shall be in the form of policies or contracts for insurance with insurers of good standing, shall be payable to the City and may provide for such deductibles, exclusions, limitations, restrictions and restrictive endorsements customary in policies for similar coverage issued to entities operating properties similar to the properties of the System. Any self insurance shall be in the amounts, manner and of the type provided by entities operating properties similar to the properties of the System. Within one hundred and eighty (180) days after the close of each Fiscal Year the City will file with the Trustee and the Co-Trustee, if any, a certificate stating whether during such year the System has suffered damage or destruction in an amount of more than \$2,000,000 and, if so, the amount of insurance proceeds received on account of such damage or destruction and specifying the reasonable and necessary cost of reconstruction or replacement.

2. In the event of any loss or damage to the System covered by insurance, the City will, with respect to each such loss, promptly repair, reconstruct or replace the parts of the System affected by such loss or damage to the extent necessary to the proper conduct of the operation of the business of the System, shall cause the proceeds of such insurance to be applied for that purpose to the extent required therefor, and pending such application shall hold the proceeds of any insurance policy covering such damage or loss in trust to be applied for that purpose to the extent required therefor. Any excess insurance proceeds received by the City shall be transferred to the Revenue Fund.

SECTION 713. Accounts and Reports. 1. The City shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the System and each Fund and Account established under the Resolution in accordance with the Uniform System of Accounts. All such books of record, together with all other books and papers of the City, including insurance policies, relating to the System, shall at all times be subject to the inspection of the Trustee, the Co-Trustee and the Holders of an aggregate of not less than 5% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

2. The Trustee and the Co-Trustee shall advise the City promptly after the end of each month of their respective transactions during such month relating to each Fund and Account held by them under the Resolution. The City shall advise the Trustee and the Co-Trustee, if any, promptly after the end of each fiscal quarter of transactions during such quarter relating to each Fund and Account held by it under the Resolution.

3. The City shall annually, within one hundred and eighty (180) days after the close of each Fiscal Year, file with the Trustee and the Co-Trustee, if any, and otherwise as provided by law, a copy of an annual report for such Fiscal Year, accompanied by an Accountant's Report relating to the System and including the following statements in reasonable detail: a balance sheet of the System at the close of such Fiscal Year; and a Statement of Revenues and Operation and Maintenance Expenses for such Fiscal Year. Such Accountant's Report shall also state that in the course of the examination made for purposes of such report, such accountant or firm of accountants, as the case may be, obtained no knowledge, except as specifically stated, of any default by the City, with respect to any of the covenants, agreements or conditions on its part contained in the Resolution.

4. In the event that the annual report of the City pursuant to paragraph 3 of this Section 713 shows that the Net Revenues for the preceding Fiscal Year were not equal to at least 1.10 times the Aggregate Debt Service for such preceding Fiscal Year, the City shall cause the Consulting Engineer to file with the City, the Trustee and the Co-Trustee, if any, a certificate stating specific changes in operation procedures or revisions in rates, fees and charges, or both, which may be made and which would, in the aggregate, in its opinion, have resulted in Net Revenues being equal to at least 1.25 times the Aggregate Debt Service for such preceding Fiscal Year. Within 30 days of receipt of any such certificate, the City shall be entitled to present to the Consulting Engineer, for its consideration, alternative recommendations for the purpose of achieving such level of debt service coverage. The City covenants and agrees to effect the changes, revisions or both, which the Consulting Engineer determines, after consideration of the recommendations of the City, would, in the aggregate, have produced such level of debt service coverage. The Consulting Engineer shall promptly file a certificate setting forth such determination with the City, the Trustee and the Co-Trustee, if any.

5. The reports, statements and other documents required to be furnished to the Trustee pursuant to any provisions of the Resolution shall be available for the inspection of Bondholders at the office of the Trustee and shall be mailed to each Bondholder who shall file a written request

therefor with the City. The City may charge for such reports, statements and other documents, a reasonable fee to cover reproduction, handling and postage.

SECTION 714. Payment of Taxes and Charges. The City will from time to time duly pay and discharge, or cause to be paid and discharged, all taxes, assessments and other governmental charges, or required payments in lieu thereof, lawfully imposed upon the properties of the City or upon the rights, revenues, income, receipts, and other moneys, securities and funds of the City when the same shall become due (including all rights, moneys and other property transferred, assigned or pledged under the Resolution), and all lawful claims for labor and material and supplies, except those taxes, assessments, charges or claims which the City shall in good faith contest by proper legal proceedings if the City shall in all such cases have set aside on its books reserves deemed adequate with respect thereto.

SECTION 715. No Diminution of Rights. The City will not enter into any contract or arrangement, nor take any action, the results of which might impair or diminish the rights of the Holders of the Bonds. The City, unless prevented by lawful authority beyond control of the City, shall continue to render electric, water, wastewater and other services of the System within the unincorporated areas of Alachua County and shall continue to extend such services as reasonably prudent so to do. The City shall not voluntarily give up any service area of the System unless the City shall determine that such action will not materially impair or diminish the rights of the Holders of the Bonds, and the City shall in good faith resist all efforts which may result in the diminution of such service area. The City shall not surrender its power and authority to fix and maintain rates and conditions for services of the System, and the City shall in good faith resist all efforts which may result in the abridgement or diminution of any such power and authority.

SECTION 716. Governmental Reorganization. Notwithstanding any other provisions of this Resolution, including without limitation, paragraph 2 of Section 707 hereof, this Resolution shall not prevent any lawful reorganization of the governmental structure of the City, including a merger or consolidation of the City with another public body or the transfer of a public function of the City to another public body, provided that any reorganization which affects the System shall provide that the System shall be continued as a single enterprise and that any public body which succeeds to the ownership and operation of the System shall also assume all rights, powers, obligations, duties and liabilities of the City under this Resolution and pertaining to all Bonds. Except as permitted in this Section 717, the City shall not cause or permit its corporate existence to be abolished and shall resist all attempts to contract or diminish the territorial limits of the City or the service area of the System.

SECTION 717. Additional Utility Functions. The City may expand the utility functions of the System as they exist on the date hereof as permitted by the proviso contained in the definition of "System" in Section 101, only if the City files with the Trustee a certified copy of resolutions of the Commission to the effect that, based upon such certificates and opinions of its Consulting Engineers, independent certified public accountants, bond counsel, financial advisors or other appropriate advisors as the Commission shall deem necessary or appropriate, the addition of such utility functions (a) will not impair the ability of the City to comply during the current or any future Fiscal Year with the provisions of the Resolution, including specifically Section 710, and (b) will not materially adversely affect the rights of the Holders of the Bonds.

SECTION 718. General. 1. The City shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the City under the provisions of the Act and the Resolution.

2. Upon the date of authentication and delivery of any of the Bonds, all conditions, acts and things required by law and the Resolution to exist, to have happened and to have been performed precedent to and in the issuance of such Bonds shall exist, have happened and have been performed and the issuance of such Bonds shall comply in all respects with the applicable laws of the State of Florida.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

SECTION 801. Events of Default. If one or more of the following Events of Default shall happen:

(i) if default shall be made in the due and punctual payment of the principal or Redemption Price of any Bond when and as the same shall become due and payable, whether at maturity or by call or proceedings for redemption, or otherwise;

(ii) if default shall be made in the due and punctual payment of any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment, when and as such interest installment or Sinking Fund Installment shall become due and payable;

(iii) the Revenues in any Fiscal Year shall be inadequate to comply with the requirements of Section 710 hereof, unless the City promptly takes remedial action to ensure compliance thereafter consistent with the determination of the Consulting Engineer rendered pursuant to paragraph 4 of Section 713 hereof;

(iv) if default shall be made by the City in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution or in the Bonds contained, and such default shall have continued for a period of 90 days after written notice specifying such default and requiring that it shall have been remedied and stating that such notice is a "Notice of Default" hereunder is given to the City by the Trustee or to the City and to the Trustee by the Holders of not less than 25% in principal amount of the Bonds Outstanding;

(v) a court having jurisdiction in the premises shall enter a decree or order providing for relief in respect of the City in an involuntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the City or for any substantial part of its property, or ordering the winding-up or liquidation of its affairs and such decree or order shall remain unstayed and in effect for a period of ninety (90) days; or

(vi) the City shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of the City or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due or shall take any action in furtherance of the foregoing;

then, and in each and every such case, so long as such Event of Default shall not have been remedied, unless the principal of all the Bonds shall have already become due and payable, either the Trustee (by notice in writing to the City and the Co-Trustee, if any), or the Holders of not less than 25% in principal amount of the Bonds Outstanding (by notice in writing to the City, the Trustee and the Co-Trustee, if any), may declare the principal of all the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and be immediately due and payable, anything in the Resolution or in any of the Bonds contained to the contrary notwithstanding. The right of the Trustee or of the Holders of not less than 25% in principal amount of the Bonds to make any such declaration as aforesaid, however, is subject to the condition that if, at any time after such declaration, but before the Bonds shall have matured by their terms, all overdue installments of interest on the Bonds, together with interest on such overdue installments of interest to the extent permitted by law and the reasonable and proper charges, expenses and liabilities of the Trustee and the Co-Trustee, if any, and all other sums then payable by the City under the Resolution (except the principal of, and interest accrued since the next preceding interest date on, the Bonds due and payable solely by virtue of such declaration) shall either be paid by or for the account of the City or provision satisfactory to the Trustee and the Co-Trustee, if any, shall be made for such payment, and all defaults under the Bonds or under the Resolution (other than the payment of principal and interest due and payable solely by reason of such declaration) shall be made good or be secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, then and in every such case the Holders of 25% in principal amount of the Bonds Outstanding, by written notice to the City, the Trustee and the Co-Trustee, if any, may rescind such declaration and annul such default in its entirety, or, if the Trustee shall have acted itself, and if there shall not have been theretofore delivered to the Trustee written direction to the contrary by the Holders of 25% in principal amount of the Bonds Outstanding, then any such declaration shall *ipso facto* be deemed to be rescinded and any such default shall *ipso facto* be deemed to be annulled, but no such rescission or annulment shall extend to or affect any subsequent default or impair or exhaust any right or power consequent thereon.

SECTION 802. Accounting and Examination of Records After Default. 1.

The City covenants that if an Event of Default shall have happened and shall not have been remedied, the books of records and accounts of the City and all other records relating to the System shall at all times be subject to the inspection and use of the Trustee and of its agents and attorneys.

2. The City covenants that if an Event of Default shall happen and shall not have been remedied, the City, upon demand of the Trustee, will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Resolution for such period as shall be stated in such demand.

SECTION 803. Application of Revenues and Other Moneys After Default.

1. The City covenants that if an Event of Default shall happen and shall not have been remedied, the City, upon the demand of the Trustee, shall pay over or cause to be paid over to the Trustee (i) forthwith, all moneys, securities and funds then held by the City in any Fund under the Resolution, and (ii) all Revenues as promptly as practicable after receipt thereof.

2. During the continuance of an Event of Default, the Trustee shall apply all moneys, securities, funds and Revenues received by the Trustee pursuant to any right given or action taken under the provisions of this Article (other than amounts on deposit in any separate subaccount in the Debt Service Reserve Account in the Debt Service Fund) as follows and in the following order:

(i) Expenses of Fiduciaries to the payment of the reasonable and proper charges, expenses and liabilities of the Fiduciaries;

(ii) Operation and Maintenance Expenses to the payment of the amounts required for reasonable and necessary Operation and Maintenance Expenses and for the reasonable renewals, repairs and replacements of the System necessary in the judgment of the Trustee to prevent a loss of Revenues. For this purpose the books of records and accounts of the City relating to the System shall at all times be subject to the inspection of the Trustee and its representatives and agents during the continuance of such Event of Default;

(iii) Principal or Redemption Price and Interest to the payment of the interest and principal or Redemption Price then due on the Bonds and the interest and principal components of Parity Hedging Contract Obligations, as follows:

(a) unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: Interest To the payment to the persons entitled thereto of all installments of interest then due on the Bonds and on the interest component of Parity Hedging Contract Obligations in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: Principal or Redemption Price -- To the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Bonds and the principal component of Parity Hedging Contract Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds and the principal component of Parity Hedging Contract Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) if the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds and the principal and interest components of Parity Hedging Contract Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond or Parity Hedging Contract Obligation over any other Bond or Parity Hedging Contract Obligation, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Bonds and the Parity Hedging Contract Obligations.

During the continuance of an Event of Default, the Trustee shall apply all amounts on deposit in each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund as follows and in the following order:

(a) unless the principal of all of the Bonds shall have become or have been declared due and payable,

First: Interest -- To the payment to the persons entitled thereto of all installments of interest then due on the Bonds of each Additionally Secured Series secured by such separate subaccount in the order of the maturity of such installments, together with accrued and unpaid interest on the Bonds of such Additionally Secured Series theretofore called for redemption, and, if the amount available shall not be sufficient to pay in full any such installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: Principal or Redemption Price -- To the payment to the persons entitled thereto of the unpaid principal or sinking fund Redemption Price of any Bonds of such Additionally Secured Series which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all such Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or sinking fund Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference.

(b) if the principal of all of the Bonds shall have become or have been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Bonds of each Additionally Secured Series secured by such separate subaccount without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any such Bond over any other such Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in such Bonds.

3. If and whenever all overdue installments of interest on all Bonds, together with the reasonable and proper charges, expenses and liabilities of the Trustee, and all other sums payable by the City under the Resolution, including the principal and Redemption Price of and accrued unpaid interest on all Bonds which shall then be payable, shall either be paid by or for the account of the City, or provision satisfactory to the Trustee shall be made for such payment, and all defaults under the Resolution or the Bonds shall be made good or secured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall be made therefor, the Trustee shall pay over to the City all moneys, securities and funds then remaining unexpended in the hands of the Trustee (except moneys, securities and funds deposited or pledged, or required by the terms of the Resolution to be deposited or pledged, with the Trustee), and thereupon the City and the Trustee shall be restored, respectively, to their former positions and rights under the Resolution. No such payment over to the City by the Trustee nor such restoration of the City and the Trustee to their former positions and rights shall extend to or affect any subsequent default under the Resolution or impair any right consequent thereon.

SECTION 804. Appointment of Receiver. The Trustee shall have the right to apply in an appropriate proceeding for the appointment of a receiver of the System.

SECTION 805. Proceedings Brought by Trustee. 1. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee, by its agents and attorneys, may proceed, and upon written request of the Holders of not less than 25% in principal amount of the Bonds Outstanding shall proceed, to protect and enforce its rights and the rights of the Holders of the Bonds under the Resolution forthwith by a suit or suits in equity or at law, whether for the specific

performance of any covenant herein contained, or in aid of the execution of any power herein granted or any remedy granted under the Act, or for an accounting against the City as if the City were the trustee of an express trust, or in the enforcement of any other legal or equitable right as the Trustee, being advised by counsel, shall deem most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

2. All rights of action under the Resolution may be enforced by the Trustee without the possession of any of the Bonds or the production thereof at the trial or other proceedings, and any such suit or proceedings instituted by the Trustee shall be brought in its name.

3. The Holders of not less than a majority in principal amount of the Bonds at the time Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if (a) the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, (b) the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability, unless such holders shall agree to indemnify the Trustee against such liability and shall post bond in respect of such indemnity, or (c) the Trustee in good faith shall determine that the action or proceeding so directed would be unjustly prejudicial to the Bondholders not parties to such direction.

4. Upon commencing a suit in equity or upon other commencement of judicial proceedings by the Trustee to enforce any right under the Resolution, the Trustee shall be entitled to exercise any and all rights and powers conferred in the Resolution and provided to be exercised by the Trustee upon the occurrence of any Event of Default.

5. Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the Holders of a majority in principal amount of the Bonds then Outstanding, and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient to prevent any impairment of the security under the Resolution by any acts which may be unlawful or in violation of the Resolution, and such suits and proceedings as the Trustee may be advised shall be necessary or expedient to preserve or protect its interests and the interests of the Bondholders.

SECTION 806. Restriction on Bondholder's Action. 1. No Holder of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Resolution or the execution of any trust under the Resolution or for any remedy under the Resolution, unless such Holder shall have previously given to the Trustee written notice of the happening of an Event of Default, as provided in this Article, and the Holders of at least 25% in principal amount of the Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, either to exercise the powers granted in the Resolution or by the Act or by the other laws of Florida or to institute such action, suit or proceeding in its own name, and unless such Holders shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused to comply with such request for a period of 60 days after receipt by it of such notice, request and offer of indemnity, it being understood and intended that no one or more Holders of Bonds shall have any right in any manner whatever by such Holders' action to affect, disturb or prejudice the pledge created by the Resolution, or to enforce any right under the Resolution, except in the manner therein provided; and that all proceedings at law or in equity to enforce any provision of the Resolution shall be instituted, had and maintained in the manner provided in the Resolution and for the equal benefit of all Holders of the Outstanding Bonds, subject only to the provisions of Section 702.

2. Nothing in the Resolution or in the Bonds shall affect or impair the obligation of the City, which is absolute and unconditional, to pay, solely from the Trust Estate and, in the case of the Bonds of any Additionally Secured Series, the separate subaccount in the Debt Service Reserve Account in the Debt Service Fund established with respect thereto, at the respective dates of maturity and places therein expressed the principal of (and premium, if any) and interest on the Bonds to the respective Holders thereof, or affect or impair the right of action, which is also absolute and unconditional, of any Holder to enforce such payment of such Holder's Bond.

SECTION 807. Remedies Not Exclusive. No remedy by the terms of the Resolution conferred upon or reserved to the Trustee or the Bondholders is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Resolution or existing at law, including under the Act, or in equity or by statute on or after the date of adoption of the Resolution.

SECTION 808. Effect of Waiver and Other Circumstances. 1. No delay or omission of the Trustee or any Bondholder to exercise any right or power arising upon the happening of an Event of Default shall impair any right or power or shall be construed to be a waiver of any such Event of Default or be an acquiescence therein; and every power and remedy given by this Article to the Trustee or to the Bondholders may be exercised from time to time and as often as may be deemed expedient by the Trustee or by the Bondholders.

2. Prior to the declaration of maturity of the Bonds as provided in Section 801, the Holders of not less than 66-2/3% in aggregate principal amount of the Bonds at the time Outstanding, or their attorneys-in-fact duly authorized, may on behalf of the Holders of all of the Bonds waive any past default under the Resolution and its consequences, except a default in the payment of interest on or principal of or premium (if any) on any of the Bonds. No such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 809. Notice of Default. The Trustee shall promptly mail written notice of the occurrence of any Event of Default to each registered owner of Bonds then Outstanding at such owner's address, if any, appearing on the registry books of the City.

ARTICLE IX

CONCERNING THE FIDUCIARIES

SECTION 901. Trustee and Co-Trustee; Appointment and Acceptance of Duties. 1. U.S. Bank Trust National Association shall serve as the initial Trustee hereunder.

2. The Co-Trustee, if any, shall be appointed by a Supplemental Resolution. The Co-Trustee shall signify its acceptance of the duties and obligations imposed upon it by the Resolution and all other agreements with the City by executing and delivering to the City a written acceptance thereof.

SECTION 902. Paying Agents; Appointment and Acceptance of Duties. 1. The City shall appoint one or more Paying Agents for the Bonds of each Series, and may at any time or from time to time appoint one or more other Paying Agents having the qualifications set forth in Section 913 for a successor Paying Agent. The Trustee or the Co-Trustee may be appointed a Paying Agent.

2. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it by the Resolution by executing and delivering to the City and to the Trustee a written acceptance thereof.

3. Unless otherwise provided, the offices of the Paying Agents are designated as the respective offices or agencies of the City for the payment of the interest on and principal or Redemption Price of the Bonds.

SECTION 903. Responsibilities of Fiduciaries. 1. The recitals herein and in the Bonds contained shall be taken as the statements of the City, and no Fiduciary assumes any responsibility for the correctness of the same. No Fiduciary makes any representation as to the validity or sufficiency of the Resolution or of any Bonds issued thereunder or as to the security afforded by the Resolution, and no Fiduciary shall incur any liability in respect thereof. The Trustee shall, however, be responsible for its representation contained in its certificate of authentication on the Bonds. No Fiduciary shall be under any responsibility or duty with respect to the application of any moneys paid by such Fiduciary in accordance with the provisions of the Resolution to or upon the order of the City or to any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect thereof, or to advance any of its own moneys, unless properly indemnified. Subject to the provisions of paragraph 2 of this Section 903, no Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence, misconduct or default.

2. The Trustee, prior to the occurrence of an Event of Default and after the curing of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in the Resolution. In case an Event of Default has occurred (which has not been cured) the Trustee shall exercise such of the rights and powers vested in it by the Resolution, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs. Any provision of the Resolution relating to action taken or to be taken by the Trustee or to evidence upon which the Trustee may rely shall be subject to the provisions of this Section 903.

SECTION 904. Evidence on Which Fiduciaries May Act. 1. Each Fiduciary, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Resolution, shall examine such instrument to determine whether it conforms to the requirements of the Resolution and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. Each Fiduciary may reasonably consult with counsel, who may or may not be of counsel to the City, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Resolution in good faith and in accordance therewith.

2. Whenever any Fiduciary shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of an Authorized Officer of the City, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions of the Resolution upon the faith thereof; but in its discretion the Fiduciary may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as may seem reasonable to it.

3. Except as otherwise expressly provided in the Resolution, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision thereof by the

City to any Fiduciary shall be sufficiently executed when the same is executed in the name of the City by an Authorized Officer of the City.

SECTION 905. Compensation. Prior to its appointment, each Fiduciary shall file with the City a negotiated schedule of anticipated fees and charges for services to be performed pursuant to the Resolution. The City shall pay to each Fiduciary from time to time pursuant to such schedule reasonable compensation for all services rendered under the Resolution, and also all reasonable expenses, charges, counsel fees and other disbursements, including those of its attorneys, agents, and other persons not regularly in its employ, incurred in and about the performance of its powers and duties under the Resolution, and each Fiduciary shall have a lien therefor on any and all funds at any time held by it under the Resolution. Subject to the provisions of Section 903, the City further agrees to indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence, misconduct or default.

SECTION 906. Certain Permitted Acts. Any Fiduciary may become the owner of any Bonds, with the same rights it would have if it were not a Fiduciary. To the extent permitted by law, any Fiduciary may act as depositary for, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders or to effect or aid in any reorganization growing out of the enforcement of the Bonds or the Resolution, whether or not any such committee shall represent the Holders of a majority in principal amount of the Bonds then Outstanding.

SECTION 907. Resignation of Trustee or Co-Trustee. The Trustee or the Co-Trustee may at any time resign and be discharged from the duties and obligations created by the Resolution by giving notice of such resignation as hereinafter provided. Such notice shall specify the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice unless previously a successor shall have been appointed by the City or the Bondholders as provided in Section 909, in which event such resignation shall take effect immediately on the appointment of such successor. Such notice shall be mailed by first class mail, postage prepaid, not less than 60 days prior to the proposed date on which such resignation shall become effective, to the City, the Co-Trustee and the Holders of all Outstanding Bonds, at their last addresses, if any, appearing upon the registration books of the City kept by the Bond Registrar.

SECTION 908. Removal of Trustee or Co-Trustee. The Trustee or the Co-Trustee may be removed at any time with or without cause by an instrument or concurrent instruments in writing, filed with the Trustee or the Co-Trustee, and signed by the Holders of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized. So long as no Event of Default or an event which, with notice or passage of time, or both, would become an Event of Default, shall have occurred and be continuing, the Trustee or the Co-Trustee may be removed at any time for cause by resolution of the City filed with the Trustee or the Co-Trustee, as the case may be.

SECTION 909. Appointment of Successor Trustee or Co-Trustee. 1. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the City by a duly executed written instrument signed by an Authorized Officer of the City, but if the City does not appoint a successor Trustee within 60 days, then by the Holders of a majority in principal amount of the Bonds then Outstanding, by an instrument or concurrent instruments in writing signed and acknowledged by such Bondholders or by their attorneys-in-fact duly authorized and delivered to such successor Trustee, notification thereof being

given to the City and the predecessor Trustee. The City shall give notice of any such appointment made by it or the Bondholders by first class mail, postage prepaid, within 20 days after such appointment, to the Holders of all Outstanding Bonds, at their last addresses, if any, appearing upon the registration books of the City kept by the Bond Registrar.

2. In case at any time the Co-Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Co-Trustee, or of its property or affairs, a successor may be appointed by the City by a duly executed written instrument signed by an Authorized Officer of the City, but if the City does not appoint a successor Co-Trustee within 60 days then the Trustee shall automatically, without any further act, deed or conveyance, become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of the predecessor Co-Trustee with like effect as if originally vested with the same. The City shall give notice of any such appointment or transfer by first class mail, postage prepaid, within 20 days after such appointment or transfer, to the Holders of all Outstanding Bonds, at their last addresses, if any, appearing upon the registration books of the City kept by the Bond Registrar.

3. If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Section within 45 days after the Trustee shall have given to the City written notice as provided in Section 907 or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Co-Trustee or the Holder of any Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper, appoint a successor Trustee.

4. Any Trustee or Co-Trustee appointed under the provisions of this Section in succession to the Trustee or Co-Trustee shall be a bank or trust company or national banking association, having capital stock, surplus and undivided earnings aggregating at least \$50,000,000, if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution.

SECTION 910. Transfer of Rights and Property to Successor Trustee or Co-Trustee. Any successor Trustee or Co-Trustee appointed under the Resolution shall execute, acknowledge and deliver to its predecessor Trustee or Co-Trustee, and also to the City, an instrument accepting such appointment, and thereupon such successor Trustee or Co-Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee or Co-Trustee, with like effect as if originally named as Trustee or Co-Trustee; but the Trustee or Co-Trustee ceasing to act shall nevertheless, on the written request of the City, or of the successor Trustee or Co-Trustee, execute, acknowledge and deliver such instrument of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor Trustee or Co-Trustee all the right, title and interest of the predecessor Trustee or Co-Trustee in and to any property held by it under the Resolution, and shall pay over, assign and deliver to the successor Trustee or Co-Trustee any money or other property subject to the trusts and conditions herein set forth. Should any deed, conveyance or instrument in writing from the City be reasonably required by such successor Trustee or Co-Trustee for more fully and certainly vesting in and confirming to such successor Trustee or Co-Trustee any such estates, rights, power and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the City. The City shall promptly notify the Paying Agents of the appointment of any such successor Trustee or Co-Trustee.

SECTION 911. Merger or Consolidation. Any company into which any Fiduciary may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which it shall be a party or any company to which any Fiduciary may sell or transfer all or substantially all of its corporate trust business, provided such company shall be a bank or trust company organized under the laws of any state of the United States or a national banking association and shall be authorized by law to perform all duties imposed upon it by the Resolution, shall be the successor to such Fiduciary without the execution or filing of any paper or the performance of any further act.

SECTION 912. Adoption of Authentication. In case any of the Bonds contemplated to be issued under the Resolution shall have been authenticated but not delivered, any successor Trustee may adopt the certificate of authentication of any predecessor Trustee so authenticating such Bonds and deliver such Bonds so authenticated; and in any case of the said Bonds shall not have been authenticated, any successor Trustee may authenticate such Bonds in the name of the predecessor Trustee, or in the name of the successor Trustee, and in all such cases such certificate shall have the full force which it is anywhere in said Bonds or in the Resolution provided that the certificate of the Trustee shall have.

SECTION 913. Resignation or Removal of Paying Agent and Appointment of Successor. 1. Any Paying Agent may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 60 days' written notice to the City, the Trustee, and the other Paying Agents. Any Paying Agent may be removed at any time by an instrument filed with such Paying Agent and signed by an Authorized Officer of the City. Any successor Paying Agent shall be appointed by the City and shall be a bank or trust company organized under the laws of any state of the United States or national banking association, having capital stock, surplus and undivided earnings aggregating at least \$50,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolution.

2. In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, assign and deliver any moneys held by it as Paying Agent to its successor, or if there be no successor, to the Trustee. In the event that for any reason there shall be a vacancy in the office of any Paying Agent, the Trustee shall act as such Paying Agent.

SECTION 914. Bond Registrar. 1. Any Bond Registrar may at any time resign and be discharged of the duties and obligations created by the Resolution by giving at least 60 days' written notice to the City and the Trustee, if the Bond Registrar is an institution other than the Trustee. The Bond Registrar may be removed at any time by an instrument filed with such Bond Registrar and the Trustee, if the Bond Registrar is an institution other than the Trustee, and signed by an Authorized Officer of the City, provided that a successor Bond Registrar has been appointed by the City.

2. The resignation or removal of the Trustee as Bond Registrar pursuant to paragraph 1 of this Section 914 shall not simultaneously constitute a resignation or removal of the Trustee. Any Trustee acting as Bond Registrar pursuant to Section 703, however, who resigns or is removed as Trustee pursuant to Section 907 or 908, respectively, shall automatically cease to be Bond Registrar, and the City may, at its option, appoint a successor Bond Registrar other than the successor Trustee.

ARTICLE X

SUPPLEMENTAL RESOLUTIONS

SECTION 1001. Supplemental Resolutions Effective Upon Filing With the Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution of the City may be adopted, which, upon the filing with the Trustee and the Co-Trustee of a copy thereof certified by an Authorized Officer of the City shall be fully effective in accordance with its terms:

(1) To close the Resolution against, or provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolution on, the authentication and delivery of Bonds or the issuance of other evidences of indebtedness;

(2) To add to the covenants and agreements of the City in the Resolution, other covenants and agreements to be observed by the City which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(3) To add to the limitations and restrictions in the Resolution, other limitations and restrictions to be observed by the City which are not contrary to or inconsistent with the Resolution as theretofore in effect;

(4) To authorize Bonds of a Series and, in connection therewith, specify and determine the matters and things referred to in Section 202, and also any other matters and things relative to such Bonds which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Bonds;

(5) To confirm, as further assurance, any security interest, pledge or assignment under, and the subjection to any security interest, pledge or assignment created or to be created by, the Resolution, of the Revenues or of any other moneys, securities or funds;

(6) To modify any of the provisions of the Resolution in any other respect whatever, provided that (i) such modification shall be, and be expressed to be, effective only after all Bonds of each Series Outstanding at the date of the adoption of such Supplemental Resolution shall cease to be Outstanding, and (ii) such Supplemental Resolution shall be specifically referred to in the text of all Bonds of any Series authenticated and delivered after the date of the adoption of such Supplemental Resolution and of Bonds issued in exchange therefor or in place thereof;

(7) To authorize Subordinated Indebtedness or Parity Hedging Contract Obligations and, in connection therewith, specify and determine any matters and things relative to such Subordinated Indebtedness or Parity Hedging Contract Obligations which are not contrary to or inconsistent with the Resolution as theretofore in effect, or to amend, modify or rescind any such authorization, specification or determination at any time prior to the first authentication and delivery of such Subordinated Indebtedness or Parity Hedging Contract Obligations;

(8) To appoint the Co-Trustee;

(9) To provide for the issuance, execution, delivery, authentication, payment, registration, transfer and exchange of Bonds in coupon form payable to bearer or in uncertificated

form, and, in connection therewith, to specify and determine any matters and things relative thereto; and

(10) If and to the extent authorized in a Supplemental Resolution authorizing an Additionally Secured Series of Bonds, to specify the qualifications of any provider of an obligation similar to a surety bond, insurance policy or letter of credit for deposit into the particular subaccount in the Debt Service Reserve Account securing the Bonds of such Additionally Secured Series.

SECTION 1002. Supplemental Resolutions Effective Upon Consent of Trustee. For any one or more of the following purposes and at any time or from time to time, a Supplemental Resolution may be adopted, which, upon (i) the filing with the Trustee and the Co-Trustee, if any, of a copy thereof certified by an Authorized Officer of the City, and (ii) the filing with the Co-Trustee, if any, and the City of an instrument in writing made by the Trustee consenting thereto, shall be fully effective in accordance with its terms:

(1) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolution;

(2) To insert such provisions clarifying matters or questions arising under the Resolution as are necessary or desirable and are not contrary to or inconsistent with the Resolution as theretofore in effect; or

(3) To make any other modification or amendment of the Resolution which the Trustee shall in its sole discretion determine will not have a material adverse effect on the interests of Bondholders.

In making any determination under clause (3) of this Section 1002, the Trustee may conclusively rely upon an Opinion of Counsel (which opinion may rely upon the opinions of experts) or a certificate of a Consulting Engineer.

SECTION 1003. Supplemental Resolutions Effective With Consent of Bondholders. At any time or from time to time, a Supplemental Resolution may be adopted subject to consent by Bondholders in accordance with and subject to the provisions of Article XI, which Supplemental Resolution, upon the filing with the Trustee and the Co-Trustee, if any, of a copy thereof certified by an Authorized Officer of the City and upon compliance with the provisions of said Article XI, shall become fully effective in accordance with its terms as provided in said Article XI; provided, however, that notwithstanding anything to the contrary contained herein, until such time as all Bonds issued prior to the Effective Date no longer shall be Outstanding, the provisions of Article XI of the Original Resolution (and not the provisions of Article XI hereof) shall govern the procedures with respect to the effectiveness of any Supplemental Resolution requiring the consent of the Holders of any Bonds.

SECTION 1004. General Provisions. 1. The Resolution shall not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of this Article X and Article XI. Nothing in this Article X or Article XI contained shall affect or limit the right or obligation of the City to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of Section 704 or the right or obligation of the City to execute and deliver to any Fiduciary any instrument which elsewhere in the Resolution it is provided shall be delivered to said Fiduciary.

2. Any Supplemental Resolution referred to and permitted or authorized by Sections 1001 or 1002 may be adopted by the City without the consent of any of the Bondholders, but shall become effective only on the conditions, to the extent and at the time provided in said Section. The copy of every Supplemental Resolution when filed with the Trustee shall be accompanied by an Opinion of Counsel stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the City in accordance with its terms.

3. The Trustee is hereby authorized to accept the delivery of a certified copy of any Supplemental Resolution referred to and permitted or authorized by Sections 1001 or 1002 and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, shall be fully protected in relying on an Opinion of Counsel that such Supplemental Resolution is authorized or permitted by the provisions of the Resolution.

4. No Supplemental Resolution shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

ARTICLE XI

AMENDMENTS

SECTION 1101. Mailing and Publication. 1. Any provision in this Article for the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed postage prepaid only (i) to each registered owner of Bonds then Outstanding at such owner's address, if any, appearing upon the registry books of the City and (ii) to the Trustee.

2. Any provision in this Article for publication of a notice or other matter shall require the publication thereof only in an Authorized Newspaper.

SECTION 1102. Powers of Amendment. Any modification or amendment of the Resolution and of the rights and obligations of the City and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as provided in Section 1103 (i) of the Holders of not less than a majority in principal amount of the Bonds Outstanding affected by the modification or amendment at the time such consent is given, and (ii) in case the modification or amendment changes the terms of any Sinking Fund Installment, of the Holders of not less than a majority in principal amount of the Bonds of the particular Series and maturity entitled to such Sinking Fund Installment and Outstanding at the time such consent is given; provided, however, that if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain outstanding the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section. No such modification or amendment shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Holder of such Bond, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto. For the purposes of this Section, a Series shall be deemed to be affected by a modification or amendment of the Resolution if the same adversely affects or diminishes the rights of the Holders of Bonds of such Series. The Trustee may in its discretion determine whether or not in accordance with the foregoing powers of amendment Bonds of any particular Series or maturity would be affected by any modification or amendment of the Resolution and any such determination shall be

binding and conclusive on the City and all Holders of Bonds. For purposes of this Section, the Holders of any Bonds may include the initial Holders thereof, regardless of whether such Bonds are being held for resale.

SECTION 1103. Consent of Bondholders. The City may at any time adopt a Supplemental Resolution making a modification or amendment permitted by the provisions of Section 1102 to take effect when and as provided in this Section. A copy of such Supplemental Resolution (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to affected Bondholders for their consent thereto in form satisfactory to the Trustee, shall be mailed by the City to affected Bondholders (but failure of any affected Holder of a Bond to receive such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective unless and until (i) there shall have been filed with the Trustee (with a copy to the Co-Trustee, if any) (a) the written consents of Holders of the percentages of affected Outstanding Bonds specified in Section 1102 and (b) an Opinion of Counsel stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the City in accordance with the provisions of the Resolution, is authorized or permitted by the Resolution, and is valid and binding upon the City and enforceable in accordance with its terms, and (ii) a notice shall have been given as hereinafter in this Section 1103 provided. It shall not be necessary that the consents of Holders of Bonds approve the particular form of wording of the proposed modification or amendment or of the proposed Supplemental Resolution effecting such modification or amendment, but it shall be sufficient if such consents approve the substance of the proposed amendment or modification. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 1202. A certificate or certificates executed by the Trustee and filed with the Co-Trustee, if any, and the City stating that it has examined such proof and that such proof is sufficient in accordance with Section 1202 shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates of the Trustee. Any such consent shall be binding upon the Holder of the affected Bonds giving such consent and, anything in Section 1202 to the contrary notwithstanding, upon any subsequent Holder of such affected Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof) unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section 1103 provided for is filed, such revocation. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee filed with the Co-Trustee, if any, and the City to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentages of affected Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Co-Trustee, if any, and the City a written statement that the Holders of such required percentages of affected Bonds have filed such consents. Such written statements shall be conclusive that such consents have been so filed. At any time thereafter, notice stating in substance that the Supplemental Resolution (which may be referred to as a Supplemental Resolution adopted by the City on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of affected Bonds and will be effective as provided in this Section 1103, may be given to Bondholders by the City by mailing such notice to Bondholders (but failure of any affected Holder of a Bond to receive such notice shall not prevent such Supplemental Resolution from becoming effective and binding as in this Section 1103 provided) after the Holders of the required percentages of affected Bonds shall have filed their consents to the Supplemental Resolution and the written statement of the Trustee hereinabove provided for is filed. The City shall file with the Trustee (with a copy to the Co-Trustee, if any) proof of the mailing thereof. A record, consisting of the certificates or statements required or permitted by this Section 1103 to be made by the Trustee, shall be proof of the matters therein stated. Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the City, the Fiduciaries and the Holders of all Bonds at the expiration of 40 days after the filing with the Trustee of the proof of the giving

of such last-mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such 40 day period; provided, however, that any Fiduciary and the City during such 40 day period and any such further period during which any such action or proceeding may be pending shall be entitled in its absolute discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

SECTION 1104. Modifications or Amendments by Unanimous Consent. The terms and provisions of the Resolution and the rights and obligations of the City and of the Holders of the Bonds thereunder may be modified or amended in any respect upon the adoption and filing by the City of a Supplemental Resolution and the consent of the Holders of all of the affected Bonds then Outstanding, such consent to be given as provided in Section 1103 except that no notice to affected Bondholders by mailing shall be required; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without the filing with the Trustee of the written assent thereto of such Fiduciary in addition to the consent of the Bondholders.

SECTION 1105. Exclusion of Bonds. Bonds owned or held by or for the account of the City shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article XI, and the City shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action taken under this Article, the City shall furnish the Trustee a certificate of an Authorized Officer of the City, upon which the Trustee may rely, describing all Bonds so to be excluded.

SECTION 1106. Notation on Bonds. Bonds authenticated and delivered after the effective date of any action taken as in Article X or this Article XI provided may, and, if the Trustee so determines, shall, bear a notation by endorsement or otherwise in form approved by the City and the Trustee as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and presentation of such Holder's Bond for the purpose at the corporate trust office of the Trustee or upon any transfer or exchange of any Bond Outstanding at such effective date, suitable notation shall be made on such Bond or upon any Bond issued upon any such transfer or exchange by the Trustee as to any such action. If the City or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the City to conform to such action shall be prepared, authenticated and delivered and upon demand of the Holder of any Bond then Outstanding shall be exchanged, without cost to such Bondholder, for Bonds of the same Series, maturity and interest rate then Outstanding, upon surrender of such Bonds. Any action taken as in Article X or this Article XI provided shall be effective and binding upon all Bondholders notwithstanding that the notation is not endorsed on all Bonds.

ARTICLE XII

MISCELLANEOUS

SECTION 1201. Defeasance. 1. If the City shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, then the pledge of the Trust Estate and each separate subaccount in the Debt Service Reserve Account in the Debt Service Fund, and all covenants, agreements and other obligations of the City to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the City to be prepared and filed with the City and, upon the request of the City, shall execute and deliver to the City all such instruments as may be desirable to evidence such discharge and satisfaction, and the Fiduciaries

shall pay over or deliver to the City all moneys or securities held by them pursuant to the Resolution which are not required for the payment of principal or Redemption Price, if applicable, of and interest on Bonds. If the City shall pay or cause to be paid, or there shall otherwise be paid, to the Holders of any outstanding Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the Resolution, and all covenants, agreements and obligations of the City to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

2. Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Paying Agents (through deposit by the City of funds for such payment or redemption or otherwise) at the maturity or redemption date thereof shall be deemed to have been paid within the meaning and with the effect expressed in paragraph 1 of this Section. In addition, any Outstanding Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in subsection 1 of this Section (a) upon compliance with the provisions of subsection 3 of this Section or (b) if the City shall have satisfied all of the conditions precedent to such Bonds being so deemed to have been paid set forth in the Supplemental Resolution authorizing the Series of which such Bonds are a part.

3. Subject to the provisions of paragraph 4 through paragraph 8 of this Section, any Outstanding Bonds shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in paragraph 1 of this Section if (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the City shall have given to the Trustee instructions accepted in writing by the Trustee to give as provided in Article IV notice of redemption of such Bonds (other than Bonds which have been purchased by the Trustee at the direction of the City or purchased or otherwise acquired by the City and delivered to the Trustee as hereinafter provided prior to the giving of such notice of redemption) on said date, (b) there shall have been deposited with the Trustee either moneys (including moneys withdrawn and deposited pursuant to paragraph 4 of Section 507 and paragraph 5 of Section 508) in an amount which shall be sufficient, or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient, to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on or prior to the redemption date or maturity date thereof, as the case may be, and (c) in the event said Bonds are not by their terms subject to redemption or to be paid at maturity within the next succeeding 60 days, the City shall have given the Trustee in form satisfactory to it instructions to give, as soon as practicable, by first-class mail, postage prepaid, a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section 1201 and stating such maturity or redemption date upon which moneys are expected, subject to the provisions of paragraph 8 of this Section 1201, to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds (other than Bonds which have been purchased by the Trustee at the direction of the City or purchased or otherwise acquired by the City and delivered to the Trustee as hereinafter provided prior to the giving of the notice of redemption referred to in clause (a) hercof). Any notice given pursuant to the preceding sentence with respect to Bonds which constitute less than all of the Outstanding Bonds of any maturity within a Series shall specify the letter and number or other distinguishing mark of each such Bond. The Trustee shall, as and to the extent necessary, apply moneys held by it pursuant to this Section 1201 to the retirement of said Bonds in amounts equal to the unsatisfied balances (determined as provided in Section 511) of any Sinking Fund Installments with respect to such Bonds, all in the manner provided in the Resolution. The Trustee shall, if so directed by the City (i) prior to the maturity date of Bonds deemed to have been paid in accordance with this Section 1201 which are not to be redeemed prior to their maturity date or (ii) prior to the giving of the notice of redemption referred to in clause (a) above with respect to any Bonds deemed to have been

paid in accordance with this Section 1201 which are to be redeemed on any date prior to their maturity, apply moneys deposited with the Trustee in respect of such Bonds and redeem or sell Defeasance Securities so deposited with the Trustee and apply the proceeds thereof to the purchase of such Bonds and the Trustee shall immediately thereafter cancel all such Bonds so purchased; provided, however, that the moneys and Defeasance Securities remaining on deposit with the Trustee after the purchase and cancellation of such Bonds shall be sufficient to pay when due the Principal Installment or Redemption Price, if applicable, and interest due or to become due on all Bonds, in respect of which such moneys and Defeasance Securities are being held by the Trustee on or prior to the redemption date or maturity date thereof, as the case may be. If, at any time (i) prior to the maturity date of Bonds deemed to have been paid in accordance with Section 1201 which are not to be redeemed prior to their maturity date or (ii) prior to the giving of the notice of redemption referred to in clause (a) with respect to any Bonds deemed to have been paid in accordance with this Section 1201 which are to be redeemed on any date prior to their maturity, the City shall purchase or otherwise acquire any such Bonds and deliver such Bonds to the Trustee prior to their maturity date or redemption date, as the case may be, the Trustee shall immediately cancel all such Bonds so delivered; such delivery of Bonds to the Trustee shall be accompanied by directions from the City to the Trustee as to the manner in which such Bonds are to be applied against the obligation of the Trustee to pay or redeem Bonds deemed paid in accordance with this Section 1201. The directions given by the City to the Trustee referred to in the preceding sentences shall also specify the portion, if any, of such Bonds so purchased or delivered and cancelled to be applied against the obligation of the Trustee to pay Bonds deemed paid in accordance with this Section 1201 upon their maturity date or dates and the portion, if any, of such Bonds so purchased or delivered and cancelled to be applied against the obligation of the Trustee to redeem Bonds deemed paid in accordance with this Section 1201 on any date or dates prior to their maturity. In the event that on any date as a result of any purchases, acquisitions and cancellations of Bonds as provided in this Section 1201 the total amount of moneys and Defeasance Securities remaining on deposit with the Trustee under this Section 1201 is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of the remaining Bonds in order to satisfy subclause (b) of this paragraph 2 of Section 1201, the Trustee shall, if requested by the City, pay the amount of such excess to the City free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under this Resolution. Except as otherwise provided in this paragraph 3 of Section 1201 and in paragraph 4 through paragraph 8 of this Section 1201, neither Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if applicable, and interest on said Bonds; provided that any cash received from such principal or interest payments on such Defeasance Securities deposited with the Trustee, (A) to the extent such cash will not be required at any time for such purpose, shall be paid over to the City as received by the Trustee, free and clear of any trust, lien or pledge securing said Bonds or otherwise existing under the Resolution, and (B) to the extent such cash will be required for such purpose at a later date, shall, to the extent practicable, be reinvested in Defeasance Securities maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on or prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the City, as received by the Trustee, free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Resolution.

4. For purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Securities and moneys, if any, in accordance with the second sentence of paragraph 3 of this Section 1201, the interest to come due on such Variable Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the maximum rate permitted by the terms thereof; provided, however, that if on any date, as a result of such Variable Rate Bonds having borne interest at less than such maximum rate for any period, the total amount of moneys

and Defeasance Securities on deposit with the Trustee for the payment of interest on such Variable Rate Bonds is in excess of the total amount which would have been required to be deposited with the Trustee on such date in respect of such Variable Rate Bonds in order to satisfy the second sentence of paragraph 3 of this Section 1201, the Trustee shall, if requested, by the City, pay the amount of such excess to the City free and clear of any trust, lien, pledge or assignment securing the Bonds or otherwise existing under the Resolution.

5. Option Bonds shall be deemed to have been paid in accordance with the second sentence of paragraph 3 of this Section 1201 only if, in addition to satisfying the requirements of clauses (a) and (c) of such sentence, there shall have been deposited with the Trustee moneys (including moneys withdrawn and deposited pursuant to paragraph 4 of Section 507 and paragraph 5 of Section 508) in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the Holders of such Bonds upon the exercise of any options provided to the Holders of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to paragraph 2 of this Section 1201, the options originally exercisable by the Holder of an Option Bond are no longer exercisable, such Bond shall not be considered an Option Bond for purposes of this paragraph 5. If any portion of the moneys deposited with the Trustee for the payment of the principal of and premium, if any, and interest on Option Bonds is not required for such purpose the Trustee shall, if requested by the City, pay the amount of such excess to the City free and clear of any trust, lien, pledge or assignment securing said Bonds or otherwise existing under the Resolution.

6. Defeasance Securities described in clause (f) of the definition thereof may be included in the Defeasance Securities deposited with the Trustee in order to satisfy the requirements of clause (b) of paragraph 2 of Section 1201 only if the determination as to whether the moneys and Defeasance Securities to be deposited with the Trustee in order to satisfy the requirements of such clause (b) would be sufficient to pay when due either on the maturity date thereof or, in the case of any bonds to be redeemed prior to the maturity date thereof, on the redemption date or dates specified in any notice of redemption to be given by the Trustee or in the instructions to give a notice of redemption provided to the Trustee in accordance with paragraph 3 of Section 1201, the principal and Redemption Price, if applicable, and interest on the Bonds which will be deemed to have been paid as provided in paragraph 3 of Section 1201 is made both (i) on the assumption that the Defeasance Securities described in clause (f) were not redeemed at the option of the issuer prior to the maturity date thereof and (ii) on the assumptions that such Defeasance Securities would be redeemed by the issuer thereof at its option on each date on which such option could be exercised, that as of such date or dates interest ceased to accrue on such Defeasance Securities and that the proceeds of such redemption would not be reinvested by the Trustee.

7. In the event that after compliance with the provisions of paragraph 6 of Section 1201 the Defeasance Securities described in clause (f) of the definition thereof are included in the Defeasance Securities deposited with the Trustee in order to satisfy the requirements of clause (b) of paragraph 3 of Section 1201 and any such Defeasance Securities are actually redeemed by the issuer thereof prior to their maturity date, then the Trustee at the direction of the City, provided that the aggregate of the moneys and Defeasance Securities to be held by the Trustee, taking into account any changes in redemption dates or instructions to give notice of redemption given to the Trustee by the City in accordance with paragraph 8 of Section 1201, shall at all times be sufficient to satisfy the requirements of clause (b) of paragraph 3 of Section 1201, shall reinvest the proceeds of such redemption in Defeasance Securities.

8. In the event that after compliance with the provisions of paragraph 6 of Section 1201 the Defeasance Securities described in clause (f) of the definition thereof are included in the

Defeasance Securities deposited with the Trustee in order to satisfy the requirements of clause (b) of paragraph 3 of Section 1201, then any notice of redemption to be given by the Trustee and any set of instructions relating to a notice of redemption given to the Trustee may provide, at the option of the City, that any redemption date or dates in respect of all or any portion of the Bonds to be redeemed on such date or dates may at the option of the City be changed to any other permissible redemption date or dates and that redemption dates may be established for any Bonds deemed to have been paid in accordance with this Section 1201 upon their maturity date or dates at any time prior to the actual giving of any applicable notice of redemption in the event that all or any portion of any Defeasance Securities described in clause (f) of the definition thereof have been called for redemption pursuant to an irrevocable notice of redemption or have been redeemed by the issuer thereof prior to the maturity date thereof; no such change of redemption date or dates or establishment of redemption date or dates may be made unless taking into account such changed redemption date or dates or newly established redemption date or dates the moneys and Defeasance Securities on deposit with the Trustee including any Defeasance Securities deposited with the Trustee in connection with any reinvestment of redemption proceeds in accordance with paragraph 7 of Section 1201 pursuant to clause (b) of paragraph 3 of Section 1201 would be sufficient to pay when due the principal and Redemption Price, if applicable, and interest on all Bonds deemed to have been paid in accordance with paragraph 3 of Section 1201 which have not as yet been paid.

9. Anything in the Resolution to the contrary notwithstanding, any moneys held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for six years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for six years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds become due and payable, shall, at the written request of the City, be repaid by the Fiduciary to the City, as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the City for the payment of such Bonds; provided, however, that before being required to make any such payment to the City, the Fiduciary shall, at the expense of the City, cause to be published at least twice, at an interval of not less than 7 days between publications, in an Authorized Newspaper, a notice that said moneys remain unclaimed and that, after a date named in said notice, which date shall be not less than 30 days after the date of the first publication of such notice, the balance of such moneys then unclaimed will be returned to the City.

SECTION 1202. Evidence of Signatures of Bondholders and Ownership of Bonds. 1. Any request, consent, revocation of consent or other instrument which the Resolution may require or permit to be signed and executed by the Bondholders may be in one or more instruments of similar tenor and shall be signed or executed by such Bondholders in person or by their attorneys appointed in writing. Proof of (i) the execution of any such instrument, or of an instrument appointing any such attorney, or (ii) the holding by any person of the Bonds, shall be sufficient for any purpose of the Resolution (except as otherwise therein expressly provided) if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

The fact and date of the execution by any Bondholder or such Bondholder's attorney of such instruments may be proved by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the person signing such request or other instrument acknowledged to such officer the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such

corporation, association or partnership, such signature guarantee, certificate or affidavit shall also constitute sufficient proof of such officer's authority.

2. The ownership of Bonds and the amount, numbers and other identification, and date of holding the same shall be proved by the registry books.

3. Any request or consent by the owner of any Bond shall bind all future owners of such Bond in respect of anything done or suffered to be done by the City or any Fiduciary in accordance therewith.

SECTION 1203. Moneys Held for Particular Bonds. The amounts held by any Fiduciary for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds shall, on and after such date and pending such payment, be set aside on its books and held in trust by it for the Holders of the Bonds entitled thereto.

SECTION 1204. Preservation and Inspection of Documents. All documents received by any Fiduciary under the provisions of the Resolution shall be retained in its possession and shall be subject at all reasonable times to the inspection of the City, any other Fiduciary, and any Bondholder and their agents and their representatives, any of whom may make copies thereof.

SECTION 1205. Parties Interested Herein. Nothing in the Resolution expressed or implied is intended or shall be construed to confer upon, or to give to, any person or corporation, other than the City, the Fiduciaries, each Qualified Hedging Contract Provider that has provided a Qualified Hedging Contract and the Holders of the Bonds any right, remedy or claim under or by reason of the Resolution or any covenant, condition or stipulation thereof; and all the covenants, stipulations, promises and agreements in the Resolution contained by and on behalf of the City shall be for the sole and exclusive benefit of the City, the Fiduciaries, each such Qualified Hedging Contract Provider and the Holders of the Bonds.

SECTION 1206. No Recourse on the Bonds. No officer, agent or employee of the City shall be individually or personally liable for the payment of the principal or Redemption Price or interest on the Bonds.

SECTION 1207. Publication of Notice; Suspension of Publication. 1. Any publication to be made under the provisions of the Resolution in successive weeks or on successive dates may be made in each instance upon any business day of the week and need not be made in the same Authorized Newspaper for any or all of the successive publications but may be made in different Authorized Newspapers.

2. If, because of the temporary or permanent suspension of the publication or general circulation of any of the Authorized Newspapers or for any other reason, it is impossible or impractical to publish any notice pursuant to the Resolution in the manner herein provided, then such publication in lieu thereof as shall be made with the approval of the Trustee shall constitute a sufficient publication of such notice.

SECTION 1208. Action by Credit Enhancer When Action by Holders of the Bonds Required. Except as otherwise provided in a Supplemental Resolution authorizing Bonds for which Credit Enhancement is being provided, if not in default in respect of any of its obligations with respect to Credit Enhancement for the Bonds of a Series, or a maturity within a Series, the Credit Enhancer for, and not the actual Holders of, the Bonds of a Series, or a maturity within a Series, for which such Credit Enhancement is being provided, shall be deemed to be the Holder of Bonds of any Series, or

maturity within a Series, as to which it is the Credit Enhancer at all times for the purpose of (i) giving any approval or consent to the effectiveness of any Supplemental Resolution or any amendment, change or modification of the Resolution as specified in Sections 1003, 1102, 1103 and 1104 or any other provision hereof, which requires the written approval or consent of Holders; provided, however, that the provisions of this Section shall not apply to any change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon, or shall reduce the percentages or otherwise affect the classes of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto and (ii) giving any approval or consent, exercising any remedies or taking any other action in accordance with the provisions of Article VIII hereof.

SECTION 1209. Severability of Invalid Provisions. If any one or more of the covenants or agreements provided in the Resolution on the part of the City or any Fiduciary to be performed should be contrary to law, then such covenant or covenants or agreement or agreements shall be deemed severable from the remaining covenants and agreements, and shall in no way affect the validity of the other provisions of the Resolution.

SECTION 1210. Holidays. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in the Resolution, shall be a legal holiday or a day on which banking institutions in the city in which is located the principal office of the Trustee are authorized by law to remain closed, such payment may be made or act performed or right exercised on the next succeeding day not a legal holiday or a day on which such banking institutions are authorized by law to remain closed, with the same force and effect as if done on the nominal date provided in the Resolution, and no interest shall accrue for the period after such nominal date.

SECTION 1211. Representations and Covenants Regarding the Pledge of the Resolution. The City represents that, pursuant to the Act, the Resolution creates a valid and binding lien on the Trust Estate, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth herein, for the benefit of the Holders of the Bonds, as security for the payment of the Bonds, to the extent set forth herein, enforceable in accordance with the terms hereof.

The City has not heretofore made or granted a pledge or assignment of, lien on or security interest in the Trust Estate that ranks on a parity with or prior to the lien and pledge made or granted in the Resolution. The City shall not hereafter make or grant a pledge or assignment of, lien on or security interest in such Trust Estate that ranks prior to or on a parity with the lien and pledge made or granted in the Resolution, except as expressly permitted thereby.

SECTION 1212. Repeal of Inconsistent Resolutions. Any resolution of the City, and any part of any resolution, inconsistent with the Resolution is hereby repealed to the extent of such inconsistency.

ARTICLE XIII

EFFECTIVE DATE; DEBT SERVICE RESERVE ACCOUNT UNDER ORIGINAL RESOLUTION

SECTION 1301. Effective Date. This Amended and Restated Utilities System Revenue Bond Resolution shall become effective on the Effective Date, upon the satisfaction of the conditions to its effectiveness set forth in Articles X and XI of Original Resolution.

SECTION 1302. Debt Service Reserve Account under Original Resolution.

On the Effective Date, the Trustee shall, upon the written request of the City, transfer amounts accumulated in the Debt Service Reserve Account in the Debt Service Fund with respect to the Prior Bonds to the Utilities Plant Improvement Fund.

Amended and Restated Utilities System Revenue Bond Resolution approved and adopted by the City of Gainesville, Florida on January 30, 2003.

THE CITY OF GAINESVILLE, FLORIDA

By _____
Name:
Title:

Attest:

Clerk of the Commission

Approved as to Form and Legality:

Office of the City Attorney

RESOLUTION NO. 120097
PASSED JUNE 21, 2012

A RESOLUTION INCORPORATING BY REFERENCE AND ADOPTING, AND AUTHORIZING THE EXECUTION AND DELIVERY OF, (A) A TWENTY-FOURTH SUPPLEMENTAL UTILITIES SYSTEM REVENUE BOND RESOLUTION FOR THE PURPOSE OF AUTHORIZING THE ISSUANCE, SALE, EXECUTION AND DELIVERY OF NOT TO EXCEED \$100,000,000 OF THE CITY OF GAINESVILLE, FLORIDA'S UTILITIES SYSTEM REVENUE BONDS, 2012 SERIES A IN ORDER TO PROVIDE A PORTION OF THE MONEYS NECESSARY TO REFUND CERTAIN OF THE CITY'S OUTSTANDING UTILITIES SYSTEM REVENUE BONDS, AND DELEGATING THE AUTHORITY TO DETERMINE CERTAIN MATTERS IN CONNECTION THEREWITH AND (B) A TWENTY-FIFTH SUPPLEMENTAL UTILITIES SYSTEM REVENUE BOND RESOLUTION FOR THE PURPOSE OF AUTHORIZING THE ISSUANCE, SALE, EXECUTION AND DELIVERY OF NOT TO EXCEED \$105,000,000 OF THE CITY'S VARIABLE RATE UTILITIES SYSTEM REVENUE BONDS, 2012 SERIES B IN ORDER TO PROVIDE THE MONEYS NECESSARY TO REFUND CERTAIN OF THE CITY'S OUTSTANDING UTILITIES SYSTEM REVENUE BONDS, AND DELEGATING THE AUTHORITY TO DETERMINE CERTAIN MATTERS IN CONNECTION THEREWITH; APPROVING THE NEGOTIATED SALE OF THE 2012 SERIES A BONDS AND APPROVING THE FORM, AND AUTHORIZING THE EXECUTION AND DELIVERY, OF A CONTRACT OF PURCHASE WITH RESPECT THERETO, AND DELEGATING THE AUTHORITY TO DETERMINE CERTAIN MATTERS IN CONNECTION THEREWITH; APPROVING THE NEGOTIATED SALE OF THE 2012 SERIES B BONDS AND APPROVING THE FORM, AND AUTHORIZING THE EXECUTION AND DELIVERY, OF A CONTRACT OF PURCHASE WITH RESPECT THERETO, AND DELEGATING THE AUTHORITY TO DETERMINE CERTAIN MATTERS IN CONNECTION THEREWITH; APPROVING THE FORM, AND AUTHORIZING THE EXECUTION AND DELIVERY, OF CONTINUING DISCLOSURE CERTIFICATES WITH RESPECT TO THE 2012 SERIES A AND B BONDS; APPROVING THE FORM, AND AUTHORIZING THE EXECUTION AND DELIVERY, OF A REMARKETING AGREEMENT, A TENDER AGENCY AGREEMENT AND A STANDBY BOND PURCHASE AGREEMENT WITH RESPECT TO THE 2012 SERIES B BONDS; APPROVING THE FORM, AND AUTHORIZING THE EXECUTION AND DELIVERY, OF AN ESCROW DEPOSIT AGREEMENT RELATING TO THE 2012 SERIES A BONDS; AUTHORIZING, WITH RESPECT TO THE 2012 SERIES A BONDS, THE DEPOSIT OF BOND PROCEEDS AND CERTAIN OTHER AMOUNTS INTO THE ESCROW ACCOUNT TO BE ESTABLISHED PURSUANT TO THE ESCROW DEPOSIT AGREEMENT AND THE INVESTMENT OF SUCH MONEYS; AUTHORIZING THE AUTHENTICATION AND DELIVERY OF THE 2012 SERIES A AND B BONDS; APPROVING THE FORM AND USE OF THE PRELIMINARY OFFICIAL STATEMENT AND THE OFFICIAL STATEMENT RELATING TO THE 2012 SERIES A BONDS AND AUTHORIZING THE EXECUTION AND DELIVERY OF SAID OFFICIAL STATEMENT; APPROVING THE FORM AND USE OF THE OFFICIAL STATEMENT RELATING TO THE 2012 SERIES B BONDS AND AUTHORIZING THE EXECUTION AND DELIVERY OF SAID OFFICIAL STATEMENT; AUTHORIZING THE REGISTRATION OR QUALIFICATION OF THE 2012 SERIES A AND B BONDS UNDER THE BLUE SKY LAWS OF VARIOUS STATES; AUTHORIZING CERTAIN CITY OFFICIALS TO TAKE OTHER ACTIONS IN CONNECTION WITH THE ISSUANCE, SALE AND

DELIVERY OF THE 2012 SERIES A AND B BONDS; AUTHORIZING THE EXTENSION OR SUBSTITUTION OF THE LIQUIDITY FACILITY FOR THE 2012 SERIES B BONDS; AUTHORIZING THE REMOVAL OF THE REMARKETING AGENT AND/OR THE TENDER AGENT FOR THE 2012 SERIES B BONDS AND APPOINTMENT OF SUCCESSOR(S) THEREFOR; PROVIDING A SEVERABILITY CLAUSE; AND PROVIDING AN EFFECTIVE DATE.

BE IT RESOLVED BY THE CITY COMMISSION OF THE CITY OF GAINESVILLE, FLORIDA:

SECTION 1. Authority for this Resolution. This resolution is adopted pursuant to the provisions of the Charter of the City, Chapter 90-394, Laws of Florida, 1990, as amended, Chapter 166, Part II, Florida Statutes, as amended, and other applicable provisions of law.

SECTION 2. Definitions. Unless the context otherwise requires, the terms defined in this section shall have the meanings specified in this section. Reference is made to the Bond Resolution hereinafter referred to and to the Twenty-Fourth Supplemental Resolution and the Twenty-Fifth Supplemental Resolution herein authorized, and attached hereto, for definitions of terms used in this resolution which are not defined in this section. Words importing a singular number shall include the plural number in each case and vice versa, and words importing persons shall include firms and corporations.

- A. "Bank" shall mean JPMorgan Chase Bank, National Association.
- B. "Bond Resolution" shall mean the Utilities System Revenue Bond Resolution of the City adopted on June 6, 1983, as heretofore amended, restated and supplemented.
- C. "City" shall mean the City of Gainesville, Florida.
- D. "Continuing Disclosure Certificates" shall mean the 2012 Series A Continuing Disclosure Certificate and the 2012 Series B Continuing Disclosure Certificate, collectively.

E. "Contracts of Purchase" shall mean the 2012 Series A Contract of Purchase and the 2012 Series B Contract of Purchase, collectively.

F. "Escrow Deposit Agreement" shall mean the Escrow Deposit Agreement Relating to 2012 Series A Bonds, dated as of August 1, 2012, to be entered into between the City and U.S. Bank Trust National Association, as Trustee.

G. "Initial Liquidity Facility" shall mean the Standby Bond Purchase Agreement, dated as of August 1, 2012, to be entered into between the City and the Bank.

H. "Official Statements" shall mean the 2012 Series A Official Statement and the 2012 Series B Official Statement, collectively.

I. "Remarketing Agreement" shall mean the Remarketing Agreement, dated as of August 1, 2012, to be entered into between the City and J.P. Morgan Securities LLC.

J. "Rule 15c2-12" shall mean Rule 15c2-12, as amended, promulgated by the United States Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended.

K. "Supplemental Resolutions" shall mean the Twenty-Fourth Supplemental Resolution and the Twenty-Fifth Supplemental Resolution, collectively.

L. "Tender Agency Agreement" shall mean the Tender Agency Agreement Relating to Variable Rate Utilities System Revenue Bonds, 2012 Series B, dated as of August 1, 2012, to be entered into between the City and U.S. Bank Trust National Association.

M. "Twenty-Fifth Supplemental Resolution" shall mean the Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution of the City, which is attached hereto as Exhibit C and incorporated herein by reference for all purposes of this resolution.

N. "Twenty-Fourth Supplemental Resolution" shall mean the Twenty-Fourth Supplemental Utilities System Revenue Bond Resolution of the City, which is attached hereto as Exhibit B and incorporated herein by reference for all purposes of this resolution.

O. "2012 Series A and B Bonds" shall mean the 2012 Series A Bonds and the 2012 Series B Bonds, collectively.

P. "2012 Series A Bonds" shall mean the City's Utilities System Revenue Bonds, 2012 Series A, authorized by Section 5 of this resolution and Article II of the Twenty-Fourth Supplemental Resolution.

Q. "2012 Series A Continuing Disclosure Agreement" shall mean the Continuing Disclosure Certificate to be executed in connection with the issuance of the 2012 Series A Bonds, relating to the provision of certain continuing disclosure information with respect to the System and such Bonds.

R. "2012 Series A Contract of Purchase" shall mean the Contract of Purchase relating to the 2012 Series A Bonds to be entered into between the City and the 2012 Series A Underwriters.

S. "2012 Series A Official Statement" shall mean the Official Statement of the City relating to the 2012 Series A Bonds referred to in Section 16 hereof.

T. "2012 Series A Preliminary Official Statement" shall mean the Preliminary Official Statement of the City relating to the 2012 Series A Bonds referred to in Section 16 hereof.

U. "2012 Series A Refunded Bonds" shall have the meaning assigned to the term "Refunded Bonds" in the Twenty-Fourth Supplemental Resolution.

V. "2012 Series A Underwriters" shall mean the Underwriters named in the 2012 Series A Contract of Purchase.

W. "2012 Series B Bonds" shall mean the City's Variable Rate Utilities System Revenue Bonds, 2012 Series B, authorized by Section 7 of this resolution and Article II of the Twenty-Fifth Supplemental Resolution.

X. "2012 Series B Continuing Disclosure Agreement" shall mean the Continuing Disclosure Certificate to be executed in connection with the issuance of the 2012 Series B Bonds, relating to the provision of certain continuing disclosure information with respect to the System and such Bonds.

Y. "2012 Series B Contract of Purchase" shall mean the Contract of Purchase relating to the 2012 Series B Bonds to be entered into between the City and the 2012 Series B Underwriter.

Z. "2012 Series B Official Statement" shall mean the Official Statement of the City relating to the 2012 Series B Bonds referred to in Section 17 hereof.

AA. "2012 Series B Refunded Bonds" shall have the meaning assigned to the term "Refunded Bonds" in the Twenty-Fifth Supplemental Resolution.

BB. "2012 Series B Underwriter" shall mean J.P. Morgan Securities LLC, in its capacity as underwriter for the 2012 Series B Bonds.

SECTION 3. Findings. It is hereby ascertained, determined and declared that:

A. Pursuant to the Bond Resolution, the City may issue Refunding Bonds from time to time to refund any Outstanding Bonds.

B. The City heretofore has issued certain Bonds for the purpose of financing and refinancing a portion of the Cost of Acquisition and Construction of the System. The City deems it necessary and in its best interests to (1) refund the 2012 Series A Refunded Bonds with proceeds of the 2012 Series A Bonds and (2) refund the 2012 Series B Refunded Bonds with

proceeds of the 2012 Series B Bonds. The refunding of the 2012 Series A Refunded Bonds as aforesaid will be advantageous to the City, by achieving a reduction in interest costs. The refunding of the 2012 Series B Refunded Bonds as aforesaid will be advantageous to the City, by enabling the City (i) to extend the amortization of the debt to more closely match the useful life of the assets to which such debt relates and (ii) to restructure debt service and thereby permit the City to mitigate the effect of the biomass plant coming on-line (which is scheduled to occur in late 2013) on the System's retail electric rates. Additionally, the refunding of the Refunded 2005 Series B Bonds and the Refunded 2008 Series A Bonds (as such terms are defined in the Twenty-Fifth Supplemental Resolution) will enable the City to replace taxable debt with tax-exempt debt and, in connection therewith, reduce interest costs for the City.

C. The City deems it necessary and in its best interests to issue and sell (1) the 2012 Series A Bonds for the purpose of providing a portion of the funds required to refund the 2012 Series A Refunded Bonds and (2) the 2012 Series B Bonds for the purpose of providing the funds required to refund the 2012 Series B Refunded Bonds.

D. Contemporaneously with the issuance of the 2012 Series A Bonds, (1) a portion of the proceeds of such Bonds and (2) certain other available moneys of the City, consisting of certain moneys on deposit in the Debt Service Account in the Debt Service Fund, shall be irrevocably deposited in escrow pursuant to the Escrow Deposit Agreement. Such proceeds and such moneys shall be invested pursuant to said Escrow Deposit Agreement in Defeasance Securities (as permitted by Section 1201 of the Bond Resolution), the principal of and interest on which when due, together with any uninvested moneys held pursuant to the Escrow Deposit Agreement, will be sufficient for the purpose of providing for payment of all outstanding principal, interest and redemption premiums, if any, in respect of the 2012 Series A Refunded Bonds, as such 2012 Series A Refunded Bonds are redeemed prior to maturity.

E. The City deems it desirable and in its best interests that the 2012 Series B Bonds be issued in the form of variable rate demand obligations.

F. Since the 2012 Series B Bonds will be subject to optional and mandatory tender for purchase under certain circumstances, the City deems it necessary and desirable and in its best interests to appoint (1) U.S. Bank Trust National Association as the initial Tender Agent for the 2012 Series B Bonds and (2) J.P. Morgan Securities LLC as the initial Remarketing Agent for the 2012 Series B Bonds.

G. In order to provide liquidity support in connection with tenders for purchase of the 2012 Series B Bonds, the City deems it necessary and desirable and in its best interests to enter into the Initial Liquidity Facility with the Bank.

H. Paragraph (b)(5) of Rule 15c2-12 provides that, except as otherwise permitted thereby, a broker, dealer or municipal securities dealer shall not purchase or sell municipal securities in the primary offering thereof unless such broker, dealer or municipal securities dealer has reasonably determined that the issuer of such securities or certain other persons has undertaken, in a written agreement or contract for the benefit of the holders of such securities, to provide certain continuing disclosure information specified in said Rule. Accordingly, the City deems it necessary and in its best interests to authorize the execution and delivery of, and the performance of the City's obligations under, (1) a Continuing Disclosure Certificate with respect to the 2012 Series A Bonds, in order to assist the 2012 Series A Underwriters in complying with Rule 15c2-12 and (2) a Continuing Disclosure Certificate with respect to the 2012 Series B Bonds, in order to assist the 2012 Series B Underwriter in complying with Rule 15c2-12.

I. The complexity of the structuring of the 2012 Series A and B Bonds and current conditions in the market for obligations such as the 2012 Series A and B Bonds, as

described in a letter from the City's financial advisor, dated June 14, 2012 and attached hereto as Exhibit A, make it necessary and in the best interests of the City that the 2012 Series A and B Bonds be sold on a negotiated basis.

SECTION 4. Adoption of Supplemental Resolutions. The Twenty-Fourth Supplemental Resolution, attached hereto as Exhibit B, is hereby approved and adopted. The Twenty-Fifth Supplemental Resolution, attached hereto as Exhibit C, is hereby approved and adopted. Such resolutions shall be executed and delivered as provided in Section 19 hereof.

SECTION 5. Authorization of the Issuance, Sale, Execution and Delivery of the 2012 Series A Bonds; Delegation of Authority to Determine Certain Matters in Connection Therewith. There are hereby authorized the issuance and sale of a Series of Refunding Bonds designated as the "Utilities System Revenue Bonds, 2012 Series A", for the purpose of providing a portion of the moneys required to refund the 2012 Series A Refunded Bonds. The 2012 Series A Bonds shall be issued pursuant to the Bond Resolution in an aggregate principal amount not to exceed \$100,000,000. The actual aggregate principal amount of the 2012 Series A Bonds, the respective dates on which the 2012 Series A Bonds shall mature, the respective principal amounts of the 2012 Series A Bonds maturing on each such date, the respective rate or rates of interest to be borne by the 2012 Series A Bonds maturing on each such date and, if any 2012 Series A Bonds maturing on a particular date and bearing interest at a particular rate are to be issued as term bonds subject to mandatory redemption to satisfy Sinking Fund Installments, the due dates and amounts of such Sinking Fund Installments shall be determined as provided in Section 2.03 of the Twenty-Fourth Supplemental Resolution; *provided, however*, that (a) the latest maturity date for the 2012 Series A Bonds shall be not later than October 1, 2036, (b) the maximum rate of interest to be borne by the 2012 Series A Bonds maturing on any date shall not exceed 5.00% per annum and (c) the earliest date on which the

2012 Series A Bonds may be redeemed at the election of the City shall be not later than October 1, 2022, and the highest redemption price at which the 2012 Series A Bonds may be so redeemed shall be not greater than 100% of the principal amount thereof, plus accrued interest to the date of redemption.

The 2012 Series A Bonds shall be executed and delivered as provided in Section 19 hereof.

SECTION 6. Authorization and Approval of the Negotiated Sale of the 2012 Series A Bonds and Execution of the 2012 Series A Contract of Purchase; Delegation of Authority to Determine Certain Matters in Connection Therewith. The terms and conditions set forth in the 2012 Series A Contract of Purchase between the City and the 2012 Series A Underwriters, providing for the negotiated sale and purchase of the 2012 Series A Bonds, in substantially the form of the contract attached hereto as Exhibit D, are hereby approved. The purchase price of the 2012 Series A Bonds to be paid by the 2012 Series A Underwriters pursuant to the 2012 Series A Contract of Purchase shall be determined as provided in Section 2.03 of the Twenty-Fourth Supplemental Resolution; *provided, however*, that the true interest cost for the 2012 Series A Bonds shall not exceed 4.50%. The 2012 Series A Contract of Purchase shall be executed and delivered as provided in Section 19 hereof; *provided, however*, that at or prior to the time of the execution and delivery of the 2012 Series A Contract of Purchase, the City shall have received from J.P. Morgan Securities L.L.C., as representative of the 2012 Series A Underwriters, the disclosure statement required pursuant to Section 218.385(6), Florida Statutes.

SECTION 7. Authorization of the Issuance, Sale, Execution and Delivery of the 2012 Series B Bonds; Delegation of Authority to Determine Certain Matters in Connection Therewith. There are hereby authorized the issuance and sale of a Series of

Refunding Bonds designated as the "Variable Rate Utilities System Revenue Bonds, 2012 Series B", for the purpose of providing the moneys required to refund the 2012 Series B Refunded Bonds. The 2012 Series B Bonds shall be issued pursuant to the Bond Resolution in an aggregate principal amount not to exceed \$105,000,000. The actual aggregate principal amount of the 2012 Series B Bonds and the due dates and amounts of the Sinking Fund Installments relating to the 2012 Series B Bonds shall be determined as provided in paragraph 2 of Section 2.03 of the Twenty-Fifth Supplemental Resolution.

The 2012 Series B Bonds shall be executed and delivered as provided in Section 19 hereof.

SECTION 8. Authorization and Approval of the Negotiated Sale of the 2012 Series B Bonds and Execution of the 2012 Series B Contract of Purchase; Delegation of Authority to Determine Certain Matters in Connection Therewith. The terms and conditions set forth in the 2012 Series B Contract of Purchase between the City and the 2012 Series B Underwriter, providing for the negotiated sale and purchase of the 2012 Series B Bonds, in substantially the form of the contract attached hereto as Exhibit E, are hereby approved. The purchase price of the 2012 Series B Bonds to be paid by the 2012 Series B Underwriter pursuant to the 2012 Series B Contract of Purchase shall be determined as provided in paragraph 2 of Section 2.03 of the Twenty-Fifth Supplemental Resolution; *provided, however*, the maximum amount of the 2012 Series B Underwriter's discount shall not exceed \$3.00 per \$1,000 principal amount of the 2012 Series B Bonds. The 2012 Series B Contract of Purchase shall be executed and delivered as provided in Section 19 hereof; *provided, however*, that at or prior to the time of the execution and delivery of the 2012 Series B Contract of Purchase, the City shall have received from the 2012 Series B Underwriter the disclosure statement required pursuant to Section 218.385(6), Florida Statutes.

SECTION 9. Approval of the Continuing Disclosure Certificates. The terms and conditions set forth in (a) the 2012 Series A Continuing Disclosure Certificate, in substantially the form of the certificate attached as Appendix G to the draft of the 2012 Series A Preliminary Official Statement attached hereto as Exhibit J and (b) the 2012 Series B Continuing Disclosure Certificate, in substantially the form of the certificate attached as Appendix H to the draft of the 2012 Series B Official Statement attached hereto as Exhibit K, are hereby approved. The Continuing Disclosure Certificates shall be executed and delivered as provided in Section 19 hereof.

SECTION 10. Approval of the Escrow Deposit Agreement. The terms and conditions set forth in the Escrow Deposit Agreement, in substantially the form of the contract attached hereto as Exhibit E, are hereby approved. The Escrow Deposit Agreement shall be executed and delivered as provided in Section 19 hereof.

SECTION 11. Appointment of Remarketing Agent for the 2012 Series B Bonds; Authorization and Approval of the Execution and Delivery of the Remarketing Agreement. J.P. Morgan Securities LLC is hereby appointed as the initial Remarketing Agent for the 2012 Series B Bonds and, in connection therewith, the terms and conditions set forth in the Remarketing Agreement between the City and J.P. Morgan Securities LLC, in substantially the form of the contract attached hereto as Exhibit G, are hereby approved. The Remarketing Agreement shall be executed and delivered as provided in Section 19 hereof.

SECTION 12. Appointment of Tender Agent for the 2012 Series B Bonds; Authorization and Approval of the Execution and Delivery of the Tender Agency Agreement. U.S. Bank Trust National Association is hereby appointed as the initial Tender Agent for the 2012 Series B Bonds and, in connection therewith, the terms and conditions set forth in the Tender Agency Agreement between the City and U.S. Bank Trust National

Association, in substantially the form of the contract attached hereto as Exhibit H, are hereby approved. The Tender Agency Agreement shall be executed and delivered as provided in Section 19 hereof.

SECTION 13. Authorization and Approval of the Execution and Delivery of the Initial Liquidity Facility. The terms and conditions set forth in the Initial Liquidity Facility between the City and the Bank, in substantially the form of the contract attached hereto as Exhibit I, are hereby approved. The Initial Liquidity Facility shall be executed and delivered as provided in Section 19 hereof.

SECTION 14. Authorization of Authentication. U.S. Bank Trust National Association, as Trustee under the Bond Resolution, is hereby requested and authorized (a) to authenticate the 2012 Series A Bonds in the aggregate principal amount determined as provided in Section 5 hereof and in Section 2.03 of the Twenty-Fourth Supplemental Resolution, and to deliver such Bonds to or on behalf of the 2012 Series A Underwriters, upon payment for the account of the City of the sum to be specified in the 2012 Series A Contract of Purchase and pursuant to the terms of the Bond Resolution and the 2012 Series A Contract of Purchase and (b) to authenticate the 2012 Series B Bonds in the aggregate principal amount determined as provided in Section 7 hereof and in paragraph 2 of Section 2.03 of the Twenty-Fifth Supplemental Resolution, and to deliver such Bonds to or on behalf of the 2012 Series B Underwriter, upon payment for the account of the City of the sum to be specified in the 2012 Series B Contract of Purchase and pursuant to the terms of the Bond Resolution and the 2012 Series B Contract of Purchase.

SECTION 15. Escrow Account Deposits; Authorization to Invest Amounts on Deposit in the Escrow Account. There shall be deposited into the Escrow Account to be established pursuant to the terms of the Escrow Deposit Agreement a portion of the proceeds of

the 2012 Series A Bonds in an amount which, when combined with the moneys to be transferred to the Escrow Account from the Debt Service Account in the Debt Service Fund established pursuant to the Bond Resolution, will be equal to the amount necessary to purchase Defeasance Securities as provided in paragraph 3 of Section 1201 of the Bond Resolution the principal of and interest on which when due, together with the uninvested cash (if any) in the Escrow Account, will provide moneys which will be sufficient to pay when due the Redemption Price of the 2012 Series A Refunded Bonds on the respective dates such Bonds are to be called for redemption and the interest to become due on such Bonds on and prior to such respective redemption dates. In that connection, the Authorized Officers of the City shall be, and hereby are, authorized to invest and reinvest such proceeds of the 2012 Series A Bonds and other moneys, and earnings thereon, in such Defeasance Securities as any of such Authorized Officers shall determine (including, without limitation, United States Treasury Securities – State and Local Government Series (“SLGS”)), in such amounts, at such times, maturing at such times and having such rate or rates of interest as any of such Authorized Officers shall determine is necessary or desirable. In furtherance of the foregoing, each such Authorized Officer and, upon receipt of instructions from an Authorized Officer of the City, any authorized officer of the Trustee shall be, and hereby is, authorized in the name and on behalf of the City to submit subscriptions to the Bureau of Public Debt of the Department of the Treasury of the United States or any Federal Reserve Bank or Branch for the purchase of book-entry form SLGS, and to take such other actions as such person deems necessary or appropriate to effectuate such purposes.

SECTION 16. Approval of the Form and Use of the 2012 Series A Preliminary Official Statement and the 2012 Series A Official Statement. The 2012 Series A Preliminary Official Statement, in substantially the form of the draft thereof attached hereto as

Exhibit J, with such changes thereto as are necessary so that so that such 2012 Series A Preliminary Official Statement will not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading, is hereby authorized and approved for use in connection with the offering and sale of the 2012 Series A Bonds, and the General Manager for Utilities or the Chief Financial Officer, Utilities of the City is hereby authorized to deem said 2012 Series A Preliminary Official Statement final for purposes of Rule 15c2-12. The 2012 Series A Official Statement, in substantially the form of said 2012 Series A Preliminary Official Statement, with such changes as may be made thereto by the City, with the approval of J.P. Morgan Securities LLC, as representative of the 2012 Series A Underwriters, under and pursuant to the terms of the 2012 Series A Contract of Purchase, is hereby authorized and approved for use in connection with the offering and sale of the 2012 Series A Bonds. Said 2012 Series A Official Statement shall be executed as provided in Section 19 hereof.

SECTION 17. Approval of the Form and Use of the 2012 Series B Official Statement. The 2012 Series B Official Statement, in substantially the form of the draft thereof attached hereto as Exhibit K, with such changes thereto as are necessary so that so that such 2012 Series B Official Statement will not contain any untrue statement of a material fact or omit to state any material fact that is required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading, is hereby authorized and approved for use in connection with the offering and sale of the 2012 Series B Bonds, and the General Manager for Utilities or the Chief Financial Officer, Utilities of the City is hereby authorized to deem said 2012 Series B Official Statement final for purposes of Rule

15c2-12. Said 2012 Series B Official Statement shall be executed as provided in Section 19 hereof.

SECTION 18. Approval With Respect to Registration or Qualification of the 2012 Series A and B Bonds Under the Blue Sky or Securities Laws of Various States. The proper officers of the City shall be, and hereby are, authorized in the name and on behalf of the City, to take any and all actions which they deem necessary or advisable in order to effect the registration or qualification (or exemption therefrom) of the 2012 Series A and B Bonds for issue, offer, sale or trade under the Blue Sky or securities laws of any of the states of the United States of America and in connection therewith to execute, acknowledge, verify, deliver, file or cause to be published any applications, reports, consents to service of process, appointments of attorneys to receive service of process and other papers and instruments which may be required under such laws, and to take any and all further actions which they may deem necessary or advisable in order to maintain any such registration or qualification for as long as they deem necessary or as required by law or by the 2012 Series A Underwriters or the 2012 Series B Underwriter, as the case may be; and all such actions previously taken are hereby ratified, confirmed and approved.

SECTION 19. Execution and Delivery of 2012 Series A and B Bonds and Related Documents. The Mayor of the City is hereby authorized to execute the Supplemental Resolutions and the 2012 Series A and B Bonds on behalf of the City, subject to the approval of the City Attorney of the City or his designee as to form and legality; *provided, however,* that the 2012 Series A and B Bonds shall be executed and delivered pursuant to the Bond Resolution and applicable law. The Mayor, the General Manager for Utilities and the Chief Financial Officer, Utilities of the City are each hereby authorized to execute the Contracts of Purchase, the Remarketing Agreement, the Tender Agency Agreement, the Initial Liquidity Facility, the

Continuing Disclosure Certificates, the Escrow Deposit Agreement and the Official Statements on behalf of the City, each subject to completion thereof, and with such changes therein as the officer executing the same may approve as necessary and desirable and in the best interests of the City, such approval to be evidenced by the execution and delivery thereof, subject to the approval of the City Attorney of the City or his designee as to form and legality. The Clerk of the Commission of the City is hereby authorized to cause the seal of the City to be affixed to each of the 2012 Series A and B Bonds and the foregoing documents and to attest the same. Such officers are each hereby authorized to deliver such Bonds and documents on behalf of the City.

SECTION 20. Further Actions. Each Authorized Officer of the City is hereby authorized and empowered to execute and deliver or cause to be executed and delivered such other documents and opinions and to do all such acts and things as may be necessary or desirable in connection with the adoption of the Supplemental Resolutions and the approval, execution and delivery of the Contracts of Purchase, the Remarketing Agreement, the Tender Agency Agreement, the Initial Liquidity Facility, the Continuing Disclosure Certificates and the Escrow Deposit Agreement and the carrying out of their terms and the terms of the Bond Resolution; the issuance, sale, execution and delivery of the 2012 Series A and B Bonds; and the use of the 2012 Series A Preliminary Official Statement and the Official Statements. Without limiting the generality of the foregoing, the General Manager for Utilities of the City, or his designee, is hereby authorized to execute the certificate referred to in Section 2.03 of the Twenty-Fourth Supplemental Resolution in order to evidence the determinations referred to in Sections 5 and 6 hereof and the certificate referred to in paragraph 2 of Section 2.03 of the Twenty-Fifth Supplemental Resolution in order to evidence the determinations referred to in Sections 7 and 8 hereof.

SECTION 21. Authorization to Extend the Term of a Particular Liquidity Facility or to Procure a Substitute Liquidity Facility in Substitution Therefor. The General Manager for Utilities of the City, or his designee, is hereby authorized, from time to time, (1) to extend the term of a particular Liquidity Facility for the 2012 Series B Bonds or (2) to procure a Substitute Liquidity Facility for the 2012 Series B Bonds in substitution for the Liquidity Facility then in effect with respect thereto, in either such case, upon such terms and conditions as shall be determined by the General Manager for Utilities of the City, or such designee, to be advantageous to the City and commercially reasonable (which terms and conditions (including, without limitation, the amounts of the "facility fee" or "commitment fee" and other fees payable by the City thereunder and the specification of the interest rates payable on loans or advances thereunder) may differ from the terms and conditions then in effect pursuant to such Liquidity Facility then in effect), such determination to be confirmed in writing by the firm serving at that time as the System's financial advisor to the extent provided below.

In connection with any such extension of the term of a particular Liquidity Facility, the General Manager for Utilities of the City, or his designee, is hereby further authorized to execute and deliver, on behalf of the City, such documents and instruments (including, without limitation, an amendment to such Liquidity Facility) as shall be determined by the General Manager for Utilities of the City, or such designee, to be (a) necessary or desirable and advantageous to the City and (b) in commercially reasonable form; *provided, however*, that if any such extension shall be on terms and conditions different from the terms and conditions of such Liquidity Facility as then in effect, then (a) such determination of the General Manager for Utilities of the City, or such designee, shall be confirmed in writing by the firm serving at that time as the System's financial advisor and (b) the form of each such document or instrument shall be approved by the City Attorney of the City or his designee as to form and

legality prior to the execution thereof by the General Manager for Utilities of the City, or such designee.

In connection with any such procurement of a Substitute Liquidity Facility for the 2012 Series B Bonds in substitution for the Liquidity Facility then in effect with respect thereto, the General Manager for Utilities of the City, or his designee, is hereby further authorized to execute and deliver, on behalf of the City, such documents and instruments (including, without limitation, a standby bond purchase agreement, credit agreement or other similar document) as shall be determined by the General Manager for Utilities of the City, or such designee, to be (a) necessary or desirable and advantageous to the City and (b) in commercially reasonable form, such determination to be confirmed in writing by the firm serving at that time as the System's financial advisor; *provided, however*, that the form of each such document or instrument shall be approved by the City Attorney of the City or his designee as to form and legality prior to the execution thereof by the General Manager for Utilities of the City, or such designee; and *provided, further*, that the procedures utilized in connection with any such procurement shall be consistent with any requirements of any law, rule, regulation, ordinance or resolution applicable thereto.

SECTION 22. Authorization to Remove the Remarketing Agent and/or Tender Agent for the 2012 Series B Bonds and to Appoint Successor(s) Therefor. The General Manager for Utilities of the City, or his designee, is hereby authorized, from time to time, (1) to remove the firm at the time serving as Remarketing Agent for the 2012 Series B Bonds and to appoint a successor therefor and/or (2) to remove the firm at the time serving as Tender Agent for the 2012 Series B Bonds and to appoint a successor therefor, in either such case, upon such terms and conditions as shall be determined by the General Manager for Utilities of the City, or such designee, to be advantageous to the City and commercially reasonable

(which terms and conditions (including, without limitation, the amounts of the fees payable by the City thereunder) may differ from the terms and conditions then in effect with respect to the Remarketing Agent and/or the Tender Agent, as the case may be, for the 2012 Series B Bonds then serving as such), such determination to be confirmed in writing by the firm serving at that time as the System's financial advisor; *provided, however*, that any such successor Remarketing Agent or Tender Agent shall have the qualifications to serve as such contained in the Bond Resolution (including the Twenty-Fifth Supplemental Resolution).

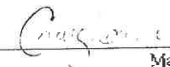
In connection with any such removal and appointment of a successor Remarketing Agent and/or Tender Agent for the 2012 Series B Bonds, the General Manager for Utilities of the City, or his designee, is hereby further authorized to execute and deliver, on behalf of the City, such documents and instruments as shall be determined by the General Manager for Utilities of the City, or such designee to be (a) necessary or desirable and advantageous to the City and (b) in commercially reasonable form, such determination to be confirmed in writing by the firm serving at that time as the System's financial advisor; *provided, however*, that the form of each such document or instrument shall be approved by the City Attorney of the City or his designee as to form and legality prior to the execution thereof by the General Manager for Utilities of the City, or such designee.

SECTION 23. Severability. If any one or more of the covenants, agreements or provisions of this resolution should be determined by a court of competent jurisdiction to be contrary to law, such provisions shall be deemed to be severable from the remaining provisions hereof and shall in no way effect the validity or enforceability of such remaining provisions.

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SECTION 24. Effective Date. This resolution shall take effect immediately upon its adoption.

Dated this 21st day of June A.D., 2012.


Mayor

ATTEST:


Clerk of the Commission

Approved as to Form and Legality:

By 
City Attorney

JUN 21 2012

INDEX OF EXHIBITS

- EXHIBIT A - Letter of Public Financial Management, Inc., Financial Advisor to the System
- EXHIBIT B - Twenty-Fourth Supplemental Resolution
- EXHIBIT C - Twenty-Fifth Supplemental Resolution
- EXHIBIT D - Form of 2012 Series A Contract of Purchase
- EXHIBIT E - Form of 2012 Series B Contract of Purchase
- EXHIBIT F - Form of Escrow Deposit Agreement
- EXHIBIT G - Form of Remarketing Agreement
- EXHIBIT H - Form of Tender Agency Agreement
- EXHIBIT I - Form of Initial Liquidity Facility
- EXHIBIT J - Draft of 2012 Series A Preliminary Official Statement
- EXHIBIT K - Draft of 2012 Series B Official Statement

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Item #120097
EXHIBIT C

CITY OF GAINESVILLE, FLORIDA

**Not to Exceed
\$105,000,000
Variable Rate Utilities System
Revenue Bonds,
2012 Series B**

**TWENTY-FIFTH SUPPLEMENTAL UTILITIES SYSTEM
REVENUE BOND RESOLUTION**

Adopted June 21, 2012

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**TWENTY-FIFTH SUPPLEMENTAL UTILITIES SYSTEM
REVENUE BOND RESOLUTION**

BE IT RESOLVED by the City Commission of the City of Gainesville, Florida (the “City”) as follows:

ARTICLE I

DEFINITIONS AND STATUTORY AUTHORITY

SECTION 1.01. Supplemental Resolution. This Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution is supplemental to the Utilities System Revenue Bond Resolution (the “Bond Resolution”) adopted by the City on June 6, 1983, as heretofore amended, restated and supplemented. The Bond Resolution as so amended, restated and supplemented is hereinafter referred to as the “Resolution”.

SECTION 1.02. Definitions. 1. Except as provided by this Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution, all terms which are defined in Section 101 of the Resolution shall have the same meanings, respectively, in this Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution as such terms are given in said Section 101 of the Resolution.

2. In this Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution:

“**Agent Bank**” shall mean (a) in the case of any Liquidity Facility to which only one Bank is a party, such Bank and (b) in the case of any Liquidity Facility to which more than one Bank is a party, the agent appointed to act thereunder on behalf of the Banks that are parties thereto.

“**Auction**” shall mean each periodic implementation of the Auction Procedures.

“**Auction Agent**” shall mean each firm appointed by the City from time to time as the auctioneer for the 2012 Series B Bonds while bearing interest at the Auction Mode Rate and that is designated by an Authorized Officer of the City as constituting an “Auction Agent” hereunder at the time of such appointment.

“**Auction Agreement**” shall mean an agreement between the Auction Agent and the Trustee pursuant to which the Auction Agent agrees to follow the procedures to be specified in Exhibit A with respect to the 2012 Series B Bonds while bearing interest at the Auction Mode Rate, as such agreement may from time to time be amended or supplemented, and that is designated by an Authorized Officer of the City as constituting an “Auction Agreement” hereunder at the time of the execution and delivery thereof.

“**Auction Date**” shall mean any date on which an Auction shall be conducted with respect to the 2012 Series B Bonds, which dates shall be determined as provided in Exhibit A.

“**Auction Mode**” shall mean the Interest Mode during which the 2012 Series B Bonds bear interest at Auction Mode Rates.

“Auction Mode Rate” shall mean the interest rate applicable to the 2012 Series B Bonds during the Auction Mode, to be determined as provided in clause (a) of Section 3.03 and in Exhibit A.

“Auction Period” shall mean such period during which each Auction Rate shall be in effect, as shall be provided in Exhibit A, which period shall begin on a Business Day and end on a day which is followed by a Business Day.

“Auction Procedures” shall mean the procedures for conducting Auctions for 2012 Series B Bonds during the Auction Mode to be set forth in Exhibit A.

“Authorized Denominations” shall mean (i) for the 2012 Series B Bonds bearing interest at a Daily Rate, a Weekly Rate or a Flexible Rate, \$100,000 or any integral multiple of \$5,000 in excess thereof; (ii) for the 2012 Series B Bonds bearing interest at an Auction Mode Rate, \$25,000 or any integral multiple thereof; and (iii) for the 2012 Series B Bonds bearing interest at a Term Rate or a Fixed Rate, \$5,000 or any integral multiple thereof.

“Bank” or **“Banks”** shall mean, as the context may require, the Person(s) that is (or are) the issuer(s) or provider(s) of a particular Liquidity Facility.

“Bank Purchase Date” shall mean, with respect to each 2012 Series B Bond purchased by the Bank(s) (or any nominee or nominees thereof) pursuant to clause (b) of paragraph 1 of Section 3.11, the date of such purchase.

“Bank Rate” shall have the meaning ascribed to such term in the Initial Liquidity Facility as originally executed; *provided, however*, that if the City shall receive an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that an amendment of such definition (including, for this purpose, any replacement thereof with another definition) will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes, then “Bank Rate” shall be deemed to refer to such definition as so amended (or replaced); and *provided, further*, that if any such amendment to such definition shall be scheduled to take effect other than in connection with the substitution of a Substitute Liquidity Facility for the Liquidity Facility then in effect, then such amendment shall not become effective unless consented to in writing by the Bank(s) that is (or are) a party to the Liquidity Facility then in effect (or the Agent Bank on behalf of such Bank(s)).

“Book-Entry Only 2012 Series B Bond” shall mean any 2012 Series B Bond that is restricted to being registered in the registration books kept by the Bond Registrar in the name of the Securities Depository therefor.

“Broker-Dealer” shall mean any entity that is permitted by law to perform the functions required of a Broker-Dealer to be described in Exhibit A, that is a member of, or a direct participant in, the Securities Depository, that has been selected by the City, that is a party to a Broker-Dealer Agreement with the City and the Auction Agent and

that is designated by an Authorized Officer of the City as constituting a “Broker-Dealer” hereunder at the time of such selection.

“Broker-Dealer Agreement” shall mean an agreement among the Auction Agent, the City and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures to be described in Exhibit A, as such agreement may from time to time be amended or supplemented, and that is designated by an Authorized Officer of the City as constituting an “Auction Agreement” hereunder at the time of the execution and delivery thereof.

“Business Day” shall mean any day, other than a Saturday or Sunday, on which (a) the principal office of the City is open for business during its normal business hours, (b) if the 2012 Series B Bonds are in an Interest Mode other than the Auction Mode or the Fixed Mode, the principal corporate trust office of the Tender Agent, the principal office of the Remarketing Agent and the lending office of the Agent Bank under the Liquidity Facility are open for business during their respective normal business hours and (c) if the 2012 Series B Bonds are in the Auction Mode, the principal corporate trust office of the Auction Agent and the principal office of each Broker-Dealer are open for business during their respective normal business hours.

“Cede” shall have the meaning given to such term in Section 2.05(3) hereof.

“Contract of Purchase” shall mean the Contract of Purchase to be entered into between the City and the Underwriter in connection with the sale of the 2012 Series B Bonds.

“Daily Mode” shall mean the Interest Mode during which the 2012 Series B Bonds bear interest at Daily Rates.

“Daily Rate” shall mean the interest rate applicable to the 2012 Series B Bonds during the Daily Mode, determined as provided in clause (b) of Section 3.03.

“Delivery Date” shall mean the date of the initial issuance and delivery of the 2012 Series B Bonds.

“Differential Interest Amount” shall have the meaning assigned thereto in Section 5.01(3).

“DTC” shall have the meaning given to such term in Section 2.05(2) hereof.

“Eligible Account” shall mean an account that is either (a) maintained with a federal or state-chartered depository institution or trust company that has short-term debt rating from S&P of at least “A 2” (or, if such depository institution or trust company does not have a short-term debt rating from S&P, a long-term debt rating of at least “BBB+”); or (b) maintained with the corporate trust department of a federal depository institution or state-chartered depository institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the U.S. Code of Federal Regulations, Section 9.10(b), which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

“Exhibit A” shall mean such Exhibit A as shall be added hereto as a result of the adoption of a Supplemental Resolution in accordance with the provisions of clause (iv) of the first sentence of Section 8.05(1) in connection with the conversion of the 2012 Series B Bonds to the Auction Mode, as the same may be amended from time to time in accordance with the provisions thereof. Such Exhibit A shall contain such provisions relating to the Auction Mode as the City shall determine, including, without limitation, procedures relating to the determination of Auction Dates and Auction Periods, the conduct of Auctions and the determination of the Auction Mode Rate. In such event, Exhibit A shall constitute a part of this Twenty-Fifth Supplemental Resolution for all purposes hereof and of the Resolution.

“Fitch” shall mean Fitch Ratings and its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

“Fixed Mode” shall mean the Interest Mode during which the 2012 Series B Bonds bear interest at the Fixed Rate.

“Fixed Rate” shall mean the interest rate applicable to the 2012 Series B Bonds during the Fixed Mode, determined as provided in clause (e) of Section 3.03.

“Flexible Mode” shall mean the Interest Mode during which the 2012 Series B Bonds bear interest at Flexible Rates.

“Flexible Rate” shall mean the interest rate applicable to the 2012 Series B Bonds during the Flexible Mode, determined as provided in clause (d) of Section 3.03.

“Initial Liquidity Facility” shall mean the Standby Bond Purchase Agreement, dated as of August 1, 2012, to be entered into between the City and JPMorgan Chase Bank, National Association, as amended from time to time.

“Interest Accrual Period” shall mean the period from and including each Interest Payment Date to but excluding the next Interest Payment Date. The initial Interest Accrual Period for the 2012 Series B Bonds shall begin on (and include) the Delivery Date. The final Interest Accrual Period for any 2012 Series B Bond shall end on the day next preceding the maturity or redemption date of such 2012 Series B Bond.

“Interest Mode” shall mean a period of time relating to the frequency with which the interest rate on the 2012 Series B Bonds is determined pursuant to Section 3.03. An Interest Mode may be the Auction Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Mode or the Fixed Mode.

“Interest Payment Date” shall mean, with respect to each 2012 Series B Bond, (a) each date on which the 2012 Series B Bonds shall be subject to mandatory tender for purchase pursuant to clause (c) of Section 3.06; (b) except as to any 2012 Series B Bank Bond, (i) as to 2012 Series B Bonds in the Auction Mode, the various dates on which interest shall be payable on the 2012 Series B Bonds, which dates shall be set forth in Exhibit A hereto; (ii) as to 2012 Series B Bonds in the Daily Mode or the Weekly Mode,

the first Business Day of each calendar month; (iii) as to 2012 Series B Bonds in the Flexible Mode, the first Business Day following the end of each Interest Period with respect thereto; and (iv) as to 2012 Series B Bonds in the Term Mode or the Fixed Mode, semi-annually on each April 1 and October 1 commencing on the first April 1 or October 1 occurring after the conversion to such Interest Mode; *provided, however*, that if such first date occurs less than three (3) months after such conversion, said first Interest Payment Date shall be on the second such date following such conversion; (c) as to any 2012 Series B Bank Bond, unless otherwise provided in the Liquidity Facility, each date determined pursuant to paragraph 2 of Section 5.02; and (d) the maturity or redemption date thereof.

“Interest Period” shall mean the period from and including a Rate Adjustment Date to but excluding the next succeeding Rate Adjustment Date (if any); *provided, however*, that (a) the first Interest Period for the 2012 Series B Bonds shall be the period from and including the Delivery Date to but excluding the first Rate Adjustment Date and (b) the final Interest Period for any 2012 Series B Bond shall be the period from and including the last Rate Adjustment Date preceding the maturity or redemption date of such 2012 Series B Bond to but excluding such maturity or redemption date.

“Liquidity Facility” shall mean the Initial Liquidity Facility and, upon the effectiveness thereof as provided in paragraph 2 of Section 4.02, each Substitute Liquidity Facility.

“Liquidity Facility Expiration Date” shall mean the date upon which the Liquidity Facility is stated to expire or terminate, as such date may be extended from time to time, either by extension or renewal of the then existing Liquidity Facility or the issuance or entry into of a Substitute Liquidity Facility.

“Liquidity Facility Requirement” shall mean, at such times (if any) as the 2012 Series B Bonds are in an Interest Mode other than the Auction Mode or the Fixed Mode, an amount equal to the principal amount of the Outstanding 2012 Series B Bonds (other than 2012 Series B Bank Bonds) plus, if the 2012 Series B Bonds shall be in the Daily Mode or the Weekly Mode, 36 days’ interest thereon computed at a rate per annum equal to the Maximum Rate and on the basis of a 365-day year.

“Market Rate” shall mean any interest rate determined in accordance with the procedures set forth in clause (f) of Section 3.03.

“Maximum Rate” shall mean twelve percent (12%) per annum, or such higher rate as shall be approved by the City if (a) an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions shall have been delivered to the Notice Parties to the effect that any such change in the Maximum Rate (i) is authorized or permitted by the Resolution and the Act and (ii) will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes and (b) if the 2012 Series B Bonds shall be in the Daily Mode or the Weekly Mode, the Liquidity Facility is modified (if necessary) so that its

stated amount or the aggregate commitment of the Bank(s) thereunder, as the case may be, is increased to give effect to the increased Maximum Rate.

“Mode Adjustment Date” shall mean any date on which the Interest Mode or Interest Period to which the 2012 Series B Bonds are subject is to be changed to another Interest Mode or Interest Period, as the case may be, determined as provided in clause (a)(i) of Section 3.01.

“Moody’s” shall mean Moody’s Investors Service and its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

“Notice Parties” shall mean (a) the City, (b) the Trustee, (c) the Paying Agent for the 2012 Series B Bonds, (d) the Bond Registrar, (e) if the 2012 Series B Bonds are in an Interest Mode other than the Auction Mode or the Fixed Mode, the Remarketing Agent, the Tender Agent and the Agent Bank and (f) if the 2012 Series B Bonds are in the Auction Mode, the Auction Agent and each Broker-Dealer.

“Officer’s Certificate” shall mean a certificate of an Authorized Officer of the City.

“Person” shall mean an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

“Purchase Date” shall mean a Business Day on which 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) are to be purchased upon optional or mandatory tender or deemed tender thereof pursuant to the terms hereof.

“Purchase Price” shall mean an amount equal to 100% of the principal amount of any 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) tendered or deemed tendered or remarketed pursuant to this Twenty-Fifth Supplemental Resolution plus accrued and unpaid interest, if any, at the 2012 Series B Bond Rate or Rates in effect for the period from and including the first day of the then current Interest Accrual Period through and including the day immediately preceding the Purchase Date or the date of remarketing, as the case may be, unless, in the case of 2012 Series B Bonds in the Term Mode, the date of remarketing is on or after the Record Date for the next succeeding Interest Payment Date for the 2012 Series B Bonds (other than 2012 Series B Bank Bonds) and on or prior to such Interest Payment Date, in which case the accrued and unpaid interest on such 2012 Series B Bonds being remarketed on such date shall not be paid as part of the Purchase Price.

“Quarterly Payment Date” shall mean the last Business Day of each March, June, September and December.

“Rate Adjustment Date” shall mean the day on which each Auction Mode Rate, Daily Rate, Weekly Rate, Flexible Rate, Term Rate or Fixed Rate on a 2012 Series B Bond shall become effective as provided in Section 3.03.

“Rate Determination Date” shall mean the time and date as of which an interest rate for the 2012 Series B Bonds shall be determined, which Date shall be determined (a) in the case of any Interest Mode other than the Auction Mode, as provided in Section 3.03 and (b) in the case of the Auction Mode, as shall be provided in Exhibit A.

“Rating Agency” shall mean Fitch if the 2012 Series B Bonds are then rated by Fitch, Moody’s if the 2012 Series B Bonds are then rated by Moody’s, and S&P if the 2012 Series B Bonds are then rated by S&P, in each case, at the request of the City.

“Record Date” shall mean (a) except as provided in clause (b) below, (i) with respect to an Interest Payment Date for 2012 Series B Bonds in the Term Mode or the Fixed Mode, the close of business on the fifteenth day (whether or not a Business Day) of the next preceding calendar month; and (ii) with respect to an Interest Payment Date for 2012 Series B Bonds in the Auction Mode, the Daily Mode, the Weekly Mode or the Flexible Mode and 2012 Series B Bank Bonds, the close of business on the Business Day immediately preceding such Interest Payment Date; and (b) in the case of any Interest Payment Date described in clause (a) of the definition thereof, the close of business on the Business Day immediately preceding such Interest Payment Date.

“Refunded Bonds” shall mean the Refunded 2005 Series B Bonds, the Refunded 2005 Series C Bonds, the Refunded 2006 Series A Bonds and the Refunded 2008 Series A Bonds, collectively.

“Refunded 2005 Series B Bonds” shall mean such of the 2005 Series B Refunding Candidates as the General Manager for Utilities of the City, or his designee, shall determine are to be refunded through the issuance of the 2012 Series B Bonds, such determination to be set forth in the certificate referred to in paragraph 2 of Section 2.03.

“Refunded 2005 Series C Bonds” shall mean such of the 2005 Series C Refunding Candidates as the General Manager for Utilities of the City, or his designee, shall determine are to be refunded through the issuance of the 2012 Series B Bonds, such determination to be set forth in the certificate referred to in paragraph 2 of Section 2.03.

“Refunded 2006 Series A Bonds” shall mean such of the 2006 Series A Refunding Candidates as the General Manager for Utilities of the City, or his designee, shall determine are to be refunded through the issuance of the 2012 Series B Bonds, such determination to be set forth in the certificate referred to in paragraph 2 of Section 2.03.

“Refunded 2008 Series A Bonds” shall mean such of the 2008 Series A Refunding Candidates as the General Manager for Utilities of the City, or his designee, shall determine are to be refunded through the issuance of the 2012 Series B Bonds, such determination to be set forth in the certificate referred to in paragraph 2 of Section 2.03.

“Remarketing Agent” shall mean each firm appointed by the City from time to time as the Remarketing Agent for the 2012 Series B Bonds and that is party to a Remarketing Agreement.

“Remarketing Agreement” shall mean the Remarketing Agreement, dated as of August 1, 2012, to be entered into between the City and J.P. Morgan Securities LLC, as

amended from time to time, or such other remarketing agreement(s) as may be entered into by the City from time to time in replacement thereof and that is (or are) designated by an Authorized Officer of the City as constituting a "Remarketing Agreement" hereunder at the time of the execution and delivery thereof.

"**S&P**" shall mean Standard & Poor's Ratings Services, a Standard and Poor's Financial Services LLC business, and its successors and assigns, and, if such business shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the City.

"**SIFMA Index**" shall mean an index based upon the weekly interest rate resets of tax-exempt variable rate issues included in a database maintained by Municipal Market Data which meet specific criteria established by the Securities Industry and Financial Markets Association (formerly known as The Bond Market Association) and effective for a particular Rate Determination Date.

"**Substitute Liquidity Facility**" shall mean any standby bond purchase agreement (other than the Initial Liquidity Facility), revolving credit agreement, letter of credit, surety bond or other agreement or instrument under which any Person undertakes to make loans or provide funds to purchase 2012 Series B Bonds upon the tender (or deemed tender) thereof for purchase and as to which the conditions set forth in paragraph 2 of Section 4.02 shall be satisfied, in each case, that shall contain administrative provisions reasonably satisfactory to the Tender Agent.

"**Substitution Date**" shall mean the Business Day on which the City (a) causes or permits a new bank or banks to be substituted for one or more of the Banks that is (or are) a party to the Liquidity Facility then in effect or (b) substitutes the Liquidity Facility then in effect with a Substitute Liquidity Facility, which Business Day shall be specified in an Officer's Certificate delivered to the Notice Parties on or before the day on which the City shall notify the Tender Agent as to the substitution of the new bank or banks or shall deliver such Substitute Liquidity Facility to the Tender Agent, as the case may be (such day being hereinafter referred to in this paragraph as the "notice date"), and shall be (i) not later than the fifth Business Day immediately preceding the Liquidity Facility Expiration Date for the Liquidity Facility then in effect, (ii) if the 2012 Series B Bonds shall be in the Flexible Mode, not earlier than the day that is the latest Interest Payment Date in effect with respect to any 2012 Series B Bond, determined as of such notice date and (iii) if the 2012 Series B Bonds shall be in the Term Mode, a Rate Adjustment Date; any date specified as a Substitution Date in a notice of mandatory tender mailed to Holders of 2012 Series B Bonds pursuant to paragraph 2 of Section 3.08 shall be treated as a Substitution Date for purposes of this Twenty-Fifth Supplemental Resolution even if the substitution of the new bank(s) or the Substitute Liquidity Facility, as the case may be, fails to occur.

"**Tender Agency Agreement**" shall mean the Tender Agency Agreement Relating to Variable Rate Utilities System Revenue Bonds, 2012 Series B, dated as of August 1, 2012, to be entered into between the City and U.S. Bank Trust National Association, as amended from time to time, or such other tender agency agreement(s) as

may be entered into by the City from time to time in replacement thereof and that is (or are) designated by an Authorized Officer of the City as constituting a "Tender Agency Agreement" hereunder at the time of the execution and delivery thereof.

"**Tender Agent**" shall mean each firm appointed by the City from time to time as the Tender Agent for the 2012 Series B Bonds and that is party to a Tender Agency Agreement.

"**Term Mode**" shall mean the Interest Mode during which the 2012 Series B Bonds bear interest at Term Rates.

"**Term Rate**" shall mean the interest rate applicable to the 2012 Series B Bonds during the Term Mode, determined as provided in clause (e) of Section 3.03.

"**Twenty-Fifth Supplemental Resolution**" shall mean this Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution, supplemental to the Resolution, as from time to time amended or supplemented in accordance with the terms of the Resolution.

"**2005 Series B Bonds**" shall mean the City's Utilities System Revenue Bonds, 2005 Series B (Federally Taxable), heretofore issued and Outstanding pursuant to the Resolution.

"**2005 Series B Refunding Candidates**" shall mean the 2005 Series B Bonds of the maturities and in the respective principal amounts listed in the following table:

<u>Maturity (October 1)</u>	<u>Interest Rate</u>	<u>Amount</u>
2015	5.14%	\$ 5,725,000
2021	5.31	25,835,000

"**2005 Series C Bonds**" shall mean the City's Variable Rate Utilities System Revenue Bonds, 2005 Series C, heretofore issued and Outstanding pursuant to the Resolution.

"**2005 Series C Refunding Candidates**" shall mean \$31,775,000 in aggregate principal amount of the 2005 Series C Bonds.

"**2006 Series A Bonds**" shall mean the City's Variable Rate Utilities System Revenue Bonds, 2006 Series A, heretofore issued and Outstanding pursuant to the Resolution.

"**2006 Series A Refunding Candidates**" shall mean \$30,750,000 in aggregate principal amount of the 2006 Series A Bonds.

"**2008 Series A Bonds**" shall mean the City's Utilities System Revenue Bonds, 2008 Series A (Federally Taxable), heretofore issued and Outstanding pursuant to the Resolution.

"2008 Series A Refunding Candidates" shall mean the 2008 Series A Bonds of the maturities and in the respective principal amounts listed in the following table:

<u>Maturity (October 1)</u>	<u>Interest Rate</u>	<u>Amount</u>
2014	4.49%	\$ 7,910,000
2015	4.82	5,155,000
2016	4.92	5,405,000
2017	5.02	5,670,000
2020	5.27	16,465,000

"2012 Series B Bank Bond" shall mean any 2012 Series B Bond (or portion thereof or beneficial ownership interest therein) purchased by the Bank(s) (or a nominee or nominees thereof) pursuant to clause (b) of paragraph 1 of Section 3.11; *provided, however*, that any such 2012 Series B Bond shall cease to be a 2012 Series B Bank Bond on the date on which such 2012 Series B Bond shall be delivered to a purchaser identified by the Remarketing Agent (or, to the extent permitted by the Liquidity Facility, the date on which the Bank(s) elect not to sell such 2012 Series B Bond to a purchaser identified by the Remarketing Agent).

"2012 Series B Bond Liquidity Proceeds Account" shall mean the account by that name created and established in the 2012 Series B Bond Purchase Fund in Section 6.01.

"2012 Series B Bond Purchase Fund" shall mean the fund by that name created and established pursuant to Section 6.01 and held by the Tender Agent separate and apart from any funds, accounts or subaccounts under the Resolution and which shall not constitute a fund or an account for purposes of the Resolution.

"2012 Series B Bond Rate" shall mean the interest rate on 2012 Series B Bonds, determined pursuant to Section 3.03, but shall not include the interest rate on any 2012 Series B Bank Bonds.

"2012 Series B Bond Remarketing Proceeds Account" shall mean the account by that name created and established in the 2012 Series B Bond Purchase Fund in Section 6.01.

"2012 Series B Bonds" shall mean the Series of Refunding Bonds created and issued pursuant to Section 2.01 hereof and designated therein as the "Variable Rate Utilities System Revenue Bonds, 2012 Series B."

"Underwriter" shall mean J.P. Morgan Securities LLC, as the underwriter referred to in the Contract of Purchase.

"Untendered 2012 Series B Bonds" shall have the meaning assigned to such term in Section 3.12.

"Weekly Mode" shall mean the Interest Mode during which the 2012 Series B Bonds bear interest at Weekly Rates.

"Weekly Rate" shall mean the interest rate applicable to the 2012 Series B Bonds during the Weekly Mode, determined as provided in clause (c) of Section 3.03.

3. Unless the context shall clearly indicate some other meaning, all terms used in this Twenty-Fifth Supplemental Resolution, including Exhibit A, that shall be defined in Exhibit A shall for all purposes of this Twenty-Fifth Supplemental Resolution, including Exhibit A, have the same respective meanings as such terms are given in Exhibit A.

SECTION 1.03. Authority for this Twenty-Fifth Supplemental Resolution. This Twenty-Fifth Supplemental Resolution is adopted (i) pursuant to the provisions of the Act and (ii) in accordance with Article II and Article X of the Resolution.

ARTICLE II

AUTHORIZATION OF 2012 SERIES B BONDS

SECTION 2.01. Principal Amount, Designation, and Series. Pursuant to the provisions of the Resolution, a Series of Refunding Bonds is hereby authorized in an aggregate principal amount not to exceed \$105,000,000. Such Bonds shall be designated as, and shall be distinguished from the Bonds of all other Series by the title, "Variable Rate Utilities System Revenue Bonds, 2012 Series B". The actual aggregate principal amount of the 2012 Series B Bonds to be issued shall be determined by the General Manager for Utilities of the City, or his designee, on or prior to the Delivery Date as the amount necessary to accomplish the purposes for which the 2012 Series B Bonds are being issued set forth in Section 2.02 hereof, such determination to be set forth in the certificate referred to in paragraph 2 of Section 2.03 hereof. The 2012 Series B Bonds shall be and constitute "Variable Rate Bonds", as such term is defined in Section 101 of the Resolution. For so long as any 2012 Series B Bond (or portion thereof or beneficial ownership interest therein) shall be a 2012 Series B Bank Bond, such 2012 Series B Bond (or portion thereof or beneficial ownership interest therein) shall be and constitute an "Option Bond", as such term is defined in Section 101 of the Resolution.

SECTION 2.02. Purpose. The 2012 Series B Bonds are being issued for the purposes of (1) providing the moneys required to refund the Refunded Bonds and (2) paying costs of issuance related to the 2012 Series B Bonds.

SECTION 2.03. Maturity and Interest; Certain Determinations with Respect to the 2012 Series B Bonds. 1. The 2012 Series B Bonds shall mature on October 1, 2042 and shall bear interest from the Delivery Date at the interest rate determined for each Interest Period pursuant to Section 3.03; *provided, however*, that each 2012 Series B Bank Bond shall bear interest as provided in Section 5.02.

Interest on each 2012 Series B Bond accruing during each Interest Accrual Period shall be payable on the Interest Payment Date immediately following such Interest Accrual Period, to the Person in whose name such 2012 Series B Bond is registered at the Record Date therefor; *provided, however*, that the Holder of a 2012 Series B Bond other than the Bank(s) (or

the nominee(s) thereof) shall be paid interest thereon for an Interest Accrual Period only in the amount that would have accrued thereon at the 2012 Series B Bond Rate or Rates in effect during such Interest Accrual Period, regardless of whether or not such 2012 Series B Bond was a 2012 Series B Bank Bond during any portion of such Interest Accrual Period.

Interest accrued at the Auction Mode Rate for an Auction Period of 180 days or less shall (unless otherwise provided in Exhibit A) be computed on the basis of a 360-day year and actual days elapsed, interest accrued at the Daily Rate, the Weekly Rate, the Flexible Rate or (unless otherwise provided in the Liquidity Facility) the Bank Rate shall be computed on the basis of a 365- or 366-day year, as applicable, for actual days elapsed, and interest accrued at the Auction Mode Rate for an Auction Period of more than 180 days, the Term Rate or the Fixed Rate shall (unless otherwise provided in Exhibit A) be computed on the basis of a 360-day year comprised of twelve 30-day months.

Notwithstanding anything to the contrary contained herein, in no event shall any Auction Mode Rate, Daily Rate, Weekly Rate, Flexible Rate, Term Rate or Fixed Rate exceed the Maximum Rate.

2. On or prior to the Delivery Date, the General Manager for Utilities of the City, or his designee, shall execute and deliver to the Trustee a certificate setting forth the following determinations with respect to the 2012 Series B Bonds:

(a) the aggregate principal amount of the 2012 Series B Bonds, which amount (i) shall provide proceeds sufficient to pay (X) the respective Redemption Prices of the Refunded Bonds on the date such Refunded Bonds are to be redeemed and (Y) the costs of issuance related to the 2012 Series B Bonds and (ii) shall not exceed \$105,000,000;

(b) the due dates and amounts of the Sinking Fund Installments for the 2012 Series B Bonds; *provided, however*, that each Sinking Fund Installment due date shall fall upon an April 1 or an October 1;

(c) the initial Interest Mode for the 2012 Series B Bonds, which shall be either the Daily Mode or the Weekly Mode;

(d) (i) the respective maturities and principal amounts (or portion(s) thereof), if any, of the 2005 Series B Refunding Candidates that shall constitute the Refunded 2005 Series B Bonds, (ii) the principal amount, if any, of the 2005 Series C Refunding Candidates that shall constitute the Refunded 2005 Series C Bonds, (iii) the principal amount, if any, of the 2006 Series A Refunding Candidates that shall constitute the Refunded 2006 Series A Bonds and (iv) the respective maturities and principal amounts (or portion(s) thereof), if any, of the 2008 Series A Refunding Candidates that shall constitute the Refunded 2008 Series A Bonds, which maturities and amounts shall be based upon a written determination by the System's Financial Advisor to the effect that, in its opinion, the refunding of such Refunding Candidates (or portion(s) thereof) will result in the maximum achievable amount of net present value savings, on an aggregate basis, that may be achieved through the issuance of the 2012 Series B Bonds based upon market conditions then in effect, calculating such savings assuming (X) a discount rate of 4.00 percent and (Y) an interest rate for the 2012 Series B Bonds of 3.25 percent; and

(e) the purchase price for the 2012 Series B Bonds to be paid by the Underwriter pursuant to the Contract of Purchase, which shall be equal to the principal amount of the 2012 Series B Bonds less the amount of the Underwriter's discount to be set forth in the Contract of Purchase; *provided, however*, that the Underwriter's discount shall not exceed \$3.00 per \$1,000 principal amount of the 2012 Series B Bonds.

SECTION 2.04. Denominations, Dates, Numbers and Letters. The 2012 Series B Bonds shall be issued in fully registered form in the Authorized Denominations. Each 2012 Series B Bond shall be dated the date of its authentication except that all 2012 Series B Bonds issued prior to the first Interest Payment Date shall be dated the Delivery Date.

Unless an Authorized Officer of the City shall otherwise direct, the 2012 Series B Bonds will be numbered from 1001 upward preceded by the letter "R" prefixed to the number.

SECTION 2.05. Designation of the 2012 Series B Bonds as Book Entry Bonds; Appointment of Securities Depository for the 2012 Series B Bonds. 1. Except as provided in paragraph 3 below, the 2012 Series B Bonds are hereby authorized to be and shall be issued as Book Entry Bonds within the meaning of and subject to Section 309 of the Resolution.

2. The Depository Trust Company, New York, New York ("DTC") is hereby appointed as the initial Securities Depository for the 2012 Series B Bonds.

3. The 2012 Series B Bonds shall be issued initially in the form of a single, fully registered Bond in the amount of the 2012 Series B Bonds, registered in the name of Cede & Co. ("Cede"), as nominee of DTC. So long thereafter as DTC serves as Securities Depository for the 2012 Series B Bonds, the registered holder of all 2012 Series B Bonds shall be, and each of the 2012 Series B Bonds shall be registered in the name of, Cede, as nominee of DTC. Upon delivery by DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede, and subject to the transfer provisions of the Resolution, the word "Cede" in this Twenty-Fifth Supplemental Resolution shall refer to such new nominee of DTC. So long as any of the 2012 Series B Bonds is registered in the name of Cede, as nominee of DTC in its capacity as Securities Depository for the 2012 Series B Bonds, all payments with respect to the principal or Redemption Price of, and interest on, such 2012 Series B Bond and all notices with respect to such 2012 Series B Bond shall be made or given to DTC as provided in the procedures of DTC as in effect from time to time.

4. (a) DTC may determine to discontinue providing its services as Securities Depository for the 2012 Series B Bonds at any time by giving reasonable notice thereof to the City or the Trustee. Upon the discontinuance of the services of DTC as Securities Depository for the 2012 Series B Bonds pursuant to the preceding sentence, the City may within 90 days thereafter appoint a substitute securities depository which, in the opinion of the City, is willing and able to undertake the functions of Securities Depository under the Resolution upon reasonable and customary terms. If no such successor can be found within such period, the 2012 Series B Bonds no longer shall be restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository.

(b) In the event that the 2012 Series B Bonds no longer shall be restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities

Depository as provided in subparagraph (a) of this paragraph 4, (i) the City shall execute and the Bond Registrar shall authenticate and deliver, upon presentation and surrender of the 2012 Series B Bonds, Bond certificates as requested by the Securities Depository therefor of like Series, aggregate principal amount, maturity and interest rate, in Authorized Denominations, to the identifiable beneficial owners in replacement of such beneficial owners' beneficial ownership interests in such 2012 Series B Bonds and (ii) the Bond Registrar shall notify the Paying Agents that the 2012 Series B Bonds no longer are restricted to being registered in the registration books kept by the Bond Registrar in the name of a Securities Depository.

5. Notwithstanding any provision herein to the contrary, so long as the book-entry-only system of transfers provided for in this Section shall remain in effect with respect to the 2012 Series B Bonds, (a) every transfer of such 2012 Series B Bonds made in accordance with the Auction Procedures, (b) every remarketing of such 2012 Series B Bonds (or portions thereof) by the Remarketing Agent and (c) all purchases and transfers of such 2012 Series B Bonds (or portions thereof) by the Tender Agent shall be conducted in accordance with such system.

SECTION 2.06. Redemption Prices and Terms. 1. The 2012 Series B Bonds shall be subject to redemption prior to maturity as provided in Article IV of the Resolution by operation of the Debt Service Fund from mandatory Sinking Fund Installments, on the respective dates and in the respective amounts set forth in the certificate referred to in paragraph 2 of Section 2.03, at a Redemption Price of 100% of the principal amount thereof, together with accrued interest, if any, to the redemption date.

2. In addition, the 2012 Series B Bonds shall be subject to redemption at the election of the City as follows, in whole or in part, at a Redemption Price of 100% of the principal amount thereof together with accrued interest, if any, to the redemption date:

(a) if the 2012 Series B Bonds are in the Auction Mode, unless otherwise provided in Exhibit A, on any Interest Payment Date immediately following the end of an Auction Period;

(b) if the 2012 Series B Bonds are in the Daily or Weekly Mode, on any Business Day;

(c) if the 2012 Series B Bonds are in the Flexible or Term Mode, on any Rate Adjustment Date for the 2012 Series B Bonds to be redeemed; and

(d) if the 2012 Series B Bonds are in the Fixed Mode, on the first day of the Fixed Mode for the 2012 Series B Bonds to be redeemed.

3. In addition, if the 2012 Series B Bonds are in the Term Mode or the Fixed Mode, the 2012 Series B Bonds shall be subject to redemption at the option of the City on any date prior to their stated maturity, in whole or in part:

(a) unless clause (b) below applies, during any Interest Period therefor, on any day, but only after the fifth (5th) anniversary of the first day of such Interest Period, at a Redemption Price equal to 100% of the principal amount thereof; or

(b) during any Interest Period therefor, on any alternate dates and at any alternate prices stated in an Officer's Certificate delivered to the Notice Parties prior to the Rate Determination Date for such Interest Period and accompanied by an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such substitution of such alternate dates and prices will not adversely affect the exclusion of interest on any 2012 Series B Bond from the gross income of the owner thereof for federal income tax purposes;

together, in each case, with accrued interest, if any, to the redemption date.

4. In accordance with the provisions of the final sentence of Section 405 of the Resolution, in the event that any 2012 Series B Bond in the Auction, Daily, Weekly or Flexible Mode shall become subject to redemption, notice of such redemption shall be given, in the manner provided in Section 405 of the Resolution, not less than 15 days before the redemption date.

5. Notwithstanding anything to the contrary contained herein or in the Resolution, in the event that any 2012 Series B Bond is to be redeemed in part, the portion of such 2012 Series B Bond not so redeemed shall be in an Authorized Denomination.

6. Notwithstanding anything to the contrary contained herein or in the Resolution, in the event of any redemption of less than all of the 2012 Series B Bonds, 2012 Series B Bank Bonds shall be redeemed first, prior to the selection of any other 2012 Series B Bonds for redemption.

7. Notwithstanding anything to the contrary contained in this Twenty-Fifth Supplemental Resolution, 2012 Series B Bank Bonds shall be subject to redemption, at the election of the City, in whole or in part at any time at a Redemption Price equal to the principal amount thereof, plus accrued interest thereon to the date of redemption (computed at the Bank Rate or Rates in effect from time to time). Any such redemption shall take place five (5) Business Days after the City shall have given the Agent Bank, the Trustee, the Bond Registrar, the Paying Agent, the Tender Agent and the Remarketing Agent notice thereof, specifying the 2012 Series B Bank Bonds or portions thereof to be so redeemed on such date, unless the Agent Bank shall consent to an earlier redemption date.

SECTION 2.07. Additional Redemption Provisions for 2012 Series B Bank Bonds. Any 2012 Series B Bond that is a 2012 Series B Bank Bond shall be subject to mandatory redemption through Sinking Fund Installments as follows: Each 2012 Series B Bank Bond Outstanding shall be redeemed during the period commencing with a date (the "Term-Out Date") which is 180 days after the Bank Purchase Date or the Liquidity Facility Expiration Date then in effect, whichever is the first to occur (or, if the purchase was made in the circumstances referred to in clause (c)(vii) of Section 3.06, on the date that is 180 days after the Bank Purchase Date) and extending to the earlier of (a) the date that is the fifth anniversary of the relevant Bank Purchase Date or (b) the maturity date of the 2012 Series B Bonds, in equal semi-annual installments, payable on the Term-Out Date and at the end of each six-month period thereafter. In order to provide for such retirement, there are hereby established Sinking Fund Installments with respect to each such 2012 Series B Bank Bond, which Sinking Fund Installments shall be

due in semi-annual installments, on the Term-Out Date and at the end of each six-month period thereafter with respect to each such 2012 Series B Bank Bond. For purposes of the two preceding sentences, each semi-annual payment date or due date, as the case may be, hereunder shall be the date that numerically corresponds with the Term-Out Date or, if there is no such numerically corresponding date in the applicable month, on the last day of such month (or, if such day is not a Business Day, the next succeeding Business Day). The Redemption Price shall be the principal amount of the 2012 Series B Bank Bonds to be redeemed plus accrued interest thereon to the date of redemption. In the event that the principal amount of 2012 Series B Bank Bonds to be redeemed on any such redemption date is not equal to an Authorized Denomination, the principal amount of 2012 Series B Bank Bonds to be redeemed shall be rounded to the next higher Authorized Denomination. Notwithstanding the provisions of Section 511 of the Resolution, no credits shall be applied against any Sinking Fund Installment due pursuant to this Section 2.07.

Notwithstanding anything to contrary contained herein or in the Resolution, in connection with the delivery of any Substitute Liquidity Facility permitted pursuant to paragraph 2 of Section 4.02, the foregoing redemption provisions may be amended by the City in any respect so long as the City shall receive an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such amendment (a) is authorized or permitted by the Resolution and the Act and (b) will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes.

SECTION 2.08. Place of Payment and Paying Agents. Except as provided in subsection 5 of Section 309 of the Resolution and paragraph 3 of Section 2.05 hereof, the principal and Redemption Price of the 2012 Series B Bonds will be payable at the principal corporate trust office of U.S. Bank Trust National Association in the City of New York, New York, and such institution is hereby appointed Paying Agent for the 2012 Series B Bonds. Except as provided in subsection 5 of Section 309 of the Resolution and paragraph 3 of Section 2.05 hereof, the principal and Redemption Price of the 2012 Series B Bonds also shall be payable at any other place which may be provided for such payment by the appointment of any other Paying Agent or Paying Agents as permitted by the Resolution. Except as provided in paragraph 3 of Section 2.05 hereof, interest on the 2012 Series B Bonds shall be paid (i) by check payable to the order of the persons entitled thereto and mailed by first class mail, postage prepaid, to the addresses of such persons as they shall appear on the books of the City kept at the office of the Bond Registrar, (ii) in the case of all 2012 Series B Bank Bonds, by wire transfer of immediately available funds at such wire address as the Agent Bank shall specify or (iii) in the case of 2012 Series B Bonds subject to the Auction Mode, the Flexible Mode, the Daily Mode or the Weekly Mode, by wire transfer in immediately available funds to any owner of 2012 Series B Bonds in the denomination of \$1,000,000 or any Authorized Denomination in excess of such amount at such wire transfer address as such owner shall specify if such owner shall provide written notice to the Paying Agent not less than 5 days prior to the Record Date relating to such Interest Payment Date in which request for wire transfer payment is made and the wire transfer address is specified.

SECTION 2.09. Application of Proceeds of 2012 Series B Bonds. In accordance with subsection (7) of paragraph 1 of Section 202 and paragraph 3 of Section 204 of

the Resolution, the proceeds of the 2012 Series B Bonds shall be deposited simultaneously with the delivery of the 2012 Series B Bonds in the Construction Fund. Of such amount (a) such portion thereof as shall be necessary to pay the respective Redemption Prices of the Refunded Bonds on the redemption date therefor shall, on such redemption date, be transferred to the Paying Agent for the Refunded Bonds for application to the payment of such respective Redemption Prices and (b) the remaining balance thereof shall be applied to the payment of costs of issuance of the 2012 Series B Bonds.

SECTION 2.10. Election for Redemption of the Refunded Bonds. The City hereby elects and directs the Trustee to redeem, on the Delivery Date, the Refunded Bonds, at the applicable Redemption Prices therefor, together with accrued interest (if any) to the Delivery Date. Such election for redemption shall be and become irrevocable upon the authentication and delivery of the 2012 Series B Bonds.

SECTION 2.11. Tax Covenants. 1. The City covenants that it shall not take any action or inaction, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the 2012 Series B Bonds under Section 103 of the Internal Revenue Code of 1986 and the applicable Treasury Regulations promulgated thereunder. Without limiting the generality of the foregoing, the City covenants that it will comply with the instructions and requirements of the Tax Certificate to be executed and delivered on the date of issuance of the 2012 Series B Bonds concerning certain matters pertaining to the use of proceeds of the 2012 Series B Bonds, including any and all exhibits attached thereto (the "Tax Certificate"). This covenant shall survive payment in full or defeasance of the 2012 Series B Bonds.

2. In the event that at any time the City is of the opinion that for purposes of this Section it is necessary or helpful to restrict or limit the yield on the investment of any moneys held by the Trustee under the Resolution, the City shall so instruct the Trustee in writing as to the specific actions to be taken, and the Trustee shall take such actions as specified in such instructions.

3. Notwithstanding any provisions of this Section, if the City shall provide to the Trustee an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that any specified action required under this Section is no longer required or that some further or different action is required to maintain the exclusion from gross income for federal income tax purposes of interest on the 2012 Series B Bonds, the City and the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and of the Tax Certificate, and the covenants hereunder shall be deemed to be modified to that extent.

4. Notwithstanding any other provision of the Resolution to the contrary, (a) upon the City's failure to observe or refusal to comply with the above covenants, the Holders of the 2012 Series B Bonds, or the Trustee acting on their behalf, shall be entitled to the rights and remedies provided to Bondholders under the Resolution, other than the right (which is hereby abrogated solely in regard to the City's failure to observe or refusal to comply with the covenants of this Section) to declare the principal of all 2012 Series B Bonds then outstanding, and the

interest accrued thereon, to be due and payable and (b) neither the Holders of the Bonds of any Series other than the 2012 Series B Bonds, nor the Trustee acting on their behalf, shall be entitled to exercise any right or remedy provided to Bondholders under the Resolution based upon the City's failure to observe, or refusal to comply with, the above covenants.

SECTION 2.12. Issuance of 2012 Series B Bonds in Lieu of Those Deemed Purchased. At such time as any 2012 Series B Bond shall be deemed purchased as provided in this Twenty-Fifth Supplemental Resolution, the City may issue a new Bond or Bonds in lieu thereof pursuant to Section 305 of the Resolution and the 2012 Series B Bond that is deemed purchased shall no longer be Outstanding.

ARTICLE III

INTEREST MODES; DETERMINATION OF INTEREST RATES FOR 2012 SERIES B BONDS; TENDER AND PURCHASE OF 2012 SERIES B BONDS

SECTION 3.01. Determination of Interest Modes. Interest Modes may be determined as follows:

(a) **By the City.** If the 2012 Series B Bonds shall be in any Interest Mode other than the Fixed Mode, the City may, subject to clause (b) of this Section, designate a different Interest Mode or the Term Mode with an Interest Period of different duration (and, if such new Interest Mode is the Term Mode, designate the duration of the initial Interest Period thereof) for the 2012 Series B Bonds by an Officer's Certificate delivered to the other Notice Parties not less than 45 days, if the 2012 Series B Bonds are then in the Flexible Mode or Term Mode, and not less than seven (7) Business Days if the 2012 Series B Bonds are then in the Auction Mode and otherwise not less than 30 days, prior to the first day of such new Interest Mode or changed Interest Period, as the case may be (unless such shorter period of time prior thereto shall be acceptable to (1) if the 2012 Series B Bonds are then in the Auction Mode, the Auction Agent and each Broker-Dealer or (2) if the 2012 Series B Bonds are then in an Interest Mode other than the Auction Mode, the Tender Agent), stating:

(i) **Effective Date:** the first day of the newly designated Interest Mode or Interest Period for the 2012 Series B Bonds (referred to herein as the "Mode Adjustment Date"), which shall be (A) if the Interest Mode then in effect for the 2012 Series B Bonds is the Auction Mode with an Auction Period other than a daily Auction Period, the second Interest Payment Date following the final Auction Date, (B) if the Interest Mode then in effect for the 2012 Series B Bonds is the Auction Mode with a daily Auction Period, the Daily Mode or the Weekly Mode, an Interest Payment Date, (C) if the Interest Mode then in effect for the 2012 Series B Bonds is the Term Mode, any day on which the 2012 Series B Bonds may be redeemed at the option of the City pursuant to paragraph 2 or 3 of Section 2.06 at a Redemption Price of 100% of the principal amount thereof, plus accrued interest, if any, thereon, and (D) if the Interest Mode then in effect for the 2012 Series B Bonds is the Flexible Mode, the latest Interest Payment Date for all Interest Periods thereon then in effect or any Business Day thereafter,

(ii) **Designation:** that the City has determined that, effective on such Mode Adjustment Date, the Auction Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Mode, a successive Term Mode with an Interest Period of different duration, or the Fixed Mode, as the case may be, shall take effect for the 2012 Series B Bonds, and

(iii) **Auction Period or Interest Period:** if (A) the designated Interest Mode is the Auction Mode, the duration of the Auction Period to be in effect upon the effectiveness of such Auction Mode, which Auction Period shall be any of the Auction Periods referred to in, or permitted by, Exhibit A, or (B) the designated Interest Mode is the Term Mode, the duration of the initial Interest Period thereof, which Interest Period shall end on the last calendar day of any March or September specified in such Officer's Certificate.

Upon (X) receipt by the other Notice Parties of such Officer's Certificate, (Y) receipt by the Tender Agent of the items referred to in paragraph 2 of Section 4.02, if applicable and (Z) the giving of the notice provided in clause (b) of Section 3.04, the Interest Mode or Interest Period, as the case may be, for the 2012 Series B Bonds shall, subject to clause (b) of this Section and Section 3.02, automatically be converted on the Mode Adjustment Date specified in such Officer's Certificate to the specified Interest Mode or Interest Period, as the case may be, without further act, unless (1) if the designated Interest Mode is any Interest Mode other than the Auction Mode, the Tender Agent or (2) if the designated Interest Mode is the Auction Mode, the Auction Agent and each Broker-Dealer shall have received, prior to the mailing of notice thereof pursuant to clause (b) of Section 3.04, an Officer's Certificate electing not to effect such conversion. The Tender Agent (if the new Interest Mode is any Interest Mode other than the Auction Mode) or the Auction Agent (if the new Interest Mode is the Auction Mode) shall promptly notify the other Notice Parties in writing of the conversion of the 2012 Series B Bonds to a new Interest Mode or Interest Period.

(b) **Limitations on Determinations.** No change to any Interest Mode or in the Interest Period for any Term Mode shall be made for the 2012 Series B Bonds by an Officer's Certificate pursuant to clause (a) of this Section, unless:

(i) **Opinion of Counsel:** such Officer's Certificate is accompanied by, and in addition there is delivered to the Tender Agent (if any) and the Remarketing Agent (if any) on the first day of such Interest Mode or Interest Period, as the case may be, an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such change in the Interest Mode or Interest Period, as the case may be, will not adversely affect the exclusion of interest on any 2012 Series B Bond from gross income for federal income tax purposes and is authorized by applicable law,

(ii) **Liquidity Facility Requirement:** except in the case of a change to the Auction Mode or the Fixed Mode, the Liquidity Facility shall be in an amount at

least equal to the Liquidity Facility Requirement applicable to the Interest Mode to become effective,

(iii) **Qualified Interest Period:** if the Interest Mode to become effective for the 2012 Series B Bonds is the Term Mode, the duration of the first Interest Period thereof designated by such Officer's Certificate is in accordance with the provisions of Section 3.02, and

(iv) **Book-Entry System:** if the Interest Mode to become effective for the 2012 Series B Bonds is the Auction Mode, the 2012 Series B Bonds shall, on the Mode Adjustment Date, be a Book-Entry Only 2012 Series B Bond.

(c) **Restoration of Positions.** If, after notice to any Person of any change in the Interest Mode or Interest Period for the 2012 Series B Bonds, such change may not be effected on the Mode Adjustment Date specified therefor in the Officer's Certificate designating such change because of any failure to satisfy the conditions of clause (b) of this Section, then the 2012 Series B Bonds shall remain in the Interest Mode which they are then in or remain subject to the same Interest Period as then is applicable, as the case may be; *provided, however*, that if the proposed change was from the Term Mode to any other Interest Mode and the City causes to be delivered to the Tender Agent and the Remarketing Agent an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such change in Interest Mode will not adversely affect the exclusion of interest on any 2012 Series B Bond from gross income for federal income tax purposes and is authorized by applicable law, then, so long as the Liquidity Facility then in effect (taking into account any amendments being made thereto in connection therewith) shall provide that the amount available to be drawn or advanced thereunder shall be at least equal to the principal amount of the Outstanding 2012 Series B Bonds (other than 2012 Series B Bank Bonds) plus 36 days' interest thereon computed at a rate per annum equal to the Maximum Rate and on the basis of a 365-day year, the 2012 Series B Bonds shall be changed to the Weekly Mode. In any such event, the 2012 Series B Bonds shall be subject to mandatory tender as and to the extent provided in clause (c)(iii) of Section 3.06.

SECTION 3.02. Duration of Interest Modes and Interest Periods. The duration of Interest Modes and Interest Periods will be as follows:

(a) **Interest Modes.** Each Interest Mode for the 2012 Series B Bonds other than the Fixed Mode shall extend through the day prior to the effective date of any other Interest Mode for the 2012 Series B Bonds established in accordance with Section 3.01. Any Fixed Mode for the 2012 Series B Bonds shall extend to the stated maturity date of the 2012 Series B Bonds.

(b) **Interest Periods Generally.** No Interest Period for any 2012 Series B Bond (or portion thereof) during the Flexible Mode or the Term Mode shall extend beyond (1) the fifth (5th) Business Day preceding the Liquidity Facility Expiration Date or (2) the day prior to the effective date of any other Interest Mode for the 2012 Series B Bonds to

become effective pursuant to the prior Officer's Certificate given in accordance with clause (a) of Section 3.01.

(c) **Interest Periods During Auction Mode.** Each Interest Period for each 2012 Series B Bond (or beneficial ownership interest therein) while in the Auction Mode shall be the same as each Auction Period with respect thereto, which Auction Periods shall be determined in the manner to be provided in Exhibit A.

(d) **Interest Periods During Flexible Mode.** The Interest Period for each 2012 Series B Bond (or beneficial ownership interest therein) while in the Flexible Mode shall be the period determined by the Remarketing Agent, on or before the Rate Adjustment Date therefor, to be the Interest Period which, in its judgment, will produce the greatest likelihood of the lowest overall debt service costs on the 2012 Series B Bonds prior to the maturity thereof, given prevailing market conditions. The Remarketing Agent may determine different Interest Periods for different 2012 Series B Bonds (or beneficial ownership interests therein) on or before the same Rate Adjustment Date. Each Interest Period for any 2012 Series B Bond (or beneficial ownership interest therein) while in the Flexible Mode shall commence on the first day of such Flexible Mode for such 2012 Series B Bond (or beneficial ownership interest therein) or on the day immediately succeeding the immediately preceding Interest Period for such 2012 Series B Bond (or beneficial ownership interest therein) during such Flexible Mode, shall end on a day preceding a Business Day, and shall be not less than one nor more than 270 days in length. No Interest Period for any 2012 Series B Bond (or beneficial ownership interest therein) while in the Flexible Mode shall end later than the day preceding any redemption date described in paragraph 1 of Section 2.06, unless the principal amount of 2012 Series B Bonds (or beneficial ownership interests therein) with an Interest Period which ends on or prior to such preceding day is at least equal to the principal amount of 2012 Series B Bonds to be redeemed on such redemption date pursuant to said paragraph 1 of Section 2.06.

(e) **Interest Period During Term Mode.** Each Interest Period for any 2012 Series B Bond (or beneficial ownership interest therein) while in the Term Mode shall commence on the Mode Adjustment Date with respect thereto or on the day immediately succeeding the immediately preceding Interest Period for such 2012 Series B Bond during such Term Mode. The initial Interest Period of each Term Mode for the 2012 Series B Bonds shall end on the last calendar day of any March or September specified in the Officer's Certificate designating such Interest Mode pursuant to clause (a) of Section 3.01 which occurs at least one year after the effective date of such Interest Mode. Each successive Interest Period during such Term Mode shall end on the day immediately preceding the anniversary of the last Interest Payment Date for interest accrued in the immediately preceding Interest Period which occurs the same number of 12-month periods after the first day of such successive Interest Period as the number of 12-month periods or portions thereof during the initial Interest Period in such Term Mode, unless changed by Officer's Certificate pursuant to Section 3.01.

SECTION 3.03. Determination of Interest Rates; Effectiveness Thereof. The various interest rates for the 2012 Series B Bonds will be determined as follows, and shall be effective for the periods described below:

(a) **Auction Mode Rate.** During each Auction Mode for 2012 Series B Bonds, the Auction Mode Rates to be in effect from time to time shall be determined by the Auction Agent and notice thereof shall be given in the manner to be provided in Exhibit A, and each such Auction Mode Rate shall be effective for the Auction Period to which such Auction Mode Rate relates; *provided, however*, that in the event of a change to the Auction Mode from another Interest Mode, the Auction Mode Rate for the Auction Period commencing on the Mode Adjustment Date applicable thereto shall be determined by such Broker-Dealer as shall be specified by the City as the lowest rate which, in the judgment of such Broker-Dealer, is necessary to enable the 2012 Series B Bonds (or beneficial ownership interests therein) to be remarketed on such Mode Adjustment Date at a price (without regard to accrued interest) equal to 100% of the principal amount thereof.

(b) **Daily Rate.** During each Daily Mode for 2012 Series B Bonds, by 12:30 p.m., New York City time, on each Business Day, the Remarketing Agent shall determine the Daily Rate for the 2012 Series B Bonds by determining, in the manner described in clause (f) of this Section, the Market Rate therefor on such day, which Daily Rate shall be effective for the Interest Period beginning on such Business Day and ending on the day preceding the next succeeding Business Day.

(c) **Weekly Rate.** During each Weekly Mode for the 2012 Series B Bonds, by 5:00 p.m., New York City time, on the last Business Day before the commencement of such Weekly Mode and before each succeeding Wednesday (or such other day as may be specified by the Remarketing Agent after notice to the Tender Agent and the Holders of the 2012 Series B Bonds) thereafter during such Weekly Mode, the Remarketing Agent shall determine the Weekly Rate for the 2012 Series B Bonds by determining, in the manner described in clause (f) of this Section, the Market Rate therefor on such day, which Weekly Rate shall be effective for the Interest Period beginning on Wednesday of such week and ending on the next succeeding Tuesday.

(d) **Flexible Rate.** By not later than 12:30 p.m., New York City time, on or before the first Business Day in each Interest Period for each 2012 Series B Bond (or beneficial ownership interest therein) which is in the Flexible Mode, the Remarketing Agent shall determine the Flexible Rate for such 2012 Series B Bond (or beneficial ownership interest therein), in each case by determining, in the manner described in clause (f) of this Section, the Market Rate therefor on such day, which Flexible Rate shall be effective for such Interest Period.

(e) **Term Rate; Fixed Rate.** On any date designated by the Remarketing Agent which is not more than 35 days preceding nor later than the last Business Day preceding each Interest Period for 2012 Series B Bonds during which such 2012 Series B Bonds are in the Term Mode or the Fixed Mode, the Remarketing Agent shall determine the Term Rate or the Fixed Rate, as the case may be, for the 2012 Series B Bonds by determining, in the manner described in clause (f) of this Section, the Market Rate therefor on such day, which Term Rate or Fixed Rate, as the case may be, shall be effective for such Interest Period.

(f) **Procedure for Market Rate Determination.** The Remarketing Agent shall make each determination of the Market Rate for any 2012 Series B Bond (or beneficial ownership interest therein) pursuant to this Section by determining in its judgment the minimum interest rate necessary to be borne by such 2012 Series B Bond (or beneficial ownership interest therein) for the relevant Interest Period to enable the Remarketing Agent to remarket such 2012 Series B Bond (or beneficial ownership interest therein) on the Rate Adjustment Date therefor at a price (without regard to accrued interest) equal to 100% of the principal amount thereof; *provided, however*, that in no event shall any rate so determined exceed the Maximum Rate. If for any reason the Remarketing Agent fails to determine the Market Rate for any 2012 Series B Bond (or beneficial ownership interest therein) on a Rate Determination Date, or any Market Rate for any 2012 Series B Bond (or beneficial ownership interest therein) determined by the Remarketing Agent on a Rate Determination Date is determined by a court of competent jurisdiction to be invalid or unenforceable, then, commencing on such Rate Determination Date or the date with respect to which such court's determination shall be effective, as the case may be, such 2012 Series B Bond (or beneficial ownership interest therein) shall bear interest at a rate equal to one hundred percent (100%) of the SIFMA Index most recently announced on or prior to each Rate Determination Date; *provided, however*, that if such index ceases to be published, it shall be replaced for the foregoing purposes by the most comparable published index designated by the Remarketing Agent or, in the absence of such designation, any other dealer bank or broker-dealer competent in such matters and chosen by the City; and *provided, further*, that in no event shall any such rate exceed the Maximum Rate.

SECTION 3.04. Notice of Interest Rates and Interest Modes. Notice of interest rates and Interest Modes will be given as follows:

(a) **Notice to the Broker-Dealers, the Tender Agent, the Trustee and the City.** If the 2012 Series B Bonds shall be in the Auction Mode, the Auction Agent shall give notice to the City and the Trustee of each Auction Mode Rate determined pursuant to Exhibit A at the time and in the manner to be provided in Exhibit A. If the 2012 Series B Bonds shall be in any Interest Mode other than the Auction Mode, the Remarketing Agent shall give notice to the Tender Agent, the Trustee and the City, at the times determined pursuant to the next sentence, of each interest rate determination made by it pursuant to Section 3.03 and of each determination of the duration of an Interest Period for any 2012 Series B Bond in the Flexible Mode made by it pursuant to clause (d) of Section 3.02, which notice shall be in writing (including by facsimile or other electronic means) or may be by telephone, promptly confirmed in writing (including by facsimile or other electronic means). Such notice shall be given (i) if the 2012 Series B Bonds shall be in the Daily Mode, at the option of the Remarketing Agent therefor, either (A) on each Business Day, as to the rate determined on such Business Day or (B) on (1) each Friday, as to each rate determined during the week ending on such Friday and (2) the last day of such Interest Period, as to each rate determined during the week in which such last day occurs and (ii) if the 2012 Series B Bonds shall be in the Weekly Mode, the Flexible Mode, the Term Mode or the Fixed Mode, on each day on which such rate is determined, as to the interest rate and, in the case of the Flexible Mode, the Interest Period so determined. In lieu of any notice in writing as aforesaid, the Remarketing Agent may make such information available to the Tender Agent, the Trustee and/or the City by any

readily available electronic means (e.g., by posting such information on the Internet); provided, however, that the Remarketing Agent shall have given the Tender Agent, the Trustee and/or the City, as the case may be, at least five days' prior written notice of its intention to make such information available in such manner.

(b) **Notice to Holders of 2012 Series B Bonds of Interest Modes or Interest Periods.** Not less than 15 days, if the 2012 Series B Bonds are in the Daily Mode or Weekly Mode, not less than 20 days if the 2012 Series B Bonds are in the Auction Mode, and not less than 30 days, if the 2012 Series B Bonds are in any other Interest Mode, and, in any such case, not more than 60 days, prior to (1) the effective date of a change in the Rate Determination Date for 2012 Series B Bonds in the Weekly Mode, as provided in clause (c) of Section 3.03, (2) any Mode Adjustment Date or (3) the first day of any new Interest Period for 2012 Series B Bonds in the Term Mode, the Tender Agent shall give notice to the Auction Agent (if any), the Broker-Dealers (if any), the Remarketing Agent (if any), the Agent Bank (if any) and the Holders of the 2012 Series B Bonds, stating:

(i) that the interest rate on the 2012 Series B Bonds will be converted to the Auction Mode, the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Mode or the Fixed Mode, or that the duration of the Interest Period or the Rate Determination Date for such 2012 Series B Bond then in effect will be altered, as the case may be, and

(ii) the other information required by paragraph 2 of Section 3.08.

The Tender Agent shall provide a copy of each notice from the Tender Agent given pursuant to this clause (b) to each transferee, if any, of a 2012 Series B Bond to be converted to a new Interest Mode or to an Interest Period of different duration in the Term Mode that is authenticated by it on or after the date of such notice and prior to the effective date of the Interest Mode or Interest Period described therein.

(c) **Notice to Owners of 2012 Series B Bonds of Interest Rates.** The Remarketing Agent shall provide the rate of interest constituting the Daily Rate, the Weekly Rate or the Flexible Rate for the 2012 Series B Bonds, and the Tender Agent shall provide the rate of interest constituting the Term Rate or the Fixed Rate for the 2012 Series B Bonds, from time to time to each owner thereof who requests such information, by telephone or in writing (including by facsimile or other electronic means).

While in the Daily Mode or Weekly Mode, the Tender Agent shall provide to the City and the Trustee and, upon written request, to any Holder of a 2012 Series B Bond to whom such interest is due the interest rates in effect since the preceding Interest Accrual Period therefor.

SECTION 3.05. Effect of Determinations. Each designation of an Interest Mode made pursuant to Section 3.01, each determination of the duration of an Interest Period made pursuant to Section 3.02, and each determination of an Auction Mode Rate, a Daily Rate, a Weekly Rate, a Flexible Rate, a Term Rate or a Fixed Rate made pursuant to Section 3.03 shall be conclusive and binding upon (a) the City, (b) the Trustee, (c) the Auction Agent and the Broker-Dealers (if the 2012 Series B Bonds shall be in the Auction Mode), (d) the Tender Agent,

the Remarketing Agent and the Bank(s) (if the 2012 Series B Bonds shall be in an Interest Mode other than the Auction Mode) and (e) the Holders of the 2012 Series B Bonds, and neither the City nor the Trustee nor the Auction Agent nor the Broker-Dealers nor the Tender Agent nor the Remarketing Agent shall have any liability to any such Person for any such determination, whether due to any error in judgment, failure to consider any information, opinion or other resource, or otherwise.

SECTION 3.06. Purchase of 2012 Series B Bonds. The Tender Agent shall effect the purchase of 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein in a principal amount equal to, and leaving untendered, an Authorized Denomination) from any Person at the Purchase Price therefor, payable in immediately available funds by the close of business on the applicable Purchase Date, but solely from and to the extent of the funds described in Section 3.10, for the account of the Persons described in paragraph 1 of Section 3.11:

(a) **Daily Mode Tender Option:** while the 2012 Series B Bonds are in the Daily Mode, upon delivery (or deemed tender pursuant to Section 3.12) for purchase of such 2012 Series B Bonds at the option of the Holder thereof (or, if the 2012 Series B Bonds shall be a Book-Entry Only 2012 Series B Bond, at the option of the beneficial owner thereof) on any Business Day, endorsed in blank (or accompanied by a bond power executed in blank) to the extent of the portion to be purchased, at the office of the Tender Agent by 12:00 p.m., New York City time, on such Business Day, if notice of such tender shall have been given to the Tender Agent in strict compliance with the provisions of Section 3.07, and

(b) **Weekly Mode Tender Option:** while the 2012 Series B Bonds are in the Weekly Mode, upon delivery (or deemed tender pursuant to Section 3.12) for purchase of such 2012 Series B Bonds at the option of the Holder thereof (or, if the 2012 Series B Bonds shall be a Book-Entry Only 2012 Series B Bond, at the option of the beneficial owner thereof) on any Business Day, endorsed in blank (or accompanied by a bond power executed in blank) to the extent of the portion to be purchased, at the office of the Tender Agent by 12:00 p.m., New York City time, on such Business Day, if notice of such tender shall have been given to the Tender Agent in strict compliance with the provisions of Section 3.07, and

(c) **Mandatory Tender:** upon tender (or deemed tender pursuant to Section 3.12) for purchase of such 2012 Series B Bonds as required by paragraph 1 of Section 3.08:

(i) **Expiration of Liquidity Facility:** on the fifth (5th) Business Day prior to the Liquidity Facility Expiration Date,

(ii) **Substitution of Liquidity Facility or Bank:** on the Substitution Date; provided, however, that if the City shall have delivered to the Notice Parties, by not later than the Business Day prior to the date on which the Tender Agent is required to give notice of such mandatory tender pursuant to paragraph 2 of Section 3.08, written evidence from each Rating Agency then rating the 2012 Series B Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility or the substitution of one or more banks for one or

more of the Banks that are party to the Liquidity Facility then in effect, as the case may be, and that such substitution will not result in a withdrawal, suspension or reduction in such Rating Agency's ratings on the 2012 Series B Bonds, then the 2012 Series B Bonds shall not be subject to mandatory tender for purchase on the Substitution Date,

(iii) **Interest Mode or Interest Period Changes:** on any Mode Adjustment Date designated by an Officer's Certificate pursuant to clause (a) of Section 3.01, whether or not such change to a new Interest Mode or Interest Period, as applicable, is effected,

(iv) **Rate Adjustment Dates:** on each Rate Adjustment Date while the 2012 Series B Bonds are in (A) the Flexible Mode or (B) the Term Mode,

(v) **City Option in Term Mode:** on any day while the 2012 Series B Bonds are in the Term Mode, upon delivery of an Officer's Certificate, if such 2012 Series B Bonds may then be redeemed at the option of the City pursuant to paragraph 2 or 3 of Section 2.06 at a Redemption Price of 100% of the principal amount thereof, plus accrued interest, if any, thereon; *provided, however*, that such Officer's Certificate shall be accompanied by the written consent of the Agent Bank to the 2012 Series B Bonds being so subject to mandatory tender on such date,

(vi) **Amendment to this Twenty-Fifth Supplemental Resolution or the Resolution:** on (A) any Business Day while the 2012 Series B Bonds are in the Daily Mode or Weekly Mode, (B) any Rate Adjustment Date while the 2012 Series B Bonds are in the Flexible Mode, or (C) any Business Day on which the 2012 Series B Bonds may then be redeemed at the option of the City pursuant to paragraph 2 or 3 of Section 2.06 at a Redemption Price of 100% of the principal amount thereof, plus accrued interest, if any, thereon while the 2012 Series B Bonds are in the Term Mode, in any such case, that is at least fifteen (15) days following delivery to the Notice Parties of an Officer's Certificate to the effect that the City is causing the 2012 Series B Bonds to become subject to mandatory tender in order to enable any Supplemental Resolution amending this Twenty-Fifth Supplemental Resolution or the Resolution to take effect pursuant to paragraph 2 of Section 8.05; *provided, however*, that such Officer's Certificate shall be accompanied by (X) the written consent of the Agent Bank to the 2012 Series B Bonds being so subject to mandatory tender on such date and (Y) an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such amendments are authorized or permitted by the Resolution and will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes and

(vii) **Liquidity Facility Default:** on the fifteenth (15th) day (or if such day shall not be a Business Day, on the next preceding Business Day) after receipt by the Tender Agent of notice from the Agent Bank to the effect that an "event of

default" (or similar event) on the part of the City has occurred and is continuing under the Liquidity Facility that entitles the Bank(s) party thereto to terminate the Liquidity Facility (or the commitment thereunder of the Bank(s) to purchase 2012 Series B Bonds) following the honoring by the Bank(s) of a final demand for payment thereunder to purchase all of the 2012 Series B Bonds upon the resultant mandatory tender for purchase thereof.

SECTION 3.07. Optional Tender of 2012 Series B Bonds for Purchase. Notice (which notice shall be irrevocable and effective upon receipt) of the tender of any 2012 Series B Bond (or portion thereof) for purchase pursuant to clause (a) or (b) of Section 3.06 shall specify the principal amount (or portion thereof) of such 2012 Series B Bond so to be purchased, the Purchase Date therefor, and the name of the Holder thereof (or, if such 2012 Series B Bond is a Book-Entry Only 2012 Series B Bond, the name and number of the account to which such beneficial ownership interest in the 2012 Series B Bonds is credited by the Securities Depository) and shall be given by the Holder thereof or such Holder's attorney duly authorized in writing or, if such 2012 Series B Bond is a Book-Entry Only 2012 Series B Bond, by the beneficial owner thereof or such owner's attorney duly authorized in writing, to:

(a) **Daily Mode:** the Tender Agent by 11:00 a.m., New York City time, on such Purchase Date, if such 2012 Series B Bond is in the Daily Mode, by telephone, facsimile or other electronic means, and

(b) **Weekly Mode:** the Tender Agent by 5:00 p.m., New York City time, on a Business Day which is at least seven calendar days prior to such Purchase Date, if such 2012 Series B Bond is in the Weekly Mode, in writing (including by facsimile or other electronic means).

Holders (or, if applicable, beneficial owners) of 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) that have elected to require purchase as provided above will be deemed, by such election, to have agreed irrevocably to sell the 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) to any purchaser determined in accordance with the provisions of Section 3.10 and paragraph 1 of Section 3.11, on the date fixed for purchase at the Purchase Price therefor, and will be required to deliver (or cause to be delivered) such tendered 2012 Series B Bonds (or portions thereof) to the office of the Tender Agent by 12:00 p.m., New York City time, on the Purchase Date, endorsed in blank (or accompanied by a bond power executed in blank).

Promptly upon receipt of such notice in respect of 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein), the Tender Agent shall give notice by telephone, promptly confirmed in writing (including by facsimile or other electronic means) to the City, the Remarketing Agent and the Agent Bank, specifying the principal amount of the 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) so tendered for purchase and the Purchase Date for such 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein).

SECTION 3.08. Mandatory Tender of 2012 Series B Bonds for Purchase. 1. **Mandatory Tender.** Each owner of a 2012 Series B Bond (or portion thereof or beneficial ownership interest therein) upon notice given by the Tender Agent pursuant to

paragraph 2 of this Section 3.08 and, if in the Flexible Mode or the Term Mode, on each Rate Adjustment Date therefor, shall tender, and in any event shall be deemed to have tendered, to the Tender Agent as agent for the Persons which purchase the same pursuant to Section 3.10 and paragraph 1 of Section 3.11, such 2012 Series B Bond (or portion thereof or beneficial ownership interest therein) as shall become subject to mandatory tender for purchase pursuant to clause (c) of Section 3.06.

Holders (or, if applicable, beneficial owners) of 2012 Series B Bonds (or beneficial ownership interests therein) will be deemed to have agreed irrevocably to sell 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) subject to mandatory tender for purchase to any purchaser determined in accordance with the provisions of Section 3.10 and paragraph 1 of Section 3.11, on the date fixed for purchase at the Purchase Price therefor, and will be required to deliver (or cause to be delivered) such tendered 2012 Series B Bonds (or portions thereof) to the office of the Tender Agent by 12:00 p.m., New York City time, on the Purchase Date, endorsed in blank (or accompanied by a bond power executed in blank).

2. **Notice.** The Tender Agent shall give notice of each Purchase Date for 2012 Series B Bonds described in clause (c) of Section 3.06 (except clauses (c)(iv)(A) and (c)(vii) thereof) to the City, the Agent Bank, the Remarketing Agent and each Holder of 2012 Series B Bonds by mail, first-class postage prepaid, not less than 15 days, if such 2012 Series B Bonds are in the Daily or Weekly Mode, not less than 30 days, if such 2012 Series B Bonds are in the Term or Flexible Mode, and in either case not more than 60 days preceding such Purchase Date. The Tender Agent shall give notice of any Purchase Date for 2012 Series B Bonds described in clause (c)(vii) of Section 3.06 to the City, the Agent Bank, the Remarketing Agent and each Holder of 2012 Series B Bonds by mail, first-class postage prepaid, as promptly as practicable following receipt by it of the notice from the Agent Bank referred to in said clause (c)(vii). Each such notice shall state:

- (a) the date of such Purchase Date,
- (b) that each 2012 Series B Bond (or portion thereof) not tendered for purchase pursuant to clause (c) of Section 3.06 by 12:00 p.m., New York City time, on such Purchase Date shall be deemed to have been tendered for purchase on such Purchase Date at the Purchase Price therefor, and that, if due provision is made for the payment of such Purchase Price on such Purchase Date, such Holder shall not be entitled to any payment (including any interest accrued subsequent thereto) in respect of such 2012 Series B Bond (or portion thereof) other than the Purchase Price for such 2012 Series B Bond (or portion thereof) and, unless such Purchase Price shall include accrued interest thereon to such Purchase Date, such accrued interest,
- (c) the time and place for the tender of such 2012 Series B Bond (or portion thereof) and the then current name and address of the Tender Agent, and
- (d) if applicable, the matters described in clause (b) of Section 3.04.

SECTION 3.09. Remarketing of 2012 Series B Bonds. 1. Except in the case of 2012 Series B Bonds subject to mandatory tender pursuant to clause (c)(i) or (c)(vii) of

Section 3.06, the Remarketing Agent shall offer for sale for the account of the respective owners thereof and use its best efforts to sell an aggregate principal amount of 2012 Series B Bonds equal to the aggregate principal amount of 2012 Series B Bonds which are required to be tendered for purchase pursuant to Section 3.06 hereof, at a price equal to the Purchase Price thereof, on the Purchase Date of such 2012 Series B Bonds or as soon thereafter as possible, without selling any such 2012 Series B Bonds at a discount or a premium; except that no 2012 Series B Bonds shall be remarketed to the City.

2. By not later than 12:00 p.m., New York City time, on each Purchase Date for 2012 Series B Bonds, the Remarketing Agent shall give the Tender Agent notice by telephone, facsimile or other electronic means of the principal amount of such 2012 Series B Bonds tendered for purchase or deemed tendered on such Purchase Date that the Remarketing Agent has been able to remarket by such time.

3. If the Remarketing Agent is able to sell all or any portion of the 2012 Series B Bonds described in paragraph 1 of this Section at the price described in such paragraph, the Remarketing Agent shall cause the proceeds of the sale of such 2012 Series B Bonds to be transferred to the Tender Agent, by 12:15 p.m., New York City time, on such Purchase Date, in immediately available funds, for deposit in the 2012 Series B Bond Remarketing Proceeds Account in the 2012 Series B Bond Purchase Fund.

SECTION 3.10. Purchase of Tendered 2012 Series B Bonds. The Tender Agent shall apply the money in the 2012 Series B Bond Purchase Fund on and after each Purchase Date to pay the Purchase Price of 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) tendered pursuant to Section 3.06 from the following sources in the following order of priority:

- (a) first, from proceeds of the remarketing of such 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) deposited to the 2012 Series B Bond Remarketing Proceeds Account in the 2012 Series B Bond Purchase Fund on such Purchase Date, and
- (b) second, from amounts drawn under or derived from the Liquidity Facility pursuant to Section 4.01 and deposited to the 2012 Series B Bond Liquidity Proceeds Account in the 2012 Series B Bond Purchase Fund on such Purchase Date.

Upon tender for purchase of any 2012 Series B Bond (or portion thereof) on the Purchase Date therefor or of any Untendered 2012 Series B Bond on or after the Purchase Date therefor in accordance with Section 3.06, endorsed in blank (or accompanied by a bond power executed in blank) to the extent of the portion to be purchased, the Tender Agent shall pay to the Holder of such 2012 Series B Bond (or portion thereof) or such Untendered 2012 Series B Bond the Purchase Price therefor on behalf of the purchaser thereof specified in paragraph 1 of Section 3.11 from funds available for such purchase held in the applicable account in the 2012 Series B Bond Purchase Fund.

Upon tender for purchase or deemed tender for purchase of any beneficial ownership interest in a Book-Entry Only 2012 Series B Bond to be purchased in accordance with Section 3.06, the Tender Agent shall pay to the Securities Depository, for credit to the account to

which such beneficial ownership interest is credited, the Purchase Price therefor on behalf of the purchaser thereof specified in paragraph 1 of Section 3.11 from funds available for such purchase held in the applicable account in the 2012 Series B Bond Purchase Fund, in each such case, by 5:00 p.m., New York City time, on the date of such payment.

The Tender Agent shall hold all money delivered to it hereunder and deposited (or required to be deposited) to the applicable account in the 2012 Series B Bond Purchase Fund for the purchase of 2012 Series B Bonds (or portions thereof) in trust solely for the benefit of the respective Persons which shall have so delivered such money until the 2012 Series B Bonds (or portions thereof) purchased with such money are delivered pursuant to paragraph 2 of Section 3.11 and, thereafter, for the benefit of the Persons to whom such money is to be paid hereunder, in each such case, by 5:00 p.m., New York City time, on the date of such payment.

SECTION 3.11. Disposition of Tendered 2012 Series B Bonds. 1. **Purchasers of Tendered 2012 Series B Bonds.** 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) tendered or deemed tendered pursuant to Section 3.06, the Purchase Price for which has been paid pursuant to Section 3.10, shall be purchased:

(a) by the Persons to whom such 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) have been remarketed, to the extent the Purchase Price for such 2012 Series B Bonds has been paid pursuant to clause (a) of the first paragraph of Section 3.10; and

(b) by the Bank(s) (or a nominee or nominees thereof), to the extent the Purchase Price therefor is paid from amounts drawn under or derived from the Liquidity Facility pursuant to clause (b) of the first paragraph of Section 3.10.

2. **Delivery of Purchased 2012 Series B Bonds.** Whenever any 2012 Series B Bond (or portion thereof), other than a beneficial ownership interest in a Book-Entry Only 2012 Series B Bond, tendered or deemed tendered pursuant to Section 3.06 is purchased pursuant to Section 3.10 and paragraph 1 of this Section 3.11, the City shall execute, and the Tender Agent shall authenticate and deliver, in the name of the Person deemed to have purchased the same or its designee, one or more new 2012 Series B Bonds of any Authorized Denomination and of a like aggregate principal amount. Whenever any beneficial ownership interest in a Book-Entry Only 2012 Series B Bond tendered or deemed tendered pursuant to Section 3.06 is purchased pursuant to Section 3.10 and paragraph 1 of this Section 3.11, the Tender Agent shall cause such beneficial ownership interest to be credited to the account at the Securities Depository of (a) the Bank(s) or any nominee or nominees thereof, as pledgee, in the case of beneficial ownership interests purchased by the Tender Agent with amounts drawn under or derived from the Liquidity Facility, and (b) otherwise, the Person deemed to have purchased the same or any nominee thereof specified by such Person. Notwithstanding anything in this paragraph 2 to the contrary, no 2012 Series B Bond (or portion thereof) shall be released by the Tender Agent (and the Tender Agent shall not cause the transfer of the beneficial ownership of any Book-Entry Only 2012 Series B Bond to any Person) if (x) such 2012 Series B Bond (or portion thereof or beneficial ownership interest therein) was purchased with funds drawn under or derived from the Liquidity Facility, and (y) the limit of the obligations of the Bank(s) thereunder was thereby

reduced, until the limit of the obligations of the Bank(s) under the Liquidity Facility has been reinstated to an amount equal to the Liquidity Facility Requirement.

3. **Tendered 2012 Series B Bonds to be Held in Trust.** The Tender Agent shall hold all 2012 Series B Bonds or portions thereof (or beneficial interests therein) delivered to it hereunder in trust solely for the benefit of the respective Persons who have so delivered such 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) until money representing the Purchase Price of such 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) shall have been delivered to or for the account of or to the order of such Persons.

4. **Agency; No Extinguishment.** In carrying out its responsibilities with respect to the purchase of 2012 Series B Bonds under Sections 3.06 through 3.12, the Tender Agent shall be acting solely as the agent of the Holders or owners from time to time of the 2012 Series B Bonds tendered or deemed tendered pursuant to Section 3.06 and of the Persons purchasing the same pursuant to Section 3.10 and paragraph 1 of Section 3.11, respectively. No delivery of 2012 Series B Bonds to the Tender Agent or purchase of 2012 Series B Bonds by the Tender Agent pursuant to Sections 3.06 through 3.12 shall constitute a redemption of 2012 Series B Bonds or other extinguishment of the debt evidenced thereby.

SECTION 3.12. Untendered 2012 Series B Bonds; Book-Entry Only 2012 Series B Bonds. Any 2012 Series B Bond (or portion thereof):

(a) for which notice of tender thereof on any Purchase Date is given in accordance with Section 3.07, but which is not tendered for purchase by 12:00 p.m., New York City time, on such Purchase Date, or

(b) which is required to be but which is not tendered for purchase by 12:00 p.m., New York City time, on any Purchase Date determined pursuant to clause (c) of Section 3.06

(such 2012 Series B Bonds (or portions thereof) being referred to herein as "Untendered 2012 Series B Bonds") shall, upon deposit in the applicable account in the 2012 Series B Bond Purchase Fund of an amount sufficient to pay the Purchase Price of such 2012 Series B Bond (or portion thereof) on such Purchase Date, be deemed to have been tendered and sold on such Purchase Date to the Person specified in paragraph 1 of Section 3.11, and thereafter (1) the Person who has failed to deliver such 2012 Series B Bond (or portion thereof) shall not be entitled to any payment (including any interest accrued subsequent to such Purchase Date) in respect thereof other than the Purchase Price for such 2012 Series B Bond (or portion thereof) and, unless such Purchase Price shall include accrued interest thereon to such Purchase Date, such accrued interest, and such Untendered 2012 Series B Bond shall no longer be entitled to the benefit of the Resolution, except for the purpose of payment of the Purchase Price therefor and such accrued interest, if any, and (2) the City shall execute, and the Tender Agent shall authenticate and deliver, in the name of the Person specified in paragraph 1 of Section 3.11, one or more new 2012 Series B Bonds of any Authorized Denomination and of a like aggregate principal amount.

To the extent permitted pursuant to the procedures of the Securities Depository, any beneficial ownership interest in a Book-Entry Only 2012 Series B Bond for which notice of tender thereof on any Purchase Date is given in accordance with Section 3.07 or which is required to be tendered for purchase pursuant to paragraph 1 of Section 3.08 shall be deemed tendered to the Tender Agent endorsed in blank when the Securities Depository or any direct or indirect participant in its depository system which owns such beneficial ownership interest as nominee for the beneficial owner thereof shall have received sufficient instructions from the Person to whose account at the Securities Depository or participant such beneficial ownership interest is credited to transfer such beneficial ownership interest to the account of the Tender Agent and such transfer is effected, and payment of the Purchase Price of such beneficial ownership interest shall be deemed to be made when the Tender Agent gives sufficient instructions to (while maintaining sufficient funds at or delivering such funds to) the Securities Depository or such participant to credit such Purchase Price to the account of such Person at the Securities Depository or such participant.

ARTICLE IV

LIQUIDITY FACILITY; DRAWINGS THEREUNDER; SUBSTITUTE LIQUIDITY FACILITIES

SECTION 4.01. Drawings to Make Payments of Purchase Price. 1. The Tender Agent shall present all drafts, demands and other documents and give such notices and do all such other acts as may be required by the Liquidity Facility (in the manner and to the extent therein permitted and by the time required thereby) to cause a draw on or request for funding under, as applicable, the Liquidity Facility in an amount sufficient to purchase at the Purchase Price, on each Purchase Date all 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) (other than any 2012 Series B Bonds registered in the name of or held for the benefit of the City) (i) that are required to be purchased pursuant to Sections 3.06 through 3.12 on such Purchase Date and (ii) for which the Purchase Price thereof has not been paid (as provided by Section 3.12 or otherwise) or deposited in immediately available funds to the 2012 Series B Bond Remarketing Proceeds Account in the 2012 Series B Bond Purchase Fund from the proceeds of the remarketing of such 2012 Series B Bonds by 12:15 p.m., New York City time, on such Purchase Date.

2. On each Purchase Date the Tender Agent shall give notice to the City by telephone, promptly confirmed in writing (including by facsimile or other electronic means) specifying the Purchase Price of the 2012 Series B Bonds to be purchased pursuant to or with funds drawn or claimed under the Liquidity Facility on such date. All funds drawn or claimed under the Liquidity Facility by the Tender Agent to pay the Purchase Price of 2012 Series B Bonds shall be credited to the 2012 Series B Bond Liquidity Proceeds Account in the 2012 Series B Bond Purchase Fund and applied in accordance with this Twenty-Fifth Supplemental Resolution.

SECTION 4.02. Extension of Term of Liquidity Facility; Substitution of Liquidity Facilities; Surrender of Liquidity Facility. 1. If, at any time, the City shall obtain a renewal or extension of the Liquidity Facility then in effect (or a written commitment which evidences such renewal or extension) on substantially the same terms, unless the Agent Bank already shall have given notice thereof, the City shall promptly give notice to the other Notice

Parties of such renewal or extension, and the Tender Agent shall promptly give notice thereof to the Holders of the 2012 Series B Bonds. Any such renewal or extension shall not constitute substitution of a Liquidity Facility.

2. At any time prior to the giving by the Tender Agent, pursuant to paragraph 2 of Section 3.08, of notice of the mandatory tender of the 2012 Series B Bonds as a result of the expiration of the Liquidity Facility then in effect, the City may deliver to the Tender Agent a Substitute Liquidity Facility supporting the 2012 Series B Bonds in an amount at least equal to the Liquidity Facility Requirement, which Substitute Liquidity Facility shall be accompanied by (i) an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that the substitution of such Substitute Liquidity Facility for the Liquidity Facility then in effect is authorized or permitted by the Resolution and will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes, (ii) either (A) written evidence from each Rating Agency then rating the 2012 Series B Bonds to the effect that such Rating Agency has reviewed the proposed Substitute Liquidity Facility and stating the ratings of the 2012 Series B Bonds after substitution of such Substitute Liquidity Facility or (B) a statement of an Authorized Officer of the City that no ratings have been obtained, (iii) if such Substitute Liquidity Facility is other than a letter of credit issued by a domestic commercial bank, an opinion of counsel to the effect that no registration of the 2012 Series B Bonds or such Substitute Liquidity Facility is required under the Securities Act of 1933, as amended, (iv) an opinion of counsel satisfactory to an Authorized Officer of the City to the effect that such Substitute Liquidity Facility is a valid and enforceable obligation of the issuer or provider thereof and (v) all information required to give (X) notice of mandatory tender for purchase of the 2012 Series B Bonds if required by paragraph 2 of Section 3.08 or (Y) the notice required by paragraph 4 of this Section 4.02, if applicable. In such event, the Tender Agent shall accept such Substitute Liquidity Facility, which shall become effective with respect to the 2012 Series B Bonds on the Substitution Date therefor. Promptly following such Substitution Date, the Tender Agent shall surrender the Liquidity Facility so substituted to the Agent Bank with respect to such Liquidity Facility, for cancellation in accordance with its terms, or shall deliver any document necessary to terminate such Liquidity Facility.

Notwithstanding anything to the contrary contained herein, if, on any Substitution Date, (a) a Substitute Liquidity Facility is being substituted for the Liquidity Facility then in effect, (b) any 2012 Series B Bonds (or portions thereof or beneficial interests therein) shall be subject to tender for purchase and (c) the Tender Agent shall not have received remarketing proceeds in an amount sufficient to pay the Purchase Price of all 2012 Series B Bonds (or portions thereof or beneficial interests therein) so subject to tender for purchase, then the Tender Agent shall make a draw on or request for funding under, as applicable, such Liquidity Facility then in effect in order to obtain funds for the purchase of such 2012 Series B Bonds (or portions thereof or beneficial interests therein) so subject to tender for purchase as to which it shall not have received proceeds of the remarketing thereof.

3. Notwithstanding any other provision of the Resolution or this Twenty-Fifth Supplemental Resolution, the City may determine to deliver more than one Liquidity Facility pursuant to paragraph 2 of this Section 4.02. In such event, (a) the City shall take such actions (including, without limitation, obtaining such additional CUSIP number(s) for the 2012 Series B Bonds) as shall be necessary to identify separately the 2012 Series B Bonds (or beneficial

ownership interests therein) to be supported by each such Liquidity Facility and (b) each such Liquidity Facility shall be in a stated amount, or the aggregate commitment of the Bank(s) thereunder shall be, at least equal to the Liquidity Facility Requirement calculated with respect to the particular portion of the 2012 Series B Bonds supported thereby. In the event more than one Liquidity Facility shall be delivered as aforesaid (a) each such Liquidity Facility shall be applicable only to the particular 2012 Series B Bonds to which such Liquidity Facility relates, determined as aforesaid, (b) any reference herein to "the Agent Bank" or the "the Bank(s)" shall be deemed to refer to the appropriate Agent Bank or the appropriate Bank(s) or all such Agent Banks or Banks, as the case may be, as the context may require and (c) any reference herein to "the Liquidity Facility" shall be deemed to refer to the Liquidity Facility to which the appropriate Agent Bank and/or the appropriate Bank(s) is (or are) a party, or all such Liquidity Facilities, as the context may require.

4. In the event that the 2012 Series B Bonds shall be in the Daily Mode or the Weekly Mode, if, in connection with the substitution of one or more banks for one or more of the Banks that are party to the Liquidity Facility then in effect or the substitution of a Substitute Liquidity Facility for the Liquidity Facility then in effect, as the case may be, the 2012 Series B Bonds shall not be subject to mandatory tender for purchase on a Substitution Date, as provided in the proviso contained in clause (c)(ii) of Section 3.06, the Tender Agent shall give notice as hereinafter provided to the Holders of the 2012 Series B Bonds by mail, first-class, postage prepaid, not less than 15 and not more than 60 days preceding the Substitution Date of such substitution. Such notice shall (a) state the Substitution Date on which such substitution is expected to become effective; (b) contain a description of (i) the new bank(s) or (ii) such Substitute Liquidity Facility and the Bank(s) that is (or are) the issuer or provider thereof, as the case may be; and (c) state that if any Holder of a 2012 Series B Bond (or, if such 2012 Series B Bond is a Book-Entry Only 2012 Series B Bond, any beneficial owner thereof) does not desire to continue to hold such 2012 Series B Bond (or beneficial ownership interest therein) following such substitution, such Holder (or beneficial owner) must give notice of the tender of such 2012 Series B Bond (or beneficial ownership interest therein) by the time and in the manner provided in Section 3.07. In addition, the Tender Agent shall provide a copy of such notice to each transferee, if any, of a 2012 Series B Bond that is authenticated by it on or after the date of the giving of such notice and prior to such Substitution Date.

5. In the event that the 2012 Series B Bonds shall be in the Daily Mode, the Weekly Mode or the Flexible Mode, if, in connection with the substitution of one or more banks for one or more of the Banks that are party to the Liquidity Facility then in effect or the substitution of a Substitute Liquidity Facility for the Liquidity Facility then in effect, as the case may be, the Remarketing Agent shall remarket any 2012 Series B Bond (or portion thereof or beneficial interest therein) prior to such Substitution Date, the Remarketing Agent shall advise the purchaser of such Bond (or portion thereof or beneficial interest therein) that the new bank or banks (and not such Bank(s) that are party to such Liquidity Facility then in effect) or the issuer or provider of such Substitute Liquidity Facility (and not such issuer or provider of such Liquidity Facility then in effect), as the case may be, shall be responsible for providing liquidity support for 2012 Series B Bonds tendered or deemed tendered for purchase from and after such Substitution Date.

6. In connection with the delivery of any Substitute Liquidity Facility permitted pursuant to paragraph 2 of this Section, the City shall be authorized to amend the provisions of

this Twenty-Fifth Supplemental Resolution if and to the extent necessary to give effect to such Substitute Liquidity Facility (including, without limitation, any amendments that are necessary or desirable in connection with the provision by the City of more than one such Substitute Liquidity Facility, as permitted by paragraph 3 of this Section 4.02). Notwithstanding the foregoing, no such amendment shall be or become effective unless the City shall have received an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such amendment (a) is authorized or permitted by the Resolution, (b) will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes and (c) will not adversely affect the rights of the Holders of the 2012 Series B Bonds.

7. Promptly following the conversion of the 2012 Series B Bonds to the Auction Mode or the Fixed Mode, the Tender Agent shall surrender the Liquidity Facility to the Agent Bank for cancellation in accordance with its terms, or shall deliver any document necessary to terminate the Liquidity Facility.

ARTICLE V

2012 SERIES B BANK BONDS

SECTION 5.01. Remarketing of 2012 Series B Bank Bonds. 1. With respect to each particular 2012 Series B Bank Bond, unless such 2012 Series B Bank Bond shall have been purchased by the Bank(s) (or any nominee or nominees thereof) pursuant to a mandatory tender described in clause (c)(i) or (c)(vii) of Section 3.06, the Remarketing Agent shall use its best efforts to remarket such 2012 Series B Bank Bond at a price equal to the principal amount thereof plus, in the event the 2012 Series B Bonds (other than 2012 Series B Bank Bonds) are subject to an Interest Mode other than the Flexible Mode, accrued interest, if any, to the date of such remarketing (computed in accordance with the provisions of paragraph 3 of this Section 5.01).

2. In attempting to remarket any 2012 Series B Bank Bond, the Remarketing Agent shall treat such 2012 Series B Bank Bond for all purposes as if it were governed by the Interest Mode which governs the 2012 Series B Bonds (other than 2012 Series B Bank Bonds).

3. Unless otherwise provided in a Liquidity Facility, by becoming a Holder or beneficial owner of a 2012 Series B Bank Bond, the Bank(s) agree to transfer (or cause any nominee(s) or transferee(s) thereof to transfer) such Bond to any Person to which such Bond is remarketed by or through the Remarketing Agent, but only, however, against receipt of a purchase price therefor equal to the principal amount thereof plus, in the event the 2012 Series B Bonds (other than 2012 Series B Bank Bonds) are subject to an Interest Mode other than the Flexible Mode, accrued interest, if any, to the date of such remarketing, with such accrued interest being computed at the 2012 Series B Bond Rate or Rates in effect for the period beginning on the later of (i) the Bank Purchase Date with respect to such 2012 Series B Bank Bond and (ii) the most recent Interest Payment Date relating to such 2012 Series B Bank Bond on which interest accrued on such Bond has been paid in full and ending on the day preceding the day of such remarketing. If more than one 2012 Series B Bank Bond shall be owned by the Bank(s) (or any nominee(s) or transferee(s) thereof), the Tender Agent, in its sole discretion,

shall select the particular 2012 Series B Bank Bond(s) that are so remarketed. If a 2012 Series B Bank Bond is transferred by the Bank(s) (or any nominee(s) or transferee(s) thereof) in accordance with the second preceding sentence, the City agrees to pay to the Agent Bank, for the account of the Bank(s), or to such transferee(s), as the case may be, on the date of such remarketing, the amount of interest, if any, resulting from the Bank Rate or Rates in effect from time to time during the period referred to in the second preceding sentence being in excess of such 2012 Series B Bond Rate or Rates in effect during such period (said amount being referred to herein as the "Differential Interest Amount"). In the event that the Bank(s) is (or are) entitled (pursuant to its (or their) Liquidity Facility) to elect not to so transfer any such 2012 Series B Bond, and the Bank(s) so elect, the Tender Agent shall, upon notice thereof from the Agent Bank, promptly notify the City and the Remarketing Agent of such fact by telephone, promptly confirmed in writing (including by facsimile or other electronic means), and such 2012 Series B Bond thereupon shall cease to be a 2012 Series B Bank Bond.

4. In the event that the Remarketing Agent shall identify a purchaser for any 2012 Series B Bank Bond pursuant to the provisions of paragraph 1 of this Section, the Remarketing Agent shall give notice thereof to the Tender Agent, which notice shall specify the principal amount of the 2012 Series B Bank Bond(s) for which the Remarketing Agent has identified a purchaser and the purchase price thereof (which shall be the principal amount thereof plus, in the event the 2012 Series B Bonds (other than 2012 Series B Bank Bonds) are subject to an Interest Mode other than the Flexible Mode, accrued interest, if any, to the date of the proposed remarketing thereof (computed in accordance with the provisions of paragraph 3 of this Section 5.01)). If such notice shall be given by 12:30 p.m., New York City time, on a Business Day, then the date of the giving of such notice shall be the date of such remarketing. If such notice shall be given after 12:30 p.m., New York City time, on a Business Day, then the next succeeding Business Day shall be the date of such remarketing. Promptly following the receipt of any such notice, the Tender Agent shall notify the City and the Agent Bank thereof by telephone, promptly confirmed in writing (including by facsimile or other electronic means), which notice shall specify the principal amount of the 2012 Series B Bank Bond(s) for which the Remarketing Agent has identified a purchaser, and the purchase price thereof.

5. Except in a case where the Bank(s) shall have elected not to sell any 2012 Series B Bank Bond as permitted by paragraph 3 of this Section 5.01, by not later than 2:30 p.m., New York City time, on the remarketing date for any 2012 Series B Bank Bond(s) for which the Remarketing Agent has identified a purchaser, in exchange for possession of such 2012 Series B Bond(s), the Remarketing Agent shall deliver or cause to be paid, in immediately available funds, to the Tender Agent for deposit in the 2012 Series B Bond Remarketing Proceeds Account, the purchase price for such 2012 Series B Bank Bond(s).

6. Notwithstanding anything to the contrary contained herein, in the event that any 2012 Series B Bank Bonds shall be Outstanding following the conversion of the 2012 Series B Bonds to the Auction Mode, all references in this Section 5.01 to the "Remarketing Agent" shall be deemed to refer to the Broker-Dealers, and all references in this Section 5.01 to the "remarketing" of any such 2012 Series B Bank Bonds shall be deemed to refer to the transfer of 2012 Series B Bonds in accordance with the Auction Procedures.

SECTION 5.02. Interest on 2012 Series B Bank Bonds. 1. Unless otherwise provided in the Liquidity Facility, each 2012 Series B Bank Bond shall bear interest from and

including the Bank Purchase Date with respect thereto but not including the earliest of (a) the date (if any) on which such 2012 Series B Bank Bond is remarketed as provided in Section 5.01, (b) the date (if any) on which such 2012 Series B Bank Bond ceases to be a 2012 Series B Bank Bond, as provided in paragraph 3 of Section 5.01 and (c) the maturity or redemption date thereof, at an annual rate equal to the Bank Rate or Rates in effect from time to time during such period computed on the basis of a 365 or 366-day year, as applicable, for the actual number of days elapsed.

2. Unless otherwise provided in the Liquidity Facility, interest on a 2012 Series B Bank Bond shall be paid (i) if the 2012 Series B Bonds (other than 2012 Series B Bank Bonds) shall be subject to the Auction Mode, the Daily Mode or the Weekly Mode, on each Interest Payment Date applicable to such Interest Mode and (ii) if the 2012 Series B Bonds (other than 2012 Series B Bank Bonds) shall be subject to the Term Mode, the Fixed Mode or the Flexible Mode, on each Quarterly Payment Date, commencing with the first (1st) Quarterly Payment Date to occur after the Bank Purchase Date with respect to such 2012 Series B Bank Bond; *provided, however*, that if all of the 2012 Series B Bonds shall be 2012 Series B Bank Bonds, then interest on the 2012 Series B Bank Bonds shall be paid on the first Business Day of each calendar month.

3. Notwithstanding anything to the contrary contained herein, on the Bank Purchase Date with respect any 2012 Series B Bank Bond, the amount of accrued interest, if any, included in the purchase price of such 2012 Series B Bank Bond shall be paid to the Agent Bank, for the account of the Bank(s).

SECTION 5.03. Principal Repayment of 2012 Series B Bank Bonds. A particular 2012 Series B Bank Bond shall, as to the repayment of principal thereof, be governed solely by the provisions of Sections 2.03, 2.06 and 2.07.

SECTION 5.04. Optional Tender of 2012 Series B Bank Bonds for Payment. If and to the extent provided in the applicable Liquidity Facility, and subject to the conditions and limitations set forth therein, any 2012 Series B Bank Bond may be tendered (or deemed tendered) to the City for payment prior to the due date(s) of the Outstanding principal amount thereof, whereupon the City shall be obligated to pay the Outstanding principal amount of each such 2012 Series B Bank Bond (together with accrued interest thereon) so tendered (or deemed tendered) without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the City. Any 2012 Series B Bank Bond immediately shall be due and payable upon its becoming subject to payment by the City pursuant to this Section.

ARTICLE VI

ESTABLISHMENT OF 2012 SERIES B BOND PURCHASE FUND

SECTION 6.01. 2012 Series B Bond Purchase Fund. There is hereby created a fund to be held by the Tender Agent and known as the "2012 Series B Bond Purchase Fund", consisting of a 2012 Series B Bond Liquidity Proceeds Account and a 2012 Series B Bond Remarketing Proceeds Account. The 2012 Series B Bond Purchase Fund and the Accounts therein (a) shall constitute Eligible Accounts, as such term is defined in Section 1.01 hereof and (b) shall not constitute funds or accounts for purposes of the Resolution. In the event that the

2012 Series B Bond Purchase Fund or any Account therein shall no longer comply with the requirements set forth in said definition of the term "Eligible Account," the Tender Agent promptly (and, in any case, within not more than 30 calendar days) shall move the 2012 Series B Bond Purchase Fund and the Accounts therein to another financial institution such that such requirements again shall be satisfied. Amounts on deposit in the 2012 Series B Bond Purchase Fund shall not be commingled with the amounts held in any fund or account under the Resolution. All amounts received by the Tender Agent from the Remarketing Agent representing the Purchase Price of 2012 Series B Bonds remarketed by the Remarketing Agent shall be deposited in the 2012 Series B Bond Remarketing Proceeds Account in the 2012 Series B Bond Purchase Fund. All amounts received by the Tender Agent from the Agent Bank representing the proceeds of a drawing or request for funding, as the case may be, under the Liquidity Facility to pay the Purchase Price of 2012 Series B Bonds tendered or deemed tendered for purchase shall be deposited in the 2012 Series B Bond Liquidity Proceeds Account in the 2012 Series B Bond Purchase Fund. All amounts on deposit in such Accounts in the 2012 Series B Bond Purchase Fund shall be used only to pay the Purchase Price of the 2012 Series B Bonds so remarketed (i) as provided in Section 3.10 in the case of 2012 Series B Bonds tendered for purchase and (ii) as provided in paragraph 5 of Section 5.01 in the case of 2012 Series B Bank Bonds being remarketed; *provided, however*, that in the event that there shall not be sufficient funds on deposit in the 2012 Series B Bond Purchase Fund to purchase all 2012 Series B Bonds subject to purchase on a particular date as a result of any Bank failing to honor its commitment to advance funds under the Liquidity Facility, the Tender Agent shall select the particular 2012 Series B Bonds (or portions thereof or beneficial interests therein) to be so purchased at random in such manner as the Tender Agent in its discretion may deem fair and appropriate; and *provided, further*, that any funds on deposit in the 2012 Series B Bond Liquidity Proceeds Account in the 2012 Series B Bond Purchase Fund that will not be required to be applied to the purchase of 2012 Series B Bonds tendered or deemed tendered for purchase shall be returned to the Agent Bank, in immediately available funds, by 3:00 p.m., New York City time, on the date on which such funds shall have been received by the Tender Agent (or such later time as may be specified in the Liquidity Facility).

SECTION 6.02. Moneys Held in Trust. All moneys deposited in the 2012 Series B Bond Purchase Fund shall be held in trust by the Tender Agent and applied only for the purposes set forth in, and in accordance with the provisions of, this Twenty-Fifth Supplemental Resolution. The 2012 Series B Bond Purchase Fund shall be a trust fund for such purposes. Amounts on deposit in the 2012 Series B Bond Purchase Fund shall not be commingled with any other funds held by the Tender Agent, and all amounts on deposit in such Fund are hereby pledged and assigned to the purchase of the 2012 Series B Bonds in accordance with the terms hereof. Such amounts on deposit in the 2012 Series B Bond Purchase Fund hereby pledged and assigned shall immediately be subject to the lien of this pledge without any physical delivery thereof or further act, and the lien of this pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the City, irrespective of whether such parties have notice thereof.

SECTION 6.03. No Investment. Amounts on deposit in the 2012 Series B Bond Purchase Fund shall be held in cash, uninvested.

SECTION 6.04. No Lien for Tender Agent. Notwithstanding anything in the Resolution or this Twenty-Fifth Supplemental Resolution to the contrary, the Tender Agent shall

not have any right to, or lien whatsoever upon, any of the amounts on deposit in the 2012 Series B Bond Purchase Fund for the payment of fees, expenses or other compensation due and owing by the City to the Tender Agent for any services rendered under the Resolution or this Twenty-Fifth Supplemental Resolution.

ARTICLE VII

FORM OF 2012 SERIES B BONDS

The 2012 Series B Bonds shall be issued in such form as shall be approved by the officers of the City executing and delivering the same, such approval to be evidenced by the execution and delivery thereof. Each 2012 Series B Bond shall bear thereon a certificate of authentication in substantially the following form:

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This bond is one of the Bonds described in the within-mentioned Resolution.

U.S. BANK TRUST NATIONAL ASSOCIATION,
Trustee

By _____
Authorized Signature

ARTICLE VIII

MISCELLANEOUS

SECTION 8.01. The Tender Agent. 1. U.S. Bank Trust National Association is hereby appointed as the initial Tender Agent for the 2012 Series B Bonds. The Tender Agent shall accept the duties and obligations thereof by execution and delivery of a written instrument of acceptance delivered to the other Notice Parties.

2. The Tender Agent agrees to:

(a) hold all 2012 Series B Bonds (or beneficial ownership interests therein) properly tendered to it for purchase hereunder as agent and bailee of, and in escrow for the benefit of, the respective Persons which shall have so tendered such 2012 Series B Bonds (or beneficial ownership interests therein) until moneys representing the Purchase Price of such 2012 Series B Bonds (or beneficial ownership interests therein) shall have been delivered to or for the account of or to the order of such Persons;

(b) hold all 2012 Series B Bank Bonds (or beneficial ownership interests therein) as agent and bailee of, and in escrow for the benefit of, the Bank(s) or any assignee(s) or transferee(s) thereof;

(c) hold all moneys delivered to it hereunder for the purchase of 2012 Series B Bonds (or beneficial ownership interests therein) as agent and bailee of, and in escrow for the benefit of, the respective Persons which shall have so delivered such moneys, until the 2012 Series B Bonds (or beneficial ownership interests therein) purchased with such moneys shall have been delivered to or for the account of such Persons;

(d) keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the other Notice Parties at all reasonable times;

(e) provide to the Trustee as soon as practicable after each Record Date prior to the 2012 Series B Bonds being in the Fixed Mode, but in no case later than 10:00 a.m., New York City time, on the applicable Interest Payment Date, a list of the names and addresses of the Holders of the 2012 Series B Bonds as of such Record Date;

(f) provide to the Trustee as soon as practicable after the Mode Adjustment Date in connection with a conversion of the 2012 Series B Bonds to the Fixed Mode, the books of registry of the City containing the names and addresses of the Holders of 2012 Series B Bonds as of such Mode Adjustment Date; and

(g) give notices as required hereunder at the times and in the manner specified herein.

3. Upon receipt by the Tender Agent of any notice of optional tender of 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) and the 2012 Series B Bonds (or beneficial ownership interests therein) delivered pursuant to such notice for purchase in accordance with this Twenty-Fifth Supplemental Resolution, the Tender Agent shall deliver to the Person delivering such notice and such 2012 Series B Bonds (or beneficial ownership interests therein) written evidence of the Tender Agent's receipt of such materials. The Tender Agent shall promptly return any such notice (together with the 2012 Series B Bonds (or beneficial ownership interests therein) submitted in connection therewith) that is incomplete or improperly completed or not delivered by the date and time required hereunder to the Person submitting such notice upon surrender of the receipt, if any, issued therefor. The Tender Agent's determination of whether any such notice is properly completed or delivered on a timely basis shall be binding on the City, the Remarketing Agent and the Person that submitted such notice.

4. Each Tender Agent (other than the initial Tender Agent appointed hereunder) shall be a bank having corporate trust powers or a trust company organized under the laws of any state of the United States or a national banking association having corporate trust powers, having capital and surplus aggregating at least \$25,000,000, and willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by this Twenty-Fifth Supplemental Resolution. In the event that the 2012 Series B Bonds no longer shall be a Book-Entry Only 2012 Series B Bond, the Tender Agent shall maintain an office or agency in New York, New York at which its duties hereunder are to be performed. The Tender Agent may at any time resign and be discharged of the duties and obligations created by this Twenty-Fifth Supplemental Resolution by giving at least thirty (30) days' notice to the other Notice Parties. The Tender Agent may be removed at any time by the City upon at least seven (7) days' notice to the other Notice Parties and the Holders of the 2012 Series B Bonds, other

than 2012 Series B Bonds then in the Fixed Mode. Prior to the 2012 Series B Bonds being converted to the Auction Mode or the Fixed Mode, no such resignation or removal shall take effect until the appointment of, and the acceptance of such appointment by, a successor Tender Agent. Successor Tender Agents may be appointed from time to time by the City with the written approval of the Agent Bank. Upon the resignation or removal of the Tender Agent, the Tender Agent shall deliver any 2012 Series B Bonds (or beneficial ownership interests therein) and moneys, Liquidity Facilities and other records held by it in such capacity to its successor.

5. The Tender Agent, upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of this Twenty-Fifth Supplemental Resolution, shall examine such instrument to determine whether it conforms to the requirements of this Twenty-Fifth Supplemental Resolution and shall be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Tender Agent may consult with counsel, who may or may not be counsel to the City, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under this Twenty-Fifth Supplemental Resolution in good faith and in accordance therewith.

6. Whenever the Tender Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under this Twenty-Fifth Supplemental Resolution, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by an Officer's Certificate, and such Certificate shall be full warrant for any action taken or suffered in good faith under the provisions of this Twenty-Fifth Supplemental Resolution upon the faith thereof; but in its discretion the Tender Agent may in lieu thereof accept other evidence of such fact or may require such further or additional evidence as to it may seem reasonable.

7. Except as otherwise expressly provided in this Twenty-Fifth Supplemental Resolution, any request, order, notice or other direction required or permitted to be furnished pursuant to any provision of this Twenty-Fifth Supplemental Resolution by the City to the Tender Agent shall be sufficiently executed when the same is executed in the name of the City by an Authorized Officer of the City.

8. In the event that the Tender Agent is required to act pursuant to the terms of this Twenty-Fifth Supplemental Resolution upon the receipt of telephonic notice, such notice shall be promptly confirmed in writing. If such notice shall not be so confirmed, the Tender Agent shall be entitled to rely upon such telephonic notice for all purposes whatsoever.

9. In purchasing 2012 Series B Bonds (or beneficial ownership interests therein) hereunder, the Tender Agent shall be acting as a conduit and shall not be purchasing such 2012 Series B Bonds (or beneficial ownership interests therein) for its own account.

10. Upon any change in the Tender Agent, the City shall furnish to each Rating Agency the notice provided for in Section 8.04 hereof, but the failure to provide such notice shall not affect the validity of any change in the Tender Agent.

11. Notwithstanding anything to the contrary contained herein, in the Resolution or in the Tender Agency Agreement to which it is a party, no Tender Agent shall require

indemnity as a condition to drawing on or requesting funding under, as applicable, any Liquidity Facility.

SECTION 8.02. The Remarketing Agent. 1. J.P. Morgan Securities LLC is hereby appointed as the initial Remarketing Agent for the 2012 Series B Bonds.

2. Notwithstanding any other provision of the Resolution or this Twenty-Fifth Supplemental Resolution, the City may determine to appoint multiple Remarketing Agents for the 2012 Series B Bonds. In such event, the City shall take such actions (including, without limitation, obtaining such additional CUSIP number(s) for the 2012 Series B Bonds) as shall be necessary to identify separately the 2012 Series B Bonds (or beneficial ownership interests therein) to be remarketed by each such Remarketing Agent, and for which each such Remarketing Agent shall be responsible for determining the 2012 Series B Bond Rate. In the event multiple Remarketing Agents shall be appointed as aforesaid (a) any reference herein to "the Remarketing Agent" shall be deemed to refer to the appropriate Remarketing Agent, or all such Remarketing Agents, as the context may require and (b) any reference herein to "the Remarketing Agreement" shall be deemed to refer to the Remarketing Agreement to which the appropriate Remarketing Agent is a party, or all such Remarketing Agreements, as the context may require.

3. Each Remarketing Agent shall accept the duties and obligations thereof under this Twenty-Fifth Supplemental Resolution by execution and delivery of an agreement with the City under which such Remarketing Agent will agree, among other things, to keep such books and records regarding the remarketing of 2012 Series B Bonds (or beneficial ownership interests therein) and determining the interest rates on the 2012 Series B Bonds as provided herein as shall be consistent with prudent industry practice and to make such books and records available for inspection by the other Notice Parties at all reasonable times.

4. Each Remarketing Agent shall be a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$50,000,000 and be authorized by law to perform all the duties imposed upon it by this Twenty-Fifth Supplemental Resolution. Any Remarketing Agent may at any time resign and be discharged of the duties and obligations created by this Twenty-Fifth Supplemental Resolution by giving such number of days' written notice to the other Notice Parties as shall be provided in the Remarketing Agreement relating to it and complying with such other conditions to such resignation as may be provided in such Remarketing Agreement. Any Remarketing Agent may be removed at any time by the City upon such number of days' written notice to the other Notice Parties as shall be provided in the applicable Remarketing Agreement. Prior to the 2012 Series B Bonds being converted to the Auction Mode or the Fixed Mode, no such removal shall be effective until a successor Remarketing Agent shall have been appointed and shall have accepted such appointment. A successor Remarketing Agent may be appointed from time to time by the City with the written approval of the Agent Bank.

5. If a Remarketing Agent resigns or is removed, such Remarketing Agent shall pay over, assign and deliver any moneys and 2012 Series B Bonds (or beneficial ownership interests therein) held by it in such capacity, other than 2012 Series B Bonds (or beneficial ownership interests therein) held for its own account, to its successor. Upon any change in a Remarketing Agent, the City shall furnish to each Rating Agency the notice provided for in

Section 8.04 hereof, but the failure to provide such notice shall not affect the validity of any change in a Remarketing Agent.

SECTION 8.03. Dealings in 2012 Series B Bonds. The Trustee, the Auction Agent, each Broker-Dealer, the Tender Agent, any Bank and the Remarketing Agent, and their officers, directors, employees and agents, may in good faith buy, sell, own, hold and deal in any of the 2012 Series B Bonds (or beneficial ownership interests therein) and may join in any action which any Holder of the 2012 Series B Bonds may be entitled to take, with like effect as if it did not act in any capacity hereunder. The Trustee, the Auction Agent, each Broker-Dealer, the Tender Agent, any Bank and the Remarketing Agent may in good faith hold any other form of indebtedness of the City, own, accept or negotiate any drafts, bills of exchange, acceptances or obligations of the City, and make disbursements for the City and enter into any commercial or business arrangement therewith.

SECTION 8.04. Notices. Written notice of (i) a change in the Trustee, Auction Agent, Paying Agent, Remarketing Agent or Tender Agent for the 2012 Series B Bonds, (ii) any amendment to this Twenty-Fifth Supplemental Resolution or the Liquidity Facility, (iii) an extension, expiration or termination of the Liquidity Facility, (iv) any change in the Interest Mode applicable to the 2012 Series B Bonds, (v) any mandatory tender of the 2012 Series B Bonds, other than any mandatory tender provided for in clause (c)(iv)(A) of Section 3.06, (vi) any declaration that the principal of all the Bonds then Outstanding, and the interest due thereon, shall be due and payable immediately, as provided in Section 8.01 of the Resolution, (vii) any substitution of a new bank for any Bank party to the Liquidity Facility then in effect or substitution of a Substitute Liquidity Facility for the Liquidity Facility then in effect or (viii) a redemption or defeasance of all of the 2012 Series B Bonds, shall be given by the Trustee to each Rating Agency, at the following addresses (or such other address as any such Rating Agency shall advise the Trustee or the City in writing from time to time):

If to Fitch, to:

Fitch Ratings
One State Street Plaza
New York, New York 10004
Attention: Public Finance Department/
Municipal Structured Finance Group
Telephone: (212) 908-0689
Telecopier: (212) 612-7797

If to Moody's, to:

Moody's Investors Service
7 World Trade Center at 250 Greenwich Street
Public Finance Group - Attn: MSPG - 23rd Floor
New York, New York 10007
Telecopier: (212) 553-1066
Email: MSPGSurveillance@Moody's.com

If to S&P, to:

Standard & Poor's
55 Water Street
38th Floor
New York, New York 10041
Attention: Municipal Structured Surveillance
Telephone: (212) 438-2021
Telecopier: (212) 438-2151
E-mail: pubfin_structured@sandp.com

In addition, the City shall provide to each Rating Agency any other information reasonably requested by such Rating Agency in order to maintain its rating on the 2012 Series B Bonds.

SECTION 8.05. Amendments to this Twenty-Fifth Supplemental Resolution or the Resolution. 1. This Twenty-Fifth Supplemental Resolution may be amended, at any time or from time to time, without the consent of the Holders of the Outstanding 2012 Series B Bonds or the Holders of Bonds Outstanding under the Resolution, (i) for the purpose of making changes in the provisions hereof relating to the characteristics and operational provisions of the Interest Modes, (ii) to amend the provisions hereof relating to the mandatory redemption of 2012 Series B Bank Bonds, as provided in Section 2.07, (iii) in order to provide for and accommodate Substitute Liquidity Facilities as permitted by paragraph 6 of Section 4.02 and (iv) in order to add Exhibit A hereto in connection with the conversion of the 2012 Series B Bonds to the Auction Mode. Each such amendment shall become effective on the Rate Adjustment Date next following the filing of a copy thereof with the Trustee, the Auction Agent (if any), the Broker-Dealers (if any), the Tender Agent (if any), the Remarketing Agent (if any) and the Agent Bank (if any), together with an Opinion of Counsel of an attorney or firm of attorneys of nationally recognized standing in matters pertaining to the federal income tax treatment of interest on bonds issued by states and their political subdivisions to the effect that such amendments are authorized or permitted by the Resolution and will not cause the interest on the 2012 Series B Bonds to become includable in gross income for federal income tax purposes. In addition, in the case of amendments pursuant to clauses (ii) and (iii) of the first sentence of this paragraph, no such amendment shall be effective until the date on which such Substitute Liquidity Facility becomes effective with respect to the 2012 Series B Bonds.

2. In the event that the City shall adopt any Supplemental Resolution making any amendment to this Twenty-Fifth Supplemental Resolution or to the Resolution for which the consent of the Holders of the 2012 Series B Bonds shall be required, an Authorized Officer of the City may deliver to the Tender Agent an Officer's Certificate in accordance with the provisions of clause (c)(vi) of Section 3.06, requiring that the 2012 Series B Bonds be subject to mandatory tender for purchase at the time and in the manner provided in said clause (c)(vi). Following the date on which such mandatory tender shall occur, all subsequent Holders of the 2012 Series B Bonds shall be deemed to have consented to such Supplemental Resolution, notwithstanding anything to the contrary contained in the Resolution or this Twenty-Fifth Supplemental Resolution.

3. In addition, the provisions of this Twenty-Fifth Supplemental Resolution, including Exhibit A, may be amended at any time or from time to time without the consent of the Holders of the Outstanding 2012 Series B Bonds or the Holders of Bonds Outstanding under the Resolution, if and to the extent provided in Exhibit A.

4. No amendment permitted by the terms of this Section 8.05 which is reasonably believed by the Auction Agent (if the 2012 Series B Bonds shall be in the Auction Mode) or the Tender Agent (if the 2012 Series B Bonds shall be in an Interest Mode other than the Auction Mode) to adversely affect its rights, immunities and duties hereunder shall be effective without the written consent thereto of the Auction Agent or the Tender Agent, as applicable.

SECTION 8.06. Defeasance. At such times as the 2012 Series B Bonds are in any Interest Mode other than the Auction Mode or the Fixed Mode, the City agrees not to take any action or allow any action to be taken so that any 2012 Series B Bonds (or portions thereof) shall be deemed to have been paid within the meaning of Section 1201 of the Resolution unless the City shall have received written evidence from each Rating Agency then rating the 2012 Series B Bonds to the effect that such action will not result in a withdrawal, suspension or reduction in such Rating Agency's ratings on any of the 2012 Series B Bonds.

ARTICLE IX

EFFECTIVE DATE

SECTION 9.01. Effective Date. This Twenty-Fifth Supplemental Resolution shall take effect immediately after its adoption by the City Commission of the City and the filing of a copy thereof certified by an Authorized Officer of the City with the Trustee.

Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution approved and adopted June 21, 2012.

CITY OF GAINESVILLE, FLORIDA

Mayor

ATTESTED:

Clerk of the Commission

Approved as to Form and Legality:

City Attorney

ATTACHMENT A

ACCEPTANCE OF OFFICE OF PAYING AGENT

_____, 2012

City of Gainesville, Florida
200 East University Avenue
Gainesville, Florida 32601

Dear Sirs:

The undersigned hereby accepts the duties and obligations of Paying Agent for the Variable Rate Utilities System Revenue Bonds, 2012 Series B of the City of Gainesville, Florida (the "City") imposed upon the undersigned by the Utilities System Revenue Bond Resolution of the City adopted on June 6, 1983, as heretofore amended, restated and supplemented.

**U.S. BANK TRUST
NATIONAL ASSOCIATION**

By: _____
Title:

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[SEAL]

Attest:

Title:

EXHIBIT D

General Manager Item No. 120321

Amendment to Twenty-Fifth Supplemental Bond Resolution

**AMENDMENT TO
TWENTY-FIFTH SUPPLEMENTAL UTILITIES SYSTEM
REVENUE BOND RESOLUTION**

WHEREAS, pursuant to (a) a resolution of the City of Gainesville, Florida (the "City") entitled "Utilities System Revenue Bond Resolution", adopted by the City on June 6, 1983, as heretofore supplemented, amended and restated (the "Resolution") and (b) a resolution of the City, supplemental to the Resolution, entitled "Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution", adopted by the City on June 21, 2012 (the "Twenty-Fifth Supplemental Resolution"), the City heretofore has authorized the issuance of its Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds"); and

WHEREAS the 2012 Series B Bonds were issued as variable rate demand obligations, initially in the Daily Mode (such term, and all other capitalized terms used herein without definition, having the respective meanings assigned thereto in the Resolution or, if not defined therein, in the Twenty-Fifth Supplemental Resolution), and are subject to mandatory and optional tender for purchase at certain times and under certain circumstances; and

WHEREAS, in order to enhance the marketability of the 2012 Series B Bonds and thereby reduce the interest cost to the City of the 2012 Series B Bonds, it is desirable that the 2012 Series B Bonds have short-term ratings assigned by Moody's, S&P and Fitch; and

WHEREAS, in the course of assigning its short-term rating to the 2012 Series B Bonds, Fitch requested that certain technical amendments be made to the Twenty-Fifth Supplemental Resolution, but agreed that such amendments could be made after the initial issuance of the 2012 Series B Bonds; and

WHEREAS, clause 3 of Section 1002 of the Resolution authorizes the City to adopt a Supplemental Resolution, without the consent of the Holders of Outstanding Bonds, for the purpose of making any modification or amendment of the Resolution (including any Supplemental Resolution) which the Trustee determines will not have a material adverse effect on the interests of Bondholders; and

WHEREAS, it is hereby determined to be necessary and desirable that the Twenty-Fifth Supplemental Resolution be amended in the manner provided herein in order to reflect the changes thereto requested by Fitch;

NOW, THEREFORE, BE IT RESOLVED by the City Commission of the City of Gainesville, Florida as follows:

ARTICLE I

AUTHORITY

SECTION 101. Supplemental Resolution. This Amendment to Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution (this "Amendment") is supplemental to, and is adopted in accordance with Article X of, the Resolution.

SECTION 102. Authority for this Amendment. This Amendment is adopted (i) pursuant to the provisions of the Act and (ii) in accordance with clause 3 of Section 1002 of the Resolution.

ARTICLE II

AMENDMENT OF

TWENTY-FIFTH SUPPLEMENTAL RESOLUTION

SECTION 201. Amendment of Section 8.01 of the Twenty-Fifth Supplemental Resolution. Paragraph 11 of Section 8.01 of the Twenty-Fifth Supplemental Resolution is hereby amended to read in its entirety as follows (with additions indicated by double-underscoring):

11. Notwithstanding anything to the contrary contained herein, in the Resolution or in the Tender Agency Agreement to which it is a party, no Tender Agent shall require indemnity as a condition to (a) drawing on or requesting funding under, as applicable, any Liquidity Facility, (b) giving notice of any mandatory tender of the 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) for purchase or (c) paying the Purchase Price of any 2012 Series B Bonds (or portions thereof or beneficial ownership interests therein) tendered for purchase at the times and from the sources specified herein.

SECTION 202. Addition of a New Section 8.07 to the Twenty-Fifth Supplemental Resolution. A new Section 8.07 is hereby added to the Twenty-Fifth Supplemental Resolution, to read in its entirety as follows:

SECTION 8.07. Resignation or Removal of the Trustee. For so long as any 2012 Series B Bonds shall remain Outstanding, the City and the Trustee hereby agree as follows, for the benefit of the Holders and beneficial owners of the 2012 Series B Bonds:

(a) Notwithstanding the provisions of Section 907 of the Resolution, the Trustee shall not resign pursuant to said Section 907 unless the effectiveness of such resignation is conditioned upon (i) the appointment of a successor and (ii) the acceptance of such appointment by such successor.

(b) Notwithstanding the provisions of Section 908 of the Resolution, the City shall not exercise its right to remove the Trustee unless the effectiveness of such removal is conditioned upon (i) the

appointment of a successor and (ii) the acceptance of such appointment by such successor.

ARTICLE III

EFFECTIVE DATE

SECTION 301. Effective Date. This Amendment shall be effective upon (i) the delivery to the Trustee of a copy hereof certified by an Authorized Officer of the City, (ii) the filing with the City of an instrument in writing made by the Trustee consenting hereto, in substantially the form attached hereto as Annex A and (iii) receipt by the City of an Opinion of Counsel as required by Section 1004 of the Resolution.

Amendment to Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution approved and adopted September 10, 2012.

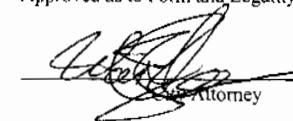
THE CITY OF GAINESVILLE, FLORIDA


Mayor

ATTESTED:


Clerk of the Commission

Approved as to Form and Legality:


Attorney

SEP 10 2012

D-75

Annex A

CONSENT OF TRUSTEE

_____, 2012

The undersigned, as Trustee, under Resolution R-83-27, incorporating by reference and adopting the Utilities System Revenue Bond Resolution of the City of Gainesville, Florida (the "City") adopted on June 6, 1983 (the "Bond Resolution"), as heretofore supplemented, amended and restated, hereby acknowledges the filing with it of a copy of the Amendment to Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution (the "Amendment") adopted by the City on September 10, 2012, certified by an Authorized Officer of the City pursuant to Section 1002 of the Bond Resolution, and hereby consents to the adoption of the Amendment.

U.S. BANK TRUST,
NATIONAL ASSOCIATION

By _____
Authorized Officer

[SEAL]

Attest:

Title:


CLERK OF THE COMMISSION'S CERTIFICATE

STATE OF FLORIDA:
COUNTY OF ALACHUA:

I, Kurt M. Lannon, the duly appointed, qualified and acting Clerk of the Commission of the City of Gainesville, Florida, a municipal corporation, do hereby certify that the foregoing is a true and correct copy of the Amendment to Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution, which was duly and regularly adopted by the City Commission of the City of Gainesville, Florida at a special meeting on September 10, 2012.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Gainesville, Florida, this tenth day of September A.D., 2012.

[SEAL]



Clerk of the Commission

APPENDIX E

DEBT SERVICE REQUIREMENTS

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APPENDIX E

Debt Service Requirements

Period <u>Ending September 30,</u>	Total Debt Service on <u>Bonds Outstanding⁽¹⁾⁽²⁾</u>
2017	\$58,401,525
2018	64,310,173
2019	64,224,204
2020	64,115,707
2021	61,312,587
2022	61,212,898
2023	61,093,412
2024	60,924,786
2025	59,906,210
2026	59,254,546
2027	60,198,749
2028	59,816,038
2029	59,072,077
2030	59,304,352
2031	59,250,877
2032	59,053,967
2033	60,616,709
2034	60,485,983
2035	60,369,225
2036	57,020,056
2037	56,750,051
2038	56,082,672
2039	55,387,517
2040	54,458,949
2041	19,941,150
2042	19,964,638
2043	2,684,750
2044	<u>2,688,000</u>
TOTAL	\$1,477,901,809

⁽¹⁾ Column may not add due to rounding.

⁽²⁾ Debt service on the Outstanding Bonds has been calculated based upon the following assumptions:

- (a) Interest on the 2005 Series B Bonds has been calculated at the actual rates of interest borne by such Bonds. The amounts shown in this table do not take into account amounts payable by and to the City pursuant to the 2005 Series B Swap Transaction. See note (3) to the table under "OUTSTANDING DEBT" in the Reoffering Memorandum to which this APPENDIX F is attached. To the extent that the City makes or receives net payments under the 2005 Series B Swap Transaction during any fiscal year, net debt service on the 2005 Series B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
- (b) Interest on the 2005 Series C Bonds has been calculated at an assumed rate of 3.20% per annum, the fixed rate payable by the City under the 2005 Series C Swap Transaction. See

- note (4) to the table under "OUTSTANDING DEBT" in the Reoffering Memorandum to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2005 Series C Swap Transaction during any fiscal year differ from interest payable on the 2005 Series C Bonds during such fiscal year, net debt service on the 2005 Series C Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
- (c) Interest on the 2006 Series A Bonds has been calculated at an assumed rate of 3.224% per annum, the fixed rate payable by the City under the 2006 Series A Swap Transaction. See note (5) to the table under "OUTSTANDING DEBT" in the Reoffering Memorandum to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2006 Series A Swap Transaction during any fiscal year differ from interest payable on the 2006 Series A Bonds during such fiscal year, net debt service on the 2006 Series A Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
 - (d) Interest on the 2007 Series A Bonds has been calculated at an assumed rate of 3.944% per annum, the fixed rate payable by the City under the 2007 Series A Swap Transaction. See note (6) to the table under "OUTSTANDING DEBT" in the Reoffering Memorandum to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2007 Series A Swap Transaction during any fiscal year differ from interest payable on the 2007 Series A Bonds during such fiscal year, net debt service on the 2007 Series A Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
 - (e) Interest on the 2008 Series B Bonds has been calculated at an assumed rate of 4.229% per annum, the fixed rate payable by the City under the 2008 Series B Swap Transactions. See note (7) to the table under "OUTSTANDING DEBT" in the Reoffering Memorandum to which this APPENDIX F is attached. To the extent that amounts payable to the City under the 2008 Series B Swap Transactions during any fiscal year differ from interest payable on the 2008 Series B Bonds during such fiscal year, net debt service on the 2008 Series B Bonds will be greater or less than the respective amount shown in this table for such fiscal year.
 - (f) Reflects total interest on the 2009 Series B Bonds and 2010 Series B Bonds, each of which the City has designated as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009, and is not net of the cash subsidy payments that the City expects to receive from the United States Treasury with respect to such Bonds. At the time of issuance of the 2009 Series B Bonds and 2010 Series B Bonds the subsidy payments on such Bonds was 35%.
 - (g) Pursuant to the Sequestration Transparency Act of 2012 (P.L. 112-155), as a consequence of the Joint Select Committee on Deficit Reduction's failure to propose, and Congress' failure to enact, a plan to reduce the federal deficit by \$1.2 trillion (as required by the Budget Control Act of 2011 by January 2, 2013), the President of the United States, in his report to Congress of sequestration for fiscal year 2013, included in such sequestration the payments authorized for direct-pay bonds, such as the 2009 Series B Bonds and 2010 Series B Bonds, issued under the Recovery and Reinvestment Act of 2009. As a result of the sequestration payments to issuers of direct-pay bonds, such as the 2009 Series B Bonds and 2010 Series B Bonds, were subject to a reduction of 7.2% of the amount budgeted for such payment through September 30, 2014, a reduction of 7.3% through September 30, 2015, a reduction of 6.8% through September 30, 2016 and a reduction of 6.9% through September 30, 2017. No assurance can be given that legislative proposals may be introduced or enacted by Congress that would or might apply to, or have an adverse effect upon, the City's receipt of the subsidy payments.
 - (h) Interest on the 2012 Series B Bonds has been calculated at an assumed rate of approximately 3.25% per annum.

APPENDIX F-1

**2012 SERIES B BONDS APPROVING OPINION OF
ORRICK, HERRINGTON & SUTCLIFFE LLP**

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APPENDIX F-1

On August 2, 2012, Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City, rendered the following final approving opinion with respect to the 2012 Series B Bonds:

August 2, 2012

City of Gainesville, Florida
Gainesville, Florida 32614-7117

City of Gainesville, Florida
Variable Rate
Utilities System Revenue Bonds,
2012 Series B

Ladies and Gentlemen:

We have acted as bond counsel to the City of Gainesville, Florida (the "City"), a municipal corporation of the State of Florida, in connection with the issuance of \$100,470,000 aggregate principal amount of Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "2012 Series B Bonds"), issued pursuant to the Constitution and statutes of the State of Florida, and particularly Chapter 90-394, Laws of Florida, 1990, as amended, being the Charter of the City, Chapter 166, Part II, Florida Statutes, as amended, and other applicable provisions of law (collectively, the "Act"), and under and pursuant to Resolution No. R-83-27, duly adopted by the City on June 6, 1983, incorporating by reference and adopting a resolution entitled "Utilities System Revenue Bond Resolution" (the "Bond Resolution"), as heretofore supplemented, amended and restated, including as supplemented by a resolution duly adopted by the City on June 21, 2012 incorporating by reference and adopting a resolution entitled "Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution," authorizing the 2012 Series B Bonds (such Bond Resolution as so supplemented, amended and restated, including as supplemented by the Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution, being herein called the "Resolution"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Resolution.

The Resolution provides that the 2012 Series B Bonds are being issued for the stated purpose of (a) providing a portion of the moneys required to refund certain of the City's outstanding Utilities System Revenue Bonds and (b) paying the costs of issuance of the 2012 Series B Bonds. The City heretofore has issued certain other Bonds under the Resolution and the City reserves the right to issue additional Bonds under the Resolution on the terms and conditions and for the purposes stated therein. Under the provisions of the Resolution, all Outstanding Bonds and all Parity Hedging Contract Obligations shall rank equally as to security and payment from the Trust Estate.

In such connection, we have reviewed a certified copy of the Resolution, the Tax Certificate executed and delivered by the City on the date hereof in connection with the issuance of the 2012 Series B Bonds (the "Tax Certificate"), an opinion of the City Attorney of the City, certificates of the City, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based upon an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the 2012 Series B Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, including matters essential to the exclusion of interest on the 2012 Series B Bonds from gross income for federal income tax purposes, and of the legal conclusions contained in the opinions, referred to in the third paragraph hereof (except that we have not relied on any such legal conclusions that are to the same effect as the opinions set forth herein). Furthermore, we have assumed compliance with all covenants and agreements contained in the Resolution and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the 2012 Series B Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the 2012 Series B Bonds, the Resolution and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against municipal corporations of the State of Florida. We express no opinion with respect to any indemnification, contribution, penalty, arbitration, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement of the City, dated July 24, 2012, relating to the 2012 Series B Bonds or other offering material relating to the 2012 Series B Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The City has the right and power under the Act to adopt the Resolution, and the Resolution has been duly and lawfully adopted by the City, is in full force and effect, is valid and binding upon the City and is enforceable in accordance with its terms, and no other authorization for the Resolution is required. The Resolution creates the valid pledge which it purports to create of the Trust Estate, subject only to the provisions of the Resolution permitting the application thereof for the purposes and on the terms and conditions set forth in the Resolution.

2. The City is duly authorized and entitled to issue the 2012 Series B Bonds and the 2012 Series B Bonds have been duly and validly authorized and issued by the City in accordance with the Constitution and statutes of the State of Florida, and particularly the Act, and the Resolution, and constitute the valid and binding obligations of the City as provided in the Resolution, enforceable in accordance with their terms and the terms of the Resolution, and entitled to the benefits of the Act and the Resolution. The 2012 Series B Bonds are direct and special obligations of the City and do not constitute a general indebtedness or a pledge of the full faith and credit of the City within the meaning of any constitutional or statutory provision

or limitation of indebtedness, nor constitute a lien on any property of or in the City, other than the pledge of the Trust Estate as provided in the Resolution. No holder of the 2012 Series B Bonds shall have the right, directly or indirectly, to require or compel the exercise of the ad valorem taxing power of the City for the payment of the principal of or interest on the 2012 Series B Bonds or the making of any payments under the Resolution. The 2012 Series B Bonds rank equally as to security and payment with the Bonds that will be Outstanding after the issuance of the 2012 Series B Bonds and with all Parity Hedging Contract Obligations.

3. The City is legally authorized to operate the System, and to levy, collect, receive, hold and apply rates and charges for services provided from the System, as provided in the Resolution.

4. Interest on the 2012 Series B Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2012 Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income.

Except as stated in paragraph 4 hereof, we express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2012 Series B Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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APPENDIX F-2

2017 NO ADVERSE EFFECT APPROVING OPINION OF BOND COUNSEL

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APPENDIX F-2

FORM OF OPINION OF BOND COUNSEL

June 29, 2017

City of Gainesville, Florida
Gainesville, Florida 32601

Re: Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "Bonds")

Ladies and Gentlemen:

We are acting as Bond Counsel to the City of Gainesville, Florida (the "City") in connection with the execution of a Standby Bond Purchase Agreement (the "Substitute SBPA"), dated as of June 1, 2017, between the City and Citibank, N.A. (the "Replacement Liquidity Provider") as a replacement for an existing Standby Letter of Credit and Reimbursement Agreement dated January 15, 2015 between the City and Sumitomo Mitsui Banking Corporation, acting through its New York Branch, to provide liquidity support for the above-referenced Bonds (the "Substitution").

On August 2, 2012, Orrick, Herrington & Sutcliffe LLP, New York, New York, as Bond Counsel for the original issuance of the Bonds, delivered their opinion that, assuming compliance with certain covenants, under existing law, interest on the Bonds was excluded from gross income for purposes of federal income taxation and would not be treated as an item of tax preference for purposes of the alternative minimum tax imposed on individuals and corporations.

This opinion is delivered in accordance with the requirements of Section 4.02(2) of the Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution, adopted by the City on June 21, 2012, as amended by the Amendment to the Twenty-Fifth Supplemental Bond Resolution adopted on September 10, 2012 (collectively, the "Series Resolution") supplementing the Utilities System Revenue Bond Resolution, adopted by the City on June 6, 1983, as amended, restated and supplemented through the date hereof by, inter alia the Amended and Restated Utilities System Revenue Bond Resolution, adopted by the City on January 30, 2003, as amended and supplemented (the "General Bond Resolution" and together with the Series Resolution, the "Resolution"), and as further supplemented pursuant to Legislative Item No. 170041 adopted by the City on June 1, 2017. All terms used herein in capitalized form and not otherwise defined herein shall have the same meaning as ascribed to them in the Resolution.

In rendering the opinion set forth below, we have examined and relied upon copies of the Substitute SBPA and the Resolution. We have also examined and relied upon (i) such other agreements, certificates, documents and opinions of various parties relating to the Bonds as we have deemed relevant and necessary in connection with the opinions expressed below, and (ii) such other agreements, certificates, documents and opinions, including certificates and representations of public officials and other officers and representatives of the various parties participating in the substitution as we have deemed relevant and necessary in connection with the

opinions expressed below. We have not undertaken an independent audit, examination, investigation or inspection of the matters described or contained in any of the documents referenced above, and have relied solely on the facts, estimates and circumstances described and set forth therein.

In our examination of the foregoing, we have assumed the genuineness of signatures on all documents and instruments, the authenticity of documents submitted as originals, the conformity to originals of documents submitted as copies, the requisite individual or corporate power and authority of the respective parties thereto under the laws of their respective jurisdictions of organization, the due authorization, execution and delivery of the Substitute SBPA by the respective duly authorized parties thereto and the enforceability of the Substitute SBPA against each party thereto or person to be bound thereby.

With respect to any factual matters upon which the legal conclusions herein are based, we have not undertaken an independent audit, examination, investigation or inspection of the matters described or contained in the certificates, documents and representations upon which we have relied and we have relied solely upon the facts, estimates and circumstances described therein.

The opinions set forth below are expressly limited to, and we opine only with respect to, laws of the State of Florida and the federal income tax laws of the United States.

Based upon and subject to the foregoing, we are of the opinion that, as of the date hereof and under existing law,

1. The Substitution is permitted under the Resolution.
2. The Substitution, will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

The only opinions rendered hereby are those expressly stated as such herein, and no other opinion shall be implied or inferred as a result of anything contained herein or omitted to be stated herein. No opinion is hereby expressed as to the validity or enforceability of the Substitute SBPA or any other documents. In addition, we have not conducted any investigation or analysis of the tax-exempt status of the Bonds as of the date of issuance thereof or for any period thereafter, including as of the date hereof, and render no opinion with respect thereto. Accordingly, the foregoing opinion relates only to the Substitution and is not and should not be construed as an opinion as to the past, current or continuing exclusion from gross income for federal income tax purposes of interest payable on the Bonds.

The opinion set forth herein is predicated upon present law and interpretations thereof. We assume no affirmative obligations with respect to any change of circumstances, laws or interpretations thereof after the date hereof that may adversely affect the opinions expressed herein.

The scope of our engagement in relation to the Substitution has been limited solely to the examination of facts and law incident to rendering the opinion expressed herein. We have not been engaged to confirm or verify and therefore express no opinion as to the accuracy,

completeness, fairness or sufficiency of any offering material relating to the Bonds or the Substitution.

This opinion is rendered only for the benefit of the parties addressed above and may not be relied upon by any other party without our prior written consent.

Sincerely yours,

HOLLAND & KNIGHT LLP

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APPENDIX G

FORM OF CONTINUING DISCLOSURE CERTIFICATE

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**CONTINUING DISCLOSURE CERTIFICATE
RELATING TO
CITY OF GAINESVILLE, FLORIDA
VARIABLE RATE
UTILITIES SYSTEM REVENUE BONDS,
2012 SERIES B**

WHEREAS, the City Commission (the "Commission") of the City of Gainesville, Florida (the "City") heretofore has authorized the issuance of the City's \$100,470,000 Variable Rate Utilities System Revenue Bonds, 2012 Series B (the "Bonds") pursuant to the Utilities System Revenue Bond Resolution duly adopted by the City on June 6, 1983, as heretofore amended, restated and supplemented (the "Resolution"), including as supplemented by the Twenty-Fifth Supplemental Utilities System Revenue Bond Resolution thereto authorizing the Bonds adopted by the City on June 21, 2012; and

WHEREAS, by resolution adopted by the Commission on June 21, 2012, the Commission has found and determined that it is necessary, in connection with the authorization and sale of the Bonds, and in order to assist the Participating Underwriters (hereinafter defined) in complying with the Rule (hereinafter defined), that the City agree to provide certain continuing disclosure information with respect to its combined electric, natural gas, water, wastewater and telecommunications utilities system (as more particularly defined in the Resolution, the "System") and the Bonds; and

WHEREAS, the execution and delivery of this Disclosure Certificate has been authorized by the Commission;

NOW, THEREFORE, the City hereby agrees as follows:

SECTION 1. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate, unless otherwise defined in this Disclosure Certificate, 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, Sections 3 and 4 of this Disclosure Certificate.

"Audited Financial Statements" shall mean the City's audited financial statements for the System for its most recent fiscal year, prepared in accordance with the accounting principles described in Note 1 to the City's audited financial statements set forth in Appendix B to the Official Statement (or such other accounting principles as may be applicable to the City in the future pursuant to applicable law).

"Beneficial Owner" shall mean any person holding a beneficial ownership interest in Bonds through nominees or depositories (including any person holding such interest through the book-entry only system of The Depository Trust Company).

"Disclosure Certificate" shall mean this certificate, as the same may be amended or supplemented from time to time in accordance with the provisions hereof.

"Dissemination Agent" shall mean any person or entity appointed by the City and which has entered into a written agreement with the City pursuant to which such person or entity agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

"Listed Events" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the SEC to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the SEC, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement of the City, dated July 24, 2012, relating to the Bonds, as amended or supplemented.

“Participating Underwriter” shall mean each original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time, together with all interpretive guidances or other official interpretations or explanations thereof that are promulgated by the SEC.

“SEC” shall mean the United States Securities and Exchange Commission.

SECTION 2. Purpose of this Disclosure Certificate; Obligated Person; Disclosure Certificate to Constitute Contract.

(a) This Disclosure Certificate is executed and delivered on behalf of the City for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

(b) The combined utility funds of the City is hereby determined to be the only “obligated person” within the meaning of the Rule for whom financial information or operating data is presented in the Official Statement.

(c) In consideration of the purchase and acceptance of any and all of the Bonds by those who shall hold the same or shall own beneficial ownership interests therein from time to time, this Disclosure Certificate shall be deemed to be and shall constitute a contract between the City and the Holders and Beneficial Owners from time to time of the Bonds; and the covenants and agreements herein set forth to be performed on behalf of the City shall be for the benefit of the Holders and Beneficial Owners of any and all of the Bonds.

SECTION 3. Provision of Annual Reports.

(a) The City hereby covenants and agrees that it shall, or shall cause the Dissemination Agent to, not later than six months after the end of each Fiscal Year (presently, by each March 30; each such date being referred to herein as a “Final Submission Date”), commencing with the report for the Fiscal Year ending September 30, 2012, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. 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 Section 4 of this Disclosure Certificate; provided that any Audited Financial Statements may be submitted separately from the balance of the Annual Report and later than the Final Submission Date if they are not available by that Date. If the fiscal year for the City changes, the City shall give notice of such change in a filing with the MSRB.

(b) If the City shall have appointed a Dissemination Agent hereunder, not later than fifteen (15) business days prior to each Final Submission Date (each such date being referred to herein as a “Preliminary Submission Date”), the City shall provide the Annual Report to such Dissemination Agent.

If by a Preliminary Submission Date, the Dissemination Agent, if any, has not received a copy of the Annual Report, the Dissemination Agent shall contact the City to determine if the City is in compliance with subsection (a).

(c) If the City or the Dissemination Agent (if any), as the case may be, has not furnished an Annual Report to the MSRB by a Final Submission Date, the City or the Dissemination Agent, as applicable, shall, in a timely manner, send or cause to be sent to the MSRB a notice in substantially the form attached as Exhibit A to this Disclosure Certificate.

(d) The City (or, in the event that the City shall appoint a Dissemination Agent hereunder, the Dissemination Agent) shall file the Annual Report with the MSRB on or before the Final Submission Date. In addition, if the City shall have appointed a Dissemination Agent hereunder, the Dissemination Agent shall file a report with the City certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the MSRB.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

(i) The Audited Financial Statements. If any Audited Financial Statements are not available by the Final Submission Date, the Annual Report shall contain unaudited financial statements for the System in a format similar to the audited financial statements most recently prepared for the System and such Audited Financial Statements shall be filed in the same manner as the Annual Report when and if they become available.

(ii) Updated versions of the financial information and operating data contained in the Official Statement under the following captions:

- a. "ADDITIONAL FINANCING REQUIREMENTS";
- b. "THE ELECTRIC SYSTEM – Customers", "– Energy Sales", "– Energy Supply System" and "– Capital Improvement Program";
- c. "THE NATURAL GAS SYSTEM – Customers", "– Natural Gas Supply" and "– Capital Improvement Program";
- d. "THE WATER SYSTEM – Customers", "– Water Treatment and Supply" and "– Capital Improvement Program";
- e. "THE WASTEWATER SYSTEM – Customers", "– Treatment" and "– Capital Improvement Program";
- f. "THE TELECOMMUNICATIONS SYSTEM – Customers" and "– Capital Improvement Program";
- g. "RATES";
- h. "SUMMARY OF COMBINED NET REVENUES"; and
- i. "MANAGEMENT'S DISCUSSION OF SYSTEM OPERATIONS".

Any or all of the items listed above may be included by specific reference to other documents, including annual reports of the City or official statements relating to debt or other securities issues of the City or other entities, which have been submitted to the MSRB or the SEC. If the document included by reference is a final official statement (as defined in the Rule), it must be available from the MSRB. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) The City hereby covenants and agrees that it shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds in a timely manner not later than ten business days after the occurrence of the event:

1. Principal and interest payment delinquencies;
2. Unscheduled draws on debt service reserves reflecting financial difficulties;
3. Unscheduled draws on credit enhancements reflecting financial difficulties;
4. Substitution of credit or liquidity providers, or their failure to perform;
5. Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);
6. Tender offers;
7. Defeasances;
8. Rating changes; or
9. Bankruptcy, insolvency, receivership or similar event of the obligated person.

Note: for the purposes of the event identified in subparagraph (9), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(b) The City hereby covenants and agrees that it shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material, in a timely manner not later than ten business days after the occurrence of the event:

1. Unless described in paragraph 5(a)(5), other material notices or determinations by the Internal Revenue Service with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

2. Modifications to rights of Bond holders;
3. Optional, unscheduled or contingent Bond calls;
4. Release, substitution or sale of property securing repayment of the Bonds;
5. Non-payment related defaults;
6. 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 an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; or
7. Appointment of a successor or additional trustee or the change of name of a trustee.

(c) Upon the occurrence of a Listed Event described in Section 5(a), or upon the occurrence of a Listed Event described in Section 5(b) which the City determines would be material under applicable federal securities laws, the City shall, or shall cause the Dissemination Agent to, within ten business days of occurrence file a notice of such occurrence with the MSRB. Notwithstanding the foregoing, notice of the Listed Event described in subsection (b)(3) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Resolution.

SECTION 6. Management's Discussion of Items Disclosed in Annual Reports or as Significant Events. If an item required to be disclosed in the City's Annual Report under Section 4, or as a Listed Event under Section 5, would be misleading without discussion, the City additionally covenants and agrees that it shall provide a statement clarifying the disclosure in order that the statement made will not be misleading in the light of the circumstances under which it is made.

SECTION 7. Format of Filings with MSRB. Any report or filing with the MSRB pursuant to this Disclosure Certificate must be submitted in electronic format, accompanied by such identifying information as is prescribed by the MSRB.

SECTION 8. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. In addition, in the event that the Rule shall be amended, modified or repealed such that compliance by the City with its obligations under this Disclosure Certificate no longer shall be required in any or all respects, then the City's obligations under this Disclosure Certificate shall terminate to a like extent. If either such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in a filing with the MSRB.

SECTION 9. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

SECTION 10. Amendment; Waiver.

(a) Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, (i) if such amendment or waiver is supported by an opinion of counsel experienced in federal securities laws

appointed by the City to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule, taking into account any subsequent change in or official interpretation of the Rule, and (ii) as to any amendment to this Disclosure Certificate, if the following conditions are complied with:

(i) The amendment 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 the City, or type of business conducted by the City in connection with the System;

(ii) The undertaking, as amended, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(iii) The amendment does not materially impair the interests of Holders or Beneficial Owners of the Bonds, as determined either by parties unaffiliated with the City (such as bond counsel to the City), or by approving vote of Holders pursuant to the terms of the Resolution at the time of the amendment.

(b) The Annual Report containing the amended operating data or financial information will explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

SECTION 11. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating, or require the City to disseminate, any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice required to be filed pursuant to this Disclosure Certificate, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event or any other event required to be reported.

SECTION 12. Default.

(a) In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of any Outstanding Bonds may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate.

(b) Notwithstanding the foregoing, no Holder or Beneficial Owner of the Bonds shall have the right to challenge the content or adequacy of the information provided pursuant to Sections 3, 4 or 5 of this Disclosure Certificate by mandamus, specific performance or other equitable proceedings unless the Holders or Beneficial Owners of 2012 Series B Bonds representing at least 25% in aggregate principal amount of the 2012 Series B Bonds shall join in such proceedings.

(c) A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution, and the sole remedies under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be those described in subsection (a) above.

(d) Under no circumstances shall any person or entity be entitled to recover monetary damages hereunder in the event of any failure of the City to comply with this Disclosure Certificate.

SECTION 13. Duties, Immunities and Liabilities of Dissemination Agent. Any Dissemination Agent appointed hereunder shall have only such duties as are specifically set forth in this Disclosure Certificate, and shall have such rights, immunities and liabilities as shall be set forth in the written agreement between the City and such Dissemination Agent pursuant to which such Dissemination Agent agrees to perform the duties and obligations of Dissemination Agent under this Disclosure Certificate.

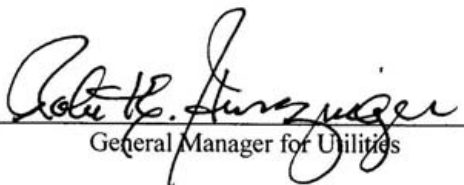
SECTION 14. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, if any, and the Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

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SECTION 15. Governing Law. This Disclosure Certificate shall be deemed to be a contract made under the Rule and the laws of the State of Florida, and for all purposes shall be construed and interpreted in accordance with, and its validity governed by, the Rule and the laws of such State.

Dated: August 2, 2012

CITY OF GAINESVILLE, FLORIDA

By: 
General Manager for Utilities

Approved as to Form and Legality



City Attorney

EXHIBIT A

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
OF FAILURE TO FILE ANNUAL REPORT**

Name of Issuer: City of Gainesville, Florida

Name of Bond Issue: \$100,470,000 Variable Rate Utilities System Revenue Bonds, 2012 Series B

Date of Issuance: August 2, 2012

NOTICE IS HEREBY GIVEN that the City of Gainesville, Florida (the "City") has not provided an Annual Report with respect to the above-named Bonds as required by Section 3(a) of the Continuing Disclosure Certificate executed and delivered on behalf of the City relating to the above-named Bonds. [The City [has advised the undersigned that the City] anticipates that the Annual Report will be filed by _____.]

Dated: _____

[CITY OF GAINESVILLE, FLORIDA]
[_____, as Dissemination Agent
on behalf of the City of Gainesville, Florida]

[cc: City of Gainesville, Florida]

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