

**PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER \_\_, 2009**

**NEW ISSUE – BOOK-ENTRY ONLY**

*In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City, interest on the Taxable 2009 Series A Bonds and the Taxable 2009 Series B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). In the opinion of Bond Counsel, based upon an analysis of 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 2009 Series C Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. In the further opinion of Bond Counsel, interest on the 2009 Series C Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2009 Series A, B and C Bonds. See “TAX MATTERS” herein.*

**\$00,000,000\***  
**City of Gainesville, Florida**  
**Utilities System Revenue Bonds**



<b>\$00,000,000*</b> <b>2009 Series A</b> <b>(Federally Taxable)</b>	<b>\$00,000,000*</b> <b>2009 Series B</b> <b>(Federally Taxable –</b> <b>Issuer Subsidy – Build</b> <b>America Bonds)</b>	<b>\$00,000,000*</b> <b>2009 Series C</b>
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**Dated: Date of Delivery**

**Due: October 1, as shown on the inside cover page**

The Utilities System Revenue Bonds, 2009 Series A (Federally Taxable) (the “Taxable 2009 Series A Bonds”), the Utilities System Revenue Bonds, 2009 Series B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “Taxable 2009 Series B Bonds”) and the Utilities System Revenue Bonds, 2009 Series C (the “2009 Series C Bonds” and, together with the Taxable 2009 Series A Bonds and the Taxable 2009 Series B Bonds, the “2009 Series A, B and C Bonds”) will be issued as fully registered bonds and, when initially issued, will be 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 2009 Series A, B and C Bonds. Individual purchases of 2009 Series A, B and C Bonds will be made in book-entry form only in the principal amount of \$5,000 or any integral multiple thereof. See “THE 2009 SERIES A, B AND C BONDS – Book-Entry Only System” herein.

The Taxable 2009 Series A Bonds are being issued by the City of Gainesville, Florida (the “City”) (a) to pay a portion of the cost of acquisition and construction of certain improvements to the City’s electric, natural gas, water, wastewater and telecommunications systems (collectively, the “System”), including the refunding of certain commercial paper notes previously issued by the City for such purpose and (b) to pay costs of issuance of the Taxable 2009 Series A Bonds, as more particularly described herein. The Taxable 2009 Series B Bonds are being issued by the City (a) to pay a portion of the cost of acquisition and construction of certain improvements to the System and (b) to pay costs of issuance of the Taxable 2009 Series B Bonds, as more particularly described herein. The 2009 Series C Bonds are being issued by the City (a) to pay a portion of the cost of acquisition and construction of certain improvements to the System and (b) to pay costs of issuance of the 2009 Series C Bonds, as more particularly described herein.

The 2009 Series A, B and C Bonds bear interest from their dated date payable each April 1 and October 1, commencing April 1, 2010.

The 2009 Series A, B and C Bonds are subject to redemption prior to maturity as described herein.

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**MATURITY SCHEDULE – See Inside Cover Page**

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**The 2009 Series A, B and C 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 provided in the Resolution (as such terms are defined herein).**

*The 2009 Series A, B and C Bonds are offered when, as and if issued and received by the Underwriters, subject to approval of legality by Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City. Certain legal matters will be passed upon for the City by Marion J. Radson, Esq., City Attorney, and for the Underwriters by Nixon Peabody LLP, New York, New York. It is expected that the 2009 Series A, B and C Bonds in definitive form will be available for delivery to DTC in New York, New York on or about September \_\_, 2009.*

**J.P. Morgan**  
**[others to come]**

September \_\_, 2009

\* Preliminary, subject to change.

**MATURITIES, AMOUNTS, INTEREST RATES, PRICES AND CUSIP NUMBERS<sup>†\*</sup>**

**\$00,000,000  
Utilities System Revenue Bonds,  
2009 Series A  
(Federally Taxable)**

\$ \_\_\_\_\_ Serial Bonds

<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP<sup>†</sup></u>	<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP<sup>†</sup></u>
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**\$00,000,000  
Utilities System Revenue Bonds,  
2009 Series B  
(Federally Taxable – Issuer  
Subsidy – Build America Bonds)**

\$ \_\_\_\_\_ Serial Bonds

<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP<sup>†</sup></u>	<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP<sup>†</sup></u>
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\$ \_\_\_\_\_ % Term Bonds Due October 1, 20\_\_ – Price \_\_\_\_ %  
(CUSIP Number \_\_\_\_\_<sup>†</sup>)

**\$00,000,000**  
\$ \_\_\_\_\_ % Term Bonds Due October 1, 20\_\_ – Price \_\_\_\_ %  
(CUSIP Number \_\_\_\_\_<sup>†</sup>)

**\$00,000,000  
Utilities System Revenue Bonds,  
2009 Series C**

\$ \_\_\_\_\_ Serial Bonds

<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP<sup>†</sup></u>	<u>Maturity</u> <u>(October 1)</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price</u>	<u>CUSIP<sup>†</sup></u>
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<sup>†</sup> CUSIP numbers have been assigned by an organization not affiliated with the City and are included solely for the convenience of the holders of the 2009 Series A, B and C Bonds. The City is not responsible for the selection or uses of these CUSIP numbers, nor is any representation made as to their correctness in the 2009 Series A, B and C Bonds or as indicated above.

\* Preliminary, subject to change.

**CITY OF GAINESVILLE, FLORIDA**

**CITY OFFICIALS**

Pegeen Hanrahan..... Mayor  
Scherwin L. Henry ..... Mayor Pro-Tem, Commissioner  
John F. Donovan ..... Commissioner  
Thomas Hawkins, Jr..... Commissioner  
Stuart Craig Lowe ..... Commissioner  
Jeanna Mastrodicasa..... Commissioner  
Lauren B. Poe..... Commissioner

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Russ D. Blackburn ..... City Manager  
Marion J. Radson, Esq. .... City Attorney  
Kurt M. Lannon..... Clerk of the Commission  
Brent L. Godshalk ..... City Auditor  
Jimmie Williams ..... Equal Opportunity Director

**Utilities System**

Robert E. Hunzinger..... General Manager for Utilities  
David E. Beaulieu, P.E..... Assistant General Manager – Energy Delivery  
Jennifer L. Hunt, CPA..... Chief Financial Officer, Utilities  
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David M. Richardson, P.E..... Assistant General Manager – Water and Wastewater Systems  
John W. Stanton. .... Assistant General Manager – Energy Supply  
Kathy E. Viehe ..... Assistant General Manager – Customer Support Services

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Philadelphia, Pennsylvania  
Financial Advisor

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This Official Statement does not constitute an offer to sell the 2009 Series A, B and C Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. No dealer, broker, salesman or other person has been authorized to give any information or to make any representations, other than those contained in this Official Statement, in connection with the offering of the 2009 Series A, B and C Bonds, and, if given or made, such information or representation must not be relied upon.

The Underwriters have provided the following sentence for inclusion in this Official Statement: The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

Certain information set forth herein has been furnished to the City by sources which are believed to be reliable, but is not guaranteed as to its accuracy or completeness. The information contained herein is subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City’s utilities system or of the City since the date hereof.

**THE UNDERWRITERS HAVE ADVISED THE CITY THAT IN CONNECTION WITH THE OFFERING OF THE 2009 SERIES A, B AND C BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 2009 SERIES A, B AND C BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

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**Official Statement**  
**relating to**  
**\$00,000,000\***  
**City of Gainesville, Florida**  
**Utilities System Revenue Bonds**

**\$00,000,000\***  
**2009 Series A**  
**(Federally Taxable)**

**\$00,000,000\***  
**2009 Series B**  
**(Federally Taxable – Issuer**  
**Subsidy – Build America Bonds)**

**\$00,000,000\***  
**2009 Series C**

**INTRODUCTORY STATEMENT**

**General**

This Official Statement, which includes the cover page and inside cover page hereof and the appendices attached hereto, provides certain information in connection with the issuance by the City of Gainesville, Florida (“Gainesville” or the “City”) of its \$00,000,000\* Utilities System Revenue Bonds, 2009 Series A (Federally Taxable) (the “Taxable 2009 Series A Bonds”), its \$00,000,000\* Utilities System Revenue Bonds, 2009 Series B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “Taxable 2009 Series B Bonds”; the Taxable 2009 Series A Bonds and the Taxable 2009 Series B Bonds are collectively referred to herein as the “Taxable 2009 Series A and B Bonds”) and its \$00,000,000\* Utilities System Revenue Bonds, 2009 Series C (the “2009 Series C Bonds”; the 2009 Series C Bonds and the Taxable 2009 Series A and B Bonds are collectively referred to herein as the “2009 Series A, B and C Bonds”). The City’s mailing address is Utilities Administration Building, Post Office Box 147117, Gainesville, Florida 32614-7117. The City can be reached by telephone at (352) 334-3400.

The City is issuing the Taxable 2009 Series A Bonds (a) to provide funds for the payment of a portion of the cost 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” (“GRU”)), (b) to refund the City’s taxable Utilities System Commercial Paper Notes, Series D (the “Series D CP Notes”), which currently are outstanding in the aggregate principal amount of \$14,000,000 and (c) to pay costs of issuance of the Taxable 2009 Series A Bonds. The City is issuing the Taxable 2009 Series B Bonds (a) to provide funds for the payment of a portion of the cost of acquisition and construction of certain improvements to the System and (b) to pay costs of issuance of the Taxable 2009 Series B Bonds. The City is issuing the 2009 Series C Bonds (a) to provide funds for the payment of a portion of the cost of acquisition and construction of certain improvements to the System and (b) to pay costs of issuance of the 2009 Series C Bonds. See “PLAN OF FINANCE” and “SOURCES AND USES OF FUNDS” herein.

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 2009 Series A, B and C Bonds are being issued pursuant to the Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as amended, supplemented and restated (the “Resolution”), including as supplemented by (a) the Twenty-First Supplemental Utilities System Revenue Bond Resolution (the “Twenty-First Supplemental Resolution”), authorizing the Taxable 2009 Series A Bonds, adopted by the City on September \_\_, 2009 and

\* Preliminary, subject to change.

(b) the Twenty-Second Supplemental Utilities System Revenue Bond Resolution (the “Twenty-Second Supplemental Resolution”), authorizing the Taxable 2009 Series B Bonds and the 2009 Series C Bonds, adopted by the City on September \_\_, 2009; Chapter 166, Part II, Florida Statutes; and the Charter. U.S. Bank Trust National Association (formerly First Trust of New York, National Association) currently is Trustee, Paying Agent and Bond Registrar under the Resolution.

The 2009 Series A, B and C Bonds will be 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, 2008, there were \$708,510,000 aggregate principal amount of bonds Outstanding under (and as defined in) the Resolution. The 2009 Series A, B and C Bonds, the bonds to be outstanding after the date of issuance of the 2009 Series A, B and C Bonds and any additional parity bonds 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, its plan of financing and the debt to be outstanding after the issuance of the 2009 Series A, B and C Bonds, see “PLAN OF FINANCE,” “OUTSTANDING DEBT” and “ADDITIONAL FINANCING REQUIREMENTS” herein.

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 2009 Series A, B and C Bonds subject to certain conditions provided in the Resolution.

In addition to its Outstanding Bonds, as of October 1, 2008, the City also had outstanding \$76,000,000 in aggregate principal amount of subordinated indebtedness (“Subordinated Indebtedness”) issued under the Subordinated Utilities System Revenue Bond Resolution adopted by the City on January 26, 1989, as heretofore amended, supplemented and restated. Subordinated Indebtedness is subordinate in all respects to Bonds issued under the Resolution.

### **The Utilities System**

For the fiscal year ended September 30, 2008, the electric system, which served an average of 92,849 residential, industrial and commercial customers (representing approximately 76% of the population of the County), accounted for approximately 71.4% of gross revenues and approximately 60.3% of net revenues of the System. The System owns and operates three generating stations, having a combined net summer capability of approximately 596.4 megawatts (“MW”), and owns an 11.6 MW share of the Crystal River 3 nuclear powered electric generating unit (“CR-3”) which is operated by Progress Energy Florida, Inc. (“PEF”). The System also owns various transmission and distribution facilities. For the five fiscal years ended September 30, 2008, the System’s fuel mix was as follows: coal 68.0%; natural gas 24.2%; nuclear 5.1%; and oil 2.7%, as a percentage of net generation. For the fiscal year ended September 30, 2008, the System’s fuel mix was as follows: coal 72.8%; natural gas 21.7%; nuclear 4.9%; and oil 0.6%, as a percentage of net generation.

The natural gas distribution system, which served an average of 33,777 customers during the fiscal year ended September 30, 2008, accounted for approximately 9.2% of gross revenues and approximately 5.5% of net revenues of the System and is comprised of 735 miles of plastic, steel and cast iron gas mains. The gas distribution system is served from six delivery points interconnected with facilities of the Florida Gas Transmission Company (“FGT”).

The water system, which served an average of 69,779 customers during the fiscal year ended September 30, 2008, accounted for approximately 7.7% of gross revenues and approximately 13.4% of net revenues of the System. The water system includes a water treatment plant having a nominal capacity of 54 million gallons per day (“Mgd”), water supply wells and distribution facilities.

The wastewater system, which served an average of 61,552 customers during the fiscal year ended September 30, 2008, accounted for approximately 9.0% of gross revenues and approximately 16.8% of net

revenues of the System. The wastewater system consists of two major wastewater treatment plants having a combined capacity of 22.4 Mgd annual average daily flow (“AADF”), force mains and gravity wastewater collection sewers.

The telecommunications system (“GRUCom”) interconnects four interexchange carriers, the local exchange carrier and six wireless (cellular telephone) carriers and consists of 318 miles of fiber optic cable, thirteen antenna sites, and associated network equipment. As of September 30, 2008, GRUCom provided broadband data and Internet services to 5,626 residential and commercial customers and provides public safety radio to all the major public safety agencies in the County. During the fiscal year ended September 30, 2008, GRUCom accounted for approximately 2.7% of gross revenues and approximately 4.0% of net revenues of the System.

### **Continuing Disclosure**

Pursuant to a Continuing Disclosure Certificate to be executed by the City simultaneously with the delivery of the 2009 Series A, B and C Bonds (the “Continuing Disclosure Certificate”), the City will covenant for the benefit of the Holders and the “Beneficial Owners” (as defined in the Continuing Disclosure Certificate) of the 2009 Series A, B and C 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 31), commencing with the report for the Fiscal Year ending September 30, 2009 (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events with respect to the 2009 Series A, B and C Bonds, if material. The Annual Report and the notices of such material events 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 EMMA website, currently located at <http://emma.msrb.org>. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in the form of the Continuing Disclosure Certificate attached hereto as APPENDIX G. These covenants have been made in order to assist the Underwriters in complying with SEC Rule 15c2-12(b)(5).

As will be provided in 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 2009 Series A, B or C Bonds will be 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” will be defined in the Continuing Disclosure Certificate to mean any person holding a beneficial ownership interest in 2009 Series A, B or C Bonds through nominees or depositories (including any person holding such interest through the book-entry only system of The Depository Trust Company (“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 under the caption “THE 2009 SERIES A, B AND C BONDS – Book-Entry Only System” herein, upon initial issuance, the 2009 Series A, B and C Bonds will be issued in book-entry only form through the facilities of DTC, and the ownership of one fully registered 2009 Series A, B and C Bond for each series and maturity (and, if applicable, each interest rate within a maturity), in the aggregate principal amount thereof, will be registered in the name of Cede & Co., as nominee for DTC. For a description of DTC’s current procedures with respect to the enforcement of bondholders’ rights, see “THE 2009 SERIES A, B AND C BONDS – Book-Entry Only System” herein.

### **Forward-Looking Statements and Associated Risks**

This Official Statement contains forward-looking statements, including statements regarding, among other items, (a) anticipated trends in the System’s business and (b) the System’s future liquidity requirements

and capital additions and financing plans. These forward-looking statements are based on, among other things, the City’s expectations, and are subject to a number of risks and uncertainties, certain of which are beyond the City’s control. Actual results could differ materially from those anticipated by these forward-looking statements. In light of these risks and uncertainties, there can be no assurance that events anticipated by the forward-looking statements contained in this Official Statement will in fact transpire.

**Other**

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Resolution, except as otherwise indicated herein. See “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions” in APPENDIX C hereto.

There follows in this Official Statement brief descriptions of the security for the Bonds, the 2009 Series A, B and C Bonds, the System, the City, the County, 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 or its Financial Advisor.

**PLAN OF FINANCE**

The Taxable 2009 Series A Bonds will be issued (a) to provide funds for the payment of a portion of the cost of acquisition and construction of certain improvements to the [natural gas distribution system and the] telecommunications system, (b) to refund the Series D CP Notes and (c) to pay costs of issuance of the Taxable 2009 Series A Bonds. The Taxable 2009 Series B Bonds will be issued (a) to provide funds for the payment of a portion of the cost of acquisition and construction of certain improvements to the System, other than improvements to the [natural gas distribution system and the] telecommunications system and (b) to pay costs of issuance of the Taxable 2009 Series B Bonds. The 2009 Series C Bonds will be issued (a) to provide funds for the payment of a portion of the cost of acquisition and construction of certain improvements to the System, other than improvements to the [natural gas distribution system and the] telecommunications system and (b) to pay costs of issuance of the 2009 Series C Bonds.

For a discussion of the City’s additional financing requirements for the System, see “ADDITIONAL FINANCING REQUIREMENTS” herein.

**SOURCES AND USES OF FUNDS**

The sources and uses of funds with respect to the 2009 Series A, B and C Bonds are estimated to be as follows:

**Sources of Funds**

Principal Amount of 2009 Series A, B and C Bonds .....	\$
Plus: Original Issue Premium (net of Discount) .....	_____
Total Sources.....	\$ <u>          </u>

**Uses of Funds**

Deposit to Construction Fund .....	\$
Payment of costs of issuance, including underwriters’ discount.....	_____
Total Uses .....	\$ <u>          </u>

## OUTSTANDING DEBT

The following table sets forth the outstanding debt of the City issued for the System as of October 1, 2008.

### Outstanding Debt of the City Issued for the System

Description	As of October 1, 2008			Principal to be Outstanding After Issuance of 2009 Series A, B and C Bonds
	Interest Rates	Due Dates (October 1)	Principal Outstanding	
<b>Utilities System Revenue Bonds</b>				
Series 1983 .....	6.00%	2014	\$ 4,675,000	\$ 4,675,000
1992 Series B .....	6.50 – 7.50%	2009-2013	21,195,000	21,195,000
1996 Series A .....	5.75%	2009	4,680,000	4,680,000
2003 Series A .....	4.625 – 5.25%	2015-2033	7,525,000	7,525,000
2003 Series B (federally taxable) .....	4.40%	2009-2013	4,220,000	4,220,000
2003 Series C .....	2.75 – 5.00%	2009-2013	71,645,000	71,645,000
2005 Series A .....	4.75 – 5.00%	2021-2036	91,820,000	91,820,000
2005 Series B (federally taxable) .....	5.14 – 5.31% <sup>(1)(2)</sup>	2009-2021	60,050,000	60,050,000
2005 Series C .....	Variable <sup>(1)(3)</sup>	2010-2026	55,135,000	55,135,000
2006 Series A .....	Variable <sup>(1)(4)</sup>	2010-2026	53,305,000	53,305,000
2007 Series A .....	Variable <sup>(1)(5)</sup>	2009-2036	139,260,000	139,260,000
2008 Series A .....	2.98% - 5.27%	2009-2020	105,000,000	105,000,000
2008 Series B .....	Variable <sup>(1)(6)</sup>	2022-2038	90,000,000	90,000,000
2009 Series A (federally taxable) .....			–	00,000,000*
2009 Series B (federally taxable) .....			–	00,000,000*
2009 Series C .....			–	00,000,000*
Total Utilities System Revenue Bonds			<u>\$708,510,000</u>	<u>\$000,000,000*</u>
<b>Utilities System Commercial Paper Notes</b>				
Series C .....	Variable <sup>(1)(7)</sup>	(8)	\$62,000,000	\$ 62,000,000
Series D (federally taxable) .....	Variable	(8)	14,000,000	–
Total Subordinated Bonds			<u>\$76,000,000</u>	<u>\$ 62,000,000</u>

(1) See Note 4 to the audited financial statements of the System for the fiscal years ended September 30, 2008 and 2007 included as APPENDIX A to this Official Statement for a discussion of the various risks borne by the City relating to interest rate swap transactions.

(2) The City has entered into a floating-to-floating rate interest rate swap transaction with respect to a pro rata portion of each of the maturities of the 2005 Series B Bonds (the “2005 Series B Swap Transaction”). 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 “Aa1” from Moody’s Investors Service (“Moody’s”) and a counterparty credit rating of “AAA” from Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. (“S&P”). The term of the 2005 Series B Swap Transaction is identical to the term of the 2005 Series B Bonds, and the notional amount of the 2005 Series B Swap Transaction will amortize at the same times and in the same amounts as the pro rata portion of the 2005 Series B Bonds to which it relates. 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 is to convert synthetically 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 (see “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions” and “– Provisions Concerning Qualified Hedging Contracts” in APPENDIX C hereto).

*(footnotes continue on following page)*

\* Preliminary, subject to change.

- (3) The City has entered into a floating-to-fixed rate interest rate swap transaction with respect to the 2005 Series C Bonds (the “2005 Series C Swap Transaction”). The counterparty to the 2005 Series C Swap Transaction currently has a counterparty credit rating of “Aa1” from Moody’s and a counterparty credit rating of “AA-” from S&P. The term of the 2005 Series C Swap Transaction is identical to the term of the 2005 Series C Bonds, and the notional amount of the 2005 Series C Swap Transaction will 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 is to fix synthetically 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 (see “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions” and “– Provisions Concerning Qualified Hedging Contracts” in APPENDIX C hereto).
- (4) The City has entered into a floating-to-fixed rate interest rate swap transaction with respect to the 2006 Series A Bonds (the “2006 Series A Swap Transaction”). The counterparty to the 2006 Series A Swap Transaction currently has a counterparty risk rating of “Aa1” from Moody’s and a counterparty credit rating of “AAA” from S&P. The term of the 2006 Series A Swap Transaction is identical to the term of the 2006 Series A Bonds, and the notional amount of the 2006 Series A Swap Transaction will 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 is to fix synthetically 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 (see “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions” and “– Provisions Concerning Qualified Hedging Contracts” in APPENDIX C hereto).
- (5) The City has entered into a floating-to-fixed rate interest rate swap transaction with respect to the 2007 Series A Bonds (the “2007 Series A Swap Transaction”). The counterparty to the 2007 Series A Swap Transaction currently has a counterparty risk rating of “Aa1” from Moody’s and a financial program rating of “AAA” 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 fix synthetically 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 (see “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions” and “– Provisions Concerning Qualified Hedging Contracts” in APPENDIX C hereto).
- (6) The City has entered into two floating-to-fixed rate interest rate swap transactions with respect to the 2008 Series B Bonds (the “2008 Series B Swap Transactions”). The counterparties to the 2008 Series B Swap Transactions currently have a counterparty risk rating of “Aa1” from Moody’s and a financial program rating of “AA-” 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 fix synthetically 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 (see “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions” and “– Provisions Concerning Qualified Hedging Contracts” in APPENDIX C hereto).
- (7) 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 Utilities System Commercial Paper Notes, Series C (the “Series C CP Notes”). The counterparty to the Series C CP Notes Swap Transaction currently has a counterparty risk rating of “A2” from Moody’s and a financial program rating of “A” 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 fix synthetically 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 (see “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Definitions” in APPENDIX C hereto), so 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.
- (8) The Utilities System Commercial Paper Notes will mature no more than 270 days from their date of issuance, but in no event later than (a) October 5, 2022, in the case of the Series C CP Notes and (b) June 14, 2030, in the case of the Series D CP Notes.

APPENDIX D hereto shows (a) existing debt service requirements, including sinking fund installments, on the Outstanding Bonds, (b) the debt service requirements on the 2009 Series A, B and C Bonds and (c) total debt service requirements on all Bonds to be Outstanding following the issuance of the 2009 Series A, B and C Bonds.

### ADDITIONAL FINANCING REQUIREMENTS

The System's current six-year capital improvement program, as shown in the table below, requires a total of approximately \$600,845,000 in capital expenditures and \$6,337,000 for issuance costs between 2009 and 2014, inclusive, for total capital improvement program costs of \$607,182,000. Such amount is expected to be funded in part from remaining construction funds from previous financings, construction fund interest earnings, Revenues, and approximately \$317,000,000 of future additional Bonds, including the 2009 Series A, B and C Bonds, and/or Subordinated Indebtedness (including additional commercial paper notes) that the System expects to issue in 2009, 2011, and 2013. The ongoing and planned projects included in the capital improvement program are discussed in further detail herein for the electric, natural gas, water, wastewater and telecommunications systems, respectively.

#### Summary of Capital Improvement Program

	Fiscal Years ending September 30,						
	2009	2010	2011	2012	2013	2014	2009-2014
Cash Balance October 1,	\$131,330,000	\$180,228,000	\$ 98,429,000	\$ 63,357,000	\$ 67,669,000	\$ 63,237,000	\$ 604,250,000
<b>Source of Funds:</b>							
Bond Financing	\$180,000,000	-	\$ 69,000,000		\$ 68,000,000	-	317,000,000
Revenues	30,050,000	43,066,000	-	72,965,000	-	76,506,000	222,587,000
Interest Earnings	147,000	4,116,000	25,000	1,680,000	28,000	2,053,000	8,049,000
Total Sources	<u>\$341,527,000</u>	<u>\$227,410,000</u>	<u>\$167,454,000</u>	<u>\$138,002,000</u>	<u>\$135,697,000</u>	<u>\$141,796,000</u>	<u>\$ 1,151,886,000</u>
<b>Use of Funds:</b>							
Construction Projects:							
Electric	\$121,504,000	\$ 61,995,000	\$ 59,515,000	\$ 42,425,000	\$ 38,600,000	\$ 37,837,000	\$ 361,876,000
Gas	6,024,000	19,991,000	6,331,000	4,990,000	5,299,000	5,417,000	48,052,000
Water	11,755,000	14,233,000	14,039,000	8,530,000	8,976,000	9,385,000	66,918,000
Wastewater	13,124,000	24,903,000	17,138,000	11,330,000	12,619,000	11,521,000	90,635,000
GRUCom	5,292,000	7,859,000	5,694,000	3,058,000	5,609,000	5,852,000	33,364,000
Total Construction	<u>\$157,699,000</u>	<u>\$128,981,000</u>	<u>\$102,717,000</u>	<u>\$ 70,333,000</u>	<u>\$ 71,103,000</u>	<u>\$ 70,012,000</u>	<u>\$ 600,845,000</u>
Issuance Costs	3,600,000	-	1,380,000	-	1,357,000	-	6,337,000
Total Uses	<u>\$161,299,000</u>	<u>\$128,981,000</u>	<u>\$104,097,000</u>	<u>\$ 70,333,000</u>	<u>\$ 72,460,000</u>	<u>\$ 70,012,000</u>	<u>\$ 607,182,000</u>
Cash Balance September 30,	<u>\$180,228,000</u>	<u>\$ 98,429,000</u>	<u>\$ 63,357,000</u>	<u>\$ 67,669,000</u>	<u>\$ 63,237,000</u>	<u>\$ 71,784,000</u>	<u>\$ 544,704,000</u>

### SECURITY FOR THE BONDS

#### Pledge Under the Resolution

All Bonds issued under the Resolution, including the 2009 Series A, B and C 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 2009 Series A, B and C 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 2009 Series A, B and C 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 2009 Series A, B and C Bonds or the making of any payments under the Resolution. The 2009 Series A, B and C 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 2009 Series A, B and C Bonds. See “ADDITIONAL FINANCING REQUIREMENTS” herein for a discussion of the City’s present intentions with respect to the issuance of additional Bonds.

### **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 “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Rate Covenant” in APPENDIX C 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 eighteen months preceding the issuance of Bonds of such Series, Net Revenues were at least equal to 1.25 times the Aggregate Debt Service during such 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 then to be outstanding is to be paid from Bond proceeds, Net Revenues are estimated to be at least equal to 1.40 times the 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 subsidy payments that are expected to be received by the City from the federal government pursuant to the provisions of the Recovery Act (hereinafter defined) will constitute Revenues for purposes of the Resolution and will be deposited into the Revenue Fund and applied in accordance with the provisions of the Resolution discussed above. See “THE 2009 SERIES A, B AND C BONDS – Designation of the Taxable 2009 Series B Bonds as ‘Build America Bonds’” herein.

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 “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION” in APPENDIX C hereto.

## **THE 2009 SERIES A, B AND C BONDS**

### **General**

The Taxable 2009 Series A Bonds will be issued in the aggregate principal amount of \$00,000,000\*, the Taxable 2009 Series B Bonds will be issued in the aggregate principal amount of \$00,000,000\* and the 2009 Series C Bonds will be issued in the aggregate principal amount of \$00,000,000\*. The 2009 Series A, B and C Bonds will be dated the date of delivery thereof, will bear interest from their date of delivery at the rates per annum set forth on the inside cover page of this Official Statement payable on April 1 and October 1 of each year, commencing April 1, 2010, and will mature on October 1 in the years and in the principal amounts set forth on the inside cover page of this Official Statement. The 2009 Series A, B and C Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof and, when issued, will be initially registered in the name of Cede & Co., as nominee for DTC. See “Book-Entry Only System” below.

### **Designation of the Taxable 2009 Series B Bonds as “Build America Bonds”**

The City currently intends to elect to treat the Taxable 2009 Series B Bonds as “Build America Bonds” for purposes of the American Recovery and Reinvestment Act of 2009 (the “Recovery Act”) and to receive a cash subsidy from the United States Treasury in connection therewith. Pursuant to the Recovery Act, the City is entitled to receive cash subsidy payments rebating a portion of the interest on the Build America Bonds from the United States Treasury equal to 35% of the interest payable on the Taxable 2009 Series B Bonds. Such cash subsidy payments received by the City will constitute Revenues for purposes of the Resolution, 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. No assurance can be given by the City of the receipt of

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\* Preliminary, subject to change.

such cash subsidy payments. **The City is obligated to make payments of the principal of and interest on the Taxable 2009 Series B Bonds whether or not it receives such cash subsidy payments.**

## **Redemption Provisions**

### *Taxable 2009 Series A Bonds*

**Make-Whole Optional Redemption.** The Taxable 2009 Series A Bonds will be subject to redemption prior to maturity by written direction at the option of the City, in whole or in part, on any date, at the “Taxable 2009 Series A Make-Whole Redemption Price.” The “Taxable 2009 Series A Make-Whole Redemption Price” is a redemption price equal to the greater of: (i) 100% of the principal amount of such Taxable 2009 Series A Bonds to be redeemed, plus accrued and unpaid interest on such Taxable 2009 Series A Bonds being redeemed to the date fixed for redemption; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such Taxable 2009 Series A Bonds to be redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve thirty-day months) at the Treasury Rate (defined below) plus \_\_ basis points. The term “Treasury Rate” is defined in the Twenty-First Supplemental Resolution to mean, with respect to any redemption date for a particular Taxable 2009 Series A Bond, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity of the Comparable Treasury Issue, assuming that the Comparable Treasury Issue is purchased on the redemption date for a price equal to the Comparable Treasury Price. Additional relevant terms are defined as follows:

“Comparable Treasury Issue” means the U.S. Treasury security or securities selected by the Independent Investment Banker which has an actual or interpolated maturity comparable to the remaining weighted average life of the applicable Taxable 2009 Series A Bonds to be redeemed, and that would be utilized in accordance with customary financial practice in pricing new issues of debt securities of comparable maturity to the remaining weighted average life of such Taxable 2009 Series A Bonds to be redeemed.

“Comparable Treasury Price” means, with respect to any redemption date for a particular Taxable 2009 Series A Bond, (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (b) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by the Trustee in consultation with the City.

“Reference Treasury Dealer” means J.P. Morgan Securities Inc., \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_, and their respective successors; provided, however, that if any of them ceases to be a Primary U.S. Government securities dealer in the City of New York (a “Primary Treasury Dealer”), the City will substitute another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date for a particular Taxable 2009 Series A Bond, the average, as determined by the Independent Investment Banker and communicated to the Trustee, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker and communicated to the Trustee by such Reference Treasury Dealer at 3:30 p.m., New York City time, on the tenth day (or, if such day is not a business day, the next preceding business day) preceding such redemption date.

If less than all of the Taxable 2009 Series A Bonds are to be redeemed, the City may select the maturity or maturities (and, if applicable, interest rate(s) within such maturity or maturities) to be redeemed. Any redemption of less than all of the Taxable 2009 Series A Bonds maturing on a particular date (and, if applicable, bearing interest at a particular rate) shall be allocated among registered holders of the Taxable 2009 Series A Bonds maturing on such date (and, if applicable, bearing interest at such rate) as nearly as practicable

in proportion to the principal amounts of the Taxable 2009 Series A Bonds maturing on such date (and, if applicable, bearing interest at such rate) owned by each registered holder, subject to the authorized denominations for the Taxable 2009 Series A Bonds. Subject to the foregoing, the Taxable 2009 Series A Bonds maturing on a particular date (and, if applicable, bearing interest at a particular rate) to be redeemed shall be determined by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate.

So long as DTC or a successor securities depository is the sole registered holder of the Taxable 2009 Series A Bonds, it is the City's intent that redemption allocations made by DTC and Direct Participants and Indirect Participants (as such terms are defined under "Book-Entry Only System" below) and such other intermediaries that may exist between the City and the Beneficial Owners (as such term is defined under "Book-Entry Only System" below) be made in accordance with these same proportional provisions. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants and Indirect Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such a proportional basis. See "Book-Entry Only System" below.

### ***Taxable 2009 Series B Bonds***

***Make-Whole Optional Redemption.*** The Taxable 2009 Series B Bonds will be subject to redemption prior to maturity by written direction at the option of the City, in whole or in part, on any date, at the "Taxable 2009 Series B Make-Whole Redemption Price." The "Taxable 2009 Series B Make-Whole Redemption Price" is a redemption price equal to the greater of: (i) 100% of the principal amount of such Taxable 2009 Series B Bonds to be redeemed, plus accrued and unpaid interest on such Taxable 2009 Series B Bonds being redeemed to the date fixed for redemption; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such Taxable 2009 Series B Bonds to be redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve thirty-day months) at the Treasury Rate (as such term is defined under "*Taxable 2009 Series A Bonds – Make-Whole Optional Redemption*" above, except that all references in such definition (and in the other related defined terms) set forth under such caption to the Taxable 2009 Series A Bonds shall be deemed to refer to the Taxable 2009 Series B Bonds) plus \_\_ basis points.

If less than all of the Taxable 2009 Series B Bonds are to be redeemed, the City may select the maturity or maturities (and, if applicable, interest rate(s) within such maturity or maturities) to be redeemed. Any redemption of less than all of the Taxable 2009 Series B Bonds maturing on a particular date (and, if applicable, bearing interest at a particular rate) shall be allocated among registered holders of the Taxable 2009 Series B Bonds maturing on such date (and, if applicable, bearing interest at such rate) as nearly as practicable in proportion to the principal amounts of the Taxable 2009 Series B Bonds maturing on such date (and, if applicable, bearing interest at such rate) owned by each registered holder, subject to the authorized denominations for the Taxable 2009 Series B Bonds. Subject to the foregoing, the Taxable 2009 Series B Bonds maturing on a particular date (and, if applicable, bearing interest at a particular rate) to be redeemed shall be determined by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate.

So long as DTC or a successor securities depository is the sole registered holder of the Taxable 2009 Series B Bonds, it is the City's intent that redemption allocations made by DTC and Direct Participants and Indirect Participants (as such terms are defined under "Book-Entry Only System" below) and such other intermediaries that may exist between the City and the Beneficial Owners (as such term is defined under "Book-Entry Only System" below) be made in accordance with these same proportional provisions. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants and Indirect Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such a proportional basis. See "Book-Entry Only System" below.

**Sinking Fund Redemption.** The Taxable 2009 Series B Bonds maturing October 1, 20\_\_\* and October 1, 20\_\_\* will be 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:

**20\_\_\* Maturity**

<b><u>Year</u></b>	<b><u>Amount</u></b>	<b><u>Year</u></b>	<b><u>Amount</u></b>
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\_\_\_\_\_†  
final maturity

**20\_\_\* Maturity**

<b><u>Year</u></b>	<b><u>Amount</u></b>	<b><u>Year</u></b>	<b><u>Amount</u></b>
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\_\_\_\_\_†  
final maturity

Taking into consideration the sinking fund redemptions set forth above, the average lives of the Taxable 2009 Series B Bonds maturing October 1, 20\_\_\* and October 1, 20\_\_\*, calculated from the date of delivery of such Bonds, is approximately \_\_\_\_\_ years and approximately \_\_\_\_\_ years, respectively.

The particular Taxable 2009 Series B Bonds maturing October 1, 20\_\_\* or October 1, 20\_\_\* or portions thereof to be redeemed through mandatory sinking fund installments shall be selected by the Trustee in the manner described above under “*Taxable 2009 Series B Bonds – Make-Whole Optional Redemption.*” So long as a book-entry system is used for determining ownership of the Taxable 2009 Series B Bonds, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of Taxable 2009 Series B Bonds maturing October 1, 20\_\_\* and October 1, 20\_\_\* to be redeemed through mandatory sinking fund installments.

In determining the amount of Taxable 2009 Series B Bonds maturing October 1, 20\_\_\* or October 1, 20\_\_\* to be redeemed with any sinking fund installment, there will be deducted the principal amount of any Taxable 2009 Series B Bonds of such maturity 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, in the event that any Taxable 2009 Series B Bonds maturing October 1, 20\_\_\* or October 1, 20\_\_\* are purchased or redeemed other than with moneys in the Debt Service Account, the Taxable 2009 Series B Bonds of such maturity so purchased or redeemed will be credited against the sinking fund installments for the Taxable 2009 Series B Bonds of such maturity thereafter to become due as follows: there will be credited toward each such sinking fund installment thereafter to become due an amount bearing the

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\* Preliminary, subject to change.

same ratio to such sinking fund installment as the total principal amount of such Taxable 2009 Series B Bonds of such maturity so purchased or redeemed bears to the total amount of all such sinking fund installments to be credited, subject to authorized denominations for the Taxable 2009 Series B Bonds.

***Extraordinary Optional Redemption.*** The Taxable 2009 Series B Bonds will be subject to redemption prior to maturity by written direction at the option of the City, in whole or in part, upon the occurrence of an “Extraordinary Event” (as defined herein), at a redemption price equal to the greater of: (i) 100% of the principal amount of such Taxable 2009 Series B Bonds to be redeemed, plus accrued and unpaid interest on such Taxable 2009 Series B Bonds being redeemed to the date fixed for redemption; or (ii) the sum of the present values of the remaining scheduled payments of principal and interest on such Taxable 2009 Series B Bonds to be redeemed discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve thirty-day months) at the Treasury Rate (as such term is defined under “*Taxable 2009 Series A Bonds – Make-Whole Optional Redemption*” above, except that all references in such definition (and in the other related defined terms) set forth under such caption to the Taxable 2009 Series A Bonds shall be deemed to refer to the Taxable 2009 Series B Bonds) plus \_\_ basis points.

An “Extraordinary Event” will have occurred if the City determines that a material adverse change has occurred to Section 54AA or 6431 of the Internal Revenue Code of 1986 (the “Code”) (as such Sections were added by Section 1531 of the Recovery Act, pertaining to “Build America Bonds”) or there is any guidance published by the Internal Revenue Service or the United States Treasury with respect to such Sections or any other determination by the Internal Revenue Service or the United States Treasury, which determination is not the result of any act or omission by the City to satisfy the requirements to qualify to receive the 35% cash subsidy payment from the United States Treasury, pursuant to which the City’s 35% cash subsidy payment from the United States Treasury is reduced or eliminated.

If less than all of the Taxable 2009 Series B Bonds are to be redeemed, the City may select the maturity or maturities (and, if applicable, interest rate(s) within such maturity or maturities) to be redeemed. Any redemption of less than all of the Taxable 2009 Series B Bonds maturing on a particular date (and, if applicable, bearing interest at a particular rate) shall be allocated among registered holders of the Taxable 2009 Series B Bonds maturing on such date (and, if applicable, bearing interest at such rate) as nearly as practicable in proportion to the principal amounts of the Taxable 2009 Series B Bonds maturing on such date (and, if applicable, bearing interest at such rate) owned by each registered holder, subject to the authorized denominations for the Taxable 2009 Series B Bonds. Subject to the foregoing, the Taxable 2009 Series B Bonds maturing on a particular date (and, if applicable, bearing interest at a particular rate) to be redeemed shall be determined by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate.

So long as DTC or a successor securities depository is the sole registered holder of the Taxable 2009 Series B Bonds, it is the City’s intent that redemption allocations made by DTC and Direct Participants and Indirect Participants (as such terms are defined under “Book-Entry Only System” below) and such other intermediaries that may exist between the City and the Beneficial Owners (as such term is defined under “Book-Entry Only System” below) be made in accordance with these same proportional provisions. Neither the City nor the Trustee can make any assurance that DTC, the Direct Participants and Indirect Participants or any other intermediaries will allocate redemptions among Beneficial Owners on such a proportional basis. See “Book-Entry Only System” below.

### ***2009 Series C Bonds***

***Optional Redemption.*** The 2009 Series C Bonds will be subject to redemption prior to maturity at the option of the City on and after October 1, 20\_\_ as a whole or in part at any time, at a redemption price of 100% of the principal amount thereof, plus accrued interest to the date of redemption.

If less than all of the 2009 Series C Bonds are to be so redeemed, the City may select the maturity or maturities (and, if applicable, each interest rate within such maturity or maturities) to be redeemed. If less than all of the 2009 Series C Bonds of any maturity (or, if applicable, any interest rate within a maturity) are to be

redeemed, the particular 2009 Series C Bonds or portions of such Bonds of such maturity (and, if applicable each interest rate within such maturity) shall be selected by the Trustee in such manner as the Trustee in its discretion may deem fair and appropriate. The portion of any 2009 Series C Bond of a denomination of more than \$5,000 to be redeemed will be in the principal amount of \$5,000 or any integral multiple thereof, and in selecting portions of such Bonds for redemption the Trustee will treat each such Bond as representing that number of such Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond to be redeemed in part by \$5,000.

So long as a book-entry system is used for determining ownership of the 2009 Series C Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the 2009 Series C Bonds of a maturity (or, if applicable, any interest rate within a maturity) are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants (as such terms are defined under "Book-Entry Only System" below) will determine the particular ownership interests of 2009 Series C Bonds of such maturity (or, if applicable, such interest rate within a maturity) 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 2009 Series C Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2009 Series C 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 2009 Series C 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 2009 Series A, B and C Bonds not less than thirty days nor more than sixty days prior to the redemption date. Notice of redemption will be given by first-class mail to each holder of the 2009 Series A, B or C 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 2009 Series A, B or C Bond will not affect the validity of the proceedings for the redemption of any other 2009 Series A, B or C 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 2009 Series A, B or C 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 2009 Series A, B and C Bonds, the Trustee shall send the notice of redemption to DTC or its nominee, or its successor, and if less than all of the 2009 Series A, B or C Bonds of a maturity (and, if applicable, an interest rate within a maturity) are to be redeemed, DTC or its successor and Direct Participants and Indirect Participants will determine the particular ownership interests of 2009 Series A, B or C Bonds, as applicable, of such maturity (and, if applicable, such interest rate within a maturity) 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 2009 Series A, B or C Bond of any redemption, will not affect the sufficiency or the validity of the redemption of the 2009 Series A, B or C Bonds, as applicable. 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 2009 Series A, B and C Bonds, or that they will do so on a timely basis.

### **Registration and Transfer; Payment**

The 2009 Series A, B and C 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 2009 Series A, B and C Bonds (a) for a period beginning with the applicable Record Date (as hereinafter defined) and ending with the next succeeding October 1 or April 1, as applicable, 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 2009 Series A, B and C Bonds will be paid to the person in whose name such Bond is registered on the applicable Record Date, which is March 15 for interest due on April 1 and September 15 for interest due on October 1.

At such time, if any, as the 2009 Series A, B and C Bonds no longer shall be subject to the book-entry only system of registration and transfer described in “Book-Entry Only System” below, interest on the 2009 Series A, B and C Bonds will be payable by check or draft of the Trustee, as Paying Agent, mailed to the registered owners by first-class mail. At such time, if any, as the 2009 Series A, B and C Bonds no longer shall be subject to such book-entry only system of registration and transfer, the principal of all 2009 Series A, B and C 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 2009 Series A, B and C 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 2009 Series A, B and C Bonds is the responsibility of the Direct Participants or the Indirect Participants.

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

The 2009 Series A, B and C Bonds will be available only in book-entry form. DTC will act as the initial securities depository for the 2009 Series A, B and C Bonds. The 2009 Series A, B and C Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity (and, if applicable, each interest rate within a maturity) within each series of the 2009 Series A, B and C Bonds, in the aggregate principal amount thereof, and will be deposited with DTC.

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

Purchases of 2009 Series A, B and C Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2009 Series A, B and C Bonds on DTC’s records. The ownership interest of each actual purchaser of each 2009 Series A, B and C Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2009 Series A, B and C 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 2009 Series A, B and C Bonds, except in the event that use of the book-entry system for the 2009 Series A, B and C Bonds is discontinued.

SO LONG AS CEDE & CO. (OR ANY OTHER NOMINEE REQUESTED BY DTC) IS THE REGISTERED OWNER OF THE 2009 SERIES A, B AND C BONDS AS NOMINEE FOR DTC, REFERENCES HEREIN TO THE HOLDERS OR REGISTERED OWNERS OR OWNERS OF THE 2009 SERIES A, B AND C BONDS SHALL MEAN CEDE & CO. (OR SUCH OTHER NOMINEE), AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS.

To facilitate subsequent transfers, all 2009 Series A, B and C 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 2009 Series A, B and C 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 2009 Series A, B and C Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2009 Series A, B and C 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.

The City, the Trustee, the Bond Registrar and the Paying Agent may treat DTC (or its nominee) as the sole and exclusive owner of the 2009 Series A, B and C Bonds registered in its name for the purpose of: payment of the principal or redemption price of or interest on the 2009 Series A, B and C Bonds; selecting 2009 Series A, B and C Bonds and portions thereof to be redeemed; giving any notice permitted or required to be given to Holders under the Resolution including any notice of redemption; registering the transfer of 2009 Series A, B and C Bonds; obtaining any consent or other action to be taken by Holders; and for all other purposes whatsoever, and shall not be affected by any notice to the contrary. The City, the Trustee, the Bond Registrar, the Paying Agent and the Underwriters (other than in their capacity, if any, as Direct Participants or Indirect Participants) shall not have any responsibility or obligation to any Direct Participant, any person claiming a beneficial ownership interest in the 2009 Series A, B and C Bonds under or through DTC or any Direct Participant, or any other person which is not shown on the registration books of the City (kept by the Bond Registrar) as being a Holder, with respect to: the accuracy of any records maintained by DTC or any Direct or Indirect Participant regarding ownership interests in the 2009 Series A, B and C Bonds; the payment by DTC or any Direct or Indirect Participant of any amount in respect of the principal or redemption price of or interest on the 2009 Series A, B and C Bonds; the delivery to any Direct or Indirect Participant or any Beneficial Owner of any notice which is permitted or required to be given to Holders under the Resolution including any notice of redemption; the selection by DTC or any Direct or Indirect Participant of any person to receive payment in the event of a partial redemption of the 2009 Series A, B and C Bonds; or any consent given or other action taken by DTC as a Holder of the 2009 Series A, B and C Bonds.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2009 Series A, B and C Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer 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 securities, such as the 2009 Series A, B and C Bonds, are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Except as described below, neither DTC nor Cede & Co. nor any other nominee of DTC will take any action to enforce covenants with respect to any security registered in the name of Cede & Co. or such other nominee of DTC. Under its current procedures, on the written instructions of a Direct Participant given in accordance with DTC's Procedures, DTC will cause Cede & Co. to sign a demand to exercise certain bondholder rights. In accordance with DTC's current procedures, Cede & Co. will sign such document only as record holder of the quantity of securities referred to therein (which is to be specified in the Direct Participant's request to DTC for such document) and not as record holder of all the securities of that issue registered in the name of Cede & Co. Also, in accordance with DTC's current procedures, all factual



representations to the issuer, the trustee or any other party to be made by Cede & Co. in such document must be made to DTC and Cede & Co. by the Direct Participant in its request to DTC.

For so long as the 2009 Series A, B and C Bonds are issued in book-entry form through the facilities of DTC, any Beneficial Owner desiring to cause the City or the Trustee to comply with any of its obligations with respect to the 2009 Series A, B and C Bonds must make arrangements with the Direct Participant or Indirect Participant through whom such Beneficial Owner's ownership interest in the 2009 Series A, B and C Bonds is recorded in order for the Direct Participant in whose DTC account such ownership interest is recorded to make the request of DTC described above.

NEITHER THE CITY NOR THE TRUSTEE NOR THE BOND REGISTRAR NOR THE PAYING AGENT NOR THE UNDERWRITERS (OTHER THAN IN THEIR CAPACITY, IF ANY, AS DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS) WILL HAVE ANY OBLIGATION TO THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO DTC'S PROCEDURES OR ANY PROCEDURES OR ARRANGEMENTS BETWEEN DIRECT PARTICIPANTS, INDIRECT PARTICIPANTS AND THE PERSONS FOR WHOM THEY ACT RELATING TO THE MAKING OF ANY DEMAND BY CEDE & CO. AS THE REGISTERED OWNER OF THE 2009 SERIES A, B AND C BONDS, THE ADHERENCE TO SUCH PROCEDURES OR ARRANGEMENTS OR THE EFFECTIVENESS OF ANY ACTION TAKEN PURSUANT TO SUCH PROCEDURES OR ARRANGEMENTS.

Principal or redemption price of and interest on the 2009 Series A, B and C Bonds will be paid 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, the Trustee or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the City, the Trustee or the Paying Agent, as the case may be, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal or redemption price and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Paying Agent; 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.

As long as the book-entry system is used for the 2009 Series A, B and C Bonds, the City or the Trustee, as applicable, will give or cause to be given any notice of redemption or any other notices required to be given to Holders of 2009 Series A, B and C Bonds only to DTC. Any failure of DTC to advise any Direct Participant, or of any Direct Participant to notify any Indirect Participant, or of any Direct or Indirect Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the 2009 Series A, B and C Bonds called for such redemption, or of any other action premised on such notice.

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 2009 Series A, B and C Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2009 Series A, B and C Bonds such as redemptions, tenders, defaults, and proposed amendments to the Resolution. For example, Beneficial Owners of the 2009 Series A, B and C Bonds may wish to ascertain that the nominee holding the 2009 Series A, B and C Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

As long as the book-entry system is used for the 2009 Series A, B and C Bonds, redemption notices shall be sent only to DTC. If less than all of the 2009 Series A, B and C Bonds of a particular series and maturity (and, if applicable, an interest rate within a maturity) are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such 2009 Series A, B or C Bonds, as applicable, to be redeemed.

NEITHER THE CITY NOR THE TRUSTEE NOR THE BOND REGISTRAR NOR THE PAYING AGENT NOR THE UNDERWRITERS (OTHER THAN IN THEIR CAPACITY, IF ANY, AS DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS) WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DIRECT PARTICIPANTS, OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES, WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS, OR THE BENEFICIAL OWNERS.

For every transfer and exchange of a beneficial ownership in the 2009 Series A, B and C Bonds, a Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

***Discontinuation of the Book-Entry Only System.*** DTC may discontinue providing its services as depository with respect to the 2009 Series A, B and C Bonds at any time by giving reasonable notice to the City or the Trustee. In addition, if the City determines that (i) DTC is unable to discharge its responsibilities with respect to the 2009 Series A, B and C Bonds, or (ii) continuation of the system of book-entry only transfers through DTC is not in the best interests of the Beneficial Owners of the 2009 Series A, B and C Bonds or of the City, the City may, upon satisfaction of the applicable procedures of DTC with respect thereto, terminate the services of DTC with respect to the 2009 Series A, B and C Bonds. Upon the resignation of DTC or determination by the City that DTC is unable to discharge its responsibilities, the City may, within ninety days, appoint a successor depository. If no such successor is appointed or the City determines to discontinue the book-entry only system, 2009 Series A, B and C Bond certificates will be printed and delivered. Transfers and exchanges of 2009 Series A, B and C Bonds shall thereafter be made as provided in the Resolution.

If the book-entry only system is discontinued, the persons to whom 2009 Series A, B and C Bond certificates are delivered will be treated as "Holders" of Bonds for all purposes of the Resolution including without limitation the payment of principal, premium, if any, and interest on 2009 Series A, B and C Bonds, the redemption of 2009 Series A, B and C Bonds, and the giving to the City or the Trustee of any notice, consent, request or demand pursuant to the Resolution for any purpose whatsoever. In such event, interest on the 2009 Series A, B and C Bonds will be payable by check or draft of the Paying Agent mailed to such Holders at the addresses shown on the registration books maintained on behalf of the City, and the principal and redemption price of all 2009 Series A, B and C Bonds will be payable at the principal corporate trust office of the Paying Agent.

***The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable. No representation is made herein by the City or the Underwriters as to the accuracy, completeness or adequacy of such information, or as to the absence of material adverse changes in such information subsequent to the date of this Official Statement.***

## THE CITY

### General

Gainesville, home of the University of Florida, is located in north-central Florida midway between Florida's Gulf and Atlantic coasts. 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 2008 population of 251,214 in the Gainesville Metropolitan Statistical Area. As of April 2008, an estimated 124,491 persons resided within the City limits.

The economic base of Gainesville consists primarily of light industrial, commercial, health care and educational activities. The University of Florida is the State’s largest and oldest state-owned university. Fall 2008 enrollment at the University of Florida was approximately 51,400 students.

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

**Government**

The City is governed by a City Commission (the “City Commission”) that 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 Gainesville.

The following are the current members of the City Commission:

	<b><u>Term Expires</u></b>
Mayor Pegeen Hanrahan, At-Large.....	May 2010
Commissioner Scherwin L. Henry, District 1, Mayor Pro-Tem.....	May 2012
Commissioner John F. Donovan, District 3.....	May 2011
Commissioner Thomas Hawkins, Jr., At-Large	May 2011
Commissioner Stuart Craig Lowe, District 4 .....	May 2010
Commissioner Jeanna Mastrodicasa, At-Large .....	May 2012
Commissioner Lauren B. Poe, District 2.....	May 2011

**THE UTILITIES 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. 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 by the City, and all facilities, except the City’s undivided ownership interest in CR-3, are 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 92,849 customers in the fiscal year ended September 30, 2008 and having a maximum net summer generating capacity of 611 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 33,777 customers in the fiscal year ended September 30, 2008.

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 69,779 and 61,552 customers, respectively, in the fiscal year ended September 30, 2008. The water system has a nominal capacity of 54 Mgd and the wastewater system has a treatment capacity of 22.4 Mgd 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.

## **Management of the System**

**Mr. Robert E. Hunzinger, General Manager for Utilities**, was appointed General Manager for Utilities in March 2008. With more than 27 years of experience, Mr. Hunzinger has worked in all three sectors of the utility industry, including investor-owned, cooperative and municipal. Mr. Hunzinger 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. He reports directly to the seven-member City Commission as a Charter Officer. Mr. Hunzinger currently serves on the Board of Directors for The Energy Authority, Inc. (“TEA”), Coelectric Partners, Inc. (“Coelectric”), the Florida Municipal Power Agency (“FMPA”), the Florida Reliability Coordinating Council (“FRCC”) and the Florida Electric Power Coordinating Group.

In addition to the General Manager for Utilities, the System’s executive team includes five Assistant General Managers, the Chief Financial Officer and the Utilities Attorney. The five Assistant General Managers consist of: Energy Supply; Energy Delivery; Water and Wastewater Systems; Strategic Planning; and Customer Support Services. The following paragraphs describe the other members of the System’s executive team and their backgrounds:

**Mr. David E. Beaulieu, P.E., Assistant General Manager – Energy Delivery**, was appointed in November 1996. Mr. Beaulieu joined the System in 1988 and formerly served as Electric Engineering Manager. Mr. Beaulieu oversees the construction, operation and maintenance of the System’s electric transmission and distribution facilities, as well as the natural gas distribution facilities, and is also responsible for operations engineering, system control, substations and relay, and electric and gas metering.

**Ms. Jennifer L. Hunt, CPA, Chief Financial Officer, Utilities**, was appointed in August 2004. She joined the System in May 2000 and formerly served as the Managing Utility Analyst for Finance. Ms. Hunt oversees the financial affairs of the System and is responsible for budgeting, debt and investment management, accounting, customer accounts functions, and information technology. She also represents the System on the Finance and Audit Committee of TEA.

**Mr. Raymond O. Manasco, Jr., Esquire, Utilities Attorney**, joined the City in April 1989, and was appointed Utilities Attorney in January 1990. Mr. Manasco was formerly in private practice in Lake City, Florida for twelve years, during which he represented the City of Lake City for ten years. Mr. Manasco reviews and negotiates contracts for the purchase, sale and exchange of electric power, provides daily legal counsel, and represents the System before the courts and administrative bodies.

**Mr. Edward J. Regan, P.E., Assistant General Manager – Strategic Planning**, was appointed in December 1990. Mr. Regan joined the System in 1979 and was appointed Senior Water/Wastewater Utility Engineer in October 1984. Mr. Regan oversees system planning, electric system regulatory affairs, generation dispatch and wholesale power contract management. The system planning division is responsible for long range planning of the System, including special projects and large cross-functional construction projects, demand side planning, financial planning, facilities planning, power supply planning and systems engineering, and environmental planning and compliance. Mr. Regan also represents the System on the Settlement and Operations Committee of TEA, and is the current President of the Board of Directors of the Florida Municipal Electric Association (“FMEA”).

**Mr. David M. Richardson, P.E., Assistant General Manager – Water and Wastewater Systems**, was appointed in May 2005. Mr. Richardson was formerly responsible for system planning and long range water

and wastewater facility planning. He joined the System in January 1986. Mr. Richardson oversees the construction, operation and maintenance of the System's water and wastewater treatment plants and the associated distribution and collection facilities, and is responsible for water and wastewater engineering.

**Mr. John W. Stanton, Assistant General Manager – Energy Supply**, was appointed in April 2008 after retiring from FPL Group as Vice President-Operation for FPL Energy (now Next Era Energy Resources) in 2002 and a successful consulting career thereafter. Mr. Stanton 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. Mr. Stanton 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.

**Ms. Kathy E. Viehe, Assistant General Manager – Customer Support Services**, was appointed in February 2007. Ms. Viehe formerly served as Public Information Officer for Fort Pierce Utilities Authority, and joined the System as Communications Director in 1996. Ms. Viehe is responsible for conservation services, large account management, marketing, corporate communications, public relations, and customer operations.

### **Labor Relations**

The System presently employs approximately 898 persons. All personnel are City employees and are solely under the management of the City. Florida law prohibits public employees from striking.

Approximately 630 of the System's employees are represented by Local No. 3170 of the Communications Workers of America (the "CWA"). The City's collective bargaining agreement with the CWA expires on December 31, 2009. Bargaining for a new agreement is underway through the City's Interest Based Bargaining Team. Management of the System ("Management") anticipates a new collective bargaining agreement will be executed on or before the December 31, 2009 expiration date of the current collective bargaining agreement.

### **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 consumers in the Gainesville urban area which includes the City and the surrounding unincorporated area. Wholesale electric service is provided to two wholesale customers: Seminole Electric Cooperative, Inc. ("Seminole") and Alachua. 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 76% of the population of the County, including the entire City, with the exception of the University of Florida campus, which is served principally by PEF. Electric service is also provided in the unincorporated areas of the County by PEF, 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 extends through 2017 and has been approved by the Florida Public Service Commission ("FPSC").

## Customers

Gainesville's economy is dominated by governmental, educational, and medical services supporting an eleven county area of north central Florida. As a consequence, the System has experienced steady growth in customers. The following tabulation shows the average number of electric customers for the fiscal years ended September 30, 2004 through 2008.

	<b>Fiscal Years ended September 30,</b>				
	<u><b>2004</b></u>	<u><b>2005</b></u>	<u><b>2006</b></u>	<u><b>2007</b></u>	<u><b>2008</b></u>
Retail Customers (Average):					
Residential .....	76,435	77,918	79,125	80,237	82,399
Commercial and Industrial.....	<u>9,203</u>	<u>9,342</u>	<u>9,538</u>	<u>9,675</u>	<u>10,450</u>
Total .....	<u><b>85,638</b></u>	<u><b>87,260</b></u>	<u><b>88,663</b></u>	<u><b>89,912</b></u>	<u><b>92,849</b></u>

Of the 92,849 customers in the fiscal year ended September 30, 2008, 10,450 commercial and industrial customers provided approximately 45% 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, JEA, the Municipal Electric Authority of Georgia, Nebraska Public Power District, and South Carolina Public Service Authority. TEA has offices in Jacksonville, Florida and Seattle, Washington and provides power marketing, trading, and risk management services throughout most of the United States. The total resources managed by TEA (including the total capacity owned by TEA equity members and resource management partners) is 25,000 MW. TEA manages a diverse generation portfolio, of which approximately 73% is coal, petroleum coke, nuclear, or hydro power, and the volume of capacity represented has proven advantageous in terms of market presence. TEA's 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 several 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. Later this year, a system mandated by the FPSC called the Florida Cost Based Broker System ("FCBBS") will become operational, potentially creating a much more liquid and transparent market for hour-ahead sales than is currently in existence in Florida. TEA also purchases all of the System's natural gas and manages the System's gas transportation entitlements. TEA's ability to find the best markets for the purchase and sale of power and excess natural gas transportation entitlements maximizes the efficient use of generation assets, reduces operating costs, and increases operating revenues of the System. 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 operates electrical, gas, and financial trading desks on a 24 hour per day, seven days a week basis with a market presence that the System or any of the other TEA members would be very unlikely to attain on its own.

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. For a discussion of the System's investment in TEA and its commitments to TEA as of September 30, 2008, see Note 15 to the financial statements of the

System set forth in APPENDIX A 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.

***Retail and Wholesale Sales***

In the fiscal year ended September 30, 2008, the System sold 2,015,419 megawatt hours (“MWh”) of electric energy to its retail and firm wholesale customers (excluding interchange and economy sales). The System currently has two firm wholesale sales contracts, both of which are “all requirements” contracts with Seminole and Alachua. “All requirements” services include control area voltage and frequency regulation and all other ancillary services. Total energy sales to these customers have had an average annual rate of growth of 7.7% per year from the fiscal year ended September 30, 2004 through the fiscal year ended September 30, 2008. Year-to-year variability is due primarily to the effects of weather on heating and cooling loads. 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, 2004 through 2008. For the fiscal year ended September 30, 2008, there was a 1.3% decrease in residential MWh sales from the fiscal year ended September 30, 2007. This decrease was the result of pricing and economic conditions.

**Retail and Wholesale Energy Sales**

	<b>Fiscal Years ended September 30,</b>				
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Energy Sales–MWh:					
Residential .....	873,612	875,304	901,437	877,650	829,394
General Service, Large Power and Other .....	950,797	956,987	981,330	981,820	992,684
Firm Wholesale .....	<u>143,896</u>	<u>161,264</u>	<u>174,948</u>	<u>181,552</u>	<u>193,341</u>
Total .....	<u>1,968,305</u>	<u>1,993,555</u>	<u>2,057,715</u>	<u>2,041,022</u>	<u>2,015,419</u>
Average Annual Use per Customer–kWh:					
Residential .....	11,429	11,234	11,393	10,938	10,066
General Service, Large Power and Other .....	103,325	102,439	102,884	101,481	94,994

The System has had a wholesale electric service contract with Seminole to serve to a Clay substation adjacent to the west side of the System’s service area since 1975 which extends through March 2012. The System sold 76,811 MWh to Seminole in the fiscal year ended September 30, 2008 and collected \$6,207,677 in revenues from those sales, which represented approximately 3.6% of total energy sales (excluding interchange sales) and 2% of total sales revenues. The System has had a wholesale contract with Alachua since 1988, which was renewed January 1, 2009 for a term of 24 months. The contract includes management of Alachua’s 600 kilowatt (“kW”) share of CR-3 and its 300 kW share of the St. Lucie No. 1 and No. 2 nuclear units. During the fiscal year ended September 30, 2008, the System sold 116,530 MWh to Alachua and received \$9,965,865 in revenues from those sales, which represented approximately 10% of total energy sales (excluding interchange sales) and 4% of total sales revenues.

***Interchange and Economy Wholesale Sales***

Historically, the System has realized significant net revenues from non-firm and/or short-term power sales (up to twelve months in duration) through TEA, largely as a result of the System’s low cost coal-fired baseload capacity, which is a substantially greater percentage than average in the Florida market. This factor will be further bolstered by the acquisition of firm baseload energy resources at the South Energy Center referred to below, from PEF, and from the Baseline Landfill referred to below. The downturn in the System’s forecast of load and energy has left the System long in these resources. Currently, the downturn in natural gas prices and loads in Florida have limited the System’s ability to realize more than modest net revenues from the interchange and wholesale markets. The following table sets forth historical net revenues from interchange and economy sales.

**Net Revenues from Interchange and Economy Sales<sup>(1)</sup>**  
**(Fiscal Years ended September 30)**  
**(dollars in thousands)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net Revenues.....	\$766	\$515	\$780	\$1,698	\$1,890
Percent of Total Electric System Net Revenues.....	1.5%	1.1%	1.69%	1.5%	2.8%

<sup>(1)</sup> 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 twelve-months’ duration are made through TEA, whereas 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 adjustment portion of their rates. In the fiscal year ended September 30, 2008, 17.9% of power for retail and wholesale sales were obtained through off-system purchases.

**Demand-Side Management**

The System employs cost-effective demand-side management (“DSM”) programs as one way to meet the energy needs of its retail customers. It has been offering DSM programs since 1980. Currently, it is estimated that over 6% of the System’s customers’ energy needs have been met by DSM and renewable energy, the highest percentage reported by any electric utility in Florida. These programs contribute in part to the System having the lowest electrical use per residential customer of any urban area in Florida. Early in 2009, an independent third-party, KEMA, was retained by the System to verify the energy and demand savings achieved by selected programs during the period January 2006 through December 2008. The results of the study showed that the estimated savings have been achieved to date. KEMA will evaluate additional programs during 2010.

DSM programs available to the System’s residential customers include: energy audits; and promotion of high efficiency central air conditioning, high efficiency room air conditioning, central air conditioner maintenance, reflective roof coating for mobile homes, solar water heating, natural gas in new construction, the Energy Star building practices of the United States Environmental Protection Agency (“EPA”), variable speed pool pumps, duct repair, photovoltaic (“PV”) power production, energy efficiency for low-income households, proper insulation, removing second refrigerators from homes, compact fluorescent light bulbs, energy efficiency low-interest loans, and natural gas for displacement of electric water heating and space heating in existing structures. DSM programs available to the System’s non-residential customers include: energy audits; and promotion of PV power production via a feed-in tariff, vending machine motion sensors, efficient exit lighting, solar water heating, natural gas for water heating and space heating, and any energy efficiency retrofit measure by a customized rebate program. The System now offers standardized interconnection procedures and compensation for excess energy production for both residential and non-residential customers who install distributed resources.

The System continues to monitor the potential for additional conservation efforts including programs addressing thermal storage, district chilled water cooling, and home energy reports. In April 2006, the City Commission provided direction to the System’s staff to maximize DSM opportunities. Funding for conservation was increased in 2007 and in 2008. DSM program implementations are estimated to have



provided 30.1 MW of summer peak reduction cumulative since 1980 and 151,247 MWh in annual energy savings through the year 2008. The System plans to continue and expand its DSM programs as a way to cost-effectively meet customers' needs and hedge against potential future carbon tax and trade programs.

## **Green Power**

In October 1993, the System became the first electric utility in Florida to provide customers with the opportunity to voluntarily support renewable energy through contributions made on their electric bills. The "green power" opportunity evolved into what most recently was marketed and sold as "GRUGreen™." "Green power" has been sourced through a portfolio of resources including: relatively small solar PV demonstration projects, a "landfill gas to energy" generating station (2.3 MW installed capacity); and "green tags" purchased from wind energy generation facilities in the Midwest.

Since 2006, renewable energy and carbon management strategies have become a major component of the System's long-term power supply acquisition program. These renewable resources include additional landfill gas to energy capacity, solar rebates and net metering. The System also has the nation's first European-style solar feed-in-tariff (discussed below) to be offered by a utility, and has entered into a long-term power purchase agreement ("PPA") for the purchase of 100 MW (net firm) of biomass-fueled power generation. The costs of acquiring these resources are either included in the System's base rates or its fuel adjustment clause, resulting in recovery from all customers. The energy that has been obtained through the System's renewable energy and carbon management strategies has eclipsed the equivalent amount of energy being obtained to support "GRUGreen™." Consequently, the "green power" customer contribution program has been retired.

The System's renewable energy portfolio is part of a long-term strategy to hedge against potential future carbon tax and trade programs. Other aspects of this strategy include carbon offsets from conservation credit, acquisition of development rights for forest land for carbon sequestration (and wetlands protection), and investigations into the use of biomass for power production. See "Future Power Supply" below for more information on the System's renewable energy resources.

## **Energy Supply System**

### *Generating Stations*

The System owns and operates generating facilities that have a net summer system capability of 608 MW. Combined with the firm 50 MW of capacity from the PEF PPAs described under "*Long-Term Wholesale Power Contracts*" below, the System had a planning reserve margin of 44% in the fiscal year ended September 30, 2008. The System's three generating stations are the John R. Kelly Station ("JRK Station"), the Deerhaven Station, and the South Energy Center plant site (each described herein). The System also owns a small share of CR-3, a nuclear generating unit operated by PEF, and has 100% of the output under contract from a 3 MW "landfill gas to energy" power plant at the Baseline Landfill in Marion County, Florida. These facilities are connected to the Florida grid and to the System's service area over 138 kilovolt ("kV") and 230 kV transmission facilities that include three interconnections with PEF and one interconnection with FPL. The System has retired its 2.0 MW "landfill gas to energy" facility located adjacent to a closed landfill in southwest Alachua County, due to the planned-for depletion of the available gas supply.

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 following table sets forth the existing generation facilities of the System.

<b>Existing Generating Facilities</b>		<b>Fuels</b>		<b>Net Summer Capability (MW)</b>
		<b>Primary</b>	<b>Alternative</b>	
<b>Plant Name</b>	<b>Unit No.</b>			
J.R. Kelly Station	Steam Unit 8	Waste Heat	—	37.00
	Steam Unit 7	Natural Gas	Residual Fuel Oil	23.20
	Combustion Turbine 4	Natural Gas	Distillate Fuel Oil	75.00
	Combustion Turbine 3	Natural Gas	Distillate Fuel Oil	14.00
	Combustion Turbine 2	Natural Gas	Distillate Fuel Oil	14.00
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	<u>14.00</u>
				177.20
Deerhaven Station	Steam Unit 2	Bituminous Coal	—	222.10
	Steam Unit 1	Natural Gas	Residual Fuel Oil	83.00
	Combustion Turbine 3	Natural Gas	Distillate Fuel Oil	75.00
	Combustion Turbine 2	Natural Gas	Distillate Fuel Oil	17.50
	Combustion Turbine 1	Natural Gas	Distillate Fuel Oil	<u>17.50</u>
				415.10
Crystal River	Nuclear Steam Unit 3	Uranium	—	<u>11.60</u>
				11.60
South Energy Center	SEC-1	Natural Gas	—	<u>4.10</u>
System Total				<u>608.00</u>

**John R. Kelly** – The JRK Station is located in downtown Gainesville and consists of one steam turbine, one combined cycle combustion turbine unit, and three simple cycle combustion turbines, providing a total net summer generation capability of 177 MW from the site. The combined cycle unit was completed in May 2001 and demonstrates Management’s ability to garner the support of the community to implement system expansions and improvements. The combined cycle unit was developed by repowering the former JRK Station Unit 8 with a heat recovery steam generator utilizing waste heat from a new GE 7EA combustion turbine. All of the JRK Station units are equipped for either oil or gas firing.

**Deerhaven** – The Deerhaven Station is located approximately six miles northwest of Gainesville and encompasses approximately 3,464 acres, which provides room for future expansion as well as a substantial natural buffer. A unique aspect of the site is that it was the first “zero water discharge” power plant built east of the Mississippi River. No industrial wastewater or stormwater leaves the site, as it is concentrated until only brine salt remains. The brine salt is subsequently deposited into a secure landfill on the Deerhaven Station site. The Deerhaven Station consists of two steam turbines and three combustion turbines with a net summer capability of 415 MW. Deerhaven Station Unit 1 (“Deerhaven 1”) is a steam unit equipped for oil/gas firing with a net summer capability of 83 MW. Deerhaven Station Unit 2 (“Deerhaven 2”) is a coal-fired steam unit that was placed into commercial operation in October 1981 with a net summer capability of 222 MW. There are also three quick-start combustion turbines on the Deerhaven Station site. Two combustion turbines are rated at 18 MW each, with the third combustion turbine rated with a net summer capability of 75 MW and equipped with dry low nitrogen oxide (“NO<sub>x</sub>”) combustors and water injection for NO<sub>x</sub> control. Each of these turbines is capable of firing on natural gas or distillate fuel oil. Deerhaven 2 utilizes medium-sulfur coal in combination with electrostatic precipitators, dry scrubbers (for sulfur dioxide (“SO<sub>2</sub>”) reduction and the co-benefit of reduced mercury), a selective catalytic reduction (“SCR”) system (for NO<sub>x</sub> reduction), and fabric filters (to reduce particulate matter) to meet its air permit requirements. Deerhaven 2 is the System’s most

economical unit to run. Although it represents only 37% of the System's total generating capacity, it provides most of the System's energy (close to 65% in recent years). For the five fiscal years ended September 30, 2008, Deerhaven 2 maintained an average operating availability of 80.74%. The average operating availability for the fiscal year ended September 30, 2008 was 83.59%. Operating availability represents the percentage of time the unit was available to serve load at any output level.

Deerhaven 2 was retrofitted in May 2009 with additional emission control equipment to meet the EPA's Clear Air Interstate Rule ("CAIR") and Clean Air Mercury Rule ("CAMR"), the cost of which is included in the System's capital improvement program. To control SO<sub>2</sub>, mercury, and particulate matter, Deerhaven 2 received an SCR system that went on-line May 1, 2009, a dry scrubber system, a fabric filter system and an air filter system. While the dry scrubber system has been installed and started up, it has not yet demonstrated full functionality. [Management believes, however, that full functionality will be achieved by the end of calendar year 2009.] The auxiliary electric loads associated with these facilities resulted in a loss of 6.3 MW summer net rating. A turbine upgrade in fiscal year 2012 will regain this loss. Significant investments were made in Deerhaven 2 during the emission systems installation to assure the continued reliable operation of the unit. Such investments included the replacement of ten miles of primary superheater boiler tubes, an overhaul and upgrade of four of the ten cooling towers, replacement of the control room consoles with digital displays, and an overhaul of the generator. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Air Emissions" herein for a more detailed discussion of the federal Clean Air Act, as amended (the "Clean Air Act"), its impact on the Deerhaven Station, and certain judicial actions affecting CAIR and CAMR.

**Crystal River 3** – CR-3 is a nuclear powered electric generating unit with a current net summer capability of 838 MW, located on the Gulf of Mexico in Citrus County, Florida, approximately 55 miles southwest of Gainesville. The System owns a 1.4079% ownership share of CR-3 equal to 11,956 kW (11,430 kW delivered to the System). This capacity is slightly different (150 KW) than previously reported as a result of capacity increases due to improvements performed by PEF. The System's share of CR-3 represents less than 2% of the System's total generating capability. The power from this unit is transmitted over PEF's transmission system to its points of interconnection with the System pursuant to a tariff filed with the Federal Energy Regulatory Commission ("FERC"). CR-3 has been in operation over 25 years and has achieved a cumulative capacity factor of 70.9% through the fiscal year ended September 30, 2008. For the past three years, CR-3 has maintained an average capacity factor of 91.47%. In 2002, the System obtained an 87.5% capacity factor guarantee from PEF as settlement of a dispute related to management of the unit. Under this guarantee, PEF will either immediately provide replacement power for CR-3 from elsewhere in its system or will reimburse the System for replacement power, on a two-year true-up cycle. CR-3's current license with the Nuclear Regulatory Commission (the "NRC") expires in 2016. PEF has begun the process of re-licensing the plant for an additional twenty years. The various upgrades, renewals and replacements associated with this re-licensing will result in an additional 2.5 MW (gross) of nuclear capacity for the System by 2011. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Nuclear Waste Disposal Regulation" and "INSURANCE" herein for a discussion of certain other matters relating to CR-3.

**South Energy Center** – The System is operating the recently constructed combined heat and power facility dedicated to serve a new cancer hospital being constructed by Shands Teaching Hospital and Clinics Inc. ("Shands") at the University of Florida (the "South Energy Center"). The facility provides a net baseload generation capacity of 4 MW while providing waste heat to produce steam and chilled water for the hospital. The hospital is scheduled to commence operation in November 2009, but is currently taking chilled water and steam required during the completion of interior construction. The South Energy Center is owned and operated by the System, and will provide steam, chilled water, medical gas, and emergency and standby power services under a 50-year "cost plus" contract with Shands. The medical campus will include 3,000,000 square feet of facilities at build out.

**Baseline Landfill** – The System has entered into a fifteen-year contract for the entire output of electricity to be generated from landfill gas derived from the Baseline Landfill in Marion County, Florida. Construction of the facility was completed in December 2008. The landfill is actively expanding and

additional capacity is projected for the future. Power from the Baseline Landfill will be wheeled over PEF's transmission system.

***Long-Term Wholesale Power Contracts*** – As a hedge against volatile natural gas prices and to add economic baseload capacity, two longer-term PPAs with PEF have been entered into by the System. Both of these agreements are for around the clock firm energy priced at the average of all PEF's baseload unit production costs, including PEF's nuclear, coal, combined cycle, and co-generation units. Capacity will be provided on a native load firm basis and the System will hold title to the power and may remarket such power if so desired. The term of the first PPA began on April 1, 2008 and extends through December 31, 2013, and such PPA provides for the purchase by the System of 50 MW. The term of the second PPA began on January 1, 2009 and extends through December 31, 2010, and such PPA provides for the purchase by the System of an additional 25 MW for all seasons except summer, during which it provides for the purchase by the System of an additional 50 MW.

### ***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 the fiscal year ended September 30, 2008, the System's fuel mix was as follows: coal 72.8%; natural gas 21.7%; nuclear 4.9%; and oil 0.6%, as a percentage of net generation.

***Coal*** – The System currently has a long-term transportation contract for coal transportation with CSX Transportation that extends through 2019, and owns a fleet of 106 aluminum rapid-discharge rail cars that are in continuous operation between the Deerhaven Station and the coal supply regions. Coal inventory at the Deerhaven Station is maintained at approximately 50-60 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 strategy is to meet forecasted coal requirements primarily through reliance upon 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 to the Deerhaven Station. Short-term procurement is based on opportunities for cost savings through spot purchases, the need to evaluate new coal sources through test burns, or to take advantage of a producer's excess coal production capacity. The System's baseload coal supply agreement with Constellation Energy Commodities Group ("Constellation Energy") is effective through December 2009 for a coal volume of 542,000 tons or approximately 90% of the System's coal supply requirement for 2009. This supply position is consistent with the System's market strategy of maintaining at least 70 - 75% of its coal supply under long-term (two to three years) contracts and the remainder under short-term (one year or less) contracts. This position has allowed the System to take advantage of favorable short-term market moves and insure against long-term economic disadvantage. The System will participate in the spot market for the remainder of the System's requirement in order to diversify its coal supply sources.

The System's coal supply strategy will change with the addition of the dry scrubber and SCR system at Deerhaven 2. The Air Quality Control System ("AQCS") was successfully integrated into the existing Deerhaven 2 operations during the spring 2009 scheduled outage. One of the benefits of the AQCS equipment is increased fuel flexibility. The dry scrubber will allow the System to switch from compliance coal (1.2 pounds of SO<sub>2</sub> per million British thermal units ("MMBtu's")) to a lower quality, lower cost coal having an SO<sub>2</sub> content of 2.0 – 2.5 pounds per MMBtu with lower emission rates. This reduction in sulfur content will allow the System to utilize coals from more suppliers and producing regions than in the past. As a result of this change in required coal quality, the System has not extended its existing Constellation Energy contract.

The System estimates that it will only require the current higher grade of coal for the remainder of 2009. After that point, it will require only minimal amounts of compliance coal as backup inventory.

As a result of a coal solicitation to acquire coal supply needs beyond 2009, the System received and evaluated proposals from eighteen suppliers offering twenty-five supply options for varying grades of coal. The System has secured supply for 2010 – 2011 at very competitive market prices with minimal price escalation exposure. On August 10, 2009, the System executed a coal supply agreement with Premier Elkhorn Coal Company (“Premier Elkhorn”), a part of TECO Coal Company, [and a coal supply agreement with Patriot Coal Sales LLC (“Patriot”) is currently in the final markup stage.]

**Natural Gas** – Natural gas supply for both the electric system and the natural gas distribution system is transported to the System by FGT under long-term contracts for daily firm pipeline transport capacity. These contracts are priced under transportation tariffs filed with FERC. The System’s natural gas supplies are transported from Gulf Coast producing regions in Texas, Louisiana, 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 the fiscal year ended September 30, 2008, the System consumed 4,530,699 MMBtu’s of natural gas in electric generation and 2,021,142 MMBtu’s for the distribution system. The average cost of gas delivered to the System in the fiscal year ended September 30, 2008 was \$10.42/MMBtu. For the current fiscal year, the System’s projected average cost of gas delivered is \$6.50/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 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.

In September 2006, the City became a participant in a long-term prepaid natural gas purchase with a number of other Florida municipalities through Florida Gas Utility (“FGU”), a joint action agency formed under the Florida Interlocal Cooperation Act of 1969, Section 163.01, Florida Statutes. FGU, with approval from the Florida municipalities, successfully unwound the long-term natural gas purchase in June 2009 under an early termination provision at the request of the natural gas supplier. The unwind had a highly favorable outcome for the participants, and included the receipt of a termination payment reflecting a major portion of the contract value for the remaining years of the original twenty-year life of the natural gas contract.

**Oil** – The System continually monitors the price of natural gas and No. 6 fuel oil for potential fuel cost savings available through fuel switching. In cases where the price of fuel oil delivered into the System maintains a sustained pricing advantage to natural gas, the System will dispatch its fuel oil/natural gas capable units to No. 6 fuel oil or No. 2 (diesel) fuel oil. The switching between the two fuels is driven by delivered price and unit efficiency on each fuel. The System also seeks to reduce costs by periodically using refined industrial waste oil. The System purchases its fuel oil supply through competitive bidding. 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. For the fiscal year ended September 30, 2008, the System’s average cost was \$7.65/MMBtu for No. 6 fuel oil and \$11.96/MMBtu for No. 2 fuel oil.

**Nuclear** – PEF, as operator of CR-3, is contractually responsible for nuclear fuel supply, including uranium concentrates, enriching services and fabrication of fuel for CR-3. Spent nuclear fuel is stored at CR-3 until it can be transported and disposed of at disposal sites that are scheduled to become operational, under a contract with the United States Department of Energy. At the present time, PEF has facilities on-site to accommodate storage of spent fuel. The System owns a 1.40790% share of CR-3.

## **Transmission System, Interconnections and Interchange Agreements**

The System has a looped transmission system with ample interconnection capacity to import sufficient power to serve its territory under the extreme worst case planning scenario. This scenario assumes that the System's three largest generating units (comprising nearly 65% of the System's total generating capacity) are out of service. Additional reactive power support has been added at Parker Road Switch Station and more is planned for late 2009 to improve the System's import capacity. The System's transmission system circles the GRU service area and connects three switching stations, seven loop-fed substations, and four radial-fed substations with a 138 kV loop system that provides a high degree of reliability to serve retail loads as well as Alachua and portions of Clay's territory. In a looped system, the loss of any single circuit between looped substations will not interrupt service as the substation can be served from the other direction. If the circuit feeding a radial-fed substation is lost, its load can be served by field switching to adjacent distribution circuits of another substation. The System's transmission loop has four interconnections with Florida's transmission grid, connecting to PEF to the west and the south and to FPL to the east. The System has three interconnections with PEF, one at PEF's Archer Substation over a 230 kV transmission line, and two at the Idylwild substation via PEF's autotransformer to its 69 kV lines. Finally, the System has a 138 kV transmission interconnection at FPL's Hampton Substation. The present transmission network consists of approximately 117.2 circuit miles of 138 kV and 2.5 circuit miles of 230 kV. The System has interchange agreements in place with all of the major generating utilities in Florida that allow power to either be purchased or sold anywhere in Florida by transporting ("wheeling") power through either PEF or FPL. The System is a member of FRCC. FRCC is a region of the North American Electric Reliability Council, Inc. ("NERC") and consists of virtually all of the electric utilities in Peninsular Florida. As a member of FRCC, the System participates in sharing standby and spinning 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.

### **Electrical Distribution**

All of the System's distribution substations are loop-fed or radial-fed from the 138 kV transmission looped system. The System currently has six loop-fed substations and three radial-fed substations connected to the transmission network, which feed power to the 12.47 kV distribution network. The transmission and distribution facilities are fully modeled in a geographical information system ("GIS"). The GIS is integrated with the System's automated trouble system that allows customer calls to be linked to specific devices to enhance service restoration. The integrated GIS is also used extensively in routing loads to specific circuits, planning distribution and substation system improvements, and supporting restoration efforts resulting from hurricane damage. Approximately 58% of the distribution system's circuit miles are underground, which is among the highest percentages in Florida. There is a new substation planned at Springhill with construction scheduled to begin in 2010. An additional substation is planned near US 441 and NW 53<sup>rd</sup> Ave. for 2015 to improve reliability and flexibility in serving the growing load in the System's territory.

There is no known electric apparatus containing substantial polychlorinated biphenyls ("PCB's"), a hazardous substance, in the System's transmission and distribution system. In fact, all known equipment has less than 50 parts per million ("ppm") of PCB's.

### **Capital Improvement Program**

The System's current six-year electric capital improvement program requires a total of approximately \$361,876,000 in capital expenditures between the fiscal years ending September 30, 2009 through 2014, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below.

## Electric Capital Improvement Program

	Fiscal Years ending September 30,						<b>Total</b>
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	
	(dollars in thousands)						
Generation and Control .....	\$ 82,741	\$26,016	\$28,017	\$ 25,146	\$ 18,065	\$15,899	\$195,884
Transmission and Distribution.....	9,856	10,741	11,426	12,808	13,611	14,099	72,541
Miscellaneous and Contingency .....	28,907	25,238	20,072	4,471	6,924	7,839	93,451
Total.....	\$121,504	\$61,995	\$59,515	\$42,425	\$38,600	\$37,837	\$361,876

### Loads and Resources

A summary of the System's generating resources compared to historical and projected capacity requirements is provided below:

<b>Fiscal Year</b>	<b>Net Summer System Capability (MW)<sup>(1)</sup></b>	<b>Firm Interchange Sales (MW)</b>	<b>Peak Load (MW)<sup>(2)</sup></b>	<b>Actual / Projected Planning Reserve Margin</b>	
				<b>MW</b>	<b>Percent</b>
<b>Historical</b>					
2004.....	611	3	432	176	41
2005.....	611	3	465	143	31
2006.....	611	3	464	144	31
2007.....	611	0	481	130	27
2008.....	659	0	457	202	44
<b>Projected</b>					
2009.....	710	0	465 <sup>(3)</sup>	269	61
2010.....	712	0	439	273	62
2011.....	665	0	441	224	51
2012.....	678	0	443	235	53
2013.....	678	0	445	233	52

(1) Based upon summer ratings. Deerhaven Station CT-3 (75 MW) was placed in service in January 1996. In 2001, JRK Station Unit 7 was re-powered with JRK Station CT-4 into a combined cycle configuration for a net gain of 60 MW. Auxiliary loads associated with additional emission control equipment on Deerhaven 2 are projected to reduce capacity by 3 MW in 2009. 3 MW of capacity from the Baseline Landfill was added in 2008, and 4.1 MW from the South Energy Center South was added in 2009. Three 0.64 MW landfill gas to energy units were retired in 2009, a purchase of 50 MW of firm baseload capacity ending December 31, 2013 began in 2008 and another purchase of 25 MW year round, 50 MW summer of firm baseload capacity began in 2009 and will end December 31, 2010. Imported firm capacity has been adjusted for losses in the table above. Additional resources include 4 MW per year solar beginning in 2009 with a coincident capacity factor of 35%, increments from CR-3 of 0.4 MW in 2010 and 1.9 MW in 2012, and 3.0 MW from the Baseline Landfill. The biomass plant is not assumed to be operational at the time of System peak in 2013.

(2) Summer peak forecast incorporates GRU's aggressive conservation and DSM plan which is projected to result in a peak load reduction of 21 MW by 2012. The plan includes conservation incentive retail rates and distributed renewable resources as well as incentive and information programs related to appliance and end use efficiency. The summer peak forecast presented here also includes Alachua and Seminole all-requirements wholesale contracts which are given the same precedence as native load.

(3) Actual peak set in June 2009.

### Mutual Aid Agreement For Extended Generation Outages

The System has entered into a mutual aid agreement for extended generation outages with seven 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, Seminole, and the Municipal Electric Authority of Georgia. 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 gas assuming a heat rate that corresponds to a combined cycle gas-fired generating unit. The System has designated 100 MW of the capacity of Deerhaven 2 to be covered under the agreement. The mutual aid agreement has been renewed and extended through November 2012.

## **Future Power Supply**

### *General*

Forecasts of load growth indicate that existing generating resources will be adequate through 2023 to maintain a 15% generation planning reserve margin. This is later than previous studies had indicated due to the incorporation of additional DSM measures, the institution of the solar feed-in-tariff, the addition of the South Energy Center and the Baseline Landfill purchase, PEF's assessment of the capacity gains from the CR-3 modifications into the System's Integrated Resource Plan ("IRP"), and more conservative customer growth and sales forecasts. 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 enhanced with an advantageous 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 System has an ongoing IRP process to support this strategy. Data on fuel price forecasts, construction and operation costs for generation technologies, assessments of renewable resources, emerging regulatory trends, opportunities in the community and surrounding area, and extensive interaction with the public and elected officials inform this process. The System is unique in that one of the objectives of the IRP planning process is to meet the Kyoto Protocol to the United Nations' Framework Convention on Climate Change (the "Kyoto Protocol") for its operations, which include electrical generation, natural gas services, water and wastewater facilities, vehicle fleets, administrative buildings and other facilities. This is responsive not only to community concerns regarding climate change, but in anticipation of forthcoming renewable portfolio standards and carbon regulations. The current plan which includes energy efficiency and customer DSM (including incentives for solar thermal and natural gas appliance switching), the solar feed-in-tariff, and a long-term contract for the output of a 100 MW biomass power plant will allow the System to meet its Kyoto Protocol objective by late 2013 and will furthermore be sufficient to allow the System meet any of the Renewable Portfolio Standards or Clean Portfolio Standards ("RPS") that have been proposed to date at the state or federal level.

### *Renewable Energy Strategy*

Climate change and greenhouse gas ("GHG") management is a growing local, state and federal concern. The potential enactment of renewable portfolio standards and carbon constraint regulations continue to be debated at the state and national levels and may be imminent. In anticipation of these regulatory challenges and in response to community interest, carbon management has become a major consideration in energy supply planning. See "FACTORS AFFECTING THE UTILITY INDUSTRY – Climate Change" herein. Furthermore, the System has a vested financial interest in protecting the value of the carbon offsets it has already achieved. Registering these offsets and measuring plans against known targets are two critical aspects of this process. The Kyoto Protocol is one such target.

The System conducted a carbon inventory in 2006 to establish a baseline rate of carbon emissions and to establish carbon targets in accordance with the Kyoto Protocol. Doing so may mitigate risks associated with renewable portfolio standards, fuel price volatility, and carbon constraints. Kyoto Protocol targets call for a



7% reduction in total carbon emissions or equivalent carbon offsets by the United States by 2012. The System conducted the inventory pursuant to the preliminary guidelines for the registration of carbon offsets (referred to as the “1605b regulations”) promulgated by the United States Department of Energy (“DOE”), and plans to register these values with the DOE as a hedge against future carbon regulations once final registration regulations are established. Significant carbon offset credits have been created by the System’s purchase of forest management rights for well field protection, re-powering of JRK Station Unit 7 into a combined cycle unit in 2001, replacing electric water heating with natural gas and other conservation programs, the new South Energy Center, landfill gas to energy projects, and the purchase of environmental attributes from PV systems, among other projects. None of these projects were undertaken strictly to offset carbon emissions but were justified on their need to cost-effectively meet other objectives. In March 2007, the City Commission reviewed the results of numerous planning studies and public workshops and the results of a series of market solicitations for additional resources. With the production tax credits for renewable energy, trends in interest rates, the value of depreciation tax credits, and the willingness for major financial interests to assume risks for new technologies, the conventional assumption that “self build” options of conventional technologies are always the least cost was no longer the case for renewable energy. It was also apparent that biomass, which is relatively abundant in the area, had the potential to provide an economic source of power. In view of the community’s concerns about climate change, indications of the intent of the state and federal governments to impose renewable portfolio standards and carbon constraints, and the volatility of natural gas prices, the System’s staff was instructed to pursue options not involving fossil fuels as a primary fuel source and to pursue a potentially favorable purchased power proposal obtained as part of the solicitation. With the actions taken to date and the completion of the biomass project described below, the System will be able to meet the Kyoto Protocol’s target GHG emission rate by late 2013.

### ***Biomass Resource Development***

The north central Florida region’s primary source of renewable energy, other than solar, is from biomass. There is insufficient wind, hydro, geothermal, tidal or wave energy to make the development of these other renewable energy resources feasible with current technology. In 2007, the System contracted with the University of Florida’s School of Forest Resources to conduct a comprehensive analysis of the amount of biomass available assuming competition for the resource from other utilities and a variety of transportation cost scenarios. A two-step request for proposal process was employed to initially short list applicants and then make a final selection based on binding proposals. A proposal from American Renewables Inc. was selected in 2008 and, after extensive negotiations, a PPA was executed and ratified by the City Commission in May 2009.

### ***Gainesville Renewable Energy Center, LLC***

American Renewables Inc. will develop the chosen biomass project as the Gainesville Renewable Energy Center, LLC (“GREC”) on property leased from the System at the Deerhaven Station power plant site. GREC will own, operate, and maintain the facility, with the System dispatching the unit and taking 100% of the facility’s output. GREC will be a 100 MW (net) bubbling fluidized bed boiler with a steam turbine unit equipped with air emission controls including selective non-catalytic reduction of NO<sub>x</sub> and fabric filters for particulate control. The type of fuel to be employed makes it unnecessary to control SO<sub>2</sub> or mercury. The intended 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, shavings from horse bedding, and mill residues. The ash from the facility will be recycled for its nutrient value in fertilizer.

The System’s PPA extends for thirty years from the date of first commercial operation and is structured as a “must-take” contract but with no fixed capacity charges. The PPA provides a contractual (guaranteed) heat rate as well as a guarantee of no more than 5.0% unavailability for four summer months and 10% annual unavailability. In addition to the System having no financial obligation except for available energy, the contract provides liquidated damages for performance below these levels of reliability, a right of first offer to purchase the facility, and a unilateral option to purchase the facility at fair market value at the end of the contract. The pricing elements for energy under the PPA include three components: (a) a non-fuel

energy charge; (b) a variable operating and maintenance charge; and (c) the fuel cost. The non-fuel energy charge is set in the PPA and will remain fixed over the term of the contract, and includes all costs to GREC of plant financing, construction, operation, equipment renewal and replacement, and maintenance over the life of the PPA. This charge is paid either for energy delivered or available energy that the System did not schedule. It should be noted that the dispatch order of merit for GREC is before the System's existing coal unit. The variable operating and maintenance charge is set in the PPA and will escalate according to a consumer price index. Fuel costs are basically a pass through, but the System has the option of providing a portion of the fuel. It is expected that GREC will enter into a portfolio of contracts with must take and call options indexed to diesel fuel and labor costs. The PPA includes gain sharing formula which provides financial incentives for GREC to obtain the lowest priced fuel possible. All legislation and RPS standards either proposed to date or in effect worldwide, including the EPA's proposed regulations to regulate CO<sub>2</sub> as a pollutant, treat biomass energy as carbon neutral, and the GREC PPA gives the System title to 100% of the environmental attributes associated with the facility, including renewable energy credits and carbon offset credits.

GREC is expected to create over 500 jobs in the region and because most of the energy costs are fixed, the cost of power and firm capacity will have substantial economic benefits for the System over the long-term. In the short-term, the System plans to resell about half of the GREC's capacity for a period of about ten years, and has actively engaged with a number of interested Florida utilities for this resale.

### ***Solar Feed-In-Tariff***

The System became the first utility in the nation to adopt a European-style solar feed-in-tariff ("FIT") in March 2009. Under this tariff, the System agrees to buy 100% of the electricity produced by a 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's Tariff provides a twenty-year fixed price purchase power agreement); and (c) the tariff differentiates between different types of projects in terms of the price paid (in the case of the System, there are different tariff rates for building/pavement mount and green field ground mount systems). FIT's can be applied to any form of renewable energy, but the System has chosen to focus on solar due to its widespread availability in the service area. The System acquires all the environmental attributes of the solar energy purchased under the FIT, such as renewable energy credits and carbon offsets. The benefits of the FIT include the creation of local investment opportunities, new jobs, and the potential attraction of solar manufacturing to the region. In order to manage the effect of the FIT on the System's purchased power cost, a stop loss criteria of no more than 4 MW per year of solar capacity was instituted. Applications for the European-style FIT have been received and the waiting queue currently extends through 2015.

## **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, four 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. Most of these LP systems are located in areas served by Clay for electric service.

### **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 and

Alachua currently has an option to purchase the distribution system in Alachua from the City. The Alachua City Commission has directed their staff to study the feasibility of buying the distribution facilities within Alachua’s corporate limits from the System. The terms and conditions of the expired franchise remain in effect until such time as a new franchise is negotiated or until a satisfactory buy-out agreement is reached. Service has continued uninterrupted and the customer base continues to expand in that community.

**Customers**

The natural gas system has experienced steady growth in customers in recent years of 2.2%, compounded annually. The following tabulation shows the average number of natural gas customers for the fiscal years ended September 30, 2004 through 2008. Over 90% of new single family developments in the Gainesville urban area have been connected to the System over this period.

	<b>Fiscal Years ended September 30,</b>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Customers (Average).....	30,901	31,706	32,522	33,125	33,777

The composition of the System’s natural gas customers is predominantly residential. Commercial and industrial customers comprised approximately 5.5% of the 33,777 average customers served in the fiscal year ended September 30, 2008.

**Natural Gas Supply**

Natural gas is procured and delivered in much the same manner as for the System’s electric generation operations. TEA purchases commodity, handles 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, 2008 was \$10.0031/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 735 miles of gas distribution mains. The predominant and now standard pipe materials in service are polyethylene (525 miles) and coated steel (180 miles). All coated steel pipelines are cathodically protected using magnesium anodes. The remaining 30 miles of the distribution system are comprised of uncoated steel, cast iron, and black plastic. The replacement of all three of these pipeline materials has been programmed within the immediate planning/construction horizon and in advance of regulatory requirements.

**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 the 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 will be 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 remediation costs are currently estimated at \$15 million, of which \$3 million [is expected to be] obtained from the State's petroleum clean-up fund. The remaining cost is included in the natural gas capital improvement program. These costs are subject to increases related to rising fuel prices or the discovery of additional soil impacts. In the fiscal year ended September 30, 2003, the System implemented a cost recovery factor to fund the remediation. This factor has been applied to retail customers' bills since that time and is subject to change depending on future cleanup costs.

### Capital Improvement Program

The System's current six-year natural gas capital improvement program requires a total of approximately \$48,052,000 in capital expenditures between the fiscal years ending September 30, 2009 through 2014, inclusive. The single largest capital cost category is the MGP remediation, as discussed above. A breakdown of the categories included in the six-year capital improvement program is outlined below.

#### Gas Capital Improvement Program

	Fiscal Years ending September 30,						Total
	2009	2010	2011	2012	2013	2014	
	(dollars in thousands)						
Distribution Mains .....	\$1,101	\$ 1,152	\$ 1,835	\$2,102	\$2,179	\$2,261	\$ 10,630
Meters, Services and Regulators .....	1,529	1,705	2,024	2,253	2,187	2,194	11,892
Acquisition and Clean-up.....	1,917	14,786	-	-	-	-	16,703
Miscellaneous and Contingency.....	1,477	2,348	2,472	635	933	962	8,827
Total.....	<u>\$6,024</u>	<u>\$19,991</u>	<u>\$6,331</u>	<u>\$4,990</u>	<u>\$5,299</u>	<u>\$5,417</u>	<u>\$48,052</u>

### THE WATER SYSTEM

The water system currently includes 1,095 miles of water transmission and distribution lines throughout the Gainesville urban area, sixteen 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 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. The area presently served includes approximately 118 square miles and approximately 72% of the County's total population. The University of Florida and a small residential development in Alachua are the only wholesale sales customers. All other customers are served under either the water system's residential inverted block rate or the general service category.

#### Customers

The System has experienced steady growth in customers in recent years. The System has extension policies for providing water supply services to new developments with connection fees, 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, 2004 through 2008.

	<b>Fiscal Years ended September 30,</b>				
	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Customers (Average).....	62,890	64,692	66,475	67,774	69,779

Most of the System’s individual water customers are residential. Commercial and industrial customers comprised approximately 8.8% of the 69,779 average customers in the fiscal year ended September 30, 2008, and 59% of all water sales revenues were from residential customers.

**Water Treatment and Supply**

Gainesville’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 2030. 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 the addition of two additional filter cells to provide additional treatment capacity.

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 Cabot/Koppers Superfund site, which was declared a Superfund site in 1983, is located approximately 2 miles to the southwest of the Murphree Plant. The site is contaminated from past wood treating and pine tar processing operations. The presence of protective geologic confining layers over the aquifer has greatly impeded the migration of contamination. However, measures are needed to contain the contamination and clean up the site to ensure that Gainesville’s 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 installed “sentinel” groundwater monitoring wells close to the contaminated site, conducted groundwater testing at the sentinel wells and at other wells in the area, and actively participated as a stakeholder working with the EPA and the PRP for the site (Beazer East, Inc.) 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 PRP 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.

## 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 pumping station, the Kelly Repump station, and the Santa Fe Repump station provide water flow and pressure stabilization throughout the service area. The water distribution system consists 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 spent \$850,000 in the fiscal year ended September 30, 2008 and is planning to spend an additional \$9 million in the fiscal years ending September 30, 2009 through 2014, inclusive, for improvements to the transmission and distribution system to assure adequate pressures and fire flows under future conditions.

## Capital Improvement Program

The System’s current six-year water capital improvement program requires a total of approximately \$66,918,000 in capital expenditures between the fiscal years ending September 30, 2009 through 2014, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below.

### Water Capital Improvement Program

	Fiscal Years ending September 30,						
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
	(dollars in thousands)						
Plant Improvements.....	\$ 4,588	\$ 4,141	\$4,092	\$4,578	\$2,585	\$4,090	\$24,074
Transmission and Distribution .....	4,281	2,597	2,951	3,030	4,515	3,402	20,776
Miscellaneous and Contingency .....	2,886	7,495	6,996	922	1,876	1,893	22,068
Total.....	<u>\$11,755</u>	<u>\$14,233</u>	<u>\$14,039</u>	<u>\$8,530</u>	<u>\$8,976</u>	<u>\$9,385</u>	<u>\$66,918</u>

## THE WASTEWATER SYSTEM

The wastewater system serves most of the Gainesville urban area and consists of 607 miles of gravity sewer collection system, 164 pump stations with 133 miles of associated force main, and two major wastewater treatment plants with a combined treatment capacity of 22.4 Mgd AADF. While effluent disposal is mostly accomplished through deep well injection and surface water discharge, the System is aggressively expanding 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 for providing wastewater facilities and service to new customers are in place with connection fees appropriately designed to protect existing customers from rate pressure that would result from adding new customers. 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. The wastewater system does not serve the majority of the University of Florida campus.

## Customers

The System has experienced steady growth in customers in recent years. The following tabulation shows the average number of wastewater customers for the fiscal years ended September 30, 2004 through 2008.

	<b>Fiscal Years ended September 30,</b>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Customers (Average).....	55,821	57,553	59,206	60,205	61,552

The composition of the System’s wastewater customers is predominantly residential. Commercial and industrial customers comprised approximately 6.7% of the 61,552 average customers in the fiscal year ended September 30, 2008, and residential customers were the source of 72% of the wastewater system’s revenues in the fiscal year ended September 30, 2008.

## Treatment

The wastewater system currently includes two major wastewater treatment plants, the Main Street Water Reclamation Facility (the “Main Street Plant”) and the Kanapaha Water Reclamation Facility (the “Kanapaha Plant”). Currently, these facilities have a combined capacity of 22.4 Mgd AADF, which is sufficient capacity to meet projected demands through 2029. Although these facilities receive flow from adjacent but distinct collection areas, a pump station that allows wastewater to be routed to either the Main Street Plant or Kanapaha Plant allows treatment capacity at both facilities to be fully utilized.

The Main Street Plant 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 included 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 the federal sludge regulations. Effluent from the Main Street Plant is discharged to the Sweetwater Branch and must meet requirements of the Florida Department of Environmental Protection (“FDEP”) for discharge to Class III surface waters. The Main Street Plant meets all standards pursuant to its National Pollutant Discharge Elimination System permit.

A reclaimed water transmission line from the Main Street Plant has been constructed to eventually provide water for the City’s future bus wash facility, and for use at the recreational area to be created as part of the MGP remediation (see “THE NATURAL GAS SYSTEM – Manufactured Gas Plant” herein). In addition, there are capabilities to extend this line to provide reclaimed water service to Ironwood Golf Course and other areas, as needed to increase water reuse capacity.

GRU is also extending a reclaimed water line to the South Energy Center. Reclaimed water will be used for process cooling and irrigation. See “THE ELECTRIC SYSTEM – Energy Supply System – Generation Stations – South Energy Center” herein.

Total Maximum Daily Load (“TMDL”) regulations were adopted by the FDEP in January 2006 and require reductions in total nitrogen discharges from the Main Street Plant and other nitrogen sources. Florida’s TMDL regulations allow FDEP to negotiate basin management plans involving all of the parties affecting the water bodies. GRU is planning to achieve its TMDL limits by either expanding reclaimed water usage or participating in a proposed cooperative environmental restoration project known as the Sweetwater Branch/Paynes Prairie Sheetflow Restoration project. It is anticipated that such project will be completed by 2019.

The Kanapaha Plant is permitted to discharge into a potable zone of the Floridan aquifer. Accordingly, its effluent must meet drinking water standards. Construction was completed in June 2004 to provide a capacity of 14.9 Mgd AADF. The plant has two distinct treatment processes incorporated into its design: a modified Ludzack-Ettinger Treatment process and a carrousel advanced wastewater treatment activated sludge system. The treatment process concludes with filtration and chlorination prior to discharge into gravity drainage wells or a reclaimed water treatment distribution system.

The Southwest Reuse Project distributes reclaimed water from the Kanapaha Plant to customers for landscape irrigation and golf course irrigation. All reclaimed water not reused directly recharges the Floridan aquifer via deep recharge wells that discharge to a depth of 1,000 feet.

The System delivered approximately 3.2 Mgd AADF of reclaimed water in the fiscal year ended September 30, 2008. 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 15,987 manholes with 607 miles of gravity sewer, 50% of which consists of vitrified clay pipe. New facilities under 12 inches in diameter are primarily constructed of PVC pipe, and new facilities 12 inches in diameter and over are primarily constructed of ductile iron pipe. The System maintains three television sealing and inspection units which are routinely employed in inspecting new additions to the System and sealing older lines. 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 164 pump stations and over 133 miles of pipe. Existing lines under 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 with larger force mains constructed of ductile iron or high density polyethylene. 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 a total of approximately \$90,635,000 in capital expenditures between the fiscal years ending September 30, 2009 through 2014, inclusive. A breakdown of the categories included in the six-year capital improvement program is outlined below.

**Wastewater Capital Improvement Program**

	<b>Fiscal Years ending September 30,</b>						
	<b><u>2009</u></b>	<b><u>2010</u></b>	<b><u>2011</u></b>	<b><u>2012</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>Total</u></b>
	<b>(dollars in thousands)</b>						
Plant Improvements.....	\$ 4,888	\$ 9,920	\$ 4,160	\$ 7,127	\$ 4,037	\$ 289	\$30,421
Reclaimed Water .....	2,581	5,222	3,946	323	3,853	6,284	22,209
Collection System .....	2,083	1,740	1,286	2,025	1,962	2,049	11,145
Miscellaneous and Contingency.....	3,572	8,021	7,746	1,855	2,767	2,899	26,860
Total.....	<u>\$13,124</u>	<u>\$24,903</u>	<u>\$17,138</u>	<u>\$11,330</u>	<u>\$12,619</u>	<u>\$11,521</u>	<u>\$90,635</u>

**THE TELECOMMUNICATIONS SYSTEM**

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 and public safety radio services for all the major public safety agencies operating in the County. 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, but it provides public safety radio services throughout the entire County through interlocal agreements. GRUCom holds telecommunications licenses that allow it to provide telecommunication services throughout the State.

## **Services Provided**

The services provided by GRUCom fall primarily into the following four major product lines: telecommunications services; Internet access services; communication tower antenna space leasing; and public safety radio 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 1 gigabit per second (“Gbps”). Part of GRUCom’s business strategy is to use unbundled network elements from the incumbent local exchange carrier (now AT&T through merger with BellSouth) in anticipation of fiber extensions to specific service locations. In 2003, GRUCom installed a software-based telecommunications switch that is capable of delivering local exchange telecommunications services. In recent years, the telecommunications switch has been used only to provide telephone lines required for dial-up Internet access, which are inward call only lines. However, GRUCom has upgraded the switch and will offer expanded services including two-way, business voice service in the future.

GRUCom also uses the fiber optic network to provide high speed, dedicated Internet access services. Business connections to the Internet are offered at access speeds ranging from 256 kilobits per second (“Kbps”) up to 100 Mbps. Dedicated Internet access is also offered to residential customers in participating multi-dwelling complexes at speeds up to 10 Mbps. Additionally, GRUCom offers dial-up and ISDN Internet access services under the domain names GRU.Net and Gator.Net. The dial-up access speeds available are 56 Kbps and 128 Kbps.

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. Two of the five antenna 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 FCC’s current frequency allocations and positioned to accommodate frequency changes recently enacted by the FCC to accommodate personal communication services (“PCS”) providers. The trunked radio system meets current industry standards for interagency operability. The trunked radio system consists of twenty-two trunked voice frequencies. Antenna sites are linked to the network controller and various dispatch centers utilizing GRUCom’s transport services. Certain frequencies used by the trunked radio system were recently changed in conjunction with a mandate from the FCC which will accommodate PCS provider Nextel. All costs associated with this “rebanding” will be paid by Nextel.

## **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 telecommunications companies, commercial and industrial businesses, governmental agencies, schools and hospitals. As of September 30, 2008, GRUCom had a total of 96 transport customers with 1,027 circuits provisioned.

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, 2008, GRUCom had 4,130 dedicated Internet access customers, while dial-up customers totaled 1,496.

GRUCom tower space leasing services are used primarily by wireless providers, which include cellular telephone and PCS companies. As of September 30, 2008, GRUCom had executed 43 tower leases, for space on thirteen antenna sites with ten different lessees. Wireless communications service providers utilizing City towers include Alltel Mobile, AT&T Wireless, Nextel Communications, Sprint PCS, T-Mobile Communications, Verizon Wireless and Clearwire.

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 City's Police, Fire Rescue and Public Works Departments, the University of Florida's Police Department, the Santa Fe Community College's Police Department, the County's Sheriff's Department, and the County's Fire Rescue and Public Works Departments. These users have entered into a service agreement through 2014, with minimum commitments for the number of users and monthly fees per user established for voice, data, 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 2,901 subscriber units in service.

## **Description of Facilities**

As of September 30, 2008, GRUCom had 318 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 carrier grade services, GRUCom has deployed optical equipment manufactured by Nortel (primarily) using the Synchronous Optical Network (SONET) standard protocol; and for commercial services, GRUCom uses Ethernet switches manufactured by Cisco on the network. 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 including AT&T, Interstate Fibernet, Level 3 Communications and Verizon Business.

The public radio system employs a Motorola 821 MHz simulcast system configured with five transmit and receive tower sites including 22 simulcast voice, six data frequencies, and two additional mutual aid channels.

GRUCom currently has a 1 Gbps transport circuit to the Atlanta, Georgia TELX location, a major meet-point on the Internet. The transport circuit carries a 200 Mbps backbone Internet access service which GRUCom receives from Cogent Communications and a 200 Mbps backbone Internet access service received from Peer1 Network. Both Internet access services are burstable to 1 Gbps if additional Internet bandwidth is needed. Also included with the Internet access services is a connection to the TELX Internet Exchange ("TIE"), a separate peering point in the TELX location. Peering provides direct connection to web locations

such as Google, McAfee Akami, Hurricane Electric (a major Internet service), Sprint and several other Internet service providers. The TIE improves the connection performance with the TIE peers by bypassing intermediate router points. GRUCom is also in early discussions to obtain a 1 Gbps transport service to Orlando, Florida. The intention is to acquire additional Internet connectivity in Orlando, Florida along with other network optimizing connections. Transport service to Orlando, Florida will provide GRUCom with diverse routes in the event of a major outage in either the Atlanta, Georgia or Orlando, Florida locations.

The Internet backbone connections available to GRUCom are combined and resold either as dedicated access or retail dial-up Internet services. GRUCom provides Internet transport services to the University of Florida, and has a peering arrangement with the University of Florida for the exchange of Internet traffic.

### Capital Improvement Program

The capital improvement program for GRUCom calls for expenditures of \$33,364,000 between the fiscal years ending September 30, 2009 through 2014, inclusive. GRUCom’s capital improvement requirements represent an estimate since they are dependent on customer growth and new product decisions. A breakdown of the categories included in the six-year capital improvement program is presented below.

#### GRUCom Capital Improvement Program

	Fiscal Years ending September 30,						Total
	2009	2010	2011	2012	2013	2014	
	(dollars in thousands)						
Fiber Optic Expansion .....	\$4,405	\$3,676	\$1,429	\$3,561	\$5,336	\$5,570	\$23,977
General Plant.....	196	162	181	257	196	202	1,194
Miscellaneous and Contingency.....	691	4,021	4,084	(760)	77	80	8,193
Total .....	<u>\$5,292</u>	<u>\$7,859</u>	<u>\$5,694</u>	<u>\$3,058</u>	<u>\$5,609</u>	<u>\$5,852</u>	<u>\$33,364</u>

### RATES

#### General

In general, the rates of municipal electric utilities in Florida are established by the governing bodies of such utilities. 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 has not asserted any jurisdiction over the rates or rate structure of the System. The FPSC also has the authority to determine the need for certain new transmission and generation facilities. The governing bodies of municipal water, wastewater and natural gas utilities 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. See “SECURITY FOR THE BONDS – Rate Covenant” herein. Future projected rate changes provided in this Official Statement have been developed by the System’s staff based on the most recent forecasts and operation projections available.

**Electric System**

The table below presents electric system base rate changes since 2004 and the most recent projected rate changes.

**Electric System  
Base Rate Revenue Changes  
(Excluding Fuel Adjustment)**

<u>Rate Change</u>	<u>Base Rate Revenue<sup>(1)</sup> Percent Increase</u>
<b>Historical</b>	
October 1, 2004 .....	None
October 1, 2005 .....	3.00%
October 1, 2006 .....	13.50
October 1, 2007 .....	11.00
October 1, 2008 .....	7.00
<b>Projected</b>	
October 1, 2009 <sup>(2)</sup> .....	6.90%
October 1, 2010 .....	4.25
October 1, 2011 .....	3.00
October 1, 2012 .....	3.00
October 1, 2013 .....	3.00

<sup>(1)</sup> 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 are applied to billing elements to reflect the most recent cost of service studies and to yield the overall revenue requirement.

<sup>(2)</sup> [The City Commission has approved the overall change in revenue requirements and schedule of billing element adjustments to go into effect October 1, 2009.]

The System’s rates for electric service also embody a fuel adjustment clause which provides for increases or decreases in the charge for electric energy to cover increases or decreases in the cost of fuel to the extent such cost varies from a predetermined base of 6.5 mills per kWh. The current fuel adjustment formula is a one-month forward-looking projected formula which is based on last-in, first-out (“LIFO”) accounting of fuel inventory.

Although the rates of the System are not subject to federal regulation, the National Energy Act of 1978 contains provisions which required 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.

The Business Partners Rate Discount Program (the “Business Partners Program”) was a program instituted in 1997 as part of a strategy to prepare for retail deregulation. The program provided discounts on the non-fuel portions of participating commercial customers’ electric bills. In return, customers committed to the System as their exclusive provider of electric power for ten years or until they cease to conduct business within the System’s electric service area. The agreements provided for a “buy-out” clause which raised a significant financial hurdle for switching energy suppliers. Effective June 1, 2002, the discounts for the General Service Demand and Large Power rate classes were increased and in order to obtain these increased discounts, customers were required to execute a new Business Partners Program agreement for a ten-year term. Since October 1, 2006, no new Business Partner Contracts have been entered into. Contracts already in effect

will be honored until their respective expiration dates, which for a majority of customers will be 2012. The expiration of these contracts will tend to offset revenue requirement increases in the future.

In 2006, the City Commission ratified a revised three-tier structure for residential rates. This structure reflects a lower rate for low quantity users, rewarding customers who conserve and assisting low use customers.

Public streets in Gainesville and in 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 pays for streetlights in Gainesville. Pursuant to a 1990 agreement, the City of Gainesville General Fund reimburses the Board of County Commissioners of the County to, in effect, pay for the streetlights in the unincorporated areas served by the System.

***Rates and Charges for Electric Service***

The proposed electric rates, [as approved by the City Commission,] which will become effective as of October 1, 2009, are provided below by class of service. Though the rates are functionally unbundled, they are presented to the customer for billing purposes in a rebundled format.

Residential Standard Rate

Customer charge, per month .....	\$8.45
First 250 kWh, Total charge per kWh.....	\$0.028
251 – 750 kWh, Total charge per kWh .....	\$0.067
All kWh per month over 750, Total charge per kWh .....	\$0.102

Residential Optional Time-of-Use Rate

Customer charge, per month .....	\$17.60
Energy charge:	
All energy used on-peak, per kWh.....	\$0.139
All energy used off-peak, per kWh .....	\$0.035
Peak periods shall be as follows:	
Weekdays, 6:00 a.m. through 10:00 p.m., weekends and holidays excluded.	
Off-peak periods shall be all periods not included in peak periods	

Non-Residential General Service Non-Demand Rates (before Business Partners Program discounts, if applicable)

Customers in this class have not established a demand of 50 kW or greater. Charges for electric service are:

Customer charge, per month .....	\$25.50
First 1,500 kWh per month, Total charge per kWh.....	\$0.070
All kWh per month over 1,500, Total charge per kWh.....	\$0.103

Non-Residential General Service Demand Rates (before Business Partners Program discounts, if applicable)

Customers in this class have established a demand of between 50 and 1,000 kW.  
Charges for electric service are:

Customer charge, per month .....	\$45.00
Total Demand charge, per kW .....	\$9.25
Total Energy charge, per kWh .....	\$0.042

Non-Residential Large Power Rates (before Business Partners Program discounts, if applicable)

Customers in this class have established a demand of 1,000 kW or greater. Charges for electric service are:

Customer charge, per month .....	\$300.00
Total Demand charge, per kW .....	\$9.25
Total Energy charge, per kWh .....	\$0.039

Customers in all classes are charged a fuel adjustment. All customers that are not City-owned facilities pay a 2.5% Florida gross receipts tax on portions of their bill. All non-exempt customers residing within the City's corporate limits pay a City utility 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 7% 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 thirty minutes) established during the billing month. The City's rate ordinance also includes clauses providing for primary service metering discounts and facilities leasing adjustment.

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*Comparison with Other Utilities*

As shown in the table below, the average monthly bills for electric service are competitive with other Florida electric utilities. The System’s average annual use per residential customer was 10,066 kWh in the fiscal year ended September 30, 2008.

**Comparison of Monthly Electric Bills <sup>(1)</sup>**

	<b>Residential 1,000 kWh</b>	<b>General Service<sup>(2)</sup></b>		<b>Large Power<sup>(2)</sup> 430,000 kWh 1,000 kW</b>
		<b>Non-Demand 1,500 kWh</b>	<b>Demand 30,000 kWh 75 kW</b>	
Florida Power & Light Company .....	\$105.78	\$172.23	\$2,852.75	\$39,978.82
Clay Electric Cooperative, Inc. ....	109.30	165.35	2,731.00	37,366.00
Tampa Electric Company .....	111.21	171.62	2,912.10	40,191.10
Lakeland Electric.....	113.24	171.91	2,853.32	40,453.80
JEA.....	119.59	167.70	3,045.55	42,536.50
Progress Energy Florida, Inc. ....	119.72	184.19	2,997.27	42,664.71
Orlando Utilities Commission.....	119.82	186.29	2,927.70	40,363.70
Gulf Power Company.....	121.00	189.51	2,973.50	41,301.20
<b>Gainesville Regional Utilities.....</b>	<b>132.60</b>	<b>201.24</b>	<b>3,355.50</b>	<b>45,491.50</b>
Kissimmee Utility Authority .....	133.27	212.52	3,765.79	52,245.82
Ocala Electric Utility.....	139.84	207.72	3,658.13	53,891.62
City of Tallahassee .....	140.85	185.80	3,142.50	43,513.04
Ft. Pierce Utilities Authority .....	149.84	224.80	3,948.75	56,684.97
City of Vero Beach.....	158.82	237.25	3,805.17	53,887.62

Source: Prepared by the Strategic Planning 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.

- (1) Rates in effect for June 2009 applied to noted billing units, ranked by residential bills. Excludes public utility taxes, sales taxes, surcharges, and franchise fees.
- (2) The System’s bills in this table assume participation in the Business Partners Program, as discussed above.

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**Natural Gas System**

The table below presents the results of natural gas system base rate increases since 2004 and the most recent projected rate changes.

**Natural Gas System  
Base Rate Revenue Changes**

<u>Rate Change</u>	<u>Percentage Base Rate Revenue<sup>(1)</sup> Increase</u>
Historical	
October 1, 2004 .....	None
October 1, 2005 .....	None
October 1, 2006 .....	None
October 1, 2007 .....	11.00
October 1, 2008 .....	19.00 <sup>(2)</sup>
Projected	
October 1, 2009 .....	None
October 1, 2010 .....	4.25
October 1, 2011 .....	3.00
October 1, 2012 .....	2.50
October 1, 2013 .....	2.50

<sup>(1)</sup> 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 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.

<sup>(2)</sup> In addition to the base rate increase indicated in the table, the rate for the separate charge for remediation of the MGP site was increased from \$0.0321 to \$0.037 per therm.

The System’s tariffs for natural gas service also embody a purchased gas adjustment clause which 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 formula is a one-month forward-looking projected formula, which is based on LIFO accounting of fuel cost.

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***Rates and Charges for Natural Gas Service***

The current natural gas rates, which were effective as of October 1, 2008, are provided below by class of service:

Residential Service Rate	
Customer Charge .....	\$9.52 per month
Non-Fuel Energy Charge .....	\$0.483 per therm
General Firm Service Rate	
Customer Charge .....	\$30.00 per month
Non-Fuel Energy Charge .....	\$0.308 per therm
Interruptible Service Rate	
Customer Charge .....	\$375.00 per month
Non-Fuel Energy Charge .....	\$0.286 per therm
Large Volume Interruptible Rate	
Customer Charge .....	\$375.00 per month
Energy Charge .....	\$0.14268 per therm
Manufactured Gas Plant Cost Recovery Factor (Applied to All Rate Classes)	\$0.037 per therm

Customers in all classes are charged a purchased gas adjustment and the Manufactured Gas Plant Cost Recovery Factor. All customers that are not City-owned facilities pay a 2.5% Florida gross receipts tax on portions of their bill. 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. For interruptible customers, the minimum bill equals the customer charge, plus a minimum billing volume as specified by contract.

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***Comparison with Other Utilities***

The System’s average natural gas charges in effect for the month of June 2009 are compared to those for eleven other municipal and private natural gas companies in the following table. The System’s gas rates are among the lowest in the State.

**Comparison of Monthly Natural Gas Bills<sup>(1)</sup>**

	<b><u>Residential 35 therms</u></b>	<b><u>General Firm 300 therms</u></b>	<b><u>Interruptible 30,000 therms</u></b>
<b>Gainesville Regional Utilities.....</b>	<b>\$37.02</b>	<b>\$307.50</b>	<b>\$20,949.00</b>
Okaloosa Gas District.....	37.58	348.72	25,291.80
City of Sunrise.....	42.12	325.72	40,328.49
City of Tallahassee .....	43.26	458.58	33,861.77
Central Florida Gas .....	44.17	341.40	15,286.20
Clearwater .....	45.25	493.00	40,950.00
Pensacola.....	46.48	385.20	29,298.00
Kissimmee <sup>(2)</sup> .....	49.79	385.20	29,298.00
Lakeland <sup>(2)</sup> .....	49.79	385.20	29,298.00
Orlando <sup>(2)</sup> .....	49.79	385.20	29,298.00
Tampa <sup>(2)</sup> .....	49.79	385.20	29,298.00
Ft. Pierce .....	50.80	396.97	32,668.01

Source: Prepared by the Strategic Planning 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.

<sup>(1)</sup> Rates in effect for June 2009 applied to noted billing volume (excludes all taxes and franchise fees). Sorted in ascending order by residential charges.

<sup>(2)</sup> Service provided by People’s Gas.

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**Water and Wastewater System**

The table below presents the water system rate changes since 2004 and the most recent projected rate changes.

**Water System  
Base Rate Revenue Changes**

<u>Rate Changes</u>	<u>Percentage Base Rate Revenue<sup>(1)</sup> Increase</u>
Historical	
October 1, 2004 .....	6.40%
October 1, 2005 .....	15.00
October 1, 2006 .....	25.00
October 1, 2007 .....	13.00
October 1, 2008 .....	9.00
Projected	
October 1, 2009 <sup>(2)</sup> .....	4.50
October 1, 2010 .....	3.50
October 1, 2011 .....	3.50
October 1, 2012 .....	3.00
October 1, 2013 .....	3.00

<sup>(1)</sup> 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.

<sup>(2)</sup> [The City Commission has approved the overall change in revenue requirements and schedule of billing element charges to go into effect October 1, 2009.]

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The table below gives the results of wastewater system rate changes since 2004 and the most recent projected rate changes.

**Wastewater System  
Base Rate Revenue Changes**

<u>Rate Changes<sup>(1)</sup></u>	<u>Percentage Base Rate Revenue<sup>(1)</sup> Increase</u>
Historical	
October 1, 2004 .....	5.25%
October 1, 2005 .....	15.00
October 1, 2006 .....	25.00
October 1, 2007 .....	17.00
October 1, 2008 .....	11.00
Projected	
October 1, 2009 <sup>(2)</sup> .....	2.25%
October 1, 2010 .....	1.50
October 1, 2011 .....	1.25
October 1, 2012 .....	None
October 1, 2013 .....	None

<sup>(1)</sup> 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.

<sup>(2)</sup> [The City Commission has approved the overall change in revenue requirements and schedule of billing element charges to go into effect October 1, 2009.]

***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 present rate and charges schedule, together 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 water and wastewater system expansion. Growth in retail revenues due to projected customer growth provides for all other increased costs.

During the billing months of April through October (the irrigation season), residential customers are subject to the inverted block rate. Under this structure 0-9,000 gallons is equal to the flat rate charge for November through March. The second tier, usage greater than 9,000 gallons but less than 25,000 gallons, is billed at a rate 65.5% greater than the flat rate. The third tier, all usage 25,000 gallons and above, is billed at a rate 71.9% greater than the second tier. The third tier was established to recover capital impacts on the water system by high-volume users.

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 Gainesville in the early nineteen hundreds. 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. In October 2006, the fire hydrant charges for the University of Florida were included in base water rates.

Fire hydrants in Gainesville and in the unincorporated areas of the County are provided by the System and billed to the appropriate jurisdiction for payment. A 1990 agreement between Gainesville and the County provided for the City to reimburse the County from its General Fund for its fire hydrant payments. The City Commission directed that, effective October 1, 2005, the cost for fire hydrants be rolled into base water rates.

**Monthly Service Charges**

Monthly service charges are levied for the actual units of service rendered individual customers. Customers pay a rate per thousand gallons of water consumed or wastewater treated, and all customers pay a monthly billing charge. 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. The table below lists the current monthly charges for water and wastewater service effective October 1, 2009 [and approved by the City Commission].

**Current Monthly Charges For Water and Wastewater Services**

Water Rates:

Residential	
Customer Billing Charge.....	\$7.30 per month
Consumption Rate:	
First 9,000 gallons .....	\$1.65 per 1,000 gallons
Over 9,000 to less than 25,000 gallons.....	\$3.30 per 1,000 gallons
25,000 or more gallons .....	\$6.00 per 1,000 gallons
Commercial	
Customer Billing Charge.....	\$7.30 per month
Consumption Rate .....	\$3.30 per 1,000 gallons
University of Florida	
Customer Billing Charge.....	\$7.30 per month
Consumption Rate: .....	
On-campus facilities .....	\$1.92 per 1,000 gallons
Off-campus facilities.....	\$2.67 per 1,000 gallons
City of Alachua <sup>(1)</sup>	
Customer Billing Charge.....	\$7.30 per month
Consumption Rate.....	\$1.51 per 1,000 gallons

Wastewater Rates:

Residential and Commercial	
Customer Billing Charge.....	\$6.00 per month
All Usage <sup>(2)</sup> .....	\$5.07 per 1,000 gallons
Tacachale	
Fixed Charge <sup>(3)</sup> .....	\$5,378.03 per month
All Usage.....	\$1.47 per 1,000 gallons

<sup>(1)</sup> The System provides wholesale water service to Alachua for resale to a residential subdivision.

<sup>(2)</sup> 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.

<sup>(3)</sup> The wastewater rates are calculated to compensate for specific customer-borne capital costs.

***Comparison with Other Cities***

The System’s average water and wastewater charges in effect for the month of June 2009 are compared to those for thirteen other Florida cities in the table below.

**Comparison of Monthly Residential Water and Wastewater Bills<sup>(1)</sup>**

<u>City</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Tampa.....	\$13.59	\$31.44	\$45.04
Orlando.....	13.71	32.67	46.38
Lakeland.....	17.62	32.11	49.73
Orange County.....	14.15	36.15	50.30
Pensacola (ECUA).....	19.96	34.80	54.76
Jacksonville.....	16.58	36.92	55.50
Ocala <sup>(3)</sup> .....	15.94	42.72	58.66
<b>Gainesville Regional Utilities.....</b>	<b>18.13</b>	<b>40.58</b>	<b>58.71</b>
Tallahassee <sup>(2) (3)</sup> .....	14.45	46.01	60.46
Winter Haven <sup>(2)</sup> .....	20.71	39.20	62.49
St. Augustine.....	33.40	35.39	68.79
Daytona Beach.....	35.72	40.17	75.89
Lake City.....	33.25	44.54	77.79
Ft. Pierce.....	31.51	49.07	80.58

Source: Prepared by the Strategic Planning Department of the System based upon published rates and charges and/or personal contact with utility representatives.

- (1) Comparisons are based on 7,000 gallons of metered water and 7,000 gallons of wastewater treated and rates in effect for June 2009; excludes all taxes, surcharges, and franchise fees; sorted by total charges.
- (2) Similar water treatment process -- filtration and softening.
- (3) Similar wastewater treatment process -- public access reuse levels.

***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 are subject to the 25% surcharge imposed on non-exempt customers not residing within the City’s corporate limits.

***Connection Charges***

The System collects connection charges, including transmission and distribution system (or collection system for wastewater) charges, meter installation charges, treatment plant connection charges and contributions in aid of construction. Transmission and distribution/collection system connection charges and meter installation charges are designed to recover a portion of the capital cost of installing the distribution and collection systems. Treatment plant connection charges are designed to recover the current cost of the treatment plants and additional facilities required to provide adequate water and wastewater service to new customers. Connection charges are adjusted periodically to reflect inflation.

Effective October 1, 2009, transmission and distribution/collection system connection charges for individual lots are \$370 to connect to the water system and \$540 to connect to the wastewater system. The water meter installation charge is \$450 for a typical single family dwelling (requiring 5/8 inch meter). The water system connection charges for a typical single family dwelling (requiring 5/8 inch meter) are \$1,400 for new water service and the wastewater flow-based connection charges are \$2,320 for new wastewater service. Total water and wastewater connection charges for a typical single family dwelling are \$3,720.

## SUMMARY OF COMBINED NET REVENUES

The following table sets forth a summary of combined net revenues for the fiscal years ended September 30, 2006 through September 30, 2008 and for the six-month periods ended March 31, 2008 and March 31, 2009, and has been prepared in accordance with the requirements of the Resolution. The information in the table for the fiscal years ended September 30, 2006 through September 30, 2008 is derived from the audited financial statements of the City for the System. The information for the six-month periods ended March 31, 2008 and March 31, 2009 is derived from the City's unaudited financial statements 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, 2008 and 2007, included as APPENDIX A to this Official Statement.

	<b>Fiscal Years Ended September 30,</b>			<b>Six Months Ended March 31,</b>	
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2008</b> (unaudited)	<b>2009</b> (unaudited)
	(dollars in thousands)				
<b>Revenues:</b>					
Electric .....	\$210,428	\$209,656	\$251,859	\$100,992	\$114,883
Gas .....	31,269	29,328	32,402	17,677	19,140
Water.....	19,467	23,644	27,126	12,709	13,246
Wastewater.....	23,439	27,380	31,797	16,340	16,420
GRUCom .....	7,819	7,739	9,431	5,313	5,292
<b>Total Revenues.....</b>	<b>\$292,422</b>	<b>\$297,747</b>	<b>\$352,615</b>	<b>\$153,031</b>	<b>\$168,981</b>
<b>Operation and Maintenance Expenses:</b>					
Electric .....	\$162,604	\$152,931	\$184,641	\$74,329	\$86,967
Gas .....	26,690	24,287	26,219	14,654	13,692
Water.....	9,806	10,706	12,195	5,094	5,900
Wastewater.....	11,305	11,134	13,047	5,661	6,036
GRUCom .....	4,745	4,608	4,982	2,508	2,534
<b>Total Operation and Maintenance     Expenses.....</b>	<b>\$215,150</b>	<b>\$203,666</b>	<b>\$241,084</b>	<b>\$102,246</b>	<b>\$115,129</b>
<b>Net Revenues:</b>					
Electric .....	\$47,824	\$56,725	\$67,218	\$26,663	\$27,916
Gas .....	4,579	5,041	6,183	3,023	5,448
Water.....	9,661	12,938	14,931	7,615	7,346
Wastewater.....	12,134	16,246	18,750	10,679	10,384
GRUCom .....	3,074	3,131	4,449	2,805	2,758
<b>Total Net Revenues .....</b>	<b>\$77,272</b>	<b>\$94,081</b>	<b>\$111,531</b>	<b>\$50,785</b>	<b>\$53,852</b>
Aggregate Debt Service on Bonds .....	\$34,108	\$40,545	\$47,127	\$22,756	\$26,046
Debt Service Coverage Ratio for Bonds .....	2.27	2.32	2.37	2.23	2.06
Debt Service on Subordinated Indebtedness <sup>(1)</sup> .....	\$6,943	\$5,397	\$5,500	\$1,120	\$616
<b>Total Debt Service on Bonds and Subordinated Indebtedness.....</b>	<b>\$41,051</b>	<b>\$45,942</b>	<b>\$52,627</b>	<b>\$23,876</b>	<b>\$26,662</b>
<b>Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness.....</b>	<b>1.88</b>	<b>2.05</b>	<b>2.12</b>	<b>2.12</b>	<b>2.01</b>

<sup>(1)</sup> Excludes principal of maturing tax-exempt and taxable commercial paper notes which were paid from newly-issued tax-exempt or taxable commercial paper notes, as applicable.

## 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 rates were increased by 11.0% for the fiscal year ended September 30, 2008 and 7.0% for the fiscal year ending September 30, 2009. The rate increases for the fiscal year ended September 30, 2008 and the fiscal year ending September 30, 2009 can largely be attributed to additional capital needs, and increased maintenance costs on aging equipment.

Energy sales (in MWh) to retail and wholesale customers (native load) decreased 1.0% from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007. From the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008, energy sales decreased 0.8%. The number of electric customers increased at an average annual rate of 1.5% between the fiscal years ended September 30, 2005 and September 30, 2008. For the six months ended March 31, 2009 as compared to the same period in 2008, energy sales decreased 2.2%. This is due to multiple reasons, but primarily customers' response to current economic conditions.

Native load fuel decreased by approximately \$11.7 million from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007. From the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008 there was an increase of \$19.7 million. The cost of natural gas used as fuel decreased significantly during this first period and increased significantly during this second period, accounting for the decrease in cost from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007 and the increase from the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008. Fuel adjustment revenue increased by almost 17.0% for the six months ended March 31, 2009 as compared to the same period in 2008. However, fuel adjustment revenue for the year ending September 30, 2009 is projected to be nearly 18.5% less than originally budgeted due to lower than anticipated fuel costs and lower energy sales.

Net revenues from electric interchange sales increased by approximately \$1.0 million from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007. These net revenues decreased slightly by \$133,000 between the fiscal year ended September 30, 2007 and the fiscal year ended September 30, 2008, even though electric interchange sales increased by 42.0% during this same period. The growth in electric interchange sales is primarily the result of a decrease in the System's native load, which results in more capacity being available for non-firm economy sales and, accordingly, in higher sales volumes and sales margins. For the six months ended March 31, 2009 as compared to the same period in 2008, net revenues from electric interchange sales decreased 34.0%. This decrease is based largely on interchange fuel expense being significantly higher for the six months ended March 31, 2009, as actual interchange sales increased 6.0% between these same periods.

Natural gas system retail sales are largely dependent on winter weather. For the fiscal year ended September 30, 2007, sales decreased 0.9 million therms from the previous year. For the fiscal year ended September 30, 2008, sales decreased 0.4 million therms from the previous year. For the six months ended March 31, 2009 as compared to the same period in 2008, sales increased nearly 1.1 million therms. This is due to a greater number of heating degree days, as compared to the previous period. The number of gas customers increased at an average annual rate of approximately 2.0% between the fiscal years ended September 30, 2006 and September 30, 2008. Natural gas costs decreased by approximately \$3.4 million for the fiscal year ended September 30, 2007 as compared to the prior fiscal year, but increased by \$1.5 million from the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008. For the six months ended March 31,



2009 as compared to the same period in 2008, natural gas costs decreased by 7.1%. Since these costs are passed along to customers as part of a purchased gas adjustment charge each month, any natural gas cost increases or decreases are offset by purchased gas adjustment revenues.

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 total cost to be recovered is approximately \$12.0 million. See "THE NATURAL GAS SYSTEM – Manufactured Gas Plant" herein. For the fiscal year ending September 30, 2009, the rate for the per therm charge with respect to the MGP site was increased to \$0.0370 from \$0.0321. No gas system base rate increases were required in the fiscal years ended September 30, 2006 or 2007. However, due to increasing maintenance and capital needs, the gas system rates were increased 11.0% for the fiscal year ended September 30, 2008 and 19.0% for the fiscal year ending September 30, 2009.

Water system sales are dependent on seasonal rainfall. Revenues from water sales increased by approximately \$5.0 million from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007. From the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008, water sales again increased by \$2.1 million. For the six months ended March 31, 2009 as compared to the same period in 2008, water sales increased nearly \$1.3 million. While the number of water customers increased at an average annual rate of 2.8% between the fiscal years ended September 30, 2004 and September 30, 2006, the increase slowed to approximately 2.0% between the fiscal years ended September 30, 2006 and September 30, 2007. Between the fiscal years ended September 30, 2007 and September 30, 2008, this increase was 3.0%. The water revenue increases for the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2008, as well as for the six months ended March 31, 2009 as compared to the same period in 2008, were the result of rate increases and decreased rainfall levels. In accordance with projections, revenues increased significantly for the fiscal year ended September 30, 2007, allowing for a contribution to the Rate Stabilization Fund of approximately \$1.3 million. For the fiscal year ended September 30, 2008, the Water System contributed \$1.1 million to the Rate Stabilization Fund. As of the period ended March 31, 2009, the Water System is projected to transfer \$0.9 million to the Rate Stabilization Fund for the period ending September 30, 2009. Water system rates were increased by 13.0% in the fiscal year ended September 30, 2008, and by 9.0% in the fiscal year ended September 30, 2009.

Wastewater system billings generally track water system sales. Wastewater billings increased 24.8% from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007 and increased 16.7% from the fiscal year ended September 30, 2007 to the fiscal year ended September 30, 2008. For the six months ended March 31, 2009 as compared to the same period in 2008, wastewater billings increased 6.2%. Wastewater billings increased in these periods due in large part to rate increases implemented for those fiscal years. The number of wastewater customers increased at an average annual rate of 1.8% between the fiscal years ended September 30, 2006 and September 30, 2007 and increased 2.2% between the fiscal years ended September 30, 2007 and September 30, 2008. As with the water system, rate increases for the fiscal year ended September 30, 2007 provided significantly higher revenues, allowing for a Rate Stabilization Fund contribution of \$0.5 million for the fiscal year ended September 30, 2007. For the fiscal year ended September 30, 2008, the Wastewater System contributed approximately \$1.2 million to the Rate Stabilization Fund. As of the period ended March 31, 2009, the Wastewater System is projected to transfer \$2.3 million to the Rate Stabilization Fund for the period ending September 30, 2009. Wastewater rates were increased by 17.0% in the fiscal year ended September 30, 2008, and by 10.0% in the fiscal year ended September 30, 2009.

GRUCom continued to expand its services during the period from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2008. From the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007, GRUCom sales increased by approximately 6.3%. Between the fiscal years ended September 30, 2007 and September 30, 2008, GRUCom sales grew by 10.8%. For the six months ended March 31, 2009 as compared to the same period in 2008, GRUCom sales decreased by 1.0%. For the fiscal year ended September 30, 2007, GRUCom contributed approximately \$1.7 million to the Rate Stabilization Fund, which was a significant increase over the prior year. For the fiscal year ended September 30, 2008, GRUCom contributed \$1.1 million to the Rate Stabilization Fund. As of the period ended March 31,

2009, GRUCom is projected to transfer \$1.5 million to the Rate Stabilization Fund for the period ending September 30, 2009.

The Debt Service Coverage Ratio for Bonds increased from 2.27 for the fiscal year ended September 30, 2006 to 2.32 for the fiscal year ended September 30, 2007, and increased to 2.37 for the fiscal year ended September 30, 2008. For the six months ended March 31, 2009 as compared to the same period in 2008, this ratio decreased from 2.23 to 2.06. The Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness increased from 1.88 to 2.05 from the fiscal year ended September 30, 2006 to the fiscal year ended September 30, 2007, and increased to 2.12 for the fiscal year ended September 30, 2008. For the six months ended March 31, 2009 as compared to the same period in 2008, this ratio decreased from 2.12 to 2.01. The increases in the Debt Service Coverage Ratio between the fiscal years ended September 30, 2006 and September 30, 2007 were the result of an increase in Total Debt Service of 11.9% and a 21.7% increase in Net Revenues between those same periods. The decrease for Debt Service Coverage Ratios between the six months ended March 31, 2009 as compared to the same period in 2008 is largely the result of net revenue decreases due to decreased sales. The Debt Service Coverage Ratio for Bonds and Subordinated Indebtedness increases between the fiscal years ended September 30, 2007 and September 30, 2008 are attributable to a Net Revenue increase of 18.5%, and an increase of only 14.5% in Total Debt Service between those same periods. The decrease for this ratio for the six months ended March 31, 2009 as compared to the same period in 2008 is the result of net revenue decreases due to decreased sales.

Net Revenues take into account amounts transferred to or from the Rate Stabilization Fund as permitted by the Resolution. The amounts of these transfers were as follows:

	<b>Transfers from (to) the Rate Stabilization Fund</b>			<b>Balance at September 30,</b>
	<b>Fiscal Years Ended September 30,</b>			
	<b>(dollars in thousands)</b>			<b>2008<sup>(1)</sup></b>
	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	
Electric .....	\$(2,048)	\$(4,372)	\$6,532	\$51,063
Gas .....	(466)	1,160	1,987	3,605
Water .....	(878)	(1,274)	(1,074)	1,142
Wastewater .....	(1,158)	(581)	(1,271)	3,491
GRUCom .....	<u>(1,036)</u>	<u>(1,692)</u>	<u>(1,086)</u>	<u>4,585</u>
Total .....	<u><u>\$(5,586)</u></u>	<u><u>\$(6,759)</u></u>	<u><u>\$5,088</u></u>	<u><u>\$63,886</u></u>

<sup>(1)</sup> Includes amounts on hand plus amounts to be deposited or withdrawn that were accrued as of September 30, 2008.

See also “Management’s Discussion and Analysis” in APPENDIX A hereto. In addition, for a discussion of derivative transactions entered into by the System, see Note 4 to the financial statements of the System set forth in APPENDIX A attached hereto.

### **Termination of Deerhaven Station LILO Transaction**

On December 10, 1998, the City entered into a lease/leaseback transaction (the “LILO transaction”) for all of the Deerhaven 1 and a substantial portion of the Deerhaven 2 generating facilities (the “LILO Units”). Under the terms of the LILO transaction, the City simultaneously entered into a 38-year lease and a twenty-year leaseback with a trustee acting for the benefit of an equity investor. At the end of the leaseback period term, the City had an option to buy-out the remainder of the lease for a fixed purchase option amount. As part of the LILO transaction, the System deposited \$142 million as a payment undertaking agreement, guaranteed by Ambac Assurance Corporation (“Ambac”) and deposited \$72 million in the form of a collateralized Guaranteed Investment Contract (“GIC”), also guaranteed by Ambac.

In November 2008, Moody’s and S&P downgraded their respective credit ratings of Ambac. Under the terms of the LILO transaction documents, the City was required to provide substitute credit enhancement upon the occurrence of Ambac’s ratings downgrades. GRU worked with its financial advisor and legal counsel to evaluate its options. Based on that evaluation, GRU determined that termination of the LILO transaction was the most appropriate action. GRU’s staff negotiated the termination price with the equity investor and

worked with Ambac to value the GIC. In February 2009, the parties terminated the LILO transaction on mutually acceptable terms and GRU, on behalf of the City, paid a termination payment of approximately \$13.2 million. In order to fund the termination payment, GRU issued \$14 million of additional Series D CP Notes. Following the termination, the System continues to retain possession of, and entitlement to, the output of the LILO Units.

Under legislation enacted in 2006, an excise tax is imposed on certain types of leasing transactions entered into by tax-exempt entities (including the City). GRU currently anticipates that it will owe little, if any, excise tax under this legislation, but this result is not certain given the newness of the tax and the interpretive questions that remain.

### **Transfers to General Fund**

In the summer of 2000, the City Commission adopted a formula to determine the amount of System revenues to be transferred from the electric system to the General Fund of the City. This formula was comprised of three components: a base component, an adjustment to the base, and an annually-calculated incentive component. The base component was established to represent an amount relatively equivalent to what the General Fund would receive if the System were an investor-owned utility system. The growth component adjusts the base in an amount that depends upon the increase/decrease in the amount of kWh delivered. The incentive component is an amount calculated after the end of the year and represents 3% of the net revenues from interchange/economy sales and sales for resale as well as a portion of the increase in the amount of kWh delivered greater than 3%.

The base component of the electric system transfer will decrease for fiscal year 2010. This will be the first time the three-year average of retail kWh delivered has been negative. Current sales forecasts, coupled with historical information, result in a projected base decrease through fiscal year 2012.

Since 1986, the transfers from the gas, water and wastewater systems have operated under a formula which provides for transfers to the General Fund in an amount equal to the sum of the following:

1. The amount of water and wastewater surcharges collected in the current fiscal year; and
2. 14.65% of gas, water and wastewater gross revenues for the second preceding fiscal year after deducting the following for the same second preceding fiscal year:
  - (a) surcharges,
  - (b) fuel expenses, and
  - (c) revenues from water sales to the University of Florida.

On October 1, 2005, the System began collecting a 10% surcharge on gas sales to customers outside of the City's corporate limits.

The GRUCom transfer to the General Fund for the fiscal year ended September 30, 2008 was set at \$334,524.

The transfer to the General Fund may be made only to the extent such monies are not required to pay debt service on the Bonds (including the 2009 Series A, B and C Bonds) and Subordinated Indebtedness or to make other required payments under the Resolution, including payments into the Utilities Plant Improvement Fund.

The transfers to the General Fund made in the fiscal years ended September 30, 2006 through 2008 (as determined in accordance with the formulas described above) were as follows:

Fiscal Years ended <u>September 30,</u>	<u>Transfers to General Fund</u>	
	<u>Amount</u>	<u>% Increase</u>
2006.....	\$29,431,037	7.8
2007.....	\$30,397,527	3.3
2008.....	\$31,451,885	3.5

**Investment Policies**

The System’s investment policy provides for investment of its funds to (i) obtain a maximum yield consistent with preservation of capital, (ii) obtain liquidity of its portfolio, (iii) satisfy Resolution requirements, and (iv) maintain prudent investment practices. The System’s funds are invested only in securities of the type and maturity as permitted by the Resolution, Florida Statutes and its internal investment policy. See “Investment of Certain Funds and Accounts” and the definition of “Investment Securities” in “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION” in APPENDIX C hereto for a description of the types of investments that the City is permitted to make under the Resolution. 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 Local Government Surplus Funds Trust Fund administered by the State’s Board of Administration).

**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 wholesale power market, 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 has also become a member of Colectric, a member-owned collaborative business serving the public power industry. Colectric provides key services related to the development, project management, operations, and maintenance of electric generation, transmission, distribution, gas, and infrastructure facilities. Key benefits to the System have included sharing of spare parts and bulk purchasing of commodities and materials. The System’s staff is very involved with the American Public Power 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 PEF's cogeneration plant at the University of Florida wherein 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 and distribution system construction rebates, in combination with temporary LP distribution systems, are employed to rapidly and flexibly accommodate new development. These LP systems and 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 two nearby cities in the County, Alachua and High Springs. 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 Alachua.

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 the fully deregulated and competitive telecommunications environment. Management has taken a very targeted approach to this enterprise, seeking opportunities that maximize GRUCom's competitive advantages, which include high bandwidth fiber optic-based facilities, protocols not readily available in the traditional telco system, such as gigabit Ethernet available antenna towers and tall structures (from the System's microwave SCADA system and water tanks), experience in public safety operations, and close working relationships with the development industry. Rather than a mass-market approach, GRUCom is primarily a business-to-business company working with established carriers, major institutions, and users of high volume bandwidth for voice, data and Internet applications. In the last several years, Florida was one of several states in which incumbent telecommunication carriers launched legislation designed to impede municipal involvement in telecommunications. The attempt in Florida did not have negative consequences on the System (see "FACTORS AFFECTING THE UTILITY INDUSTRY – 2005 Florida Communications Legislation" herein).

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 telecommunication co-location facilities.

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 on the premises of the development. 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.

GRUCom has continued to maintain a competitive position by developing new services and expanding its market. The System is currently co-locating telecommunication service provider facilities at its central office. These include web site host servers, Internet service providers, for example, who are willing to lease access to space, redundant and uninterruptible power, and excellent fiber access at beneficial rates. The demand for these services has outstripped supply in the community and the System is evaluating options for further expanding their availability, which will also enhance local economic development.

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**

GRU has entered into certain agreements that contain provisions giving counterparties certain rights and options in the event of a downgrade in GRU’s credit ratings below specified levels and/or the occurrence of certain other events or circumstances.

The table below sets forth the current ratings for GRU’s outstanding Utilities System Revenue Bonds and GRU’s outstanding Commercial Paper Notes, as assigned by Moody’s and S&P. 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 GRU’s liquidity, results of operations or financial condition. However, GRU’s ratings reflect the views of the ratings agencies and not of GRU, and therefore, GRU cannot give any assurance that its ratings will be maintained at current levels for any period of time.

	<u>Moody’s</u>	<u>S&amp;P</u>
Outstanding Utilities System Revenue Bonds	Aa2	AA/Stable
Outstanding Commercial Paper Notes	P1	A-1+

***Liquidity Support for GRU’s Variable Rate Bonds***

GRU has entered into standby bond purchase agreements with certain commercial banks in order to provide liquidity support in connection with tenders for purchase of the Variable Rate Utilities System Revenue Bonds, 2005 Series C, the Variable Rate Utilities System Revenue Bonds, 2006 Series A, the Variable Rate Utilities System Revenue Bonds, 2007 Series A, and the Variable Rate Utilities System Revenue Bonds, 2008 Series B (collectively the “Liquidity Supported Bonds”). 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 GRU for payment upon the occurrence of certain “events of default” with respect to GRU under such standby bond purchase agreement. Upon any such tender or deemed tender for purchase, the Liquidity Supported Bond so tendered or deemed tendered will be due and payable immediately.

In general, each standby bond purchase agreement provides that it is an “event of default” on the part of GRU thereunder if the ratings on the Liquidity Supported Bonds to which such standby bond purchase agreement relates, without giving effect to any third-party enhancement, fall below “Baa3” by Moody’s and “BBB-” by S&P or are suspended or withdrawn for credit-related reasons.

***Liquidity Support for GRU’s Commercial Paper Program***

GRU also has entered into credit agreements with certain commercial banks in order to provide liquidity support for the Series C CP Notes and the Series D CP Notes. If, on any date on which a commercial paper note matures, GRU is not able to issue additional commercial paper note(s) to pay such maturing commercial paper 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 such maturing commercial paper note.

The credit agreements provide that, upon the occurrence and continuation of certain “tender events” on the part of GRU thereunder, the banks may, among other things, (a) issue “No-Issuance Instructions” to the

issuing agent for the commercial paper notes, instructing such paying agent not to issue any additional commercial paper notes thereafter, (b) terminate the commitment and the applicable bank's obligation to make loans or (c) require immediate payment from GRU for any outstanding principal and accrued interest due under the respective credit agreement.

Among others, it is a tender event on the part of GRU under both credit agreements if the ratings assigned to any of GRU's long-term debt obligations ratings fall below "Baa2" by Moody's and "BBB" by S&P 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 GRU's commercial paper notes.

### ***Interest Rate Swap Transactions***

GRU has entered into interest rate swap transactions with three different counterparties under interest rate swap master agreements with respect to the Utilities System Revenue Bonds, 2005 Series B, the Variable Rate Utilities System Revenue Bonds, 2005 Series C, the Variable Rate Utilities System Revenue Bonds, 2006 Series A, the Variable Rate Utilities System Revenue Bonds, 2007 Series A and the Variable Rate Utilities System Revenue Bonds, 2008 Series C, as well as the Series C CP Notes. For additional information concerning those interest rate swap transactions, see the footnotes to the table under the heading "OUTSTANDING DEBT" herein.

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 GRU is a suspension or withdrawal of certain credit ratings with respect to GRU, 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, GRU 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 GRU contained in the master agreements range from (x) below "Baa2" by Moody's and "BBB" by S&P to (y) below "A2" by Moody's and "A" by S&P.

As of September 30, 2008, GRU's estimated aggregate exposure under all of its then outstanding interest rate swap transactions (*i.e.*, the net amount of the termination payments that GRU would owe its counterparties if all of the interest rate swap transactions were terminated) was \$(8,469,388). As of August 31, 2009, GRU's estimated aggregate exposure under all of its then outstanding interest rate swap transactions was \$(\_\_\_\_\_).

### ***Coal Supply Agreements***

***Constellation Energy Baseload Coal Supply Agreement.*** [The System's baseload coal supply agreement with Constellation Energy contains provisions entitling Constellation Energy to exercise certain rights based upon the System's creditworthiness. Pursuant to the agreement, Constellation Energy has the right to require the System to provide additional collateral as security for its obligations under the agreement if Constellation Energy has "reasonable grounds" to believe that the System's creditworthiness has become unsatisfactory. Pursuant to the terms of the agreement, "reasonable grounds" include (a) a downgrade in the System's credit rating below "BBB-" from S&P or "Baa3" from Moody's and (b) a failure of either S&P or Moody's to rate the System's creditworthiness. If the System, in Constellation Energy's reasonable judgment, (x) fails to demonstrate its creditworthiness and (y) fails to provide adequate security to assure Constellation Energy of its creditworthiness, an event of default under the agreement will occur and Constellation Energy may either suspend performance of its obligations under the agreement until such event of default is cured or terminate the agreement. In the event that the agreement is either suspended or terminated, the System would

have to acquire coal at market rates, which rates could be in excess of the rates provided for in the agreement. In addition, if the agreement is terminated, the System may be required to make a termination payment to Constellation Energy that would be based upon then current market prices for coal, which payment could be substantial.

[discussion of Premier Elkhorn and Patriot coal supply agreements to come]

## **FACTORS AFFECTING THE UTILITY INDUSTRY**

### **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. Restructuring of wholesale markets and the formation of independent transmission systems in Florida have slowed considerably. 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 of SB 1322. Although the System has special status as a grandfathered entity under this legislation, there are some implications for the System should GRUCom seek to expand into additional lines of service as discussed below under “2005 Florida Communications Legislation.”

The System cannot predict what effects these factors will have on the business, operations and financial condition of the System, but the effects could be significant. The following sections of this caption provide brief discussions of certain of these factors. However, these discussions do not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement.

### **Environmental and Other Natural Resource Regulations**

The System is subject to federal, state and local environmental regulations which include, among other things, control of emissions of particulates, SO<sub>2</sub> and NO<sub>x</sub> 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 are generally 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. There is no assurance that the System’s 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. Failure to comply with regulatory requirements could result in the complete shutdown of those facilities not in compliance as well as the imposition of civil and criminal penalties. Compliance with regulatory standards will continue to be reflected in capital and operating costs. Increasing concerns about climate change and the effects of GHGs on the environment likely have increased the possibility that regulations governing carbon emissions will be adopted at the federal or state levels. Management is unable to predict whether and when such regulations will be adopted, the potential effects of any such regulations on the operations of the System or the costs associated therewith. Nonetheless, Management is aggressively pursuing strategies to develop facilities to provide renewable and low-carbon intensity generation capacity (see “THE ELECTRIC SYSTEM – Future Power Supply” herein).



## **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 SO<sub>2</sub> and NO<sub>x</sub> 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 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. In September 2000, the System received from the EPA a Request for Information pursuant to its authority under Section 114 of the Clean Air Act. The System timely provided the requested information to the EPA in two submittals; one in November 2000 and the other in January 2001. To date, the EPA has not replied, nor made any further inquiries.

### ***The Clean Air Interstate Rule***

In March 2005, the EPA issued CAIR, which requires reductions of overall NO<sub>x</sub> and SO<sub>2</sub> emissions. CAIR is a two-phase 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. The System's Deerhaven and JRK Stations are subject to CAIR. Significant capital and operating and maintenance expenditures have been incurred to meet the 2009 and 2010 CAIR compliance dates for Phase I of the NO<sub>x</sub> and SO<sub>2</sub> emission caps, respectively. Management decided that the best long-term compliance option for the System was the installation of emission controls on Deerhaven 2, the System's only coal-fired unit. GRU has installed an SCR, a dry scrubber system, a fabric filter system and an air filter system at Deerhaven 2, all of which went on-line May 1, 2009. An Engineer, Procure, and Construct contractor was used to construct the needed facilities. [The dry scrubber system is not yet fully functional, but Management expects that full functionality will be achieved by the end of calendar year 2009.]

On July 11, 2008, a three judge panel of the United States Court of Appeals for the District of Columbia Circuit (the "D.C. Circuit Court") in *North Carolina v. Environmental Protection Agency*, 531 F.3d 896 ("*North Carolina v. EPA*"), unanimously vacated CAIR. On December 23, 2008, the D.C. Circuit Court remanded the CAIR case to the EPA to revise CAIR consistent with its July 11, 2008 decision in *North Carolina v. EPA*. In a subsequent decision in response to petitions for rehearing, however, the court in December 2008 decided to remand CAIR to the EPA without vacating it. This has the effect of reinstating CAIR, including the trading programs, until the EPA issues a new rule consistent with the court's decision. The EPA estimates that it could take about two years to develop and finalize a replacement rule. As a result of the decision, more stringent regulatory limits could be imposed, or there may be a delay or acceleration in the effective dates of federal requirements to reduce emissions.

### ***The Clean Air Mercury Rule***

CAMR was a federal cap and trade program for mercury emissions designed to facilitate compliance and would have capped total mercury emissions in the United States at 38 tons in 2015 and 15 tons in 2018. On February 8, 2008, a three judge panel of the D.C. Circuit Court in *New Jersey et al. v. Environmental Protection Agency*, 517 F.3d 574, unanimously vacated CAMR. An appeal of this decision to the United States Supreme Court was dismissed in February 2009, and therefore CAMR will not be implemented. As a result, the EPA will proceed to adopt Maximum Achievable Control Technology requirements for control of mercury emissions from new and existing power plants under Section 112 of the Clean Air Act.

### ***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. Some of the effects of the amended rule could be requirements for newer and cleaner technologies and additional controls for particulate matter, SO<sub>2</sub> and NO<sub>x</sub> 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 Stations – Deerhaven" herein for a description of the actions that have been taken by the System to install additional emission control equipment at Deerhaven 2 and reduce SO<sub>2</sub> and NO<sub>x</sub> emissions that potentially contribute to regional haze.

## **Climate Change**

### ***Global Climate Change***

The Kyoto Protocol prescribed reduction targets for the emission of CO<sub>2</sub> and other GHGs. Although the United States has not ratified the Kyoto Protocol, federal proposals are expected to be introduced to the United States Congress that would, if adopted, implement some form of regulation or taxation to reduce or mitigate GHG emissions. See "THE ELECTRIC SYSTEM – Future Power Supply" herein for a description of the System's efforts to meet the Kyoto Protocol's target GHG emission rates.

### ***Federal Regulation***

Control of GHGs such as CO<sub>2</sub> 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. EPA* 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. This finding, known as the "endangerment finding," could trigger regulation of GHGs from vehicles, electric generating stations and other sources of GHG emissions. In response to this decision, on July 30, 2008, the EPA issued an Advance Notice of Proposed Rulemaking for "Regulating Greenhouse Gas Emissions Under the Clean Air Act" (the "ANPR"). The ANPR requested public comments on dozens of issues relating to CO<sub>2</sub> and other GHG emissions controls, and the types of regulations that could be proposed in response to such a finding. The ANPR sought comments on the framework and direction of the EPA's actions to regulate GHG emissions.

The ANPR provides a framework for consideration of new federal legislation to regulate GHG emissions. Such legislation was introduced and co-sponsored by many United States Senators and Representatives in 2008 and again in 2009. The Waxman-Markey bill was passed in the House of

Representatives on June 26, 2009, and would, among other things, impose a cap and trade system which includes limits related to CO<sub>2</sub> emissions on power plants. The Waxman-Markey bill, along with other proposed bills, also proposes the regulation of GHG emissions, and the development and deployment of alternative fuels, renewable energy resources, and energy conservation. The timeline and impact of climate change legislation cannot be assessed at this time.

On April 10, 2009, the EPA released for publication a proposed rule that would require monitoring and annual reporting of GHG emissions in the United States by dozens of industries, including the electricity generating industry. The proposed rule targets fossil fuel combustion sources emitting more than the equivalent of 25,000 metric tons of GHGs per year, which includes virtually all fossil fuel-fired electric generating units. Reporting would be required with respect to individual facilities (and, if applicable, equipment or units falling into different source categories at a larger facility). The EPA does not state that it intends to regulate GHG emissions, but instead explains that the purpose of the monitoring system would be to support the discussion of options for such regulation. Reporting and record keeping are, however, the foundation for any of the potential programs, including cap and trade systems, permitting requirements or GHG capture technologies.

On April 24, 2009, the EPA published a proposed “endangerment finding” under the Clean Air Act. In the proposed finding, the EPA declared that the weight of scientific evidence “requires” a finding that it is very likely that the six identified GHGs – CO<sub>2</sub>, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride – cause global warming, and that the effects of climate change endanger public health and welfare by increasing the likelihood of severe storms, droughts, flooding, and forest fires, among other negative consequences. If the proposed rule becomes final, the EPA would be required to regulate emissions of certain GHGs from motor vehicles. The endangerment finding is similar to findings that trigger regulation of other sources, including stationary sources such as electricity generating facilities, and could lead to regulation of GHG emissions from electric generating facilities and other sources.

In addition to legislative and regulatory activities, and the *Massachusetts v. EPA* case, many of the issues raised by global climate change are being litigated in courts throughout the United States. Other recent litigation addresses the extent to which a reviewing federal agency must consider the impact of GHG emissions in the National Environmental Policy Act environmental review process. There are also on-going litigation and administrative review actions in which it is being argued that BACT is required for CO<sub>2</sub> emissions from new or modified sources under the Clean Air Act. The System cannot currently predict how GHG emissions issues will arise in connection with pending or future permit proceedings or whether litigation based on climate change issues will adversely affect the System’s construction and development plans.

### ***State Regulation***

In 2007, Florida Governor Charlie Crist effectively stopped all work on proposed coal-fired generating plants in the State due to his concern over the impact of CO<sub>2</sub> emissions on climate change. In July 2007, Governor Crist issued three Executive Orders focused on reducing emissions of CO<sub>2</sub> and other GHGs in the State. The Executive Orders established nonbinding goals to reduce GHGs to year 2000 levels by 2017, to year 1990 levels by 2025 and to 80% below 1990 levels by 2050. The Executive Orders also directed the FDEP to implement rules requiring electric utilities and others to meet these goals. On April 30, 2008, the Florida Legislature passed new energy legislation which gives legislative authority to some of Governor Crist’s Executive Orders. The legislation directs the FPSC to develop rules requiring electric utilities to increase the use of renewable fuels and allows the FDEP to develop a Florida-specific cap and trade program to reduce GHG emissions from electric utilities. The FPSC must bring these rules to the Florida Legislature for ratification in 2009. The FDEP must bring any such program to the Florida Legislature for ratification no sooner than 2010. The Florida Legislature did not set numerical goals for reducing GHG emissions.

## **Storage Tanks**

The System 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 aboveground storage tank systems. The System has six oil storage tanks. Two are underground distillate (No. 2) oil storage tanks located at the South Energy Center, two are above-ground distillate oil storage tanks located at the JRK Station, and two are above-ground distillate oil storage tanks located at the Deerhaven Station. All of the System's fuel storage tanks have secondary containment and/or interstitial monitoring and the System is insured for the requisite amounts.

## **Nuclear Waste Disposal Regulation**

On January 7, 1983, the Nuclear Waste Policy Act of 1982 (the "NWP Act") became effective. In general, the NWP Act provides the basis on which the federal government will carry out its regulatory responsibility for the final disposition of commercially-produced high-level radioactive waste materials, which include spent nuclear fuel, through (i) the establishment of a schedule for the development and implementation of nuclear waste disposal sites and (ii) the establishment of payments to the federal government to cover the costs of disposal associated both with existing inventories of spent nuclear fuel and with spent nuclear fuel resulting from future electric generation. The cost of disposing of spent nuclear fuel is a fuel cost and is passed through directly to System ratepayers. The System has satisfied all of its financial obligations in respect to disposing of existing inventories of spent nuclear fuel. The federal government has also established standards in connection with the liability insurance to be maintained in connection with nuclear facilities. See "INSURANCE" herein for a description of liability insurance maintained by and on behalf of the System and legal insurance requirements in connection with CR-3.

The NRC has promulgated regulations mandating the establishment of funded reserves to assure financial capability for the eventual decommissioning of licensed nuclear facilities. The System and several other municipal utilities have entered into an agreement with FMPA wherein FMPA has engaged a fiduciary to act as trustee of the reserve to fund the participants' share of decommissioning CR-3. The external fund is accruing from revenues in amounts currently estimated to be sufficient to pay for decommissioning costs.

## **Superfund and Remediation Sites**

The Comprehensive Environmental Response, Compensation and Liability Act, commonly known as "Superfund," as well as parallel state statutes, provide for strict and joint and several liability for necessary costs which may be incurred by the United States, a state, or any other person acting to study or clean-up releases of hazardous substances into the environment and for damages or injury to or destruction of natural resources resulting from such releases. The System is a PRP at the Bill Johns Waste Oil Site in Jacksonville, Florida under these statutes. The System's liability at this site was incurred through the improper management of waste oils by operators providing services under contract to the System. The System 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.

The System 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. The System'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. The Georgia Environmental Protection Department has asserted that the System is a PRP at the Holley Electric site in Jesup, Georgia ("Holley Electric"). At this time, the System's liability at this site is not clear as information developed to date indicates that the System's wastes handled by Holley Electric were properly disposed of at another, unrelated site. The System is voluntarily participating in a PRP group to conduct certain investigations to clarify its status. Management does not anticipate that the System's liability for this site, if any, will be more than "de minimis."

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 2003. While there is evidence of soil impacts, the soil analyses results indicate that they are generally below the State's risk-based soil cleanup criteria. There are no groundwater impacts above the regulatory standards. Initial remedial measures instituted in the mid-1990s are still in-place. Additional site assessment data was submitted to the regulatory agencies in 2004. Discussions with the agencies regarding the remediation and/or monitoring are underway. Additional site assessments are currently underway in accordance with an FDEP-approved plan.

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 St. Johns River Water Management District 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.

### **Wholesale and Retail Electric Restructuring**

#### ***Energy Policy Act of 1992***

The Energy Policy Act of 1992 (the "1992 Energy Policy Act") made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access. The purpose of these changes, in part, was to bring about increased wholesale electric competition. In particular, the 1992 Energy Policy Act provided FERC with the authority, upon application by an electric utility, federal power marketing agency, or other power generator, to require a transmitting utility to provide transmission services to the applicant essentially on a cost-of-service basis. Municipally-owned electric utilities are "transmitting utilities" for purposes of these provisions of the 1992 Energy Policy Act. At this time, FERC does not have the authority to require "retail wheeling," under which a retail customer of one utility could obtain power from another utility or non-utility power generator.

The energy efficiency title of the 1992 Energy Policy Act required states and utilities to consider adopting IRP, which allows utility investments in conservation and other DSM techniques to be at least as profitable as supply investments. The FPSC has adopted IRP as a standard. The 1992 Energy Policy Act also established new efficiency standards in industrial and commercial equipment and lighting and required states to establish commercial and residential building codes with energy efficiency standards. Additionally, the 1992 Energy Policy Act required utilities to consider energy efficiency programs in their IRP's. The effects on the System, if any, of these standards and requirements cannot be determined at this time.

#### ***FERC Transmission Initiatives***

On April 24, 1996, FERC issued two final rules to address and implement the transmission access provisions of the 1992 Energy Policy Act. Order Nos. 888 and 889, as amended by Order Nos. 888A and 889A in 1997, were intended to deny to public utilities any unfair advantage over competitors resulting from their ownership and control of transmission facilities and required FERC-jurisdictional public utilities to file pro forma, open access, nondiscriminatory transmission tariffs. In Order Nos. 890, 890-A and 890-B, issued (respectively) in February and December 2007 and June 2008, FERC reaffirmed and modified the

requirements under Order Nos. 888 and 888-A, specifically, by modifying the transmission tariff provisions on (among other things) calculating available transfer capability, transmission planning, point-to-point transmission service options, energy imbalance service, rollover rights for long-term firm transmission service, and the price caps on capacity reassignments. Under the reciprocity requirement adopted in Order No. 888 and reaffirmed in Order No. 890, non-jurisdictional utilities (such as the System) must provide comparable transmission service as a condition of receiving service from jurisdictional utilities under the pro forma tariff. The System offers reciprocal transmission services and TEA is a separate marketing organization which allows the System to comply with these orders.

In December 1999, FERC issued its Order No. 2000. Order No. 2000 represents a further measure in FERC's attempt to foster competition in wholesale power markets by encouraging all transmission-owning utilities, including municipal utilities, electric cooperatives and other public power entities, to join regional transmission organizations ("RTOs"). The implications of Order No. 2000 were further clarified and deepened when FERC issued a Notice of Proposed Rulemaking for a standard market design ("SMD") to accompany the formation of independent system operators/RTOs. Although this has occurred in many areas of the country, interest in forming such an organization in Florida seems to have diminished. The 2005 Energy Policy Act (hereinafter defined) has further defused the impact of Order No. 2000 by making the SMD non-mandatory. See "*Energy Policy Act of 2005*" below.

In October 2008, FERC issued Order No. 717, which, among other things, amended FERC's Standards of Conduct for Transmission Providers to make them clearer and to refocus the rules on the areas where there is the greatest potential for abuse. The System believes that its participation in TEA and related procedures satisfies the reforms to the standard of conduct included in FERC's final rule without material impact on the System's costs.

Florida has a longer history of quasi open-access transmission than many other parts of the country. An "Energy Broker" system was adopted in the late 1970's to promote efficient generation dispatch. The Energy Broker was eventually replaced by a strong system of bilateral agreements in the aftermath of Order Nos. 888 and 889.

### ***Energy Policy Act of 2005***

The Energy Policy Act of 2005 (the "2005 Energy Policy Act") was signed into law in early August 2005. The 2005 Energy Policy Act addresses, among other things: energy efficiency; appliance standards; low income energy assistance programs; renewable energy; nuclear energy; electricity; and provides incentives for oil and gas production and encourages deployment of clean coal technology. The electricity portion of the 2005 Energy Policy Act addresses the following areas: (i) the need for modernization of existing transmission facilities, transmission rate reform and improved operations of existing transmission facilities; (ii) electric reliability standards; (iii) Public Utility Holding Company Act ("PUHCA") and Public Utility Regulatory Policies Act ("PURPA") amendments (including repeal of PUHCA); (iv) market transparency, round trip trading prohibition and enforcement; and (v) merger reform. The 2005 Energy Policy Act imposes mandatory electric reliability standards to be defined through NERC and enforced by FERC.

The 2005 Energy Policy Act added several new standards to PURPA and required each electric system covered by each standard to make a determination as to whether or not to adopt that standard. These standards addressed net metering for distributed generation, time differentiated electric rates, advanced metering technologies, diverse fuel supplies, and efficient electric generation. After the appropriate public involvement process, the System has adopted voluntary time of use rates for all rate categories, net metering (mostly used for solar prior to implementing the solar FIT), and determined that formally adopting the remaining standards were either not cost-effective or would not affect the System's already significant commitments to price signals to promote energy conservation, fuel diversity, and highly efficient generation resources.

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 standards of compliance with the new ERO have begun a process of rapid development and change and the System is carefully keeping up with these developments to assure full compliance.

Currently, there are over 130 reliability standards with over 1,000 requirements and sub-requirements to which electric utilities must comply. GRU is a "registered entity" with NERC and FRCC under the following eleven functional categories and must comply with all standards applicable to those categories:

- Balancing Authority
- Distribution Provider
- Generation Owner
- Generation Operator
- Interchange Authority
- Load Serving Entity
- 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. GRU is registered as both a Balancing Authority and a Transmission Owner and is therefore subject to the 3-year on-site audit cycle. From April 20-24, 2009, FRCC compliance auditors conducted an on-site audit of GRU for compliance with the standards and requirements associated with the System's functions within the Florida bulk power system as listed above. The final ERO report on GRU's on-site compliance audit is expected some time in the second half of 2009. GRU's next on-site reliability compliance audit will be in 2012.

The 2005 Energy Policy Act also provides for tax incentives that further encourage production, conservation and the use of technology to stabilize energy prices and protect the environment. Landfill gas is clearly designated as a renewable resource for Renewable Energy Production Incentive ("REPI") funding, which is to the System's benefit. The System intends to explore the opportunities for financial assistance from the funds appropriated in the 2005 Energy Policy Act for energy conservation, renewable energy, and clean coal technology.

It is not possible at this time to predict all final forms and possible effects of all the consequent rulemaking and programs that that will be enacted to implement the 2005 Energy Policy Act.

### **2005 Florida Communications Legislation**

In 2005, legislation was passed in Florida (SB 1322) that defined the conditions under which municipalities would be allowed to provide retail telecommunications services. Prior to offering advanced, cable or telecommunications services on a retail basis, governmental entities in Florida are now required to: (a) hold at least two public hearings; (b) consider the current availability of these services in the community; (c) publicly present a business plan for the proposed service with sufficient revenues to exceed operating expenses, principal and interest within four years; (d) officially act to provide the retail service; (e) only issue revenue bonds for the services (as opposed to general obligation bonds), limited to use within the county where the governmental entity resides, the area of an established service territory, or the jurisdiction of any governmental entity that formally acts to permit the provision of the retail service within its boundaries, whichever is less restrictive; revenue bonds issued for this purpose are limited to a fifteen-year maturity unless otherwise approved by a public referendum; (f) not subsidize retail services; (g) maintain adequate record

keeping and policies for cost allocation; (h) establish a separate enterprise fund; (i) establish a separate budget; (j) not use their powers of eminent domain solely to provide communications services; (k) conduct annual reviews at a public meeting; and (l) if after four years revenues do not exceed operating expenses, principal and interest, hold a public meeting to decide to either cease providing retail services and dispose of any facilities, create new partnerships, or continue to provide the services. Governmental entities already providing advanced, cable, or telecommunications retail services as of April 1, 2005 were exempted from requirements (a), (b), (c), (d), (e), (f), and (k) as itemized above. The System was already providing advanced and telecommunication retail services at that time and hence enjoys these exemptions. The System currently complies with all other requirements of SB 1322.

## **INSURANCE**

The System maintains insurance coverage in amounts and with respect to risks consistent with prudent utility practice. In addition, the City is required by the Resolution to maintain insurance. See “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Insurance” in APPENDIX C hereto.

Under federal law now in effect pursuant to an amendment to the Atomic Energy Act enacted into law on August 28, 1988 (the “Price Anderson Act”), the public liability that may arise from a single nuclear incident is limited to the maximum amount of “financial protection” required of the licensees of a nuclear generating facility. “Financial protection” required is determined by reference to (x) the amount of private liability insurance licensees are required to maintain by the NRC, (y) the maximum premium that licensees may be assessed under an industry-wide retrospective rating program prescribed by the Atomic Energy Act and (z) the number of facilities licensed by the NRC. The Price Anderson Act provides for “financial protection,” and thus a public liability limit in respect of a single nuclear incident, in an amount equal to approximately \$12.52 billion (effective October 2008 and based on 104 licensed nuclear reactors) for all persons who may be liable in respect thereof, subject to further increases to reflect the effect of (i) inflation, (ii) the licensing for operation of additional nuclear reactors, and (iii) any increases in the amount of commercial liability insurance required to be maintained by the NRC. Public liability claims from an insured nuclear incident that exceed \$300 million (currently available through commercial insurers) would be covered by a required pro-rata assessment under the retrospective rating program equal to \$111.9 million per licensed nuclear reactor per occurrence (subject to an annual payment limit of \$17.5 million per reactor). Under these provisions, the City’s share (based on its 1.4079% ownership interest in CR-3) of the maximum potential assessment under the retrospective rating program would be approximately \$1,575,440 per incident but would be limited to approximately \$246,382 per year for each such incident (in each case assuming that the other CR-3 participants were to contribute their respective shares of such assessments). In addition, if the funds provided by the retrospective rating program and primary insurance were to be insufficient to satisfy public liability claims and legal costs arising from a single nuclear incident, the licensees of each nuclear reactor would be subject to a surcharge of up to 5% of the retrospective premium then applicable to satisfy such claims and costs. Under this eventuality, the City’s additional share would be limited to approximately \$11,000. Retrospective premiums are payable by the CR-3 participants irrespective of the location of the nuclear incident and the number of nuclear incidents that occur in any year (albeit subject to the \$17,500,000 annual limit for each incident). According to information provided by PEF as principal owner of CR-3, the City’s ownership interest in CR-3 is covered by various insurance policies maintained by PEF. In accordance with the provisions of the System’s participation agreement with PEF, PEF is required to name the System as an additional named insured on all insurance policies relating to CR-3. Under this arrangement, the System pays insurance premiums and maintains liability coverage based on its 1.4079% interest in CR-3. Nuclear Electric Insurance, LTD. (“NEIL”) provides primary coverage for property damage at CR-3 in an amount equal to \$500 million. In addition to primary coverage, NEIL also provides decontamination, premature decommissioning and excess property insurance in the amount of \$1.750 billion, resulting in total nuclear decontamination, premature decommissioning and property damage coverage of \$2.250 billion.

Insurance coverage against incremental costs of replacement power resulting from prolonged accidental outages at nuclear generating units is also provided through membership in NEIL. PEF is insured thereunder, following a twelve-week deductible period, for 52 weeks in the amount of \$4.5 million per week at



the CR-3 plant. An additional 110 weeks of coverage is provided at 80% of the above weekly amount. For the current policy period, PEF is subject to retrospective premium assessments of up to approximately \$7.3 million with respect to the primary coverage, \$9.7 million with respect to the decontamination, decommissioning and excess property coverage, and \$6.0 million for the incremental replacement power costs coverage, in the event covered losses at insured facilities exceed premiums, reserves, reinsurance and other NEIL resources. Pursuant to regulations of the NRC, PEF's property damage insurance policies provide that all proceeds from such insurance be applied, first, to place the plant in a safe and stable condition after an accident and, second, to decontamination costs, before any proceeds can be used for decommissioning, plant repair or restoration. PEF is responsible to the extent losses may exceed limits of the coverage described above. The Florida municipal CR-3 participants, including the System, are not covered under this replacement power policy. The participants do have a capacity factor guarantee entered into as a result of the last extended outage of CR-3. The capacity factor guarantee covers the period January 1, 2002 through December 21, 2013 and provides that PEF will provide alternate energy or pay the participants for their replacement power when capacity delivered from CR-3 is less than 87.5% over any two-year evaluation period.

Under the NEIL policies, if there were multiple terrorism losses occurring within one year after the first loss from terrorism, NEIL would make available one industry aggregate limit of \$3.2 billion, along with any amount it recovers from reinsurance, government indemnity or other sources up to the limit for each claimant. If terrorism losses occurred beyond the one-year period, a new set of limits and resources would apply. For nuclear liability claims arising out of terrorist acts, the primary level through commercial insurers is now subject to an industry aggregate limit of \$300 million. The second level of coverage obtained through the assessments discussed above would continue to apply to losses exceeding \$300 million and would provide coverage in excess of any diminished primary limits due to terrorist acts.

## **TAX MATTERS**

### **General**

The following is a summary of certain of the United States income tax consequences of the ownership of the 2009 Series A, B and C Bonds as of the date hereof. Each prospective investor should consult with its own tax advisor regarding the application of United States federal income tax laws, as well as any state, local, foreign or other tax laws, to its particular situation.

This summary is based on the Internal Revenue Code of 1986 (the "Code"), as well as Treasury regulations and administrative and judicial rulings and practice. Legislative, judicial and administrative changes may occur, possibly with retroactive effect, that could alter or modify the continued validity of the statements and conclusions set forth herein. This summary is intended as a general explanatory discussion of the consequences of holding the 2009 Series A, B and C Bonds generally and does not purport to furnish information in the level of detail or with the investor's specific tax circumstances that would be provided by an investor's own tax advisor. For example, it generally is addressed only to original purchasers of the 2009 Series A, B and C Bonds that are "U.S. holders" (as defined below), deals only with 2009 Series A, B and C Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences to holders that may be relevant to investors subject to special rules, such as individuals, trusts, estates, tax exempt investors, foreign investors, cash method taxpayers, dealers in securities, currencies or commodities, banks, thrifts, insurance companies, electing large partnerships, mutual funds, regulated investment companies, real estate investment trusts, FASITs, S corporations, persons that hold 2009 Series A, B or C Bonds as part of a straddle, hedge, integrated or conversion transaction, and persons whose "functional currency" is not the U.S. dollar. In addition, except as described below, this summary does not address alternative minimum tax issues or the indirect consequences to a holder of an equity interest in a holder of 2009 Series A, B or C Bonds.

As used herein, a "U.S. holder" is a "U.S. person" that is a Beneficial Owner of a 2009 Series A, B or C Bond. A "non U.S. investor" is a holder (or Beneficial Owner) of a 2009 Series A, B or C Bond that is not a U.S. person. For these purposes, a "U.S. person" is a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof

(except, in the case of a partnership, to the extent otherwise provided in Treasury regulations), an estate the income of which is subject to United States federal income taxation regardless of its source or a trust if (i) a United States court is able to exercise primary supervision over the trust's administration and (ii) one or more United States persons have the authority to control all of the trust's substantial decisions.

## **Taxable 2009 Series A and B Bonds**

### ***Opinion of Bond Counsel***

In the opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City ("Bond Counsel"), interest on the Taxable 2009 Series A and B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other federal or state tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Taxable 2009 Series A and B Bonds. The proposed form of opinion of Bond Counsel with respect to the Taxable 2009 Series A and B Bonds is contained in APPENDIX E hereto.

### ***Tax Status of the Taxable 2009 Series A and B Bonds***

The Taxable 2009 Series A and B Bonds will be treated, for federal income tax purposes, as a debt instrument. Accordingly, interest will be included in the income of the holder as it is paid (or, if the holder is an accrual method taxpayer, as it is accrued) as interest.

Holders of the Taxable 2009 Series A or B Bonds that allocate a basis in the Taxable 2009 Series A or B Bonds that is greater than the principal amount of the Taxable 2009 Series A or B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under section 171 of the Code.

If a holder purchases the Taxable 2009 Series A or B Bonds for an amount that is less than the principal amount of such Taxable 2009 Series A or B Bonds, and such difference is not considered to be *de minimis*, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Taxable 2009 Series A or B Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Although the Taxable 2009 Series A and B Bonds are expected to trade "flat," that is, without a specific allocation to accrued interest, for federal income tax purposes, a portion of the amount realized on sale attributed to the Taxable 2009 Series A and B Bonds will be treated as accrued interest and thus will be taxed as ordinary income to the seller (and will not be subject to tax in the hands of the buyer).

### ***Original Issue Discount***

In the event that the Taxable 2009 Series A or B Bonds of any maturity (and, if applicable, each interest rate within such maturity) are issued with original issue discount ("OID") a holder of a Taxable 2009 Series A or B Bond of such maturity (and, if applicable, interest rate within such maturity) will be required to include OID in gross income as it accrues under a constant yield method, based on the original yield to maturity of the Taxable 2009 Series A or B Bond. Thus, the holders of such Taxable 2009 Series A and B Bonds will be required to include OID in income as it accrues, prior to the receipt of cash attributable to such income. U.S. holders, however, would be entitled to claim a loss upon maturity or other disposition of such bonds with respect to interest amounts accrued and included in gross income for which cash is not received. Such a loss generally would be a capital loss. A holder of a Taxable 2009 Series A or B Bond that purchases such Taxable 2009 Series A or B Bond for less than its adjusted issue price (generally its accreted value) will have purchased such Taxable 2009 Series A or B Bond with market discount. If such difference is not considered to be *de minimis*, then such discount ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of such Taxable 2009 Series A or B Bond, a portion of any gain will be ordinary income to the extent it represents the amount

of any such market discount that was accrued through the date of sale. In addition, absent an election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year will be deferred. A holder of a Taxable 2009 Series A or B Bond that has an allocated basis in the Taxable 2009 Series A or B Bond that is greater than its adjusted issue price (generally its accreted value), but that is less than or equal to its principal amount, will be considered to have purchased the Taxable 2009 Series A or B Bond with acquisition premium. The amount of OID that such holder of a Taxable 2009 Series A or B Bond must include in gross income with respect to such Taxable 2009 Series A or B Bond will be reduced in the proportion that such excess bears to the OID remaining to be accrued as of the acquisition of the Taxable 2009 Series A or B Bond. A holder of a Taxable 2009 Series A or B Bond may have a basis in its pro rata share of the Taxable 2009 Series A or B Bond that is greater than the principal amount of such Taxable 2009 Series A or B Bond. Holders of Taxable 2009 Series A or B Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium, if any, with respect to such Taxable 2009 Series A or B Bonds under section 171 of the Code.

### ***Sale and Exchange of Taxable 2009 Series A and B Bonds***

Upon a sale or exchange of a Taxable 2009 Series A or B Bond, a holder generally will recognize gain or loss on the Taxable 2009 Series A or B Bond equal to the difference between the amount realized on the sale and its adjusted tax basis in such Taxable 2009 Series A or B Bond. Such gain or loss generally will be capital gain (although any gain attributable to accrued market discount of the Taxable 2009 Series A or B Bond not yet taken into income will be ordinary income). The adjusted basis of the holder in a Taxable 2009 Series A or B Bond will (in general) equal its original purchase price increased by any OID (other than OID reduced due to acquisition premium) and decreased by any principal payments received on the Taxable 2009 Series A or B Bond. In general, if the Taxable 2009 Series A or B Bond is held for longer than one year, any gain or loss would be long-term capital gain or loss, and capital losses are subject to certain limitations.

### ***Defeasance of Taxable 2009 Series A and B Bonds***

Defeasance of any Taxable 2009 Series A or B Bond may result in a reissuance thereof, in which event a holder will recognize taxable gain or loss equal to the difference between the amount realized from the sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and the holder's adjusted tax basis in the Taxable 2009 Series A or B Bond.

### ***Foreign Investors***

Distributions on the Taxable 2009 Series A and B Bonds to a non-U.S. holder that has no connection with the United States other than holding its Taxable 2009 Series A or B Bond generally will be made free of withholding tax, as long as that the holder has complied with certain tax identification and certification requirements.

### ***Circular 230***

Investors are urged to obtain independent tax advice based upon their particular circumstances. The tax discussion above was not intended or written to be used, and cannot be used, for the purposes of avoiding taxpayer penalties. The advice was written to support the promotion or marketing of the Taxable 2009 Series A and B Bonds.

## **2009 Series C Bonds**

In the opinion of Bond Counsel, based upon an analysis of 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 2009 Series C Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel is of the further opinion that interest on the 2009 Series C Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings in calculating federal corporate alternative

minimum taxable income. The proposed form of opinion of Bond Counsel with respect to the 2009 Series C Bonds is contained in APPENDIX F hereto.

To the extent the issue price of any maturity of the 2009 Series C Bonds is less than the amount to be paid at maturity of such 2009 Series C Bonds (excluding amounts stated to be interest and payable at least annually over the term of such bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the 2009 Series C Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2009 Series C Bonds is the first price at which a substantial amount of such maturity (or, if applicable, interest rate within such maturity) of the 2009 Series C Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2009 Series C Bonds accrues daily over the term to maturity of such 2009 Series C Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2009 Series C Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2009 Series C Bonds. Beneficial Owners of the 2009 Series C Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2009 Series C Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2009 Series C Bonds in the original offering to the public at the first price at which a substantial amount of such 2009 Series C Bonds is sold to the public.

2009 Series C Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

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 2009 Series C 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 2009 Series C Bonds will not be included in federal gross income. (See “SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION – Special Provisions Relating to 2009 Series C Bonds” in APPENDIX C hereto.) Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2009 Series C Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2009 Series C Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken 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 Bond Counsel’s attention after the date of issuance of the 2009 Series C Bonds may adversely affect the value of, or the tax status of interest on, the 2009 Series C Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2009 Series C 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 2009 Series C 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. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2009 Series C Bonds to be subject, directly or indirectly, 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 future legislative proposals, clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2009 Series C Bonds. Prospective purchasers of the 2009 Series C Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2009 Series C Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and 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.

Bond Counsel's engagement with respect to the 2009 Series C Bonds ends with the issuance of the 2009 Series C Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the 2009 Series C 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 2009 Series C 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 2009 Series C Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

## **RATINGS**

[The 2009 Series A, B and C Bonds have received ratings of "AA" and "Aa2" from S&P and Moody's, respectively.] 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: Moody's Investors Service, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; and Standard & Poor's, 55 Water Street, New York, New York 10041. Generally, a rating agency bases its rating and outlook (if any) on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings or outlooks (if any) will be in effect for any given period of time or that such ratings or outlooks (if any) will not be revised upward or downward or withdrawn entirely by such rating agencies if, in the judgment of such agencies, circumstances so warrant. Any such downward revision or withdrawal of any ratings or outlooks (if any) may have an adverse effect on the market price of the 2009 Series A, B and C Bonds.

## **LITIGATION**

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) restraining or enjoining the issuance, sale or delivery of the 2009 Series A, B and C Bonds, or in any way questioning or affecting (i) the proceedings under which the 2009 Series A, B and C Bonds are to be issued, (ii) the validity of any provision of the 2009 Series A, B and C Bonds or the Resolution, (iii) the pledge by the City of the Trust Estate 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.

The System was the plaintiff in numerous actions against the Alachua County Property Appraiser and others challenging the constitutionality under State law of the assessment of ad valorem taxes against telecommunications assets of the System, including the assets used to provide Internet service, the fiber optic system and radio towers used for both governmental purposes and for leasing space to cellular communications

providers. The litigation also involved the assessment against certain lands that are part of the Deerhaven Station property. During the pendency of the litigation, the System, in accordance with Florida law, declined to pay the disputed taxes for tax years 2003 through 2006. On November 26, 2007, the Florida Supreme Court declined to take jurisdiction of the case, thereby leaving in place the taxation of the towers (and certain real property at the Deerhaven Station) while remanding the issues of taxation of the Internet service and fiber optic assets to the trial court. Following additional proceedings in the trial court the System prevailed on the issues of taxation of both the Internet service and fiber optic assets. No appeal of the outcome was taken by the adverse parties. All taxes and interest accruing during the pendency of the case were paid. Management believes that future payment of the taxes upon the Deerhaven Station property and the towers will not materially affect the financial condition of the System.

In addition to the action discussed in the preceding paragraph, the System is party to various federal, state and local claims, proceedings and lawsuits for damages claimed to result from the operation of the System. Management does not believe that, individually or in the aggregate, 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.

### **APPROVAL OF LEGAL PROCEEDINGS**

The validity of the 2009 Series A, B and C Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City. Complete copies of the proposed forms of Bond Counsel opinions are contained in APPENDICES E and F hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by Marion J. Radson, Esq., Gainesville, Florida, City Attorney. Certain legal matters will be passed upon for the Underwriters by Nixon Peabody LLP, New York, New York, Counsel to the Underwriters.

### **INDEPENDENT AUDITORS**

The financial statements of the System as of September 30, 2008 and 2007 and for the years then ended, included in APPENDIX A hereto, have been audited by Ernst & Young LLP, independent auditors, as stated in their report appearing therein.

### **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the 2009 Series A, B and C Bonds from the City at an aggregate discount of \$\_\_\_\_\_ from the initial offering prices thereof. The 2009 Series A, B and C Bonds may be offered and sold to certain dealers (including dealers depositing such Bonds into investment trusts) at prices lower than such public offering prices, and such public offering prices may be changed, from time to time, by the Underwriters. The Underwriters are J.P. Morgan Securities Inc. [others to come].

J.P. Morgan Securities Inc. has entered into an agreement (the "Distribution Agreement") with UBS Financial Services Inc. for the retail distribution of certain municipal securities offerings, including the 2009 Series A, B and C Bonds, at the original issue prices. Pursuant to the Distribution Agreement, J.P. Morgan Securities Inc. will share a portion of its underwriting compensation with respect to the 2009 Series A, B and C Bonds with UBS Financial Services Inc.

### **FLORIDA SECURITIES LAWS**

Florida law provides that securities issued by any state or any political subdivision thereof are subject to registration with the Florida Department of Banking and Finance, Division of Securities and Investor Protection, if the issuer is in default or has been in default at any time after December 31, 1975 as to principal and interest with respect to any obligation issued by such issuer, unless the offering circular contains full and

fair disclosure concerning the circumstances of such default and financial statements of the issuer for the last two fiscal years. However, the issuer is not required to make such disclosures or include such financial statements if it in good faith believes that such information would not be considered material by a reasonable investor. There has been a default with respect to non-recourse industrial development bonds issued by the City on behalf of a private entity, by reason of nonpayment of debt service by the private entity. Such default is unrelated to the credit of the City or the System; therefore, the City does not consider that disclosures relating to such default are material to prospective purchasers of the 2009 Series A, B and C Bonds. In addition, the 2009 Series A, B and C Bonds are not secured by the full faith and credit and taxing power of the City; therefore, the City does not consider that disclosure of its financial statements (other than those with respect to the System) would be appropriate or material to prospective purchasers of the 2009 Series A, B and C Bonds.

### MISCELLANEOUS

The references herein to the Resolution do not purport to be complete representations of the contents of the Resolution, and reference is made to the Resolution for a full and complete statement of its provisions. Copies of the Resolution are on file with the City and may be obtained upon request. Whether or not expressly stated, any statements involving matters of opinion are intended as opinions and not as representations of fact.

The execution and delivery of this Official Statement have been duly authorized by the City.

CITY OF GAINESVILLE, FLORIDA

By \_\_\_\_\_  
General Manager for Utilities

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FINANCIAL STATEMENTS

Gainesville Regional Utilities  
Years Ended September 30, 2008 and 2007  
With Report of Independent Certified Public Accountants

# Gainesville Regional Utilities

## Financial Statements

Years Ended September 30, 2008 and 2007

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## Management's Discussion and Analysis

The City of Gainesville, Florida owns and operates a combined utility system (System) doing business as Gainesville Regional Utilities (GRU) which provides five separate utility functions. The utility functions consist of an electric generation, transmission and distribution system (Electric System), water production and distribution system (Water System), a wastewater collection and treatment system (Wastewater System), a natural gas distribution system (Gas System) and a telecommunication system (GRUCom). Each of these systems is accounted for internally as a separate enterprise fund but reported as a combined utility system for external financial reporting purposes.

We offer readers of GRU's financial statements this management discussion and analysis of GRU's financial statements for the fiscal years ended September 30, 2008 and 2007. It should be read in conjunction with the financial statements that follow this section.

### **Required Financial Statements**

**Balance Sheet.** This statement includes all of GRU's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to GRU's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the System and assessing the liquidity and financial flexibility of GRU.

**Statement of Revenues, Expenses and Changes in Net Assets.** All of the current year's revenues and expenses are accounted for in this statement. This statement measures the success of the combined utility system's operations over the past year.

**Statement of Cash Flows.** The primary purpose of this statement is to provide information about the combined utility system's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities.

**Notes to Financial Statements.** The notes provide additional information that is essential to fully understanding the data provided in the financial statements. The notes to the financial statements can be found on pages 18 - 46 of this report.

## Management's Discussion and Analysis

### Financial Analysis of the Combined Utility System

The Combined Utility System net assets increased by \$18.3 million from 2007 to 2008, and increased by \$19.1 million from 2006 to 2007. Table 1 below focuses on the net assets.

**Table 1**  
**Combined Utility System Net Assets**

	<b>2008</b>	<b>September 30 2007</b>	<b>2006</b>
	<i>(In Thousands)</i>		
Current and other assets	<b>\$ 486,458</b>	\$ 395,996	\$ 470,462
Capital assets, net	<b>954,762</b>	839,422	761,539
Total assets	<b>1,441,220</b>	1,235,418	1,232,001
Long-term debt outstanding	<b>748,603</b>	574,164	592,315
Current and other liabilities	<b>308,308</b>	295,290	292,808
Total liabilities	<b>1,056,911</b>	869,454	885,123
Net assets:			
Invested in capital assets, net of related debt	<b>322,254</b>	319,757	299,811
Restricted	<b>46,859</b>	37,862	41,400
Unrestricted	<b>15,195</b>	8,345	5,666
Total net assets	<b>\$ 384,308</b>	\$ 365,964	\$ 346,877

Changes in net assets can be further explained using the following condensed statements of revenues, expenses, and changes in net assets.

## Management's Discussion and Analysis

**Table 2**  
**Combined Utility System Changes in Net Assets**

	<b>2008</b>	<b>September 30 2007</b>	<b>2006</b>
	<i>(In Thousands)</i>		
Operating revenues	<b>\$ 349,970</b>	\$ 294,840	\$ 290,039
Interest income	<b>9,272</b>	11,317	10,025
Gain on sale of investments	<b>97</b>	—	—
Total revenues	<b>359,339</b>	306,157	300,064
Operating expenses	<b>285,831</b>	243,869	253,698
Interest expense, net	<b>28,195</b>	26,943	26,920
Total expenses	<b>314,026</b>	270,812	280,618
Income before contributions and transfers	<b>45,313</b>	35,345	19,446
Capital contributions, net	<b>4,483</b>	14,139	4,707
Operating transfer to City of Gainesville	<b>(31,452)</b>	(30,397)	(29,431)
Change in net assets	<b>18,344</b>	19,087	(5,278)
Net assets, beginning of year	<b>365,964</b>	346,877	352,155
Net assets, end of year	<b>\$ 384,308</b>	\$ 365,964	\$ 346,877

### Capital Asset and Debt Administration

**Capital Assets.** GRU's investment in capital assets as of September 30, 2008, amounts to \$954.8 million (net of accumulated depreciation). This investment in capital assets includes land, generation, transmission and distribution systems, buildings and fixed equipment, and furniture, fixtures and equipment. The net increase in the investment in capital assets (net of accumulated depreciation) for the current fiscal year was 13.7%. In fiscal 2007 it increased 10.2%.

## Management's Discussion and Analysis

The following table summarizes the System's capital assets, net of accumulated depreciation and changes for the years ended September 30, 2008, 2007 and 2006.

### Combined Utility System Capital Assets (Net of accumulated depreciation)

	September 30		
	2008	2007	2006
	<i>(In Thousands)</i>		
Generation	\$ 150,474	\$ 162,613	\$ 164,413
Transmission, distribution and collection	392,026	368,347	364,403
Treatment	62,172	62,842	64,924
General plant	42,164	44,825	28,460
Plant held for future use	6,054	6,054	6,054
Plant unclassified	776	8,959	8,704
Construction work in progress	301,095	185,782	124,581
Total net utility plant	<u>\$ 954,761</u>	<u>\$ 839,422</u>	<u>\$ 761,539</u>

Major capital asset events included the following:

- Following the successful implementation of its new Customer Information System in 2007, GRU is continuing its SAP software utilization with the implementation of a Financial Management Information System, which is planned to go live in Spring 2009. \$1.9 million was incurred in 2008 of the project's total \$9.0 estimated cost.
- Electric transmission and distribution expansion was \$13.8 million in 2008 and \$7.4 million in 2007. For 2008, \$5.6 million was pertaining to underground system improvements.
- GRU is in the second year of construction of its South Energy Center. The South Energy Center is a combined heat and power facility built to provide the Shands Medical campus with steam, chilled water and backup power in case of a disaster, and is planned to be operational in 2009. In 2008, GRU incurred \$30 million of the total estimated \$45 million project cost.
- GRU began work on its Air Quality Control project at Deerhaven 2 in 2007. The project incurred \$62.6 million in 2008, for a total of \$89.5 spent to date. GRU expects the Air Quality Control project to be completed by summer 2009, at a total cost of \$141 million.

## Management's Discussion and Analysis

- Water Plant system expansion is highlighted by the filter system upgrade at the Murphree Plant. In 2008, \$3.4 million was incurred versus \$0.5 million in 2007. The final phase of this upgrade is planned to occur in 2010, bringing the estimated total cost of this project to \$8.5 million.
- Telecommunication fiber cable expansion was \$1.7 million in 2008 and \$0.9 million in 2007.
- Gas distribution plant was expanded \$1.0 million in 2008 compared to \$0.9 million in 2007.

The Utility's 2009 capital budget is \$181.6 million and was \$189.3 million in 2008. These projects will be funded from a combination of internal equity and debt.

Additional information on capital assets may be found in Note 3 on page 24 of this report.

**Long-Term Debt.** At September 30, 2008 and September 30, 2007, GRU had total long-term debt outstanding of \$792 million and \$616 million, respectively, comprised of revenue bonds and other long-term debt.

### Outstanding Debt at September 30

	2008	2007	2006
	<i>(In Thousands)</i>		
Senior Lien revenue bonds	\$ 730,495	\$ 550,750	\$ 551,665
Subordinated revenue bonds	–	65,300	68,500
Tax-exempt Commercial Paper	<b>62,000</b>	–	–
<b>Total</b>	<b>\$ 792,495</b>	<b>\$ 616,050</b>	<b>\$ 620,165</b>

On April 28, 2008, the City issued Utilities System Commercial Paper Notes, Series C in the amount of \$62,000,000 to refund the 2002 Series A Bonds and the 2002 Series B Bonds.

On February 13, 2008, the City issued Utilities System Revenue Bonds, Series 2008A in the amount of \$105,000,000 and Utilities System Revenue Bonds, Series 2008B in the amount of \$90,000,000. The 2008A Bonds mature on various dates from October 1, 2009 to October 1, 2020. The 2008B Bonds mature on various dates from October 1, 2022 to October 1, 2038. The 2008A Bonds and the 2008B Bonds were issued to pay costs of acquisition and construction of the City's utilities systems.

On March 1, 2007, the City issued Utilities System Revenue Bonds, Series 2007A in the amount of \$139,505,000. The 2007A Bonds were issued to advance-refund a portion of the City's outstanding Utilities System Revenue Bonds, 2005 Series A and a portion of the City's outstanding Utilities System Revenue Bonds, 2003 Series A.

## Management's Discussion and Analysis

On July 6, 2006, the City issued Utilities System Revenue Bonds, Series 2006A in the amount of \$53,305,000. The 2006A Bonds mature on various dates from October 1, 2010 to October 1, 2026. The 2006A Bonds were issued to refund a portion of the City's outstanding Utilities System Revenue Bonds, 1996 Series A and to pay costs of acquisition and construction of the City's utility systems.

The System maintains ratings of Aa2 and AA with Moody's Investors Services and Standard & Poor's (S&P), respectively for its revenue bonds. The System has ratings of A-1 and P-1 for its commercial paper.

Additional information on long-term debt can be found in Note 4 on pages 25 - 35 of this report.

**Financial Highlights.** The most significant changes in GRU's financial condition are summarized below:

- Operating sales revenue increased \$41.7 million or approximately 14.3% and \$6.3 million or approximately 2.2%, in fiscal 2008 and 2007, respectively. Included in this amount is an increase in revenue of approximately \$23.9 million related to higher fuel costs in fiscal 2008, and approximately \$10.4 million associated with lower fuel costs incurred in fiscal 2007, as compared to 2006. Fuel costs are passed directly through to our customers as part of a fuel adjustment charge, which is recorded as revenue. The remaining increase in sales revenue is a result of rate increases implemented in October 2007.
- Net capital contributions from developers decreased in fiscal 2008 over fiscal 2007 by \$9.7 million and increased in fiscal 2007 over fiscal 2006 by \$9.4 million. This decrease is primarily due to a large number of developments being completed during fiscal 2007. Contributions are recorded when the project is placed in service.
- Fiscal 2008 year end fuels payable increased \$1.8 million, or approximately 24.8%, compared to fiscal 2007 year end. The primary reason for this increase is an increase in coal prices. During fiscal year 2008, several short-term coal contracts expired, causing GRU to purchase coal on the spot market at higher prices.
- Gross utility plant in service increased \$43.0 million, or 3.8%, and net capital assets increased \$115.3 million, or 13.7% in fiscal 2008. In fiscal 2007, gross utility plant in service increased \$45.5 million, or 4.2%, and net capital assets increased \$77.9 million, or 10.2%. This is summarized under "Capital Assets," on page 25.
- Long-term debt increased \$174.4 million, or 30.4%, in fiscal 2008, because of the issuance of Revenue bonds totaling \$195 million and Commercial Paper totaling \$62 million, offset by refunding of other debt and the scheduled paydown of principal. Long-term debt decreased \$18.1 million, or 3.1%, in fiscal 2007, due to the scheduled paydown of principal. See "Long-Term Debt" on page 5, and the detail, on pages 26 - 34.



## Management's Discussion and Analysis

- The number of customers for electric, water, wastewater and gas services increased 3.3%, 3.0%, 2.2%, and 2.0%, respectively in fiscal 2008, and 1.4%, 1.9%, 1.7%, and 1.9% respectively, in fiscal 2007.
- GRU is in the process of remediation efforts at a former manufactured gas plant site. The costs incurred to date total \$4.3 million and GRU estimates that remaining costs of the project will be approximately \$13.3 million. However, to date GRU has recovered \$3.3 million from insurance. After recognizing collection fees paid, a net recovery of \$2.2 million has been realized which will directly reduce the amount to be recovered through customer billings. GRU has accrued a regulatory asset and liability to account for the cost and cost recovery of the expense, which is being amortized as costs are incurred and customer revenues are received. Further explanation of this activity is presented in Note 13, page 41 of this report.
- GRU's service territory incurred approximately \$1.1 million of damage to its facilities as a result of Tropical Storm Fay in September 2008. The \$1.1 million in storm-related expenses were accrued as fiscal 2008 activity and reported in current liabilities. Requests for Federal Emergency Management Agency (FEMA) funding are being submitted. GRU expects to receive a recovery of 75% from federal and 12.5% from state emergency funds as a result of this request. A receivable of \$965,000, or 87.5%, of expenses has been recorded in fiscal 2008.

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

The primary factors affecting the utility industry include environmental regulations, restructuring of the wholesale energy market, the formation of independent bulk power transmission systems and the increasing strategic and price differences among various types of fuels.

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.

Reinstatement of the Clean Air Interstate Rule (CAIR) and Clean Air Mercury Rule (CAMR), or the promulgation of other rules to the same end, create uncertainty as to the capital, operating and maintenance expenditures which will be required by the Deerhaven and JR Kelly generating stations in 2009 and 2010, which may be significant.

Restructuring of wholesale markets and the formation of independent transmission systems has slowed considerably. No state legislation is pending or proposed at this time for retail competition in Florida. Any such restructuring of the Florida retail electric utility industry would be expected to affect the System. Currently, there is no initiative concerning retail electric deregulation in Florida or nationwide.

## Management's Discussion and Analysis

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

On October 1, 2008, GRU implemented a 7% revenue requirement increase in the electric system to be recovered across all classes. The customer charge for all classes and all service was increased to the cost of service. GRU also increased the revenue requirement for the water system by 9%, for the wastewater system by 10% and for the gas system by 19%. This represents an overall monthly increase of \$13.06 for a typical residential customer with all four services.

To meet increased costs of service, GRU increased water and wastewater connection fees 3.2%.

The base rate increases noted above may affect the financial condition and results of operations.

The emerging role of municipalities as telecommunications providers has resulted in a number of state-level legislative initiatives across the nation to curtail this activity. In Florida, this has culminated in the passage of SB1322. Although the system has special status as a grandfathered entity under this legislation, there are some implications should GRU seek to expand into additional areas of service.

GRU's long term energy supply strategy is to aggressively pursue the maximum cost effective energy conservation and renewable energy. Based on the most recent forecasts, which include the effects of aggressive conservation programs, GRU has adequate reserves of generating capacity to meet forecasted loads plus a 15% reserve margins through 2022. This forecast differs from previous years due to additional generation capacity, new population forecasts, and changed economic circumstances. Additional capacity includes 7 megawatts of distributed generation (4 combined heat and power and 3 renewable), and 2.5 megawatts of additional nuclear capacity due to Progress Energy Florida's planned upgrade of the Crystal River 3 nuclear unit (of which GRU owns a small share). Management bases its forecast of future energy needs upon the population forecast for Gainesville produced annually by the Bureau of Economic and Business Research at the University of Florida. GRU management has also been authorized by the City Commission to negotiate a long term contract to secure the output from a 100 megawatt biomass fueled power plant. The proposed facility will be located on a portion of land leased from GRU's Deerhaven power plant site, but owned and operated by a third party. The project is expected to provide a long term hedge against volatile fossil fuel costs and potential federal and state renewable energy requirements and/or carbon regulations.

On December 10, 1998, the City entered into a lease/leaseback transaction for all of the Deerhaven Unit 1 and a substantial portion of the Deerhaven Unit 2 generating facilities. Under the terms of the transaction, the City entered into a 38-year lease and simultaneously a 20-year leaseback. At the end of the leaseback period term, the City has an option to buy out the remainder of the lease for a fixed purchase option amount.

## Management's Discussion and Analysis

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

Under the terms of the transaction, the City continues to own, operate, maintain, and staff the facilities.

The proceeds received by the City from this transaction were approximately \$249 million. From these proceeds, GRU deposited \$142 million as a payment undertaking agreement and a second deposit of \$72 million in the form of a collateralized Guaranteed Investment Contract (GIC), both with Ambac Assurance Corporation (Ambac), a financial guaranty insurance company that also provided credit enhancement for the transaction. The deposit instruments will mature in amounts sufficient to meet the annual payment obligations under the leaseback including the end of term fixed purchase option if elected by GRU.

The net benefit of this transaction, after payment of transaction expenses, was approximately \$35 million and resulted in a deferred gain, which is being amortized as income on a straight-line basis over the leaseback period of 20 years.

On May 17, 2006, President Bush signed into law an act entitled the "Tax Increase Prevention and Reconciliation Act of 2005" (the Act). Among other provisions, the Act imposes an excise tax on certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions (including the City). Based on regulations released by the Internal Revenue Service in 2007, GRU currently anticipates that it will owe little, if any, excise tax under the Act, but this result is not certain given the interpretive questions that still remain with respect to the excise tax.

In November, 2008, Moody's Investors Service and Standard & Poor's downgraded their respective credit ratings of Ambac. Under the terms of the lease/leaseback transaction documents, the City is required to provide substitute credit enhancement within 30 days of the occurrence of Ambac's ratings downgrades. GRU currently is working with its financial advisor and legal counsel to evaluate its options. Based on that evaluation, GRU has determined that the termination of the LILO transaction is the most appropriate action. GRU staff has negotiated the termination price with BNY and has worked with Ambac to value the GIC. The difference between the two amounts is approximately \$13.2 million, and is an obligation of the City. This difference will be paid by GRU upon the closing of the LILO termination scheduled in late February.

GRU currently carries a reserve balance of \$2.25 million, primarily for possible liability related to the oil contamination at the Kelly Generating Station. In July of 2006, GRU was notified by the Florida Department of Environmental Protection (FDEP) that provisions of Chapter 62-780, F.A.C. must be complied with on this site. This Rule is currently being utilized to establish a process and time schedule for assessment and remediation of the site. GRU's liability utilizing

## Management's Discussion and Analysis

this Rule is unknown and cannot be reasonably estimated at this time. Therefore, GRU will make no changes to the reserve balance until further information is received and a reasonable estimate can be established.

### **Requests for Information**

This financial report is designed to provide a general overview of the Combined Utility System's finances for all those with an interest in the Combined Utility System'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, City of Gainesville Regional Utilities, P.O. Box 147117, Station A-105, Gainesville, Florida 32614-7117.

## Report of Independent Certified Public Accountants

The Honorable Mayor and Members of the City Commission  
City of Gainesville, Florida

We have audited the accompanying balance sheets of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of September 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Gainesville Regional Utilities' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1, the financial statements present only Gainesville Regional Utilities (the Combined Utility Fund of the City of Gainesville, Florida) and are not intended to present fairly the financial position of the City of Gainesville, Florida, or the changes in its financial position and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gainesville Regional Utilities as of September 30, 2008 and 2007, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2009 on our consideration of Gainesville Regional Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Ernst + Young LLP*

February 10, 2009

# Gainesville Regional Utilities

## Balance Sheets

	<b>September 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,568,881	\$ 497,495
Accounts receivable, net of allowance for uncollectible accounts of \$757,161 in 2008 and \$711,287 in 2007	51,428,892	48,982,445
Prepaid rent – lease/leaseback	10,686,909	10,686,909
Fuels contracts	1,167,586	2,753,935
Deferred charges	8,670,229	10,698,039
Inventories:		
Fuel	5,961,105	10,346,461
Materials and supplies	9,935,476	9,047,385
Total current assets	92,419,078	93,012,669
Restricted assets:		
Utility deposits – cash and investments	5,821,407	4,900,401
Debt service – cash and investments	37,683,248	29,560,285
Rate stabilization – cash and investments	63,886,197	52,828,569
Construction Fund – cash and investments	131,330,393	66,740,573
Utility plant improvement fund – cash and investments	24,495,171	16,071,384
Investment in The Energy Authority	2,447,440	2,513,497
Decommissioning reserve – cash and investments	8,529,188	7,594,434
Total restricted assets	274,193,044	180,209,143
Prepaid rent – lease/leaseback	97,963,332	108,650,241
Other noncurrent assets	21,882,979	14,124,276
Capital assets:		
Utility plant in service	1,172,650,704	1,129,689,362
Plant unclassified	1,294,690	9,636,128
Less: accumulated depreciation and amortization	526,333,349	491,739,199
	647,612,045	647,586,291
Plant held for future use	6,053,926	6,053,926
Construction in progress	301,094,810	185,781,802
Net capital assets	954,760,781	839,422,019
Total assets	<b>\$ 1,441,219,214</b>	<b>\$ 1,235,418,348</b>

	September 30	
	2008	2007
<b>Liabilities and net assets</b>		
Current liabilities:		
Fuel payable	\$ 9,297,148	\$ 7,449,745
Accounts payable and accrued liabilities	17,005,247	11,587,288
Operating lease – lease/leaseback	12,461,916	12,461,916
Deferred credits	6,452,527	21,022,919
Due to other funds	3,658,313	3,216,566
Total current liabilities	<u>48,875,151</u>	<u>55,738,434</u>
Payable from restricted assets:		
Utility deposits	5,821,408	4,900,401
Rate stabilization deferred credit	63,886,197	52,828,569
Construction fund:		
Accounts payable and accrued liabilities	10,386,482	6,824,337
Debt payable – current portion	21,984,991	18,555,000
Accrued interest payable	15,907,528	11,053,714
Total payable from restricted assets	<u>117,986,606</u>	<u>94,162,021</u>
Long-term debt:		
Utilities system revenue bonds	708,510,009	535,495,000
Subordinated utilities system revenue bonds	–	62,000,000
Commercial paper notes	62,000,000	–
Unamortized loss on refinancing	(28,600,928)	(31,167,400)
Unamortized bond premium discount	6,693,973	7,836,301
Total long-term debt	<u>748,603,054</u>	<u>574,163,901</u>
Operating lease – lease/leaseback	114,225,173	126,686,285
Other noncurrent liabilities	27,221,470	18,703,314
Total liabilities	<u>1,056,911,454</u>	<u>869,453,955</u>
Net assets:		
Invested in capital assets, net of related debt	322,253,279	319,757,469
Restricted	46,861,035	37,861,548
Unrestricted	15,193,446	8,345,376
Total net assets	<u>384,307,760</u>	<u>365,964,393</u>
Total liabilities and net assets	<u>\$ 1,441,219,214</u>	<u>\$ 1,235,418,348</u>

*See accompanying notes.*



## Gainesville Regional Utilities

### Statements of Revenues, Expenses and Changes in Net Assets

	<b>Year Ended September 30</b>	
	<b>2008</b>	<b>2007</b>
Operating revenue:		
Sales and service charges	\$ 333,371,432	\$ 291,686,112
Transfers from (to) rate stabilization	5,088,582	(6,759,131)
Other operating revenue	11,509,582	9,912,886
Total operating revenue	<u>349,969,596</u>	<u>294,839,867</u>
Operating expenses:		
Operation and maintenance	202,704,048	172,451,692
Administrative and general	38,402,370	31,220,383
Depreciation and amortization	44,724,361	40,197,132
Total operating expenses	<u>285,830,779</u>	<u>243,869,207</u>
Operating income	<u>64,138,817</u>	50,970,660
Non-operating income (expense):		
Interest income	9,272,250	11,317,499
Interest expense, net of AFUDC	(28,194,844)	(26,942,796)
Gain on sale of investments	97,050	-
Total non-operating expense	<u>(18,825,544)</u>	<u>(15,625,297)</u>
Income before contributions and transfers	<u>45,313,273</u>	35,345,363
Capital contributions:		
Contributions from developers	4,805,277	14,310,635
Reduction of plant costs recovered through contributions	(323,300)	(171,349)
Net capital contributions	<u>4,481,977</u>	14,139,286
Operating transfer to City of Gainesville General Fund	<u>(31,451,885)</u>	<u>(30,397,527)</u>
Change in net assets	<u>18,343,365</u>	19,087,122
Net assets – beginning of year	<u>365,964,393</u>	346,877,271
Net assets – end of year	<u>\$ 384,307,758</u>	<u>\$ 365,964,393</u>

*See accompanying notes.*

# Gainesville Regional Utilities

## Statements of Cash Flows

	<b>Year Ended September 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating activities</b>		
Cash received from customers	\$ 331,845,993	\$ 284,077,990
Cash payments to suppliers for goods and services	(168,718,291)	(147,890,172)
Cash payments to employees for services	(52,805,765)	(48,477,008)
Cash payments for operating transactions with other funds	(8,676,985)	(7,968,835)
Other operating receipts	14,823,961	1,379,552
Net cash provided by operating activities	116,468,913	81,121,527
<b>Noncapital financing activities</b>		
Transfers to other funds	(31,451,885)	(30,397,527)
Net cash used in noncapital financing activities	(31,451,885)	(30,397,527)
<b>Capital and related financing activities</b>		
Principal repayments on long-term debt	(80,555,000)	(143,620,000)
Interest paid on long-term debt	(27,049,829)	(34,286,420)
Other receipts	65,200	55,128
Acquisition and construction of fixed assets (including allowance for funds used during construction)	(145,450,660)	(93,100,494)
Proceeds from new debt and commercial paper	257,000,000	139,505,000
Cash received for connection charges	4,436,762	3,143,418
Net cash provided by (used in) capital and related financing activities	8,446,473	(128,303,368)
<b>Investing activities</b>		
Interest received	5,605,430	5,268,057
Purchase of investments	(924,502,246)	(441,486,603)
Investment in The Energy Authority	(1,200,000)	(1,200,000)
Distributions from The Energy Authority	1,266,057	1,215,070
Proceeds from investment maturities	836,699,000	499,350,520
Net cash (used in) provided by investing activities	(82,131,759)	63,147,044
Net change in cash and cash equivalents	11,331,742	(14,432,324)
Cash and cash equivalents, beginning of year	2,107,030	16,539,354
Cash and cash equivalents, end of year	\$ 13,438,772	\$ 2,107,030

*Continued on next page.*

## Gainesville Regional Utilities

### Statements of Cash Flows (continued)

	<b>Year Ended September 30</b>	
	<b>2008</b>	<b>2007</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	<b>\$ 64,138,817</b>	\$ 50,970,660
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	<b>44,724,361</b>	40,197,132
Operating lease – lease/leaseback revenue	<b>(1,774,203)</b>	(1,774,203)
Increase (decrease) in cash attributable to change in assets and liabilities:		
Receivables	<b>(2,446,447)</b>	(8,006,410)
Fuel contracts	<b>1,586,349</b>	(847,466)
Inventories	<b>3,497,265</b>	(612,892)
Deferred charges	<b>2,993,347</b>	3,590,270
Accounts payable and accrued liabilities	<b>10,827,507</b>	5,761,328
Due to other funds	<b>441,747</b>	204,456
Utility deposits	<b>921,007</b>	398,288
Other liabilities and deferred credits	<b>(8,440,837)</b>	(8,759,635)
Net cash provided by operating activities	<b>\$116,468,913</b>	\$ 81,121,528

#### **Noncash, investing, capital and financing activities**

Utility plant contributed by developers in aid of construction was \$4,481,977 and \$14,139,286

*See accompanying notes.*

# Gainesville Regional Utilities

## Notes to Financial Statements

Years Ended September 30, 2008 and 2007

### 1. Summary of Significant Accounting Policies

#### Organization

Gainesville Regional Utilities (GRU or the Utility) is a combined municipal utility system operating electric, natural gas, water, wastewater, and telecommunications (GRUCom) utilities. GRU consists of the combined Utility Funds of the City of Gainesville, Florida (City). GRU is a unit of the City and, accordingly, the financial statements of GRU are included in the annual financial reports of the City.

#### Basis of Accounting

The financial statements are presented on the accrual basis of accounting. Under this basis, revenues are recognized in the period earned and expenses are recognized in the period incurred. GRU applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, in accounting for and reporting its operations. In accordance with government accounting standards, GRU has elected not to apply FASB pronouncements issued after that date. In accordance with the Utilities System Revenue Bond Resolution as Supplemented and Amended (Bond Resolution), rates are designed to cover operating and maintenance expense, debt service and other revenue requirements, which exclude depreciation expense and other noncash 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 net income in the period that they occur, in accordance with GRU's accounting policies. GRU has adopted the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC) and substantially all provisions of the National Association of Regulatory Utility Commissioners (NARUC). Rates are approved annually by the City Commission.

#### Gainesville Regional Utilities reports net assets in the following classifications:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or other long-term borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of “invested in capital assets, net of related debt.” Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. The costs of capital assets include material, labor, vehicle and equipment usage, related

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

overhead items, capitalized interest, and certain administrative and general expenses. Maintenance and replacements of minor items are charged to operating expenses. When units of depreciable property are retired, the original cost and removal cost, less salvage, are charged to accumulated depreciation.

- Restricted – This component of net assets consists of net assets subject to external constraints on their use imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

#### 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.

#### Investments

Investments are reported at fair value in the balance sheets based on quoted market prices. All short-term commercial paper with maturities less than one year have been reported at cost which approximates fair value. More information is provided in Note 5, “Deposits and Investments.”

#### Risk Management/Futures and Options Contracts

GRU conducts a risk management program with the intent of reducing the impact of fuel price spikes 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 volumes of gas that the utility projects to consume during a given production month. 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 on a daily basis, GRU makes every effort to take reasonable steps to minimize the customers’ exposure to fuel spikes while, at the same time, attempting to reduce costs.

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

The information below provides a summary of results based on GRU's risk management activity during fiscal years 2008 and 2007.

	<b>September 30</b>	
	<b>2008</b>	<b>2007</b>
Deposits	<b>\$ 2,973,066</b>	\$ 4,961,685
Unrealized gain/(loss)	<b>(1,805,480)</b>	(2,207,750)
Net Investment in derivatives	<b>\$ 1,167,586</b>	\$ 2,753,935

Gains or losses from hedging transactions are applied to GRU's monthly fuel expenses as an offset to fuel cost when recognized. Realized gains and losses related to hedging positions are deferred under the rate-setting policy. During fiscal years 2008 and 2007, GRU recognized losses of \$1 million and \$5.4 million, respectively. Realized, but unrecognized, losses of \$3.1 million and \$3.0 million have been deferred at September 30, 2008 and September 30, 2007, respectively.

### Inventories

Inventories are stated at cost using the weighted average unit cost method for materials, and the last-in, first-out (LIFO) method for fuel. Obsolete and unusable items are reduced to estimated salvage values. The cost of fuel used for electric generation is charged to expense as consumed.

### Capital Assets

Property and equipment are recorded at cost. Maintenance and repairs are charged to operating expense as incurred. The average cost of depreciable plant retired is eliminated from the plant accounts and charged to accumulated depreciation. Associated cost of removal net of salvage is charged to depreciation expense as incurred. Currently, GRU has a capitalization threshold of \$1,000 for general plant assets.

Plant unclassified includes property and equipment related to projects placed into service that have not been classified in the related asset category within utility plant in service.

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Depreciation and Nuclear Generating Plant Decommissioning

An independent evaluation of GRU's depreciation rates and accumulated reserve was performed by an outside consultant in 2004. The study recommended an update to depreciation rates and allowance reserve balances. Depreciation of utility plant is computed using the straight-line method over estimated service lives ranging from 6 to 50 years. GRU implemented the recommended rates in fiscal 2005. The overall depreciation rate was 3.40% in fiscal 2008 and 3.29% in fiscal 2007. Depreciation expense includes a provision for decommissioning costs related to the jointly-owned nuclear power plant (see Note 6).

The cost of nuclear fuel, including estimated disposal cost, is amortized to fuel expense based on the quantity of heat produced for the generation of electric energy in relation to the quantity of heat expected to be produced over the life of the nuclear fuel core. These costs are charged to customers through the fuel adjustment clause.

#### Revenue Recognition

Revenue is recorded as earned. GRU accrues for services rendered but unbilled, which amounted to approximately \$14,171,000 and \$14,390,000 for 2008 and 2007, respectively. Fuel adjustment revenue is recognized based on the actual fuel costs. Amounts charged to customers for fuel are based on estimated costs, which are adjusted for any differences between the actual and estimated costs once actual fuel costs are known. If the amount recovered through billings exceeds actual fuel costs, GRU records deferred fuel as a liability. If the amount recovered through billings is less than the actual fuel costs, GRU records deferred fuel as an asset, for amounts to be collected through future rates. As of September 30, deferred fuel costs were a receivable of \$3,144,000 and \$5,523,000 in 2008 and 2007, respectively. The deferred fuel balances are reported as part of current deferred charges on the balance sheets.

#### Transactions with the City of Gainesville

As an enterprise fund of the City of Gainesville, transactions occur between GRU and the City's governmental funds throughout the year in the ordinary course of operations. Below is a summary of significant transactions:

- Administrative Services – GRU is billed monthly for various administrative and insurance services provided by the City's governmental functions. In FY2008, GRU paid \$1.6 million for joint services.

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

- Nonmetered and Metered Service Charges – GRU bills the City’s governmental funds on a monthly basis for all nonmetered, metered and other administrative services. In FY2008, GRU billed the City \$4.7 million for these services.
- Transfers to the general fund – GRU budgets an annual transfer to the general fund based on a City Commission approved formula. See Note 11 for details.

### Funds in Accordance with Bond Resolutions

Certain restricted funds of GRU are administered in accordance with bond resolutions. These funds are as follows:

- 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 as necessary and to provide operating reserves for the Utility.

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



# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### **1. Summary of Significant Accounting Policies (continued)**

The Utility Plant Improvement Fund accounts for funds used to pay for certain capital projects or debt service, the purchase or redemption of bonds, or otherwise provide for the repayment of bonds.

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.

### **Operating, Non-operating Revenues**

GRU has defined operating revenue as that revenue which is derived from customer sales or service while non-operating revenues include interest on investments and any gain from the sale of such investments. Substantially all of GRU's revenues are pledged to the repayment of revenue bonds.

### **Allowance for Funds Used During Construction (AFUDC)**

An allowance for interest on borrowed funds used during construction of \$2,599,000 and \$359,000 in 2008 and 2007, respectively, is 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 4.37%.

### **Contributions in Aid of Construction**

GRU recognizes capital contributions to the water, wastewater and GRUCom divisions, from developers and other third parties as revenues in the period received. Contributions to the electric and gas divisions are also reported as capital contribution revenues; however, the related capital asset amounts are also expensed in the same period consistent with the requirements of the FERC Uniform System of Accounts.

### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, bank demand accounts, and overnight repurchase agreements.

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### **1. Summary of Significant Accounting Policies (continued)**

#### **Unamortized Loss on Refinancing**

Losses resulting from the refinancing of bonds are deferred and amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter.

### **2. Rates and Regulation**

GRU's rates are established in accordance with the Utilities System Bond Resolution and the Utilities System Subordinated Bond Resolution as adopted and amended. Under these documents, rates are set to recover Operation and Maintenance Expenses, Debt Service, Utility Plant Improvement Fund contributions, and costs for any other lawful purpose such as the General Fund Transfer.

Each year during the budgeting process, and at any other time necessary, the City Commission approves rate changes and other changes to GRU's charges.

GRU's cost of fuel for the electric and natural gas systems is passed directly through to its customers. Each month, GRU staff estimates the cost of fuel and consumption for both the electric and natural gas systems. These estimates are combined with a true-up for actual costs from previous months into a current-month electric fuel adjustment and natural gas purchased gas adjustment. Amounts overbilled or underbilled are passed along to customers and are either accrued or deferred at year-end.

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

Currently, GRU prepares its financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 71, and records various regulatory assets and liabilities. For a company to report under SFAS No. 71, the company's rates must be designed to recover its costs of providing services, and the company must be able to collect those rates from customers. If it were determined, whether due to competition or regulatory action, that these standards no longer applied, GRU could be required to write off its regulatory assets and liabilities. Management believes that GRU currently meets the criteria for continued application of SFAS No. 71, but will continue to evaluate significant changes in the regulatory and competitive environment to assess continuing applicability of the criteria.

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 3. Capital Assets and Changes in Accumulated Depreciation

A summary of capital assets, changes in accumulated depreciation and related depreciation provisions expressed as a percentage of average depreciable plant follows:

	Plant in Service					CWIP/Plant held for Future Use	Combined
	Treatment	Generation	Transmission, Distribution and Collection	General	Unclassified		
Balance, October 1, 2007	\$ 111,305,936	\$ 360,815,534	\$ 573,771,771	\$ 83,796,119	\$ 9,636,128	\$ 191,835,728	\$ 1,331,161,216
Capital additions and transfers	3,278,716	839,222	39,445,779	3,979,923	38,020,397	156,484,960	242,048,997
Sales, retirements and transfers	756,311	3,051,270	774,715	-	46,361,835	41,171,952	92,116,083
Balance, September 30, 2008	<u>\$ 113,828,341</u>	<u>\$ 358,603,486</u>	<u>\$ 612,442,835</u>	<u>\$ 87,776,042</u>	<u>\$ 1,294,690</u>	<u>\$ 307,148,736</u>	<u>\$ 1,481,094,130</u>
Accumulated depreciation, October 1, 2007	\$ 48,464,065	\$ 198,202,248	\$ 205,424,695	\$ 38,971,168	\$ 677,023	n/a	\$ 491,739,199
Depreciation expense	3,948,871	9,926,731	18,817,722	6,575,999	56,758	n/a	39,326,081
Retirements/adjustments	756,311	-	3,825,807	(65,200)	215,013	n/a	4,731,931
Accumulated depreciation, September 30, 2008	<u>\$ 51,656,625</u>	<u>\$ 208,128,979</u>	<u>\$ 220,416,610</u>	<u>\$ 45,612,367</u>	<u>\$ 518,768</u>	n/a	<u>\$ 526,333,349</u>
Average depreciation rate	<u>3.51%</u>	<u>2.76%</u>	<u>3.17%</u>	<u>7.67%</u>	<u>1.04%</u>	n/a	<u>3.40%</u>

	Plant in Service					CWIP/Plant held for Future Use	Combined
	Treatment	Generation	Transmission, Distribution and Collection	General	Unclassified		
Balance, October 1, 2006	\$ 109,677,811	\$ 354,276,054	\$ 553,684,313	\$ 66,584,468	\$ 9,063,632	\$ 130,635,433	\$ 1,223,921,711
Capital additions and transfers	1,730,760	8,136,708	21,455,959	21,301,766	52,495,380	115,037,440	220,158,013
Sales, retirements and transfers	102,635	1,597,227	1,368,501	4,090,115	51,922,884	53,837,145	112,918,507
Balance, September 30, 2007	<u>\$ 111,305,936</u>	<u>\$ 360,815,536</u>	<u>\$ 573,771,771</u>	<u>\$ 83,796,119</u>	<u>\$ 9,636,128</u>	<u>\$ 191,835,728</u>	<u>\$ 1,331,161,218</u>
Accumulated depreciation, October 1, 2006	\$ 44,753,789	\$ 189,863,548	\$ 189,280,483	\$ 38,124,845	\$ 359,878	n/a	\$ 462,382,543
Depreciation expense	3,812,913	9,828,319	17,512,093	4,879,748	677,023	n/a	36,710,096
Retirements/adjustments	102,635	1,489,620	1,367,882	4,033,425	359,878	n/a	7,353,440
Accumulated depreciation, September 30, 2007	<u>\$ 48,464,067</u>	<u>\$ 198,202,247</u>	<u>\$ 205,424,694</u>	<u>\$ 38,971,168</u>	<u>\$ 677,023</u>	n/a	<u>\$ 491,739,199</u>
Average depreciation rate	<u>3.45%</u>	<u>2.75%</u>	<u>3.11%</u>	<u>6.49%</u>	<u>7.24%</u>	n/a	<u>3.29%</u>

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 4. Long-Term Debt

Long-term debt outstanding at September 30, 2008 and 2007, consisted of the following:

	September 30	
	2008	2007
<u>Utilities System Revenue Bonds:</u>		
Series 1983 (1983 Bonds) – interest payable semi-annually to October 1, 2014 at a rate of 6.00%	\$ 4,675,000	\$ 4,675,000
1992 Series B (1992 B Bonds) – interest payable semi-annually to October 1, 2013 at various rates between 6.50% and 7.50%	24,630,000	24,630,000
1996 Series A (1996 A Bonds) – interest payable semi-annually to October 1, 2009 at rates between 5.00% and 5.75%	7,720,000	10,595,000
2002 Subordinated Series A (2002 Series A) – interest at variable rates; 2.80% at April 30, 2008 (Date of Redemption)	–	25,300,000
2002 Subordinated Series B (2002 Series B) – interest at variable rates; 2.83% at May 7, 2008 (Date of Redemption)	–	40,000,000
2003 Series A (2003 A Bonds) – interest payable semi-annually to October 1, 2023 at rates between 4.625% and 5.25%	7,525,000	7,525,000
2003 Series B (2003 B Bonds) – interest payable semi-annually to October 1, 2013 at a 4.4% interest rate (Federally Taxable)	4,960,000	5,670,000
2003 Series C (2003 C Bonds) – interest payable semi-annually to October 1, 2013 at rates between 4.00% and 5.00%	85,380,000	96,300,000
2005 Series A (2005 A Bonds) – interest payable semi-annually to October 1, 2036 at rates between 4.75% and 5.00%	91,820,000	91,820,000
2005 Series B (2005 B Bonds) – interest payable semi-annually to October 1, 2021 at rates between 5.14% and 5.31%	60,840,000	61,590,000
2005 Series C (2005 C Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; 4.25% at September 30, 2008	55,135,000	55,135,000
2006 Series A (2006 A Bonds) – interest payable semi-annually to October 1, 2026, interest at variable market rates; 4.30% at September 30, 2008	53,305,000	53,305,000
2007 Series A (2007 A Bonds) – interest payable semi-annually to October 1, 2036, interest at variable market rates; 7.91% at September 30, 2008	139,505,000	139,505,000
2008 Series A (2008 A Bonds) – interest payable semi-annually to October 1, 2020 at rates between 2.98% and 5.27%	105,000,000	–
2008 Series B (2008 B Bonds) – interest payable semi-annually to October 1, 2038, interest at variable market rates; 8.00% at September 30, 2008	90,000,000	–
Utilities System Commercial Paper Notes, Series C (C Notes), interest at variable market rate; 4.75% at September 30, 2008	62,000,000	–
Current portion of long-term debt	(21,984,991)	(18,555,000)
Unamortized loss on refinancing	(28,600,928)	(31,167,400)
Unamortized premium discount	6,693,973	7,836,301
Total long-term debt	\$ 748,603,054	\$ 574,163,901

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

The 1983 Bonds mature on October 1, 2014. Those Bonds are subject to redemption at the option of the City as a whole at any time or in part on any interest payment date, at a redemption price of 100% plus accrued interest to the date of redemption.

The 1992B Bonds mature at various dates from October 1, 2001 to October 1, 2013. Those bonds maturing on or after October 1, 2004 to October 1, 2007, amounting to \$14.3 million were redeemed at the option of the City on October 1, 2002.

The 1996A Bonds matured at various dates through October 1, 2026. Those Bonds maturing on or after October 1, 2010 were subject to redemption at the option of the City on or after October 1, 2006 as a whole or in part at any time at a redemption price of 102% in 2006, 101% in 2007, and 100% thereafter. In August 2003, the 2003C Utility System Revenue Bonds were issued to advance-refund to the maturity dates a portion of the bonds maturing from October 1, 2004 through October 1, 2008 (\$6.235 million). The bonds were defeased, in substance, and will be paid from escrowed funds. There were \$1,390,000 in defeased bonds outstanding as of September 30, 2008. In November 2005, the 2005 Series C Bonds were issued to advance-refund to the maturity dates a portion (\$53,190,000) of the bonds maturing from October 1, 2010 to October 1, 2026. In July 2006, the 2006 Series A Bonds were issued to refund to the maturity dates the remainder (\$51,675,000) of the bonds maturing from October 1, 2010 to October 1, 2026. The proceeds related to the refunded Bonds for both series were deposited into an escrow account to refund the Bonds on October 1, 2006 at 102% of par.

The 2002A Subordinated Utilities System Revenue Bonds mature on October 1, 2017. The 2002B Subordinated Utility System Revenue Bonds mature on October 1, 2032. The 2002A and 2002B Series Bonds were issued as multi-modal variable interest-rate bonds, initially issued as variable-rate auction notes. In April 2008, the Utilities System Commercial Paper Notes, Series C, were issued to refund the 2002 Series A Bonds (\$22,000,000) and 2002 Series B Bonds (\$40,000,000). This refunding is anticipated to result in approximately \$888,000 of net present value savings for GRU, with yearly cash savings from approximately \$5,000 to \$110,000.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

The 2003A Utilities System Revenue Bonds mature on various dates from October 1, 2015 through October 1, 2033. The 2003B Bonds mature on various dates from October 1, 2005 through October 1, 2013. The 2003A Bonds maturing on or after October 1, 2013 are subject to redemption at the option of the City on or after October 1, 2013 at 100%. 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, 2020 to October 1, 2033. The proceeds related to the refunded Bonds were deposited into an escrow account to refund the Bonds on October 1, 2013 at 100% of par. The 2003B Bonds maturing are not subject to redemption prior to maturity. The 2003C Utilities System Revenue Bonds mature at various dates from October 1, 2004 to October 1, 2013. The 2003C bonds are not subject to redemption prior to maturity.

On November 16, 2005, the City issued Utilities System Revenue Bonds, Series 2005A, 2005B, and 2005C in the amounts of \$196,950,000, \$61,590,000, and \$55,135,000 respectively. The 2005A Bonds were issued to (a) pay a portion of the cost of acquisition and construction of certain improvements to the City's electric, natural gas, water, wastewater and telecommunications systems and (b) to refund the City's Utilities System Commercial Paper Notes, Series C. The 2005B Bonds were issued to (a) pay a portion of the cost of acquisition and construction of certain improvements to the System and (b) to refund the City's Utilities System Commercial Paper Notes, Series D. The 2005C Bonds were issued to refund a portion of the City's outstanding Utilities System Revenue Bonds, 1996 Series A. The 2005A Bonds mature on various dates from October 1, 2021 to October 1, 2036. The 2005B Bonds mature on various dates from October 1, 2015 to October 1, 2021. The 2005C Bonds mature on various dates from October 1, 2010 to October 1, 2026. The 2005A Bonds will be 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. In March 2007, the 2007 Series A Bonds (\$139,505,000) were issued to advance-refund to the maturity dates a portion of the 2005A 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. The 2005B Bonds will be subject to redemption prior to maturity at the option of the City, in whole or in part, on any date, at a redemption price equal to the greater of: (i) 100% of the principal amount of the Bonds to be redeemed, plus accrued and unpaid interest on the Bond; or (ii) 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 2005C Bonds will be subject to redemption prior to maturity at the election of the City at a redemption price of 100 percent of the principal amount plus accrued interest. The 2005C Bonds created a net present value savings of over \$6,700,000, with yearly cash savings ranging from approximately \$370,000 to over \$1,085,000.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

On July 6, 2006, the City issued Utilities System Revenue Bonds, Series 2006A in the amount of \$53,305,000. The 2006A Bonds mature on various dates from October 1, 2010 to October 1, 2026. The 2006A Bonds were issued to refund a portion of the City's outstanding Utilities System Revenue Bonds, 1996 Series A and to pay costs of acquisition and construction of the City's utilities system. The 2006A Bonds will be 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 percent of the principal amount plus accrued interest to the redemption date. The 2006A 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.

On February 13, 2008, the City issued Utilities System Revenue Bonds, Series 2008A in the amount of \$105,000,000 and Utilities System Revenue Bonds, Series 2008B in the amount of \$90,000,000. The 2008A Bonds mature on various dates from October 1, 2009 to October 1, 2020. The 2008B Bonds mature on various dates from October 22, 2022 to October 1, 2038. The 2008A Bonds and the 2008B Bonds were issued to pay costs of acquisition and construction of the City's utilities system. The 2008A Bonds will be 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 percent of the principal amount plus accrued interest to the redemption date. The 2008B Bonds will be 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 percent of the principal amount plus accrued interest to the redemption date.

Utilities System Commercial Paper Notes, Series C Notes (tax-exempt) in a principal amount not to exceed \$85 million 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 dated as of March 1, 2000 with Bayerische Landesbank Girozentrale. This agreement has been extended to November 30, 2015. The obligation of the bank may be substituted by another bank which meets certain credit standards and which is approved by GRU and the Agent. Under the terms of the agreement, GRU may borrow up to \$85 million with same day availability ending on the termination date, as defined in the agreement. There are \$62,000,000 of Series C Notes outstanding as of September 30, 2008 and no Series C Notes outstanding as of September 30, 2007.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

In June 2000, a Utilities System Commercial Paper Note Program, Series D (taxable) was established in a principal amount not to exceed \$25 million. Liquidity support for the Series D Notes was provided under a long-term credit agreement dated June 1, 2000 with SunTrust Bank. This agreement has been extended to September 14, 2009. The obligation of the bank may be substituted by another bank that meets certain credit standards and is approved by GRU. Under the terms of the agreement, GRU may borrow up to \$25 million with same day availability ending on the termination date, as defined in the agreement. There are no Series D Notes outstanding as of September 30, 2008 or September 30, 2007.

GRU is required to make monthly deposits into separate accounts for an amount equal to the required share of principal and interest becoming payable for the revenue bonds on the payment dates of April 1 and October 1.

The following table lists the Debt Service requirements (principal and interest) on long-term debt outstanding at September 30, 2008:

Period ending September 30	Principal	Interest	Total Debt Service Requirements <sup>(1)</sup>
2009	\$ 21,985,000	\$ 26,814,925	\$ 48,799,925
2010	29,875,000	44,164,050	74,039,050
2011	31,245,000	42,786,530	74,031,530
2012	32,650,000	41,306,456	73,956,456
2013	34,140,000	39,741,600	73,881,600
2014 – 2018	167,460,000	173,635,240	341,095,240
2019 – 2023	125,765,000	135,719,676	261,484,676
2024 – 2028	112,845,000	105,028,542	217,873,542
2029 – 2033	139,535,000	68,045,558	207,580,558
2034 – 2038	96,995,000	21,630,168	118,625,168
	<u>\$ 792,495,000</u>	<u>\$ 698,872,745</u>	<u>\$ 1,491,367,745</u>

(1) Interest rates on variable-rate long-term debt were valued to be equal to 4.25% for the 2005C Series Bonds, 4.30% for the 2006A Series Bonds, 7.91% for the 2007A Series Bonds, 8.00% for the 2008B Series Bonds and 4.75% for the 2008 TECP. These are the rates in effect as of September 30, 2008.



## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

The interest rates used in this table are per GASB 38, which requires the rate used in the calculations be that in effect as of September 30, 2008. At that time there was significant market unrest driving rates high for a short time. Rates are considerably lower now. Management believes these future debt service requirements are substantially overstated.

The table below shows the changes in net long-term debt balances that occurred during the years ended September 30, 2008 and 2007.

	<b>September 30</b>	<b>2008</b>	<b>2007</b>
Long-term debt outstanding at beginning of year	<b>\$574,163,901</b>	\$ 592,314,742	
Changes in long-term debt:			
Series 2007A issued	–	139,505,000	
Series 2008A issued	<b>105,000,000</b>	–	
Series 2008B issued	<b>90,000,000</b>	–	
TECP issued during the year	<b>62,000,000</b>	–	
Fixed rate debt redeemed – Senior Lien and Subordinated	<b>(21,984,991)</b>	(18,555,000)	
Series 2002A refunded	<b>(22,000,000)</b>	–	
Series 2002B refunded	<b>(40,000,000)</b>	–	
Series 2003A refunded (partial)	–	(25,475,000)	
Series 2005A refunded (partial)	–	(105,130,000)	
Change in unamortized loss/bond discount	<b>1,424,144</b>	(8,495,841)	
Long-term debt outstanding at end of year	<b>\$748,603,054</b>	\$ 574,163,901	
Current portion of long-term debt	<b>\$ 21,984,991</b>	\$ 18,555,000	

Under the terms of the Bond Resolution relating to the sale of the Utilities System Revenue Bonds, payment of the principal and interest is secured by an irrevocable lien on GRU's net revenue (exclusive of any funds which may be established pursuant to the Bond Resolution for decommissioning and certain other specified purposes), including any investments and income thereof.

The Bond 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 into the utility plant improvement fund.

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 4. Long-Term Debt (continued)

#### Derivatives

GRU is a party to certain interest rate swap agreements, which are not recorded in the financial statements. Following is a disclosure of key aspects of the agreements.

Objective of the interest rate swap. To protect against the potential of rising interest rates, the City has entered into three separate floating-to-fixed interest rate swap transactions.

Terms, fair values and credit risk. The terms, fair values and credit ratings of the outstanding swaps as of September 30, 2008, were as follows. The notional amounts of the swaps match the principal amounts of the associated debt.

Associated Bond Issue	<b>2008CP*</b>	<b>2005B*</b>	<b>2005C *</b>
Notional Amounts	\$ 25,300,000	\$ 45,000,000	\$ 55,135,000
Effective Date	7/3/2002	11/16/2005	11/16/2005
Fixed Payer Rate	4.100%	BMA	3.200%
Variable Receiver Rate	BMA	77.14% of LIBOR	68% of LIBOR
Fair Value	\$ (1,263,770)	\$ (642,806)	\$ (359,645)
Termination Date	10/1/2017	10/1/2021	10/1/2026
Counterparty Credit Rating	A2/A/A+	Aaa/AAA	Aaa/AAA
Associated Bond Issue	<b>2006A *</b>	<b>2008B *</b>	<b>2008B *</b>
Notional Amounts	\$ 53,305,000	\$ 58,500,000	\$ 31,500,000
Effective Date	7/6/2006	2/1/2008	2/1/2008
Fixed Payer Rate	3.224%	4.222%	4.222%
Variable Receiver Rate	68% of 10 YR LIBOR	BMA	BMA
Fair Value	\$ (327,021)	\$ (3,799,930)	\$ (2,076,216)
Termination Date	10/1/2026	10/1/2038	10/1/2038
Counterparty Credit Rating	Aaa/AAA	Aaa/AAA	Aaa/AA/AA-

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

Associated Bond Issue	<b>2007A*</b>
Notional Amounts	\$ 139,505,000
Effective Date	3/1/2007
Fixed Payer Rate	3.944%
Variable Receiver Rate	BMA
Fair Value	\$ (3,387,603)
Termination Date	10/1/2036
Counterparty Credit Rating	Aaa/AAA

\* See “basis risk” in Note 4, Long-Term Debt.

Fair Value. All seven of the swap agreements currently have a negative fair value as of September 30, 2008. Due to the low interest rate environment, as compared to the period when the swaps were entered into, our fixed payer rates currently exceed the variable receiver rates. This is anticipated to be a short term event. These swaps are based on a different variable receiver rate, which is partially responsible for the difference in performance.

Swap payments and associated debt. Assuming interest rates remain the same at September 30, 2008, debt service requirements on the auction rate notes and the interest rate swap would be as follows:

Fiscal Year Ending Sept 30	Variable Rate		Fixed Rate		Interest Rate Swaps, Net	Total
	Principal	Interest	Principal	Interest		
2009	\$ 245,000	\$ 16,752,883	\$ 790,000	\$ 3,186,773	\$ 461,739	\$ 21,436,395
2010	255,000	25,785,741	830,000	3,145,139	461,295	30,477,175
2011	6,155,000	25,639,290	875,000	3,101,320	425,969	36,196,579
2012	6,360,000	25,361,995	920,000	3,055,189	389,469	36,086,653
2013	6,580,000	25,075,161	965,000	3,006,745	351,730	35,978,636
2014-2018	62,205,000	118,021,680	25,395,000	12,699,640	1,733,490	220,054,810
2019-2023	47,045,000	105,290,272	31,065,000	2,933,111	3,367,149	189,700,532
2024-2028	59,570,000	89,285,861	–	–	2,724,254	151,580,115
2029-2033	114,880,000	62,150,226	–	–	1,749,638	178,779,864
2034-2038	96,650,000	17,728,698	–	–	505,653	114,884,351
<b>Total</b>	<b>\$ 399,945,000</b>	<b>\$ 511,091,807</b>	<b>\$ 60,840,000</b>	<b>\$ 31,127,917</b>	<b>\$ 12,170,386</b>	<b>\$ 1,015,175,110</b>

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 4. Long-Term Debt (continued)

The interest rates used in this table are per GASB Technical Bulletin 2003-1, which requires the rate used in the calculations be that in effect as of September 30, 2008. At that time there was significant market unrest driving rates high for a short time. Rates are considerably lower now. Thus management believes these future debt service requirements are substantially overstated.

Credit Risk. As of September 30, 2008, the fair value of all of the swaps were negative, therefore the City is not subject to credit risk. To mitigate the potential for credit risk, the City has negotiated additional termination event and collateralization requirements in the event of a ratings downgrade. Failure to deliver the Collateral Agreement to the City as negotiated and detailed in the Schedule to the International Swap and Derivative Agreement (ISDA) for each counterparty would constitute an event of default with respect to that counterparty.

Basis Risk. The swaps expose the City to basis risk. The 2008 swap (formerly the 2002A swap) is exposed to the difference between the weekly BMA index and a 35-day rollover based on current market conditions. As a result, savings may not be realized. As of September 30, 2008, BMA/SIFMA was 7.96%. The 2005B Swap is exposed to basis risk through the potential mismatch of 77.14% of LIBOR and the BMA rate. The swap for the 2005C Series is exposed to basis risk through the potential mismatch of 68% of 1-month LIBOR and the BMA rate. As of September 30, 2008, the one-month LIBOR rate was at 3.92%, which places the BMA at approximately 203.00% of LIBOR on that date. The swap for the 2006A Series is exposed to basis risk through the potential mismatch of 68% of 10-year LIBOR less .365% and the BMA rate. As of September 30, 2008, the 10-year LIBOR rate was 4.37%, while the BMA traded at approximately 182.21% of this rate. The 2007A swap is exposed to the difference between the BMA index and a 31-day rollover.

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, or an event of default and illegality. The swap can also be terminated if credit ratings fall below established levels.

#### 5. Deposits and Investments

Deposits are held in qualified public depository institutions insured by the Federal Depository Insurance Corporation up to the applicable limits and, as required by the Bond Resolution, in banks, savings and loan associations, trust companies of the United States or national banking associations having capital stock, surplus and undivided earnings aggregating at least \$10 million.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 5. Deposits and Investments (continued)

In accordance with state laws and the Bond 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 rated in the highest rating category of a nationally recognized rating agency and in one of the two highest rating categories of at least one other nationally recognized rating agency.

As of September 30, 2008, GRU had the following investments and maturities (amounts are in thousands).

<b>Investment Type</b>	<b>Maturities in Years</b>		
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1-5</b>
Commercial Paper	\$ 98,025	\$ 98,025	\$ —
U.S. Agencies	155,539	3,952	151,587
Total	\$ 253,564	\$ 101,977	\$ 151,587

***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 Bond Resolution further limits investments in the Utility Plant Improvement Fund and Rate Stabilization Fund to five years.

***Credit Risk:*** GRU's investment policy and Bond 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 in its highest rating category, and at least one other nationally recognized rating agency in either of its two highest rating categories. As of September 30, 2008, all of GRU's commercial paper investments were rated P-1 or better by Moody's Investor Services and/or A-1 or better by Standard and Poor's and/or F1 or better by Fitch.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 5. Deposits and Investments (continued)

*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, 2008, GRU had more than 5% of the investment portfolio of the following:

	<b>Percent of Total Investments</b>
Issuer:	
Federal National Mortgage Association	10.94%
Federal Home Loan Bank	23.37%
Federal Home Loan Mortgage Corporation	19.22%

Cash and investments are contained in the following balance sheet accounts as of September 30:

	<b>2008</b>	<b>2007</b>
Restricted assets	<b>\$274,193,044</b>	\$ 180,209,143
Current assets:		
Cash and cash equivalents	<b>4,568,881</b>	497,495
Total cash and investments	<b>278,761,925</b>	180,706,638
Less cash and cash equivalents	<b>(13,438,772)</b>	(2,107,030)
Less Investment in TEA	<b>(2,447,440)</b>	(2,513,497)
Less CR3 Decommissioning Reserve	<b>(8,529,188)</b>	(7,594,434)
Less accrued interest receivable and accounts receivable	<b>(782,299)</b>	(132,996)
Total investments	<b><u>\$253,564,226</u></b>	<u>\$ 168,358,681</u>

#### 6. Jointly Owned Electric Plant

GRU-owned resources for supplying electric power and energy requirements include its 1.4079% undivided ownership interest in Crystal River Unit 3 (CR3) nuclear power plant operated by Progress Energy. GRU's net investment in CR3 at September 30, 2008 and 2007 is approximately \$10,942,500 and \$9,971,000 respectively. CR3 operation and maintenance costs, which represent GRU's part of expenses attributable to operation of CR3, are recorded in accordance with the instructions as set forth in the FERC uniform system of accounts. Payments are made to Progress Energy in accordance with the CR3 participation agreement.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 6. Jointly Owned Electric Plant (continued)

GRU, as a part of this participation agreement, is responsible for its share of future decommissioning costs. Decommissioning costs are funded and expensed annually and are recovered through rates charged to customers. The most recent decommissioning cost estimates provided by Progress Energy in September 2006, estimated GRU's share of the total projected decommissioning funding requirements to be \$7,744,000 of which \$4,874,000 has already been deposited. This \$7,744,000 is expected, with reinvestment and interest earnings, to reach \$24,654,207 in total which will be used in 2041 to pay for the projected costs of decommissioning the plant. The market value of the funds on deposit as of September 30, 2008 is \$8,529,000.

#### 7. Restricted Net Assets

Certain assets are restricted by bond resolution and other external requirements. Following is a summary of the computation of restricted net assets at September 30, 2008 and 2007, and the restricted purposes of the net asset balances:

	<b>2008</b>	<b>2007</b>
Restricted net assets:		
Total restricted assets	\$ 274,193,044	\$ 180,209,143
Unspent debt proceeds	(131,330,393)	(66,740,573)
Payable from restricted assets	(96,001,616)	(75,607,022)
Restricted net assets	\$ 46,861,035	\$ 37,861,548

Net assets are restricted as follows:

	<b>2008</b>	<b>2007</b>
Debt covenants:		
Debt service	\$ 11,389,236	\$ 11,682,233
Utility plant improvement	24,495,171	16,071,384
Total restricted pursuant to debt covenants	35,884,407	27,753,617
Other restrictions:		
Investment in The Energy Authority	\$ 2,447,440	\$ 2,513,497
Nuclear decommissioning reserve	8,529,188	7,594,434
Total other restrictions	10,976,628	10,107,931
Restricted net assets	\$ 46,861,035	\$ 37,861,548

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **8. Retirement Plans**

The City sponsors and administers one defined benefit pension plan and two defined contribution plans (collectively, the Plans) that include GRU and other City employees. The Plans do not make separate measurements of assets and pension benefit obligations for individual units of the City. Such information is presented in the City of Gainesville, Florida, September 30, 2008, Comprehensive Annual Financial Report.

The General Employees Pension Plan (Employees Plan), a contributory defined benefit pension plan, covers all employees of GRU, except certain limited personnel who elect to participate only in a defined contribution plan.

The City accounts for and funds the costs of the Employee Plan as they accrue. Such costs are based on contribution rates determined by the most recent actuarial valuation. The total contributions by GRU, including amortization of prior service costs, were \$2,206,600 and \$1,826,200 for the years ended September 30, 2008 and 2007, respectively.

Certain limited employees are eligible to participate in defined contribution plans managed by outside fiscal agents for the City. Under the first plan, the City contributes a percentage of an employee's annual salary and employees contribute a specified percentage. All employees have the option to participate in the second defined contribution plan. The total defined contribution cost for GRU for the years ended September 30, 2008 and 2007, was \$108,900 and \$101,600, respectively.

#### **9. Postretirement Benefits**

In addition to providing pension benefits, the City provides certain health care insurance benefits for retired employees of the City and GRU. The City also permits retirees to participate in the life insurance program. Most permanent full and part-time employees who are eligible for normal, early, or disability retirement are eligible for these benefits. Individual benefits are the same for all employees, but the cost to the City may vary. Contributions by the City to fund these benefits are neither mandated nor guaranteed. The actuarial costs of these plans are determined and funded by the City. A portion of this funding comes from bonds issued by the City to cover Post Employment Benefits. GRU contributes 0.5% of payroll to fund the remaining portion. The cost of providing these benefits for the GRU retirees for the fiscal years ended September 30, 2008 and 2007 was \$256,100 and \$236,000, respectively.



## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **10. Disaggregation of Receivables and Payables**

##### **Receivables**

For the years ended September 30, 2008 and 2007 respectively, net accounts receivable represent 82.8% and 88.8% from customers for billed and unbilled utility services, and 17.2% and 11.2% from other receivables. There are no receivables expected to take longer than one year to collect.

##### **Payables**

As of September 30, 2008 and 2007 respectively, payable balances represent 23.0% and 25.6% related to fuels payable, 53.9% and 47.1% to standard vendor payables, 8.7% and 10.9% to accrued vacation payable, 9.1% and 11.1% to intergovernmental payables and 5.3% and 5.3% to other payables.

#### **11. Transfers to General Fund**

GRU makes transfers to the City's general government based on a pre-defined formula that predominantly ties the transfer directly to the financial performance of the system. The transfer to the general fund may be made only to the extent such moneys 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 Bond Resolution. The formula-based fund transfer to the general fund for the years ended September 30, 2008 and 2007 was \$31,451,885 and \$30,397,527, respectively.

#### **12. Deferred Charges**

Deferred charges are presented on the balance sheets under current assets, other noncurrent assets, current liabilities and other noncurrent liabilities.

The deferred charge for estimated environmental costs is \$15,908,000 and \$8,423,000 at September 30, 2008 and 2007, respectively. See Note 13 for details on the manufactured gas plant remediation portion of this item.

Also included in deferred charges is unamortized bond issuance costs of approximately \$6,750,000 and \$6,314,000, respectively, at September 30, 2008 and 2007. These costs are being amortized straight-line over the life of the bonds, which approximates the effective interest method.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **12. Deferred Charges (continued)**

Unrecognized hedge adjustments were \$3,082,000 at September 30, 2008 and \$3,005,000 at September 30, 2007.

Accrued fuel adjustment was a deferred debit of \$3,144,000 and \$5,523,000 at September 30, 2008 and 2007, respectively. See Note 1, Revenue Recognition for details on GRU's policy regarding fuel adjustment.

Also included in deferred charges as a current liability is a temporary transfer from the Rate Stabilization reserve of \$3,950,000 and \$20,200,000 at September 30, 2008 and 2007, respectively. This transfer is made in accordance with our bond resolution for the purpose of meeting temporary cash requirements, primarily due to timing differences.

Electric distribution plant acquisition costs of \$2,957,000 and \$3,167,000 for September 30, 2008 and 2007, respectively, are being amortized over the expected life of the acquired assets.

Remaining smaller items make up the balance of the deferred charges.

#### **13. Environmental Liabilities**

GRU is subject to numerous federal, state and local environmental regulations. Under the Comprehensive Environmental Response Compensation and Liability Act, commonly known as "Superfund," GRU has been named as a potentially responsible party at several hazardous waste sites; however, GRU does not anticipate any more than "de minimus" liability at any of these sites. In January 1990, GRU purchased the natural gas distribution assets of a company and pursuant to the related purchase agreement, assumed responsibility for the investigation and remediation of environmental impacts related to the operation of the former manufactured gas plant. Based upon GRU's analysis of the cost to clean up these sites, GRU has accrued a liability to reflect the costs associated with the cleanup effort. Fiscal year 2008 and 2007 expenditures which reduce the liability balance were \$1,141,548 and \$169,000, respectively.

During fiscal year 2008, soil samplings from the site were collected and analyzed in order to determine alternatives to complete the remediation. On November 6, 2008, the City Commission voted to approve staff's recommendation to remove the soil to landfill. The estimate to complete the work is \$13.3 million. Based on this estimate, the reserve balance was increased by \$8.15 million on September 30, 2008, in accordance with GASB 49.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **13. Environmental Liabilities (continued)**

The reserve balance at September 30, 2008 and 2007 is \$13,304,000 and \$6,296,000, respectively. GRU is recovering the costs of this clean-up through customer charges. A regulatory asset was established as a deferred charge in the accompanying balance sheets to represent the balance of customer charges. Fiscal 2008 and 2007 billings were \$665,000 and \$726,000, respectively. This reduced the deferred asset balance to \$13,658,000 and \$6,173,000 as of September 30, 2008 and 2007.

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 a material adverse effect on GRU's financial position, results of operations or liquidity.

GRU currently carries a reserve balance of \$2.25 million, primarily for possible liability related to the oil contamination at the Kelly Generating Station. In July of 2006, GRU was notified by the Florida Department of Environmental Protection, FDEP, that provisions of Chapter 62-780, F.A.C. must be complied with on this site. This Rule is currently being utilized to establish a process and time schedule for assessment and remediation of the site. GRU's liability utilizing this Rule is unknown and cannot be reasonably estimated at this time. Therefore, GRU will make no changes to the reserve balance until further information is received and a reasonable estimate can be established.

#### **14. Lease/Leaseback**

On December 10, 1998, GRU entered into a lease/leaseback transaction for all of the Deerhaven Unit 1 and a substantial portion of the Deerhaven Unit 2 generating facilities. Under the terms of the transaction, GRU entered into a 38-year lease and simultaneously a 20-year leaseback. At the end of the leaseback period term, GRU has an option to buy out the remainder of the lease for a fixed purchase option amount.

Under the terms of the transaction, GRU continues to own, operate, maintain and staff the facilities.

The proceeds received by GRU from this transaction were approximately \$249 million. From these proceeds, GRU deposited \$142 million as a payment undertaking agreement and a second deposit of \$72 million in the form of a collateralized Guaranteed Investment Contract (GIC), both with Ambac Assurance Corporation (Ambac), a financial guaranty insurance company that

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **14. Lease/Leaseback (continued)**

also provided credit enhancement for the transaction. The deposit instruments will mature in amounts sufficient to meet the annual payment obligations under the leaseback including the end of term fixed purchase option if elected by GRU.

The net benefit of this transaction, after payment of transaction expenses, was approximately \$35 million and resulted in a deferred gain, which is being amortized as income on a straight-line basis over the leaseback period of 20 years.

Amortization of the net benefit was \$1,775,000 in both 2008 and 2007, respectively, and was reported as a component of other operating revenue.

On May 17, 2006, President Bush signed into law an act entitled the “Tax Increase Prevention and Reconciliation Act of 2005” (the Act). Among other provisions, the Act imposes an excise tax on certain types of leasing transactions entered into by tax-exempt entities, including states and their political subdivisions (including the City). Based on regulations released by the Internal Revenue Service in 2007, GRU currently anticipates that it will owe little, if any, excise tax under the Act, but this result is not certain given the interpretive questions that still remain with respect to the excise tax.

In November, 2008, Moody’s Investors Service and Standard & Poor’s downgraded their respective credit ratings of Ambac. Under the terms of the lease/leaseback transaction documents, the City is required to provide substitute credit enhancement within 30 days of the occurrence of Ambac’s ratings downgrades. GRU currently is working with its financial advisor and legal counsel to evaluate its options. Based on that evaluation, GRU has determined that the termination of the LILO transaction is the most appropriate action. GRU staff has negotiated the termination price with BNY and has worked with Ambac to value the GIC. The difference between the two amounts is approximately \$13.2 million, and is an obligation of the City. This difference will be paid by GRU upon the closing of the LILO termination scheduled in late February.

#### **15. Investment in the Energy Authority**

In May 2000, GRU became an equity member of The Energy Authority (TEA), a power marketing joint venture. In May 2002, TEA began trading natural gas on behalf of GRU. As of September 30, 2005, this joint venture was comprised of six municipal utilities across the nation, all of which are participating in the electric marketing and five of which participate in the gas program. GRU’s ownership interest was 7.1% in the electric venture and 7.7% in the gas

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **15. Investment in the Energy Authority (continued)**

venture, and it accounted for this investment using equity accounting. To become a member, GRU paid an initial capital contribution of \$1,000,000 and a membership fee of \$867,360. The membership fee was amortized over 24 months and, consequently, eliminated at September 30, 2002. GRU has reflected the capital contribution as an investment in TEA. The investment balance has been adjusted for GRU's subsequent share of TEA's net income or loss. In calculating GRU's share of net income or loss, profit on transactions between GRU and TEA have been eliminated. Such transactions primarily relate to purchases and sales of electricity between GRU and TEA.

GRU had electric purchases transactions with TEA of \$29,587,919 and \$17,479,607 and sales transactions of \$8,052,411 and \$1,882,999 in fiscal years 2008 and 2007, respectively. TEA's profit on these transactions has been reflected as a reduction to GRU's reported revenue or expense.

As of September 30, 2008, GRU's investment in TEA was \$2,447,440 verses \$2,513,500 on September 30, 2007.

GRU provides guarantees to TEA and to TEA's bank to secure letters of credit issued by the bank to cover purchase and sale contracts for electric energy, natural gas and related transmission. In accordance with the membership agreement between GRU and its joint venture members and with the executed guaranties delivered to TEA and to TEA's bank, GRU's aggregate obligation for electric energy marketing transactions entered into by TEA on behalf of its members is \$9,600,000 as of September 30, 2008. GRU's aggregate obligation for TEA's natural gas marketing transactions, under similar agreements and executed guaranties, is \$18,800,000 as of September 30, 2008.

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### 15. Investment in the Energy Authority (continued)

The following is a summary of the unaudited financial information of TEA for the twelve month periods ended September 30, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
Condensed statement of operations:		
Total revenue	\$ 1,693,794,000	\$ 1,626,802,000
Total cost of sales and expenses	1,531,232,000	1,495,487,000
Operating income	162,562,000	131,315,000
Net revenue	\$ 162,928,000	\$ 133,969,000
Condensed balance sheet:		
Assets:		
Current assets	\$ 169,877,000	\$ 185,384,000
Noncurrent assets	12,907,000	12,533,000
Total assets	\$ 182,784,000	\$ 197,917,000
Liabilities:		
Current liabilities	\$ 144,639,000	\$ 163,218,000
Noncurrent liabilities	2,447,000	419,000
Total liabilities	147,086,000	163,637,000
Members' capital	35,698,000	34,280,000
Total equity and liabilities	\$ 182,784,000	\$ 197,917,000

TEA issues separate audited financial statements on a calendar-year basis.

# Gainesville Regional Utilities

## Notes to Financial Statements (continued)

### 16. 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 that in 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 of Gainesville'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 the fiscal year resulted in an increase to a balance of \$3,337,000. 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 2008 and 2007 were paid from current year's revenues.

Changes in the claims liability for the last two years are as follows:

<b>Fiscal Year</b>	<b>Beginning Balance</b>	<b>Claims</b>	<b>Payments</b>	<b>Increase to Reserve</b>	<b>Ending Balance</b>
2006-2007	\$ 2,106,000	\$ 957,216	\$ 957,216	\$ —	\$ 2,106,000
2007-2008	\$ 2,106,000	\$ 908,677	\$ 908,677	\$ 1,231,000	\$ 3,337,000

### 17. Subsequent Event

On November 19, 2008, Standard & Poor's lowered its rating on Ambac Assurance Corporation ("Ambac"), which either directly or through affiliates had provided the Equity Swap Guarantee, GIC Guarantee and Surety Bond under the terms of the Participation and Lease Agreements ("the Lease") with GRU (the "Lessee") of its Deerhaven Station and closed on December 10, 1998. As a result of the Ambac downgrade and as required in Section 11(c) of the Participation agreement, GRU must provide additional credit support for the equity investor, which was BNY Gator LLC and affiliate of the Bank of New York ("BNY"). Upon the downgrade to "A" level, GRU would have 30 days under which to provide such additional credit support. BNY provided GRU with several extensions of time to evaluate the options for securing such enhancement or to consider a buyout of the Lease transaction. GRU canvassed the market for replacement enhancement providers and at the same time commenced negotiations with Ambac and BNY to determine the buyout price under the Lease. The only bona fide proposal came from Berkshire

## Gainesville Regional Utilities

### Notes to Financial Statements (continued)

#### **17. Subsequent Event (continued)**

Hathaway at an expense of 1% of the outstanding exposure per annum which was equivalent to a present value cost of approximately \$15.2 million. Based upon the additional expense and considering GRU would retain ongoing credit exposure to Ambac under the GIC contract, which were used to defease the payment obligations to BNY, GRU has determined that the termination of the Lease is the most appropriate action. GRU has negotiated with BNY to reduce the equity portion of the termination price down from approximately \$214 million to \$138.4 million assuming the buyout occurs in February of 2009. At the same time, the Ambac GIC has an accreted value which is still being determined at this time but is approximately \$122.5 million. The difference in such amounts with an approximate shortfall of \$13.2 million is an obligation of GRU and will be paid by GRU upon the settlement of the liquidation. Included in the buyout will be a payoff of a loan provided originally by Ambac, which was defeased by a separate deposit with another affiliate of Ambac. This loan, which has a current balance of approximately \$58 million, will not require any additional payment from GRU in order to pay it off upon the termination of the Lease. It is anticipated that subject to its City Council approval, GRU will terminate the lease on or about February 24, 2009.



# Supplemental Schedules

## Gainesville Regional Utilities

### Schedules of Combined Net Revenues in Accordance with Bond Resolution

	2008	2007	2006	2005	2004
Revenue					
Electric fund:					
Sales of electricity	\$ 238,595,628	\$ 206,552,756	\$ 207,023,570	\$ 174,046,209	\$ 159,117,761
Other electric revenue	3,871,838	3,878,187	2,614,880	2,692,565	2,887,861
Transfers from (to) rate stabilization	6,532,390	(4,372,298)	(2,047,553)	(134,672)	6,451,678
Interest investment income	2,859,539	3,597,057	2,837,575	2,326,225	4,161,700
Total electric fund revenue	<u>251,859,395</u>	<u>209,655,702</u>	<u>210,428,472</u>	<u>178,930,327</u>	<u>172,619,000</u>
Gas fund:					
Gas sales	29,842,601	27,614,405	31,148,518	26,044,659	24,500,658
Other gas revenue (expenses)	(63,412)	(8,750)	1,138	(25,177)	(19,825)
Transfers from (to) rate stabilization	1,987,360	1,160,544	(465,695)	761,130	(1,130,506)
Interest investment income	635,757	561,892	584,699	429,646	219,627
Total gas fund revenue	<u>32,402,306</u>	<u>29,328,091</u>	<u>31,268,660</u>	<u>27,210,258</u>	<u>23,569,954</u>
Water fund:					
Sales of water	25,094,181	22,970,588	17,987,383	13,826,209	13,998,249
Other water revenue	2,899,253	1,852,072	2,184,786	1,549,635	1,156,849
Transfers from (to) rate stabilization	(1,074,205)	(1,274,108)	(878,017)	1,534,938	3,065,791
Interest investment income	206,230	95,439	172,476	279,053	328,649
Total water fund revenue	<u>27,125,459</u>	<u>23,643,991</u>	<u>19,466,628</u>	<u>17,189,835</u>	<u>18,549,538</u>
Wastewater fund:					
Wastewater billing	29,819,878	25,554,311	20,474,546	17,418,564	16,933,546
Other wastewater revenue	2,840,164	2,200,469	3,693,161	2,351,726	1,512,204
Transfers from/(to) rate stabilization	(1,271,208)	(581,471)	(1,157,713)	1,816,821	3,362,600
Interest investment income	408,455	207,121	429,598	555,058	471,352
Total wastewater fund revenue	<u>31,797,289</u>	<u>27,380,430</u>	<u>23,439,592</u>	<u>22,142,169</u>	<u>22,279,702</u>
GRUCom fund:					
Sales to customers	10,277,819	9,275,122	8,722,084	8,565,405	8,081,031
Transfers from (to) rate stabilization	(1,085,755)	(1,691,798)	(1,036,283)	(5,391)	(688,811)
Interest investment income	239,050	155,735	133,002	79,455	90,022
Total GRUCom fund revenue	<u>9,431,114</u>	<u>7,739,059</u>	<u>7,818,803</u>	<u>8,639,469</u>	<u>7,482,242</u>
Total revenue	<u>\$ 352,615,563</u>	<u>\$ 297,747,273</u>	<u>\$ 292,422,154</u>	<u>\$ 254,112,058</u>	<u>\$ 244,500,436</u>

Continued on next page.

# Gainesville Regional Utilities

## Schedules of Combined Net Revenues in Accordance with Bond Resolution (continued)

	2008	2007	2006	2005	2004
<b>Operation, maintenance and administrative</b>					
Electric fund:					
Fuel expense	\$ 127,233,223	\$ 104,940,526	\$ 116,303,116	\$ 89,398,658	\$ 76,259,729
Operation and maintenance	36,753,083	32,076,530	33,715,716	30,539,416	32,132,279
Administrative and general	20,654,480	15,913,731	12,585,157	12,320,230	11,466,706
Total electric fund expense	<b>184,640,786</b>	152,930,787	162,603,989	132,258,304	119,858,714
Gas fund:					
Fuel expense	20,107,903	18,514,704	21,919,984	16,881,895	14,593,903
Operation and maintenance	1,606,831	1,571,781	1,342,257	1,388,368	1,166,824
Administrative and general	4,504,748	4,200,069	3,427,848	3,107,252	2,919,393
Total gas fund expense	<b>26,219,482</b>	24,286,554	26,690,089	21,377,515	18,680,120
Water fund:					
Operation and maintenance	7,074,992	6,711,674	6,176,450	5,497,667	5,235,332
Administrative and general	5,120,270	3,994,430	3,629,681	3,590,193	3,688,337
Total water fund expense	<b>12,195,262</b>	10,706,104	9,806,131	9,087,860	8,923,669
Wastewater fund:					
Operation and maintenance	7,273,610	6,316,884	6,701,627	6,174,582	5,842,395
Administrative and general	5,773,158	4,817,270	4,603,576	4,212,466	4,224,198
Total wastewater fund expense	<b>13,046,768</b>	11,134,154	11,305,202	10,387,048	10,066,593
GRUCom fund:					
Operation and maintenance	2,632,075	2,313,343	2,489,099	2,365,838	2,321,615
Administrative and general	2,349,715	2,294,882	2,255,465	2,142,330	1,651,046
Total GRUCom fund expense	<b>4,981,790</b>	4,608,225	4,744,565	4,508,168	3,972,661
Total operation, maintenance and administrative	<b>241,084,088</b>	203,665,825	215,149,976	177,618,895	161,501,757
<b>Net revenue in accordance with bond resolution</b>					
Electric	67,218,609	56,724,915	47,824,483	46,672,023	52,760,286
Gas	6,182,824	5,041,537	4,578,570	5,832,743	4,889,834
Water	14,930,197	12,937,887	9,660,498	8,101,975	9,625,869
Wastewater	18,750,521	16,246,276	12,134,389	11,755,121	12,213,109
GRUCom	4,449,324	3,130,834	3,074,238	4,131,301	3,509,581
Total net revenue in accordance with bond resolution	<b>\$ 111,531,475</b>	\$ 94,081,449	\$ 77,272,178	\$ 76,493,163	\$ 82,998,679
Aggregate bond debt service	<b>\$ 47,127,033</b>	\$ 40,545,456	\$ 34,107,669	\$ 24,876,978	\$ 26,673,276
Aggregate bond debt service coverage ratio	2.37	2.32	2.27	3.07	3.11
Total debt service	<b>\$ 52,626,846</b>	\$ 45,942,353	\$ 41,050,956	\$ 35,476,481	\$ 33,554,604
Total debt service coverage ratio	2.12	2.05	1.88	2.16	2.47

## Gainesville Regional Utilities

### Schedules of Net Revenues in Accordance with Bond Resolution – Electric Utility Fund

	2008	2007
<b>Revenue</b>		
Sales of electricity:		
Residential sales	\$ 52,464,529	\$ 50,908,035
General service and large power	50,931,403	45,894,630
Fuel adjustment	111,127,690	89,624,417
Street and traffic lighting	4,885,527	4,503,222
Utility surcharge	3,460,602	2,828,347
Sales for resale	7,679,975	7,140,373
Interchange sales	8,045,902	5,653,732
Total sales of electricity	238,595,628	206,552,756
Other electric revenue:		
Service charges	2,415,365	2,308,671
Pole rentals	582,895	1,183,047
Miscellaneous	873,578	386,469
Total other electric revenue	3,871,838	3,878,187
Transfers to rate stabilization	6,532,390	(4,372,298)
Interest income	2,859,539	3,597,057
Total revenue	251,859,395	209,655,702
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Fuel expense:		
Retail and purchased power	121,077,624	101,310,097
Interchange	6,155,599	3,630,429
Total fuel expense	127,233,223	104,940,526
Power production	23,774,403	20,015,804
Transmission	1,162,906	1,024,280
Distribution	11,815,774	11,036,446
Total operation and maintenance	163,986,306	137,017,056

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## Gainesville Regional Utilities

### Schedules of Net Revenues in Accordance with Bond Resolution – Electric Utility Fund (continued)

	<b>2008</b>	<b>2007</b>
Administrative and general:		
Customer accounts	\$ 8,007,249	\$ 5,871,016
Administrative and general	<u>12,647,231</u>	<u>10,042,715</u>
Total administrative and general	<u>20,654,480</u>	<u>15,913,731</u>
Total operation, maintenance and administrative expense	<u>184,640,786</u>	<u>152,930,787</u>
<b>Net revenue in accordance with bond resolution</b>		
Retail	<b>65,328,306</b>	54,701,612
Interchange	<b>1,890,303</b>	2,023,303
Total net revenue in accordance with bond resolution	<b><u>\$ 67,218,609</u></b>	<b><u>\$ 56,724,915</u></b>

## Gainesville Regional Utilities

### Schedules of Net Revenues in Accordance with Bond Resolution – Gas Utility Fund

	2008	2007
<b>Revenue</b>		
Sales of gas:		
Residential	\$ 13,238,530	\$ 14,016,737
Interruptible/commercial	16,062,893	13,194,451
Other sales	541,178	403,217
Total sales of gas	29,842,601	27,614,405
Other gas revenue (expense)	(63,412)	(8,750)
Transfers (to) from rate stabilization	1,987,360	1,160,544
Interest income	635,757	561,892
Total revenue	32,402,306	29,328,090
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Fuel expense	20,107,903	18,514,704
Operation and maintenance	1,606,831	1,571,781
Total operation and maintenance	21,714,734	20,086,485
Administrative and general:		
Customer accounts	2,176,975	2,164,294
Administrative and general	2,327,773	2,035,774
Total administrative and general	4,504,748	4,200,068
Total operation, maintenance and administrative expense	26,219,482	24,286,553
Total net revenue in accordance with bond resolution	\$ 6,182,824	\$ 5,041,537

## Gainesville Regional Utilities

### Schedules of Net Revenues in Accordance with Bond Resolution – Water Utility Fund

	2008	2007
<b>Revenue</b>		
Sales of water:		
General customers	\$ 21,662,066	\$ 19,898,854
University of Florida	1,216,708	951,324
Fire protection	–	3,122
Generating stations	–	13,549
Utility surcharge	2,215,407	2,103,739
Total sales of water	25,094,181	22,970,588
Other water revenue:		
Connection charges	2,630,509	1,652,098
Miscellaneous	268,744	199,974
Total other water revenue	2,899,253	1,852,072
Transfers from rate stabilization	(1,074,205)	(1,274,108)
Interest income	206,230	95,439
Total revenue	27,125,459	23,643,991
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Source of supply	18,790	13,868
Pumping	1,891,732	1,561,803
Water treatment	3,318,548	3,282,644
Transmission and distribution	1,845,922	1,853,359
Total operation and maintenance	7,074,992	6,711,674
Administrative and general:		
Customer accounts	1,293,922	1,155,815
Administrative and general	3,826,348	2,838,615
Total administrative and general	5,120,270	3,994,430
Total operation, maintenance and administrative expense	12,195,262	10,706,104
Total net revenue in accordance with bond resolution	\$ 14,930,197	\$ 12,937,887

## Gainesville Regional Utilities

### Schedules of Net Revenues in Accordance with Bond Resolution – Wastewater Utility Fund

	2008	2007
<b>Revenue</b>		
Wastewater billings:		
Billings	\$ 26,833,136	\$ 23,500,197
Utility surcharge	2,986,742	2,054,114
Total wastewater billings	29,819,878	25,554,311
Other wastewater revenue:		
Connection charges	2,269,836	1,662,669
Miscellaneous	570,328	537,800
Total other wastewater revenue	2,840,164	2,200,469
Transfers from rate stabilization	(1,271,208)	(581,471)
Interest income	408,455	207,121
Total revenue	31,797,289	27,380,430
<b>Operation, maintenance and administrative expense</b>		
Operation and maintenance:		
Collection	1,475,925	1,363,521
Treatment and pumping	5,797,685	4,953,363
Total operation and maintenance	7,273,610	6,316,884
Administrative and general:		
Customer accounts	1,152,713	991,642
Administrative and general	4,620,445	3,825,628
Total administrative and general	5,773,158	4,817,270
Total operation, maintenance and administrative expense	13,046,768	11,134,153
Total net revenue in accordance with bond resolution	\$ 18,750,521	\$ 16,246,277



## Gainesville Regional Utilities

### Schedules of Net Revenues in Accordance with Bond Resolution – GRUCom Utility Fund

	<b>2008</b>	<b>2007</b>
<b>Revenue</b>		
Sales to customers	\$ <b>10,277,819</b>	\$ 9,275,122
Transfers to rate stabilization	<b>(1,085,755)</b>	(1,691,798)
Interest income	<b>239,050</b>	155,735
Total revenue	<b>9,431,114</b>	7,739,059
 <b>Operation, maintenance and administrative expense</b>		
Operation and maintenance	<b>2,632,075</b>	2,313,343
Total operation and maintenance	<b>2,632,075</b>	2,313,343
 Administrative and general:		
Customer accounts	<b>429,351</b>	379,636
Administrative and general	<b>1,920,364</b>	1,915,246
Total administrative and general	<b>2,349,715</b>	2,294,882
Total operation, maintenance and administrative expense	<b>4,981,790</b>	4,608,225
Total net revenue in accordance with bond resolution	<b>\$ 4,449,324</b>	\$ 3,130,834

## Gainesville Regional Utilities

### Notes to Schedules of Net Revenues in Accordance with Bond Resolution

September 30, 2008

“Net revenue in accordance with bond resolution” differs from “Net income,” which is determined in accordance with generally accepted accounting principles. Following are the more significant differences:

- Interest income does not include interest earned on construction funds.
- Operation and maintenance expense does not include depreciation, amortization or interest expense.
- Other water and wastewater revenue include fees for connection, installation, and backflow prevention.
- Transfers to the general fund are excluded.
- Revenue from lease/leaseback transaction is excluded (see financial statement Note 14).

# Gainesville Regional Utilities

## Combining Balance Sheet

September 30, 2008

	Electric	Gas	Water	Wastewater	GRUCom	Combined
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 3,148,075	\$ 642,253	\$ 619,667	\$ 98,433	\$ 60,453	\$ 4,568,881
Accounts receivable, net	38,558,481	2,713,855	4,182,714	4,194,055	1,779,787	51,428,892
Prepaid rent – LILO	10,686,909	–	–	–	–	10,686,909
Deferred charges	6,763,252	1,423,376	139,914	230,994	112,693	8,670,229
Prepaid expenses	742,807	424,779	–	–	–	1,167,586
Inventories:						
Fuel	5,961,105	–	–	–	–	5,961,105
Materials and inventories	8,421,021	384,469	498,112	–	631,874	9,935,476
<b>Total current assets</b>	<b>74,281,650</b>	<b>5,588,732</b>	<b>5,440,407</b>	<b>4,523,482</b>	<b>2,584,807</b>	<b>92,419,078</b>
<b>Restricted assets:</b>						
Utility deposits – cash and investments	5,100,795	185,535	213,728	321,349	–	5,821,407
Debt service fund – cash and investments	24,730,064	1,497,940	4,086,939	6,100,757	1,267,548	37,683,248
Rate stabilization – cash and investments	51,063,296	3,604,515	1,142,222	3,490,992	4,585,172	63,886,197
Construction fund – cash and investments	101,988,134	1,637,017	3,585,994	15,815,285	8,303,963	131,330,393
Utility plant improvement fund – cash and investments	1,059,048	6,035,841	4,189,132	9,438,011	3,773,139	24,495,171
Decommission reserve – cash and investments	8,529,188	–	–	–	–	8,529,188
Investment in The Energy Authority	2,447,440	–	–	–	–	2,447,440
<b>Total restricted assets</b>	<b>194,917,965</b>	<b>12,960,848</b>	<b>13,218,015</b>	<b>35,166,394</b>	<b>17,929,822</b>	<b>274,193,044</b>
Prepaid rent – LILO	97,963,332	–	–	–	–	97,963,332
Other noncurrent assets	9,405,913	10,894,939	565,380	644,872	371,875	21,882,979
<b>Capital assets:</b>						
Utility plant in service	685,572,485	53,844,001	171,154,206	223,969,939	38,110,073	1,172,650,704
Plant unclassified	604,609	287,905	118,742	166,063	117,371	1,294,690
Less: accumulated depreciation and amortization	328,634,926	25,852,758	65,103,289	87,384,384	19,357,992	526,333,349
	357,542,168	28,279,148	106,169,659	136,751,618	18,869,452	647,612,045
Plant held for future use	6,053,926	–	–	–	–	6,053,926
Construction in progress	236,520,133	5,185,572	30,109,435	21,484,450	7,795,220	301,094,810
<b>Net capital assets</b>	<b>600,116,227</b>	<b>33,464,720</b>	<b>136,279,094</b>	<b>158,236,068</b>	<b>26,664,672</b>	<b>954,760,781</b>
<b>Total assets</b>	<b>\$ 976,685,087</b>	<b>\$ 62,909,239</b>	<b>\$ 155,502,896</b>	<b>\$ 198,570,816</b>	<b>\$ 47,551,176</b>	<b>\$ 1,441,219,214</b>

Continued on next page.

# Gainesville Regional Utilities

## Combining Balance Sheet (continued)

September 30, 2008

	Electric	Gas	Water	Wastewater	GRUCom	Combined
<b>Liabilities and net assets</b>						
Current liabilities:						
Fuels payable	\$ 8,262,552	\$ 1,034,596	\$ -	\$ -	\$ -	\$ 9,297,148
Accounts payable and accrued liabilities	14,824,260	(361,966)	855,733	1,324,620	362,599	17,005,247
Operating lease – LILO	12,461,916	-	-	-	-	12,461,916
Deferred charges	(42,120)	2,291,418	2,260,414	889,432	1,053,383	6,452,527
Due to other funds	3,471,237	(31,856)	1,225,118	(317,664)	(688,522)	3,658,313
<b>Total current liabilities</b>	<b>38,977,845</b>	<b>2,932,192</b>	<b>4,341,265</b>	<b>1,896,388</b>	<b>727,461</b>	<b>48,875,151</b>
Payable from restricted assets:						
Utility deposits	5,100,796	185,535	213,728	321,349	-	5,821,408
Rate stabilization deferred credit	51,063,297	3,604,515	1,142,222	3,490,992	4,585,171	63,886,197
Construction fund:						
accounts payable and accrued liabilities	8,926,233	29,938	142,938	1,196,057	91,316	10,386,482
Debt payable – current portion	13,409,263	1,281,970	2,771,210	3,563,642	958,906	21,984,991
Accrued interest payable	10,384,241	741,541	1,769,433	2,095,259	917,054	15,907,528
<b>Total payable from restricted assets</b>	<b>88,883,830</b>	<b>5,843,499</b>	<b>6,039,531</b>	<b>10,667,299</b>	<b>6,552,447</b>	<b>117,986,606</b>
Long-term debt:						
Utilities system revenue bonds	449,316,806	30,523,002	87,332,205	99,056,556	42,281,442	708,510,011
Subordinated utilities system revenue bonds	-	-	-	-	-	-
Commercial paper notes	32,907,630	10,540,120	5,337,350	13,214,900	-	62,000,000
Unamortized loss on refunding	(17,668,585)	(1,648,969)	(4,260,244)	(4,783,439)	(239,691)	(28,600,928)
Unamortized bond prem disc	4,504,922	193,344	910,441	1,043,905	41,361	6,693,973
<b>Total long-term debt</b>	<b>469,060,773</b>	<b>39,607,497</b>	<b>89,319,752</b>	<b>108,531,922</b>	<b>42,083,112</b>	<b>748,603,056</b>
Operating lease – LILO	114,225,173	-	-	-	-	114,225,173
Other noncurrent liabilities	13,319,991	12,741,042	603,595	551,547	5,295	27,221,470
<b>Total liabilities</b>	<b>724,467,612</b>	<b>61,124,230</b>	<b>100,304,143</b>	<b>121,647,156</b>	<b>49,368,315</b>	<b>1,056,911,456</b>
Net assets:						
Invested in capital assets, net of related debt	224,421,033	(5,589,606)	48,409,625	62,688,085	(7,675,860)	322,253,277
Restricted	17,455,264	6,762,302	6,363,699	12,247,452	4,032,318	46,861,035
Unrestricted	10,341,178	612,313	425,429	1,988,123	1,826,403	15,193,446
<b>Total net assets</b>	<b>252,217,475</b>	<b>1,785,009</b>	<b>55,198,753</b>	<b>76,923,660</b>	<b>(1,817,139)</b>	<b>384,307,758</b>
<b>Total liabilities and net assets</b>	<b>\$ 976,685,087</b>	<b>\$ 62,909,239</b>	<b>\$ 155,502,896</b>	<b>\$ 198,570,816</b>	<b>\$ 47,551,176</b>	<b>\$ 1,441,219,214</b>

# Gainesville Regional Utilities

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

Year Ended September 30, 2008

	Electric	Gas	Water	Wastewater	GRUCom	Combined
Operating revenue:						
Sales and service charges	\$ 238,595,628	\$ 29,583,927	\$ 25,094,180	\$ 29,819,878	\$ 10,277,819	\$ 333,371,432
Transfers from (to) rate stabilization	6,532,390	1,987,360	(1,074,205)	(1,271,208)	(1,085,755)	5,088,582
Other operating revenue	5,646,041	193,331	2,899,253	2,840,164	(69,207)	11,509,582
Total operating revenue	<u>250,774,059</u>	<u>31,764,618</u>	<u>26,919,228</u>	<u>31,388,834</u>	<u>9,122,857</u>	<u>349,969,596</u>
Operating expenses:						
Operation and maintenance	164,008,637	21,714,734	7,074,992	7,273,610	2,632,075	202,704,048
Administrative and general	20,654,479	4,504,748	5,120,270	5,773,158	2,349,715	38,402,370
Depreciation and amortization	26,577,333	1,677,870	5,416,410	8,357,446	2,695,302	44,724,361
Total operating expenses	<u>211,240,449</u>	<u>27,897,352</u>	<u>17,611,672</u>	<u>21,404,214</u>	<u>7,677,092</u>	<u>285,830,779</u>
Operating income	39,533,610	3,867,266	9,307,556	9,984,620	1,445,765	64,138,817
Non-operating income (expense):						
Interest income	7,027,092	651,917	234,733	471,345	887,163	9,272,250
Interest expense	(15,289,145)	(1,802,986)	(3,688,103)	(4,646,542)	(2,768,067)	(28,194,844)
Gain on sale of investments	92,615	3,101	23	397	913	97,050
Total non-operating income (expense)	<u>(8,169,438)</u>	<u>(1,147,968)</u>	<u>(3,453,347)</u>	<u>(4,174,800)</u>	<u>(1,879,991)</u>	<u>(18,825,544)</u>
Income before contributions and transfers	<u>31,364,172</u>	<u>2,719,298</u>	<u>5,854,209</u>	<u>5,809,820</u>	<u>(434,226)</u>	<u>45,313,273</u>
Capital contributions:						
Contributions from developers	323,300	-	2,442,142	2,039,835	-	4,805,277
Reduction of plant cost recovered from contributions	(323,300)	-	-	-	-	(323,300)
Net capital contributions	<u>-</u>	<u>-</u>	<u>2,442,142</u>	<u>2,039,835</u>	<u>-</u>	<u>4,481,977</u>
Operating transfer to City of Gainesville general fund	<u>(19,500,376)</u>	<u>(1,510,761)</u>	<u>(4,610,724)</u>	<u>(5,495,500)</u>	<u>(334,524)</u>	<u>(31,451,885)</u>
Change in net assets	11,863,796	1,208,537	3,685,627	2,354,155	(768,750)	18,343,365
Net assets - beginning of year	<u>240,353,679</u>	<u>576,472</u>	<u>51,513,126</u>	<u>74,569,505</u>	<u>(1,048,389)</u>	<u>365,964,393</u>
Net assets - end of year	<u>\$ 252,217,475</u>	<u>\$ 1,785,009</u>	<u>\$ 55,198,753</u>	<u>\$ 76,923,660</u>	<u>\$ (1,817,139)</u>	<u>\$ 384,307,758</u>

Independent Certified Public Accountants' Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters Based on an  
Audit of the Financial Statements Performed in Accordance With  
*Government Auditing Standards*

The Honorable Mayor and  
Members of the City Commission  
City of Gainesville, Florida

We have audited the financial statements of Gainesville Regional Utilities (a department of the City of Gainesville, Florida) as of and for the year ended September 30, 2008, and have issued our report thereon dated February 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Gainesville Regional Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Gainesville Regional Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Gainesville Regional Utilities' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gainesville Regional Utilities' financial statements are free of 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*.

We also noted certain additional matters that we reported to management of Gainesville Regional Utilities in a separate letter dated February 10, 2009.

This report is intended solely for the information and use of the City Commission and management and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst & Young LLP*

February 10, 2009

# Gainesville Regional Utilities

## Schedule of Utility Plant Properties – Combined Utility Fund

September 30, 2008

	Balance September 30, 2007	Additions	Sales, Retirements and Transfers	Balance September 30, 2008
<b>Plant in service</b>				
Electric utility fund:				
Production plant	\$ 358,677,013	\$ 119,704	\$ 3,051,270	\$ 355,745,447
Nuclear fuel	2,138,521	719,518	–	2,858,039
Transmission and distribution plant	244,136,017	9,994,634	–	254,130,651
General and common plant	69,435,727	3,402,624	–	72,838,351
Plant unclassified	2,255,383	11,404,174	13,054,948	604,609
Total electric utility fund	<u>676,642,661</u>	<u>25,640,654</u>	<u>16,106,806</u>	<u>686,177,097</u>
Gas utility fund:				
Distribution plant	41,943,104	4,461,634	132,428	46,272,310
General plant	2,836,801	84,254	–	2,921,055
Plant acquisition adjustment	4,650,635	–	–	4,650,635
Plant unclassified	1,313,360	3,520,160	4,545,615	287,905
Total gas utility fund	<u>50,743,900</u>	<u>8,066,048</u>	<u>4,678,043</u>	<u>54,131,905</u>
Water utility fund:				
Supply, pumping and treatment plant	27,730,186	810,500	37,254	28,503,432
Transmission and distribution plant	127,124,803	11,414,685	364,836	138,174,652
General plant	4,323,387	152,734	–	4,476,121
Plant unclassified	3,285,965	9,210,696	12,377,919	118,742
Total water utility fund	<u>162,464,341</u>	<u>21,588,615</u>	<u>12,780,009</u>	<u>171,272,947</u>
Wastewater utility fund:				
Pumping and treatment plant	83,575,750	2,468,216	719,057	85,324,909
Collection plant	113,835,431	10,956,947	277,451	124,514,927
Reclaimed water plant	6,834,773	696,874	–	7,531,647
General plant	6,378,790	219,666	–	6,598,456
Plant unclassified	2,477,080	12,030,686	14,341,703	166,063
Total wastewater utility fund	<u>213,101,824</u>	<u>26,372,389</u>	<u>15,338,211</u>	<u>224,136,002</u>
GRUCom utility fund:				
Distribution plant	35,247,008	1,921,005	–	37,168,013
General plant	821,414	120,645	–	942,059
Plant unclassified	304,340	1,854,681	2,041,650	117,371
Total GRUCom utility fund	<u>36,372,762</u>	<u>3,896,331</u>	<u>2,041,650</u>	<u>38,227,443</u>
Total plant in service	<u>\$ 1,139,325,488</u>	<u>\$ 85,564,037</u>	<u>\$ 50,944,131</u>	<u>\$ 1,173,945,394</u>
Plant held for future use – electric	<u>\$ 6,053,926</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 6,053,926</u>
<b>Construction in progress</b>				
Electric utility fund	\$ 122,695,973	\$ 126,790,627	\$ 12,966,467	\$ 236,520,133
Gas utility fund	5,454,333	3,180,999	3,449,760	5,185,572
Water utility fund	26,995,846	12,010,834	8,897,245	30,109,435
Wastewater utility fund	23,377,819	12,066,011	13,959,380	21,484,450
GRUCom utility fund	7,257,831	2,436,489	1,899,100	7,795,220
Total construction in progress	<u>\$ 185,781,802</u>	<u>\$ 156,484,960</u>	<u>\$ 41,171,952</u>	<u>\$ 301,094,810</u>



## Gainesville Regional Utilities

### Schedule of Accumulated Depreciation and Amortization – Combined Utility Fund

September 30, 2008

	Balance September 30, 2007	Additions	Sales, Retirements and Transfers	Balance September 30, 2008
Electric utility fund:				
Production plant	\$ 196,544,830	\$ 9,552,068	\$ –	\$ 206,096,898
Nuclear fuel	1,657,418	374,663	–	2,032,081
Transmission and distribution plant	80,501,098	7,626,954	3,051,092	85,076,960
General and common plant	29,092,969	5,788,477	(52,100)	34,933,546
Plant unclassified	398,769	33,431	(63,241)	495,441
Total electric utility fund	<u>308,195,084</u>	<u>23,375,593</u>	<u>2,935,751</u>	<u>328,634,926</u>
Gas utility fund:				
Distribution plant	18,724,292	1,297,568	132,428	19,889,432
General plant	1,103,597	202,158	(4,700)	1,310,455
Plant acquisition adjustment	4,650,637	–	–	4,650,637
Plant unclassified	26,646	2,234	26,646	2,234
Total gas utility fund	<u>24,505,172</u>	<u>1,501,960</u>	<u>154,374</u>	<u>25,852,758</u>
Water utility fund:				
Supply, pumping and treatment plant	12,353,730	911,562	37,254	13,228,038
Transmission and distribution plant	44,829,187	3,678,334	364,836	48,142,685
General plant	3,504,916	219,525	(1,100)	3,725,541
Plant unclassified	83,807	7,026	83,807	7,026
Total water utility fund	<u>60,771,640</u>	<u>4,816,447</u>	<u>484,797</u>	<u>65,103,290</u>
Wastewater utility fund:				
Pumping and treatment plant	36,110,335	3,037,309	719,057	38,428,587
Collection plant	39,637,800	3,318,690	277,451	42,679,039
Reclaimed water plant	894,410	266,369	–	1,160,779
General plant	4,797,345	301,128	(7,300)	5,105,773
Plant unclassified	121,732	10,205	121,732	10,205
Total wastewater utility fund	<u>81,561,622</u>	<u>6,933,701</u>	<u>1,110,940</u>	<u>87,384,383</u>
GRUCom utility fund:				
Distribution plant	16,187,271	2,629,807	–	18,817,078
General plant	472,341	64,711	–	537,052
Plant unclassified	46,069	3,862	46,069	3,862
Total GRUCom utility fund	<u>16,705,681</u>	<u>2,698,380</u>	<u>46,069</u>	<u>19,357,992</u>
Total	<u>\$ 491,739,199</u>	<u>\$ 39,326,081</u>	<u>\$ 4,731,931</u>	<u>\$ 526,333,349</u>

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**GENERAL INFORMATION REGARDING  
THE CITY OF GAINESVILLE AND ALACHUA COUNTY**

**Location**

The City of Gainesville, Florida (the “City”) is the county seat and population center of Alachua County. It is located in north-central Florida approximately 75 miles southwest of Jacksonville and approximately 110 miles northwest of Orlando, and midway between the Gulf and Atlantic Coasts.

**Organization and Administration**

The City was founded in 1854 and incorporated in 1869. The City Commission currently consists of seven members. Four are elected from single member districts and three are elected Citywide. In March 1998, the residents of Gainesville elected their first directly elected Mayor since 1927. Previously, mayors were elected from among the commission. The Mayor retains the same power as held in the prior Mayor-Commission form of government. The City Charter prohibits consecutive service on the Commission for more than two three-year terms.

The City Commission appoints a General Manager for Utilities who is responsible for the overall administration of the utilities system.

The City provides a full range of municipal services, including: police and fire protection; comprehensive land use planning and zoning services; code enforcement and neighborhood improvement; streets and drainage construction and maintenance; traffic engineering services; refuse and recycling services through a franchised operator; recreation and parks; cultural and nature services; and necessary administrative services to support these activities. Additionally, the City owns a regional transit system, a municipal airport, a 72 par championship golf course, and the Gainesville Regional Utilities System.

**Population**

As of April 2000, the United States Census Bureau estimates the City’s population to have been 95,447, while Alachua County’s population was 217,955 and Florida’s population was 15,982,378. The Bureau of Economics and Business Research at the University of Florida (“UF”) estimated a 2008 population of 252,388 in Alachua County. As of April 2008, an estimated 124,491 persons resided within the City limits. In 2008, the official State of Florida population was 18,807,219. The following tables depict official historical population growth of the City, Alachua 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>
1940	13,757	-	38,607	-	1,897,414	-
1950	26,861	95.3%	57,026	47.7%	2,771,305	46.1%
1960	29,701	10.6	74,074	29.9	4,951,560	78.7
1970	64,510	117.2	104,764	41.4	6,791,418	37.2
1980	81,371	26.1	151,369	44.5	9,746,961	43.5
1990	85,075	4.6	181,596	20.0	12,937,926	32.7
2000	95,447	12.2	217,955	20.0	15,982,378	23.5

Source: U. S. Bureau of the Census.

Between 1990 and 2000, annual compound growth rates for Gainesville, Alachua County and Florida were as follows:

	<b><u>Annual Compound Growth Rate</u></b>
Gainesville .....	1.2%
Alachua County .....	1.8
Florida.....	2.1

In the past [six] years, Gainesville has grown at twice the rate of Florida State. However, the demographic mix and economic activity help create a stable population mix. This stability is due to the region’s demographic mix and its composition of economic activity. For Florida, more than 85% of population growth from 1990 to 2000 resulted from net migration. By contrast, Alachua County’s net migration was approximately 67% during this time. Alachua County’s population is also younger than state-wide averages. For example, 17.1% of Florida’s population is 65 or over compared to 9.6% in Alachua County. Thus, with fewer retirees and a lower rate of net migration in Alachua County, its population is more stable than Florida as a whole.

**Economy**

The area’s economic mix also provides substantial stability. Alachua County’s economy is dominated by employment at UF (the area’s largest employer), other state and local governmental agencies, the area’s four major hospitals and the retail trade sector.

The tables below display the size and composition of the area’s employment and its major employers. This economic composition provides the strength and stability, which characterize the region’s economy. Fluctuations in the national economy have but little impact on Alachua County’s major employers. As a result, the County has one of the lowest unemployment rates in Florida. Local, state and national annual average unemployment rates for June 2009 are compared below.

	<b><u>Unemployment Rates</u></b>
Gainesville metropolitan statistical area (local).....	7.4%
Florida (state).....	10.8
United States (national).....	9.7

**Non-Agricultural Employment Distribution  
Gainesville MSA June 2009**

<u>Sector</u>	<u>Number Employed (in thousands)</u>	<u>Percentage of Total</u>
Natural Resources, Mining and Construction .....	5.3	4.2%
Manufacturing .....	4.6	3.6
Trade, Transportation and Utilities .....	18.5	14.5
Information .....	1.7	1.3
Financial Activities .....	6.2	4.9
Professional and Business Services .....	10.3	8.1
Education and health Services .....	22.4	17.6
Leisure and Hospitality .....	15.2	11.9
Other Services .....	4.8	3.8
Government.....	<u>38.4</u>	<u>30.1</u>
Total .....	127.4	100.0%

Source: State of Florida, Agency for Workforce Innovation, Current Employment Statistics, June 2009.

**Major Employers in the Gainesville Area**

<u>Name</u>	<u>Product or Service</u>	<u>Employees</u>
University of Florida.....	Education	14,723
Shands Hospital .....	Healthcare	12,588
Veterans Affairs Medical Center .....	Healthcare	4,317
Alachua County School Board.....	Public Education	4,299
City of Gainesville .....	City Government	2,200
Publix Supermarkets .....	Grocery	2,056
North Florida Regional Medical Center.....	Healthcare	1,700
Nationwide Insurance Company .....	Insurance	1,300
Alachua County .....	Government	1,120
Santa Fe College .....	Education	796
Wal-Mart Distribution Center.....	Grocery	736
Gator Dining Services.....	Food Service	625
Dollar General Distribution Center.....	Retail	624
Meridian Behavioral Healthcare .....	Mental Healthcare	620
Wal-Mart Stores.....	Grocery	504
Tower Hill Insurance Group	Insurance	500

Source: Gainesville Council for Economic Outreach (2008).

**Educational Activity**

UF is a major, public, comprehensive, land-grant, research university. It is Florida's largest university, the nation's fourth largest, and one of only 17 public, land-grant universities that belongs to the Association of American Universities. The UF campus covers 2,000 acres and includes more than 900 buildings. UF enrolls approximately 50,000 students annually, has 16 colleges and more than 150 research centers and institutes. It offers more than 100 undergraduate majors and almost 200 graduate programs, as well as professional degree programs in dentistry, law, medicine, pharmacy and veterinary

medicine. UF was awarded \$518.8 million in sponsored research in 2005-2006. Cultural facilities at UF include The Florida Museum of Natural History, the Harn Museum of Art, the Phillips Center for the Performing Arts, the University Auditorium, the Constans Theatre, and the Baughman Center. UF athletics have ranked among the nation's 10 best programs in each of the last 23 years. Florida has won a total of 25 team national championships, including national championships in football in 1996, 2006 and 2008, and national championships in men's basketball in 2006 and 2007.

Gainesville is also home to Santa Fe College ("SFC"), which is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award Associate and Baccalaureate degrees. More than 16,000 students take credit classes and 12,000 more take non-credit classes at SFC. In addition to its main Northwest Campus, SFC has six centers in Gainesville and surrounding communities offering courses or technical programs. Facilities of note on the main campus include the Santa Fe Gallery, the Kika Silva Pla Planetarium, and the Santa Fe Teaching Zoo. SFC competes intercollegiately in fastpitch softball, baseball, and men's and women's basketball. The baseball team finished second at last year's Junior College World Series. SFC's annual Spring Arts Festival attracts 130,000 visitors to Gainesville.

### **Medical Activity**

Gainesville is a regional health care hub with four hospitals and nearly 2,000 practicing physicians and surgeons. The UF Health Science Center encompasses the 630 bed Shands Teaching Hospital, and the Colleges of Medicine, Nursing, Dentistry, and Health Related Professions. The Shands at AGH Hospital, with 367 beds, is the community's oldest hospital. North Florida Regional Medical Center is a 325 bed, full service medical and surgical acute care center. The Regional Doctors Office Park adjoins NFRMC hospital and includes offices and clinics for over 258 physicians. The Veteran's Administration Hospital, located near the UF Health Science Center, includes 222 beds. The Shands at UF Cancer Hospital is a 500,000 square foot facility with 192 private inpatient beds that is scheduled to open in the fall of 2009.

**Industrial Activity**

**ALACHUA COUNTY  
Largest Manufacturers**

<u>Name of Firm</u>	<u>Business</u>	<u>Number of Employees</u>
Georgia-Pacific Corporation.....	Hardwood veneer and plywood	450
Naylor Publications, Inc.....	Prints publications; computer graphics service	275
Regeneration Technologies, Inc.....	Manufactures surgical appliances & supplies	260
Gainesville Sun Publishing Co. ....	Publishes & prints newspapers	250
Metal Container Corporation .....	Cans metal	195
Clariant Life Science.....	Manufactures industrial organic chemicals	190
Exactech, Inc.....	Manufactures surgical implants	173
Sandvik Mining & Construction.....	Manufactures core drills; manufactures oil field machinery & equipment	150
Waste Management.....	Secondary nonferrous metals	130
Campus Communications, Inc. ....	Publishes newspapers without printing	125

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Source: Gainesville Council for Economic Outreach (2008)

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## SUMMARY OF CERTAIN PROVISIONS OF THE RESOLUTION

This Appendix contains a summary of certain provisions of the Resolution. Summaries of certain definitions contained in the Resolution are set forth below. Other terms defined in the Resolution for which summary definitions are not set forth are indicated by capitalization. The summary does not purport to be a complete description of the terms of the Resolution and, accordingly, is qualified by reference thereto and subject to the full text thereof. Copies of the Resolution may be obtained from the City or its Financial Advisor.

### Definitions

The following are summaries of certain definitions in the Resolution:

*Accreted Value* means, 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* means, 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 the Resolution 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* means 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.

*Adjusted Aggregate Debt Service* for any period means, 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 Parity Commercial Paper Notes and Parity 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 Parity Commercial Paper Notes or Parity 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 the Resolution. 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 means, 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 the Resolution; 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.

*Amended and Restated Resolution* means the Amended and Restated Utilities System Revenue Bond Resolution adopted by the City on January 30, 2003, as amended by Article V of the Thirteenth Supplemental Utilities System Revenue Bond Resolution adopted by the City on July 14, 2003, which, as so amended, amended and restated the Resolution as theretofore in effect on November 26, 2003 upon the satisfaction of the conditions to its effectiveness.

*Appreciated Value* means 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.

*Bond* or *Bonds* means 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.

*Capital Appreciation Bonds* means any Bonds issued under the Resolution as to which interest is (i) compounded periodically on dates specified in the Supplemental Resolution authorizing such Capital Appreciation Bonds belong and (ii) payable only at the maturity, earlier redemption or other payment thereof pursuant to the Resolution or the Supplemental Resolution authorizing such Bonds.

*Certified Interest Rate* means, 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

*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 of the City authorizing such Bond.

*Commercial Paper Payment Plan* means, 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.

*Cost of Acquisition and Construction* means 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.

*Credit Enhancement* means, 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* means, with respect to any Bonds, any person or entity which, pursuant to a Supplemental Resolution, is designated as a Credit Enhancer and which provides Credit Enhancement for such Bonds.

*Credit Obligation* means 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.

*Current Interest Commencement Date* means, 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 means, 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 Parity 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 Parity Reimbursement Obligations, in accordance with the terms thereof and the Supplemental Resolution authorizing such Parity 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 the Resolution; 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, Parity Commercial Paper Notes or Parity 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, Parity Commercial Paper Notes or Parity 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, Parity Commercial Paper Notes or Parity Medium-Term Notes bear interest, it will be assumed that such Variable Rate Bonds, Parity Commercial Paper Notes or Parity Medium-Term Notes bear interest at the fixed rate of interest to be paid by the City.

*Debt Service Reserve Requirement* means 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 such period at the greater of (i) the actual rate of interest then borne by such Bonds or (ii) the Certified Interest Rate applicable thereto.

*Defeasance Securities* means, 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 the Resolution, 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* means any Bonds issued under the 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 the Resolution or the Supplemental Resolution authorizing such Bonds.

*Investment Securities* means and includes 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* means 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 of the City authorizing such Bond.

*Medium-Term Note Payment Plan* means, with respect to any installment 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 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) amounts already included in the Revenues for such period representing interest earnings transferred from the Rate Stabilization Fund to the Revenue Fund) and minus (y) the sum of (a) the 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* 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 may include Credit Obligations. See “Application of Revenues” in this Appendix C.

*Parity Obligation* means any Parity Commercial Paper Note, Parity Medium-Term Note, Parity Reimbursement Obligation or Parity Hedging Contract Obligation.

*Prior Bonds* means the Bonds Outstanding under the Resolution immediately prior to November 26, 2003, the effective date of the amendment and restatement of the Resolution as theretofore in effect provided for by the Amended and Restated Resolution.

*Qualified Hedging Contract* means, 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* means 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.

*Refundable Principal Installment* means 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.

*Reserve Deposit*, in respect of the Bonds of any of Additionally Secured Series, means 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* means the Utilities System Revenue Bond Resolution adopted by the City on June 6, 1983, as heretofore amended, restated and supplemented, including as amended and restated by the Amended and Restated Resolution, and as the same hereafter may be further amended and supplemented in accordance with the terms thereof.

*Revenues* 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; provided, however, Revenues shall not include payments made to the City by a Qualified Hedging Contract Provider pursuant to a Parity Hedging Contract Obligation that are deposited into the Debt Service Account in the Debt Service Fund.

*System* means 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 certain provisions of the Resolution, 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. See “Additional Utility Functions” in this Appendix C.

*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 Fund 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.

**Pledge**

The Bonds are 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 is pledged and assigned to the Trustee for the benefit of the Bondholders, 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.

**Application of Revenues**

Revenues are pledged by the Resolution to the payment of principal and interest and Redemption Price on the Bonds of all Series, subject to the provisions of the Resolution permitting application for other purposes. The Resolution establishes the following Funds for the application of revenues:

<u>Funds</u>	<u>Held By</u>
Revenue Fund .....	City
Rate Stabilization Fund.....	City
Debt Service Fund .....	Trustee
Subordinated Indebtedness Fund .....	Trustee
Utilities Plant Improvement Fund.....	City

The Resolution also provides for the establishment of one or more 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. Deposits into any such funds may be made only after the required deposits have been made into the funds specified above. Deposits into any such funds may be made only with amounts defined by the Resolution to be available for use by the City for any lawful purpose. If and when established, such funds shall not be governed by the Resolution and will not be pledged as security for the Bonds.

Pursuant to the Resolution, all Revenues of the System are deposited into the Revenue Fund as soon as practicable and in any event within ten days after receipt. Each month the City is to pay from the Revenue Fund amounts necessary to meet Operation and Maintenance Expenses for such month. Payments owed by the City with respect to any Credit Obligations shall constitute Operation and Maintenance Expenses only if the City files with the Trustee, at the time the City enters into the contract relating to such Credit Obligation, a certificate of an Authorized Officer of the City to the effect that, if such Credit Obligation is so paid, estimated Net Revenues for each Fiscal Year beginning with the year in which the Credit Obligation becomes effective and ending with 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 to be Outstanding is paid from Bond proceeds, are at least equal to 1.25 times the Aggregate Debt Service for such Fiscal Year.

Following the payment of Operation and Maintenance Expenses, the Resolution provides that monies in the Revenue Fund shall be applied (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 each calendar month), to the extent available, in the following manner and in the following order of priority:

(1) *To the Rate Stabilization Fund*, the amount, if any, budgeted for deposit into such Fund, in accordance with the then current Annual Budget or as otherwise determined by the City. 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 and/or Subordinated Indebtedness Bonds.

(2) *To the Debt Service Account and the Debt Service Reserve Account in the Debt Service Fund*, (i) for credit to the Debt Service Account, (a) 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, (b) payments received by the City from a Qualified Hedging Contract Provider pursuant to a Parity Hedging Contract Obligation and (c) the amount, if any, required so the City can pay all obligations payable out of the Debt Service Account in the current month; 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 the 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).

Amounts in the Debt Service Reserve Account are applied to make up any deficiency in the Debt Service Account. Whenever the amount 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 the Resolution, together with the amount in the Debt Service Account, is sufficient to pay in full all Outstanding Bonds and Parity Obligations in accordance with their terms, the funds on deposit in the Debt Service Reserve Account will be transferred to the Debt Service Account. Whenever the moneys on deposit in the Debt Service Reserve Account shall exceed the Debt Service Reserve Requirement, after giving effect to any surety bond, insurance policy, letter of credit, or other similar obligation deposited in such Account pursuant to the Resolution, 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.

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 Debt Service Account and the Debt Service Reserve 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 (i) immediately thereafter the Bonds being refunded shall be deemed to have been paid pursuant to the Resolution, and (ii) (a) in the case of the Debt Service Account, the amount remaining therein, after giving effect to the issuance of the Refunding Bonds and the disposition of the proceeds thereof, shall not be less than the Accrued Aggregate Debt Service and (b) in the case of the Debt Service Reserve Account, the amount remaining therein, after giving effect to any surety bond, insurance policy, letter of credit or other similar obligation deposited in such Account, and 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.

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 have 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 the separate subaccount in such Debt Service Reserve Account equals the Debt Service Reserve Requirement related thereto.

(3) *To the Subordinated Indebtedness Fund*, the amounts required to pay principal or sinking fund installments of and premiums, if any, and interest on each issue of Subordinated Indebtedness of the City and reserves therefor as required by the Supplemental Resolution authorizing such Subordinated Indebtedness. 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. However, if at any time there is a deficiency in the Debt Service Account or in any separate subaccount in the Debt Service Reserve Account and the available funds in the Utilities Plant Improvement Fund are insufficient to cure such deficiency, the Trustee will transfer from the Subordinated Indebtedness Fund the amount necessary to cure such deficiency.

(4) *To the Utilities Plant Improvement Fund*, the amount determined by the City to be appropriate for deposit into this Fund; provided, that for each Fiscal Year deposits into this Fund will 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 the Resolution. Amounts deposited in the Utilities Plant Improvement Fund will 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; or (v) otherwise to provide for the payment of 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.

If at any time the amount in the Debt Service Account is deficient or the amount in any separate subaccount in the Debt Service Reserve Account is less than the Debt Service Reserve Requirement, then the City will transfer from the Utilities Plant Improvement Fund to the Trustee for deposit in said Accounts the amount necessary to make up such deficiency.

If at any time the amounts in the Subordinated Indebtedness Fund are deficient 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 equal the current requirements for such Accounts and such amounts are not required for payment of Operation and Maintenance Expenses, then the City will transfer from the Utilities Plant Improvement Fund to the Trustee for deposit in the Subordinated Indebtedness Fund the amount necessary to make up such deficiency.

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 lawful purpose; provided, however, that none of the remaining moneys can be used for any purpose other than those specified hereinabove 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 has complied fully with all covenants and provisions of the Resolution.

### **Construction Fund**

The Resolution establishes a Construction Fund, held by the City, into which are paid amounts required to be so paid by the provisions of the Resolution and any Supplemental Resolution. At the option of the City, any moneys received for or in connection with the System by the City, unless required to be otherwise applied as provided in the Resolution, may also be deposited into the Construction Fund.

The City will withdraw from the Construction Fund amounts for the payment of the Cost of Acquisition and Construction of the System. Amounts in the Construction Fund which the City at any time determines to be in excess of the amounts required for the purposes thereof are to be transferred to the Debt Service Reserve Account, to the extent necessary for the funds in any separate subaccount therein to equal the Debt Service Reserve Requirement, and the balance is to be paid to the City for credit to the Utilities Plant Improvement Fund. To the extent that other moneys are not available therefor, amounts in the Construction Fund will be applied to the payment of principal of and interest on Bonds and Parity Obligations when due.

The City may discontinue the acquisition or construction of any portion of the System which is being paid out of the Construction Fund, if the City Commission determines that to do so is necessary or desirable in the conduct of the business of the City and not disadvantageous to Bondholders and holders of Subordinated Bonds.

### **Investment of Certain Funds and Accounts**

The Resolution provides that certain Funds and Accounts held thereunder may, and in the case of the Debt Service Account, the Debt Service Reserve Account, the Sinking Fund Account and the Amortization Account in the Debt Service Fund and the Subordinated Indebtedness Fund must, be invested to the fullest extent practicable in Investment Securities. The Resolution provides that such investments will mature no later than such times as necessary to provide moneys when needed for payments from such Fund and Accounts and provides specific limitations of the term of investments for moneys in certain Funds. Investment Securities are to be valued as of each September 30 and at such other times as the City shall determine. Investment Securities are to be valued at the amortized cost thereof. In the event that the City deposits in the Debt Service Reserve Account in the Debt Service Fund an irrevocable surety bond, an insurance policy, letter of credit or other 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.

Unless otherwise determined by the City, net interest earned on any moneys or investments in such Funds or Accounts, other than the Construction Fund, is to be paid into the Revenue Fund; provided, however, that if the City so directs, such interest earned on moneys or investments in any Fund or Account, or any portion thereof, is to be deposited in the Construction Fund. Interest earned on any moneys or investments in the Construction Fund is to be held in such Fund, or deposited into the Revenue Fund if so directed by the City.

## **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 (other than Parity Obligations or Reimbursement Obligations).

*Historical Debt Service Coverage.* The issuance of any Series of additional Bonds (except for refunding Bonds) is conditioned upon the delivery by the City of a certificate to the effect that, for any period of 12 consecutive months within the 18 months preceding the issuance of Bonds of such Series, Net Revenues were at least equal to 1.25 times the Aggregate Debt Service during such period in respect to 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 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 then to be outstanding is to be paid from Bond proceeds, Net Revenues are estimated to be at least equal to 1.40 times the Aggregate Debt Service for each such Fiscal Year.

*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 issue Subordinated Indebtedness payable out of and secured by amounts in the Subordinated Indebtedness Fund without compliance with any of the conditions for the issuance of additional Bonds. References herein and in the Resolution to Bonds do not include Subordinated Indebtedness.

## **Issuance of Other Indebtedness**

The Resolution does not restrict the issuance by the City of other indebtedness to finance facilities which are not a part of the System. Such indebtedness may be secured by a mortgage of the facility so financed or a pledge of the revenues therefrom. No such indebtedness may be payable out of or secured by the Trust Estate.

## **Rate Covenant**

Under the Resolution, the City has covenanted that it will at all times establish and collect rates, fees and charges for the use or sale of the output, capacity or service of the System which, together with other available Revenues, are reasonably expected to yield Net Revenues equal to at least 1.25 times the Aggregate Debt Service for the forthcoming 12-month period and, in any event, as required, together with other available funds, to pay or discharge all other indebtedness, charges and liens 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.

## **Creations of Liens**

The City will not issue any other evidences of indebtedness, other than the Bonds and Parity Hedging Contract Obligations, payable out of or secured by 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 under the Resolution nor create any lien or charge thereon, except (1) 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 of assignment of, Revenues to be received after the discharge of the lien on such Revenues provided in the Resolution or (2) Subordinated Indebtedness.

## **Disposition of System**

Except as described in this paragraph, the City may not sell, lease, mortgage or otherwise dispose of any part of the System. The City may sell or exchange property or facilities of the System if the sale or exchange of such property or facilities will not impair the ability of the City to comply with the rate covenant described above. The proceeds of any such sale or exchange not used to acquire other property for the System are to be deposited in the Utilities Plant Improvement Fund. If certain conditions are satisfied, the City also may lease or make contracts or grant licenses, easements or rights for the operation or use of or with respect to, any part of the System. Payments received by the City under any such arrangement will constitute Revenues. The City may also enter into certain sale leaseback arrangements if certain conditions are satisfied. The proceeds of any such transaction, after payment of expenses, are to be deposited into the Utilities Plant Improvement Fund.

## **Insurance**

The City is required to provide protection for the System consisting of insurance, self insurance and indemnities both in accordance with the requirements of all agreements to which the City may at any 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. The City will keep the properties of the System insured and will carry other insurance against fire and other risks to the extent and of the kinds usually insured against by those operating properties similar to the properties of the System. Any self insurance shall be in the amount, manner and type provided by those operating properties similar to the properties of the System.

## **Reconstruction; Application of Insurance Proceeds**

In the event of any loss or damage to the System covered by insurance, the City will 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. The proceeds of insurance paid on account of such damage or destruction will be used for the cost of such reconstruction or replacement with any excess insurance proceeds being transferred to the Revenue Fund.

## **Governmental Reorganization**

The Resolution does 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 the Resolution and pertaining to all Bonds.



## **Additional Utility Functions**

The City may expand the utility functions of the System as they exist on the date of the Resolution as permitted by the proviso contained in the definition of "System" 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 the rate covenant, and (b) will not materially adversely affect the rights of the holders of the Bonds. Pursuant to such provisions of the Resolution, (1) in 1990 the City filed with the Trustee a certified copy of a resolution of the Commission to such effect in connection with the acquisition by the City of the assets of the natural gas system and (2) in 1995 the City filed with the Trustee a certified copy of a resolution of the Commission to such effect in connection with the telecommunications system. Accordingly, the properties, assets and other rights of the natural gas system and the telecommunications system constitute a part of the System for all purposes of the Resolution, and all references in the Resolution to the "System" are deemed to include such properties, assets and other rights.

## **Amendment of Resolution**

Without the consent of the Bondholders or the Trustee, the City may adopt a Supplemental Resolution which (i) closes the Resolution against, or provides additional conditions to, the issuance of Bonds or other evidences of indebtedness; (ii) adds covenants and agreements of the City; (iii) adds limitations and restrictions to be observed by the City; (iv) authorizes Bonds of an additional Series; (v) confirms any security interest, pledge or assignment of the Revenues or of any other moneys, securities or funds; (vi) makes any modification which is to be effective only after all Bonds of each Series Outstanding as of the date of the adoption of such Supplemental Resolution cease to be Outstanding; (vii) authorizes Subordinated Indebtedness or Parity Hedging Contract Obligations; (viii) appoints the Co-Trustee; (ix) provides for the issuance, execution, delivery, authentication, payment, registration, transfer and exchange of Bonds in coupon form payable to bearer or in uncertificated form; and (x) if and to the extent authorized in a Supplemental Resolution authorizing an Additionally Secured Series of Bonds, specifies 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.

The Resolution may be amended, with the consent of the Trustee but without the consent of Bondholders, (i) to cure any ambiguity, supply any omission or correct any defect or inconsistent provision in the Resolution; (ii) to insert provisions clarifying the Resolution; or (iii) to make any other modification or amendment of the Resolution which the Trustee, in its sole discretion, determines will not have a material adverse effect on the interests of Bondholders.

For so long as any of the Prior Bonds shall be Outstanding under the Resolution, the following provision shall be applicable to amendments to the Resolution that require the consent of the holders of the Bonds:

The Resolution and the rights and obligations of the City and of the holders of the Bonds may be amended by a Supplemental Resolution with the written consent of the holders of a majority in principal amount in each case of (i) all Bonds then Outstanding, and (ii) in case less than all of the Series of Outstanding Bonds are affected, the Bonds of each Series so affected, and (iii) in case the modification or amendment changes the terms of any Sinking Fund Installment, the Bonds of the particular Series and maturity entitled to the benefit of the Sinking Fund Installment. No such modification or amendment may (A) permit a change in the terms of

redemption or maturity or any installment of interest or a reduction in the principal, Redemption Price or rate of interest thereon without consent of each affected holder, or (B) 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. For purposes of the foregoing, the holders of Bonds may include the initial holders thereof regardless of whether such Bonds are being held for subsequent resale.

At such time as none of the Prior Bonds shall remain Outstanding under the Resolution, the following provision shall be applicable to amendments to the Resolution that require the consent of the holders of the Bonds:

The Resolution and the rights and obligations of the City and of the holders of the Bonds may be amended by a Supplemental Resolution with the written consent of the holders of a majority in principal amount in each case of (i) all Bonds then Outstanding affected by the modification or amendment, and (ii) in case the modification or amendment changes the terms of any Sinking Fund Installment, the Bonds of the particular Series and maturity entitled to the benefit of the Sinking Fund Installment. No such modification or amendment may (A) permit a change in the terms of redemption or maturity or any installment of interest or a reduction in the principal, Redemption Price or rate of interest thereon without consent of each affected holder, or (B) 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. For purposes of the foregoing, the holders of Bonds may include the initial holders thereof regardless of whether such Bonds are being held for subsequent resale.

## **Defeasance**

The lien of the Resolution, 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 under the Resolution will cease, terminate and become void and be discharged and satisfied whenever all Bonds are paid in full. If any Bonds are paid in full, 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 cease, terminate and be discharged. Bonds are deemed to have been paid and are not entitled to the lien, benefit and security of the Resolution whenever the following conditions are met: (i) in case any Bonds are to be redeemed prior to their maturity, the City has given to the Trustee instructions in accordance with the Resolution to give notice of redemption therefor, (ii) there has been deposited with the Trustee either moneys or Defeasance Securities which, together with other moneys, if any, also deposited, will be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on such Bonds, and (iii) in the event such Bonds are not subject to redemption within the next succeeding 60 days, the City has given the Trustee instructions in accordance with the Resolution to give notice to the holders of such Bonds that the above deposit has been made and that such Bonds are deemed to have been paid and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, on said Bonds.

Defeasance Securities described in clause (f) of the definition above may be included in the Defeasance Securities deposited with the Trustee for purposes of defeasance only if the determination as to whether the moneys and Defeasance Securities to be deposited with the Trustee would be sufficient to pay when due, either at 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 published by the Trustee or in the instructions to publish a notice of redemption provided to the Trustee in accordance with the Resolution, the principal and Redemption Price, if applicable, and interest on the Bonds is made both on the assumption that the Defeasance Securities described in clause (f) of the

definition above were not redeemed at the option of the issuer prior to the maturity date thereof and on the assumption that such Defeasance Securities would be redeemed by the issuer thereof at its option on each date on which such option could be exercised and 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.

In the event that Defeasance Securities described in clause (f) are deposited with the Trustee, 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 the defeasance provisions of the Resolution 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 such Defeasance Securities have been called for redemption or have been redeemed by the issuer thereof prior to the maturity date thereof.

### **Events of Default; Remedies**

Events of default under the Resolution include (i) failure to pay the principal or Redemption Price of any Bond when due; (ii) failure to pay any installment of interest on any Bond or the unsatisfied balance of any Sinking Fund Installment when due; (iii) failure to comply with the requirements of the rate covenant unless the City promptly takes certain remedial action; (iv) failure by the City to perform or observe any other covenants, agreements, or conditions contained in the Resolution or the Bonds; and (v) certain events of bankruptcy or insolvency. Upon the happening of any such Event of Default the Trustee or the holders of not less than 25% in principal amount of the Bonds then Outstanding may declare the principal of and accrued interest on the Bonds due and payable (subject to a rescission of such declaration upon the curing of such default before the Bonds have matured).

Unless and until an event of default is remedied, the Trustee may proceed, and upon written request of the holders of not less than 25% in principal amount of the Bonds Outstanding must proceed, to protect and enforce its rights and the rights of the holders of the Bonds under the Resolution by a suit or suits in equity or at law (which may include a suit for the specific performance of any covenant contained in the Resolution) or in the enforcement of any other legal or equitable rights as the Trustee deems most effectual to enforce any of its rights or to perform any of its duties under the Resolution.

During the continuance of an event of default under the Resolution, the Trustee is to apply all moneys, securities, funds and Revenues received by the Trustee (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) charges, expenses and liabilities of the Trustee, the Co-Trustee, any Paying Agents, the Depositaries and the Bond Registrar; (ii) reasonable and necessary Operation and Maintenance Expenses and reasonable renewals, repairs and replacements of the System necessary in the judgment of the Trustee to prevent a loss of Revenues; and (iii) to the interest and principal or Redemption Price due on the Bonds.

No Bondholder has any right to institute any suit, action or proceeding 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 (1) such Bondholder previously has given the Trustee written notice of the Event of Default, (2) the holders of at least 25% in principal amount of the Bonds then Outstanding have filed a written request with the Trustee and have afforded the Trustee a reasonable opportunity to exercise its powers or institute such suit, action or proceeding, (3) there has been offered by such holders to the Trustee adequate security and indemnity against its costs, expenses and liability to be incurred and (4) the Trustee has refused to comply with such request within 60 days after receipt of such notice, request and

offer of indemnity. Nothing in the Resolution or the Bonds affects or impairs the City's obligation to pay the Bonds and interest thereon when due from the Trust Estate or the right of any Bondholder to enforce such payment.

### **Trustee and Paying Agents**

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 provided in the Resolution. 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 the Resolution, 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.

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.

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.

### **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 the Resolution or any other provision thereof, which requires the written approval or consent of Holders; provided, however, that these provisions 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 the Resolution.

### **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 the Resolution 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 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.

### **Special Provisions Relating to Capital Appreciation Bonds**

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 or (iii) computing the principal amount of Bonds held by the registered owner 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 Accreted Value.

### **Special Provisions Relating to Deferred Income Bonds**

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 or (iii) computing the principal amount of Bonds held by the registered owner 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.

## **Special Provisions Relating to Parity Reimbursement Obligations**

Except as otherwise provided in a Supplemental Resolution authorizing a Series of 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, or (ii) computing the principal amount of Bonds held by the registered owner 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.

## **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 the Resolution 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.

## **Commercial Paper Notes**

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 the Resolution 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 conditions specified in the Resolution.

## **Medium-Term Notes**

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 the Resolution 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 conditions specified in the Resolution.

## Special Provisions Relating to 2009 Series C Bonds

In the Twenty-Second Supplemental Utilities System Revenue Bond Resolution, the City has covenanted as follows:

**“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 2009 Series C 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 2009 Series C Bonds concerning certain matters pertaining to the use of proceeds of the 2009 Series C Bonds, including any and all exhibits attached thereto (the ‘Tax Certificate’). This covenant shall survive payment in full or defeasance of the 2009 Series C 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 2009 Series C 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 2009 Series C 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 2009 Series C 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 2009 Series C 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.”

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**DEBT SERVICE REQUIREMENTS ON SENIOR LIEN BONDS<sup>(1)</sup>**  
**(ACCRUAL BASIS)**

Period Ending September 30,	Total Debt Service on Bonds Outstanding Prior to Issuance of 2009 Series A, B and C Bonds <sup>(2)</sup>	Plus: Debt Service on 2009 Series A, B and C Bonds			Total	Total Debt Service on Bonds to be Outstanding After Issuance of 2009 Series A, B and C Bonds <sup>(2)</sup>
		Principal	Interest	Total		
2009						
2010						
2011						
2012						
2013						
2014						
2015						
2016						
2017						
2018						
2019						
2020						
2021						
2022						
2023						
2024						
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2032						
2033						
2034						
2035						
2036						
2037						
2038	=====	=====	=====	=====	=====	
2039	=====	=====	=====	=====	=====	

*(footnotes on following page)*

*(footnotes from previous page)*

(1) Columns and rows 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 (2) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX D 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 (3) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX D 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 (4) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX D 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 (5) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX D 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 (6) to the table under "OUTSTANDING DEBT" in the Official Statement to which this APPENDIX D 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.

**PROPOSED FORM OF OPINION OF BOND COUNSEL  
RELATING TO THE TAXABLE 2009 SERIES A AND B BONDS**

*Upon the delivery of the 2009 Series A, B and C Bonds, Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City, proposes to render its final approving opinion with respect to the Taxable 2009 Series A and B Bonds in substantially the following form:*

September \_\_, 2009

City of Gainesville, Florida  
Gainesville, Florida 32614-7117

City of Gainesville, Florida  
Utilities System Revenue Bonds,  
2009 Series A  
(Federally Taxable)

City of Gainesville, Florida  
Utilities System Revenue Bonds,  
2009 Series B  
(Federally Taxable – Issuer Subsidy – Build America Bonds)

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 \$\_\_\_\_\_ aggregate principal amount of Utilities System Revenue Bonds, 2009 Series A (Federally Taxable) (the “Taxable 2009 Series A Bonds”) and \$\_\_\_\_\_ aggregate principal amount of Utilities System Revenue Bonds, 2009 Series B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “Taxable 2009 Series B Bonds” and, together with the “Taxable 2009 Series A Bonds,” the “Taxable 2009 Series A and 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 (i) a resolution duly adopted by the City on September \_\_, 2009 incorporating by reference and adopting a resolution entitled “Twenty-First Supplemental Utilities System Revenue Bond Resolution,” authorizing the Taxable 2009 Series A Bonds and (ii) a resolution duly adopted by the City on September \_\_, 2009 incorporating by reference and adopting a resolution entitled “Twenty-Second Supplemental Utilities System Revenue Bond Resolution,” authorizing, among others, the Taxable 2009 Series B Bonds (such Bond Resolution as so supplemented, amended and restated, including as supplemented by the Twenty-First Supplemental Utilities System Revenue Bond Resolution and the Twenty-Second 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 (a) the Taxable 2009 Series A Bonds are being issued (i) to provide funds for the payment of the cost of acquisition and construction of certain improvements to the System, (ii) to provide for the payment, when due, of the City’s taxable Utilities System Commercial Paper Notes,

Series D and (iii) to pay the costs of issuance of the Taxable 2009 Series A Bonds and (b) the Taxable 2009 Series B Bonds are being issued (i) to provide funds for the payment of the cost of acquisition and construction of certain improvements to the System and (ii) to pay the costs of issuance of the Taxable 2009 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, 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 opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Taxable 2009 Series A and 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, 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. We call attention to the fact that the rights and obligations under the Taxable 2009 Series A and B Bonds and the Resolution 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, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement of the City, dated September \_\_, 2009, relating to, among others, the Taxable 2009 Series A and B Bonds or other offering material relating to the Taxable 2009 Series A and 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 Taxable 2009 Series A and B Bonds and the Taxable 2009 Series A and 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 Taxable 2009 Series A and 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 Taxable 2009 Series A or 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 Taxable 2009 Series A or B Bonds or the making of any payments under the Resolution. The Taxable 2009 Series A and B Bonds rank equally as to security and payment with the Bonds that will be Outstanding after the issuance of the Taxable 2009 Series A and 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 Taxable 2009 Series A and B Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986.

Investors are urged to obtain independent tax advice regarding the Taxable 2009 Series A and B Bonds based upon their particular circumstances. The tax discussion above regarding the Taxable 2009 Series A and B Bonds was not intended or written to be used, and cannot be used, for the purpose of avoiding taxpayer penalties. The advice was written to support the promotion or marketing of the Taxable 2009 Series A and B Bonds.

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 Taxable 2009 Series A and B Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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**PROPOSED FORM OF OPINION OF BOND COUNSEL  
RELATING TO THE 2009 SERIES C BONDS**

*Upon the delivery of the 2009 Series A, B and C Bonds, Orrick, Herrington & Sutcliffe LLP, New York, New York, Bond Counsel to the City, proposes to render its final approving opinion with respect to the 2009 Series C Bonds in substantially the following form:*

September \_\_, 2009

City of Gainesville, Florida  
Gainesville, Florida 32614-7117

City of Gainesville, Florida  
Utilities System Revenue Bonds,  
2009 Series C  

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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 \$\_\_\_\_\_ aggregate principal amount of Utilities System Revenue Bonds, 2009 Series C (the "2009 Series C 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 September \_\_, 2009 incorporating by reference and adopting a resolution entitled "Twenty-Second Supplemental Utilities System Revenue Bond Resolution," authorizing, among others, the 2009 Series C Bonds (such Bond Resolution as so supplemented, amended and restated, including as supplemented by the Twenty- Second 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 2009 Series C Bonds are being issued (a) to provide funds for the payment of the cost of acquisition and construction of certain improvements to the System and (b) to pay the costs of issuance of the 2009 Series C 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 2009 Series C 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 opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the 2009 Series C 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 2009 Series C 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 2009 Series C 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 2009 Series C 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, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement of the City, dated September \_\_, 2009, relating to, among others, the 2009 Series C Bonds or other offering material relating to the 2009 Series C 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 2009 Series C Bonds and the 2009 Series C 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 2009 Series C 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 2009 Series C 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 2009 Series C



Bonds or the making of any payments under the Resolution. The 2009 Series C Bonds rank equally as to security and payment with the Bonds that will be Outstanding after the issuance of the 2009 Series C 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 2009 Series C Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the 2009 Series C Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings in calculating federal corporate alternative minimum taxable income.

5. The amount by which the respective issue prices of the 2009 Series C Bonds maturing on October 1, 20\_\_ and October 1, 20\_\_ (collectively, the "Discount Bonds") is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds) constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Discount Bonds which is excluded from gross income for federal income tax purposes to the same extent as set forth in paragraph 4 hereof. For this purpose, the issue price of the Discount Bonds of each maturity is the first price at which a substantial amount of the 2009 Series C Bonds of such maturity is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers).

Except as stated in paragraphs 4 and 5 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 2009 Series C Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

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**PROPOSED FORM OF CONTINUING DISCLOSURE CERTIFICATE**

*Upon the delivery of the 2009 Series A, B and C Bonds, the City proposes to enter into a Continuing Disclosure Certificate with respect to the 2009 Series A, B and C Bonds in substantially the following form:*

**CONTINUING DISCLOSURE CERTIFICATE  
RELATING TO  
CITY OF GAINESVILLE, FLORIDA  
UTILITIES SYSTEM REVENUE BONDS,  
2009 SERIES A (FEDERALLY TAXABLE),  
2009 SERIES B (FEDERALLY TAXABLE –  
ISSUER SUBSIDY – BUILD AMERICA BONDS)  
AND 2009 SERIES C**

WHEREAS, the City Commission (the “Commission”) of the City of Gainesville, Florida (the “City”) heretofore has authorized the issuance of the City’s \$\_\_\_\_\_ Utilities System Revenue Bonds, 2009 Series A (Federally Taxable) (the “Taxable 2009 Series A Bonds”), its \$\_\_\_\_\_ Utilities System Revenue Bonds, 2009 Series B (Federally Taxable – Issuer Subsidy – Build America Bonds) (the “Taxable 2009 Series B Bonds”) and its \$\_\_\_\_\_ Utilities System Revenue Bonds, 2009 Series C (the “2009 Series C Bonds” and, together with the Taxable 2009 Series A Bonds and the Taxable 2009 Series B Bonds, 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 (a) the Twenty-First Supplemental Utilities System Revenue Bond Resolution thereto authorizing the Taxable 2009 Series A Bonds adopted by the City on September \_\_, 2009 and (b) the Twenty-Second Supplemental Utilities System Revenue Bond Resolution thereto authorizing the Taxable 2009 Series B Bonds and the 2009 Series C Bonds adopted by the City on September \_\_, 2009; and

WHEREAS, by resolution adopted by the Commission on September \_\_, 2009, 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 Continuing 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 A to the Final 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.

"Final Official Statement" shall mean the Official Statement of the City, dated September \_\_, 2009, relating to the Bonds, as amended or supplemented.

"Listed Events" shall mean any of the events listed in Section 5(a) 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>.

"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 Final 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, 2009, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report must be submitted in electronic format and accompanied by such identifying information as is prescribed by the MSRB and 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 the same manner as for a Listed Event under Section 5(c).

(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 send a notice to the MSRB 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 Final 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) Pursuant to the provisions of this Section 5, 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:

- 1. Principal and interest payment delinquencies;
- 2. Non-payment related defaults;
- 3. Unscheduled draws on debt service reserves reflecting financial difficulties;
- 4. Unscheduled draws on credit enhancements reflecting financial difficulties;
- 5. Substitution of credit or liquidity providers, or their failure to perform;
- 6. Adverse tax opinions or events affecting the tax exempt status of the security;
- 7. Modifications to rights of security holders;
- 8. Bond calls;
- 9. Defeasances;
- 10. Release, substitution, or sale of property securing repayment of the securities; and
- 11. Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if the occurrence of such event is material under applicable federal securities laws.

(c) If the City has determined that the occurrence of a Listed Event is material under applicable federal securities laws, the City shall, or shall cause the Dissemination Agent to, promptly file a notice of such occurrence with the MSRB in electronic format, accompanied by such identifying information as is prescribed by the MSRB. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(8) and (a)(9) need not be given under this subsection any earlier than the notice 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. 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 the same manner as for a Listed Event under Section 5(c).

SECTION 8. 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 Agent, with or without appointing a successor Dissemination Agent.

SECTION 9. 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, 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 10. 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 of occurrence of a Listed Event, 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 of occurrence of a Listed Event 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.

SECTION 11. 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 (i) in the case of proceedings relating to Taxable 2009 Series A Bonds, the Holders or Beneficial Owners of Taxable 2009 Series A Bonds representing at least 25% in aggregate principal amount of the Taxable 2009 Series A Bonds shall join in such proceedings, (ii) in the case of proceedings relating to Taxable 2009 Series B Bonds, the Holders or Beneficial Owners of Taxable 2009 Series B Bonds representing at least 25% in aggregate principal amount of the Taxable 2009 Series B Bonds shall join in such proceedings or (iii) in the case of proceedings relating to 2009 Series C Bonds, the Holders or Beneficial Owners of 2009 Series C Bonds representing at least 25% in aggregate principal amount of the 2009 Series C 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 12. 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 13. 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.



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: September \_\_, 2009

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**

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Name of Issuer: City of Gainesville, Florida

Name of Bond Issue: \$\_\_\_\_\_ Utilities System Revenue Bonds, 2009 Series A (Federally Taxable),  
2009 Series B (Federally Taxable – Issuer Subsidy – Build America Bonds), and  
2009 Series C

Date of Issuance: September \_\_, 2009

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]